Chapter 7:

OPEN BOOK MANAGEMENT

HOW TO SHARE FINANCIAL OBJECTIVES TO ALL EMPLOYEES BY MAKING COST REDUCTION AN OBJECTIVE TO BE SHARED

Open-Book-Management (OPM) is an idea developed by John Case (1993) and further developed by Jack Stack (1997) that shares and makes available financial information throughout the business and beyond managers, to bottom line employees. By giving financial data, and detailed accounting information, we should expect more commitment to improving financial results and better employee contribution.

Stack set out three basic rules: (1) Know and teach the rules: every employee should be given the measures of business success and taught to understand them, (2) Follow up the Action & Keep Score: Every employee should be expected and enabled to use their knowledge to improve performance, (3) Provide a Stake in the Outcome: Every employee should have a direct stake in the company's success-and in the risk of failure.

How is OPM implemented in our Collective method of Hospitality Management? And how do managers and bottom-line workers, saving costs, apply this method?

Collective Hospitality Management sees

cost saving as everyone's duty. The responsibility for saving costs or making costs more efficient lies with all workers. Of course, within its sphere of action, it's obvious that managers must have more accountability than bottom-line employees.

In this sense, General Managers, must have the primary responsibility. Therefore, we could develop an organization committed to analysing costs and making them more effective, when such a task becomes part of the responsibility and the accountability of every job description. Edward Deming viewed it this way when he developed his TQM system a long time ago. He said that if every worker were committed, even in his small work sphere, to contributing to costs reduction, then cost savings would be boosted; maybe a group of workers would be very proud just saving $500 as a consequence of a new work improvement. The assumption is: many savings, even smaller ones, can add up to a very large number.

A case study applied in a 5 stars hotel, with 160 rooms with two restaurants and convention facilities

Collective Management in this hotel applied an Open Book Management practice and developed a customized method in order to open up responsibilities, skills and commitment to saving costs or increasing revenues. The method has the following parts: (1) financial knowledge and commitment, (2) control and monitoring – Cost savings Balance Score Card- and (3) initiative.

1. Financial knowledge and commitment:

This implies a basic knowledge of cost-accounting principles, also an in-depth knowledge of costs within its department. The method must start first with all managers, but it has to go beyond the managerial levels. No doubt that all managers must be the first example to follow -in skills and commitment.

Hotel management and Top Management will set up a monthly reunion in which every financial issue will be carefully talked through: Costs Saving Balance Score Card, Budgeting, monthly results, quarterly financial reports, possible variances, unexpected results…Based on my personal experience we should involve bottom line employees, together with mangers. Thus, in order to keep the group of participants to a manageable size, we should provide assistance, rotating within rank-and-file employees. Such meetings shouldn't have more than 18 to 25 people. Thus, we shared a lot of financial information in those reunions basically with two purposes: (1) to improve knowledge and financial skills, (2)

to encourage a greater sense of commitment among members that results in saving costs once they start realizing that their contributions are producing results that can be measured.

At these meetings we soon benefit from workers' and managers' actions being produced by enhancing skills. Everyone is aware of every department's financial results since everyone is sharing performance information. The purpose there is to share data, ideas, countermeasures, analysis enhancing organizational knowledge. Indeed, by sharing this financial information we constantly learn, coming up at the same time with better ideas or courses of action. For example, the kitchen may be aware that by improving its practice when using ovens, it could save important amounts of energy consumption -and money; by using smaller ovens for restaurant orders instead of the bigger ones, by pre-heating properly…etc. This basic action, like the rest, should be always quantified –estimated cost saving or accounted, and the quickly registered in the Cost Saving Balance Score Card (CS-BSC). What matters most in this meetings is to come up with short-term results to encourage commitment, though reinforcing the sense of responsibility and initiatives within this working system.

2. Control and Monitor. Cost Saving Balance Score Card (CS-BSC)

There is a management deed that says: "anything that is not measurable cannot be managed". I do feel comfortable with this view, however it must carefully handle, since not all actions can be measured. How could you measure the value of a single worker in guest's revenues?

Or, how could you measure employee's daily efforts in your brand enhancement? Yet, we do have many working activities that can be perfectly measured. Regarding cost saving and better control, we must budget and closely monitor them continually. We all know variable costs increase with revenues, but in the end what matters most is profitability.

Cost monitoring and control should be a daily task, first assumed by Hotel General Managers and departmental managers, but then down to bottom line employees. How many workers could we have committed to that purpose? The answer differs between hotels, yet the ideal state focuses on all people.

The CS-BSC focuses on these following actions, saving costs and affecting different levels: (1) we could save costs by improving a service or any working process; (2) we could save costs with the renewal of a purchasing agreement; (3) we could save costs by switching to another supplier; and (4) we could save costs by cancelling a supplier's service; for example cancelling outsourcing service by in-sourcing, or just by eliminating that service. Nevertheless, we have to stress that all actions in saving costs must always maintain an expected level of quality and service to guests. If we have re-though a service process and it was decided it should be eliminated, maybe because it is not longer valuable to guests and increases our costs, the action has to be closely monitored (guest feedback). Also, in advertising we shouldn't be satisfied if by reducing costs we have affected our brand or revenues. Advertising has to be better measured within its ROI (return on investment)

Under these four actions, bottom-line employees should be co-responsible for the first one. All service and back office workers are expected to save costs by improving job procedures. Managers should be co-responsible for all four activities, and of course, General Managers are in charge of the whole system, co-responsible with the Corporate Offices.

How does this Control-Saving-Balance Score Card work? Hotel Budget and all performance ratios are on one Excel sheet; and there is a single sheet for each department with its particular budget. All unexpected financial results are noted, as well as financial variations. But what matter most are all possible actions that are taken and quantified; every action has been implemented and how much money is expected to save the company.

We may have the following example: (1) Sales & Marketing department: advertising costs, salaries, office expenses, agencies commissions, agencies fixed costs, agencies rappels telephone, …(2) Restaurant, banqueting and bars: cost of beverages, salaries, staffing agencies salaries –reinforced service waiters, advertising (cost-shared), telephone, uniforms, utilities (cost-shared), table linen, service-ware such as glassware…(3) Kitchen: food cost, salaries, staffing agencies salaries, utilities (cost-shared), uniforms, kitchen-ware, telephone…(4) Reception: salaries, uniforms, telephone, office expenses, utilities (common-shared) …(5) Housekeeping: bed-linen, mini-bar expenses, salaries, staffing agencies salaries, telephone, utilities (common-shared), uniforms, flowers, room stationery…(6) Maintenance: utilities overall, salaries, external maintenance services, maintenance reposition materials...

(7) Administration: salaries, outsourcing services, utilities (common-shared), telephone…(*) In this context administration co-lead with Hotel GM the system being with an overall responsibility in Cost Saving with a controller function…(8)…(9)…

managers with proven results, we could start talking about high performance employees. Initiative it is shown by encouraging workers to ask themselves when working: how can I contribute to improve working by saving costs?

3. Initiative

Employee´s initiative is the proof of success in this system. If the working method and commitment goes beyond directors and