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Family Matters

The Case For Sharing Company Performance Data

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Small business owners often keep their managers in the dark. That's a huge mistake.

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Say you shelled out $4,000 for a Super Bowl ticket only to realize that this year's game would be played without a scoreboard. That's right: The two teams would just … play, with no points awarded for touchdowns or field goals. Afterward, a select group of league executives would meet in a small room and determine the winner.

This ridiculous scenario is not all that different than the drama played out at most family businesses, where information about financial performance is held close to the vest by the owners and a very select group of senior executives. Sure, managers have certain information as it pertains to their direct operations, but they have absolutely no idea what is happening to the company overall. Should they bother planning and preparing for a brighter future, or should they update their resumes? The answers might (or might not) come at the end of each quarter when the chief executive or some family member dashes off a cryptic, summarizing missive, either reassuring or scaring the hell out of their minions.

What the heads of family businesses need to realize is that, while it takes trust and courage, sharing information can galvanize an organization--arming managers and executives with the data they need to take actions consistent with overall corporate goals.

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For proof, consider a $50 million (annual sales) manufacturing family business I started working with in 2008. While the business had put up record revenues for years, it hit some bumps in the latest economic downturn. Competitors were starting to lower prices as capacity chased dwindling demand.

The company was set up such that business units, each run by a general manager, bought from each other and paid inter-company markups. This structure led to redundant, wasteful steps. Worse, as the company entered the recession, managers were clueless about the real costs of manufacturing and the overall company margins. They received reports showing their individual unit's profits, but those included a hefty markup on manufactured goods. The fundamental earning power of the business was, basically, anyone's guess.

The company had a great product, terrific customer service and a solid reputation--none of which meant much in a price war. To dodge those inter-company markups, the unit managers started using outside vendors. This accelerated the decline in the company's overall order backlog. The chief financial officer's advice to the chief executive officer (who was the founder's son): increase the markup!

To stop the death spiral, we convinced the family to combine business units and manufacturing into a single reported entity. Then we gathered all the managers together and looked for ways--collectively, as a team--to find savings and opportunities within the organization. Almost immediately, parochial interests melted away and nagging problems got solved. To wit:

Rather than do all the estimating and bidding in-house (and within each separate unit), the company farmed out the initial work to an engineering firm in India. Consolidating that function lowered costs by several hundred thousand dollars and sped up the process by several weeks. It also streamlined information flow to the design, assembly and delivery departments, which took weeks out of the process and improved productivity by over 10%.

Next we addressed compensation. In past years bonuses were based on revenue performance, tenure and an overall feeling of customer service. While in some years the checks were quite generous, the staff was always disappointed. Why? Because they thought the company was more profitable than it was. (Not that they had numbers to support that assumption--as a matter of fact, the bonuses were an unusually high percentage of profits.)

With better information available, we were able to create a more effective incentive program--mainly because it was easier to understand. Instead of a qualitative decision by the father and son, the bonuses became completely quantitative: Half of a manager's year-end bonus was now based on his unit's profitability, the other half on the profitability of the overall business.

Better yet, everyone in the company felt like they could affect the company's performance--even beyond the boundaries of their unit. In one instance, two managers agreed to train one of their brethren in another unit who was struggling to land new business.

Result of all that transparency and teamwork: rebounding revenue, better productivity, reduced expenses and increased profitability. The lesson here is clear: It's hard to win the game of business if your team has no idea the score--or worse, even what game they're playing.

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