

The Advantage of Open, Honest Communications with Employees

By James Shearer

A fail-proof, no-cost way to increase productivity in a business enterprise is to widely share information about the business with employees. This information includes profitability, market share, business plans, operational results, and even strategic direction. It also includes bad news as well as good news.

Much like the members of an athletic team, company employees are key stakeholders in their business team. They are committed to the business if for no other reason than their livelihoods depend on the business' success. In order to maximize their individual and collaborative contributions to the business, they, like athletes, need information about the current state of affairs.

Few would argue that a football player one point behind in the 4th quarter will perform differently (with more intensity, more effort, and more energy) than he would if his team were 45 points behind. It is acknowledged human nature to put forth extra effort when the individual clearly recognizes that it will make a positive difference. As it is in sports, so it is in the business world.

Owners, presidents, and/or general managers (hereafter collectively referred to as the GM) naturally want to protect their businesses. It is one of their duties and obligations. One way GM's might do so is to zealously guard sensitive information about the company and disseminate that information, if at all, to only a few key employees. The GM might consider other employees as untrustworthy or, more probably, as simply not needing to know the ongoing status of the business. The reasons why the GM might not widely share sensitive information with employees are really irrelevant. The logic, however, is faulty.

There are several logical reasons why having frequent, open, and honest communications with employees is the right thing to do and why open communications can enhance enterprise performance.

Some advantages and considerations are:

- Employees are truly risking their financial well-being, their credit worthiness, their lifestyles, and their future on the success of the enterprise. Because employees are risking so much, they have a legitimate and moral right to know the financial and business condition of their company. (One specific benefit is that a company facing employee cutbacks due to negative business conditions can prevent untold hardship on employees by advising them in advance of the negative conditions. The information gives the employees an opportunity to adjust their lifestyles accordingly.

This openness is a company cultural behavior most GM's themselves would welcome if their own livelihood was in jeopardy.)

- The key to what level of detailed information is shared is that it can (and should) be tailored to the group receiving the information. For example, the top management team might get a 500-line, twenty-page detailed income statement and a detailed balance sheet and cash flow statement. Hourly employees might get a one-page summary of the three above documents with the income statement being less than 15 lines. Similarly, the top management team might develop very detailed strategic and operating plans, including specific market strategies. Hourly employees might get a very brief synopsis of the goals and objectives for the next year. The result is that the hourly employees know in general terms how the company is doing for the month and year-to-date against the plan, as well as the general direction of the company.
- Employees fully aware of the business situation can adjust their individual focus and effort to the pressing needs of the business. (Example: A durable goods manufacturing company found itself in very serious trouble with its customer base for recent extremely poor delivery performance. The problem was caused by several unexpectedly large orders beyond the short term capabilities of the company. The operation was already running 24/7 with all bottleneck equipment fully-manned so overtime was not an option. The newly appointed GM told the production employees what was happening. This was the first time sensitive information had been shared throughout the company at that level. He explained the nature and magnitude of the problem and asked for their help in increasing factory throughput. The factory already had a good work pace - the production employees were not “taking it easy” on the job. But now that the employees knew the situation, including the downside if things didn’t very quickly get better, they “cinched up their belts” and worked a little more intensely, a little more purposefully, and with a little more focus to produce more products. The increase was enough to solve the temporary delivery problem and prevent lost market share. In addition, the solution was instantaneous in its effect and had zero cost. And, most importantly, it increased employee trust in the company and in the GM because he had been open and honest about the problem and had trusted them with the sensitive information. The alternative solutions of buying more production equipment or implementing new processes or methods would have taken months, would have cost tens of thousands of dollars, and likely would not have prevented the loss of market share.)
- As mentioned in the above example, frequent, open and honest communications build increasing levels of trust between the company and the employees. As this trust becomes stronger and stronger over time, it can result in a non-adversarial labor relationship that enhances cooperation, prevents or reduces labor unrest, and increases individual employee responsibility and ownership for their own performance.
- Involved, trusting employees can become a great source of ideas to further improve business performance. The company communicates to them and they, in turn, communicate to the company. Their suggestions can save huge amounts of money and can make the business more productive, more responsive to the marketplace, and far more likely to survive and prosper.

There are a few downsides to open communications. (1) Employees could leave and go to work for a competitor or start a competitive business, taking with them sensitive information that could prove detrimental to the company. (2) Faced with negative

business news, employees could get jumpy and leave when, in fact, a downsizing was not going to occur. Thus, an unnecessary void could be created.

Companies cannot normally prevent ex-employees from joining a competitor. However, as part of the hiring process, all employees (but especially key employees likely to have access to particularly sensitive, potentially damaging information) can be required to sign a non-disclosure agreement that prevents them from conveying confidential information to competitors whether they work for them or not. There can be legal recourse against the ex-employee as well as the competitor if this agreement is knowingly broken. Most competitive companies are likely to be well aware of this and will avoid even the appearance of pirating confidential information. Also, keeping in mind that sharing sensitive information should be tailored to the recipient group, employees in less critical positions, while having increased access to sensitive information, are not likely to possess information that would be truly damaging to the company.

If an employee leaves for another opportunity because he/she is aware of negative business conditions, there is of course the legitimate loss of that person's work product and the loss of knowledge that the employee has acquired. If the conditions in the company were going to result in a downsizing anyway, those "jumpy" employees who leave in advance of a downsizing are really contributing to the solution (and possibly avoiding costly unemployment expenses as well). No harm, no foul! (In the face of bad news, if the company wants to prevent key employees from "jumping," it can provide reassurances or even a retention incentive to ease the concerns of those select few truly critical employees.)

Summary

If not already doing so, manufacturing companies should seriously consider implementing a culture of frequent, open, and honest communications with all employees. There are numerous positive reasons to adopt such a policy. These include the moral imperative to keep employees informed about possible impacts to their livelihood, the very human response of employees "going the extra mile" for an employer either in trouble or faced with a great but time-urgent opportunity, increased trust resulting in improved cooperation and labor relations, and the likelihood of informed, trusting employees offering ideas on how to further improve the business. The few downsides are definitely overshadowed by the upside of this approach to positive employee relations.