

THE GREAT GAME OF BUSINESS

When employees

think & act like owners...



EXECUTIVE SUMMARY

THE BIRTH OF A BUSINESS REVOLUTION

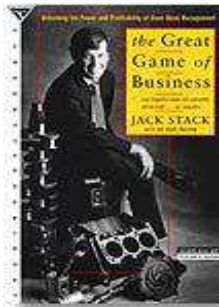
A few years back, in a southwestern Missouri city, a savvy manager named Jack Stack and his 12 partners scraped together \$100,000 and borrowed another \$9 million to buy a failing division of International Harvester. The future looked bleak for the fragile engine-rebuilding plant they called SRC (Springfield Remanufacturing Corp.). Its debt-to-equity ratio was 89-to-1. Jobs hung in the balance, and morale was in the pits. Facing potential ruin, the partners needed a way to fire up their 119 employees—and try to engage their hearts and minds as much as their hands.

Stack knew that traditional management practices weren't going to turn around SRC any time soon. The situation, he felt, called for a bold experiment: a new way of managing more in sync with human nature; a simple, sensible, replicable and reliable approach that could harness the collective knowledge and good sense of his employees. Urgency being the father of invention, Stack took the elements of any game (teams, rules, scores, results), applied them to the daunting task of righting SRC and taught his staffers to read financial statements, work as a team, generate some cash and win. They called their novel management system The Great Game of Business.

Everyone at SRC quickly learned that business may be won (or lost) just like a game of football, only the stakes are higher. Front-line workers discovered they didn't have to be Sam Walton to understand profit, cash, debt ratios and labor efficiency. They came to understand that their daily work *does* matter, that they *can*

boost profit by selling more or spending less, that they're a vital part of the entire company. Over time they developed a lasting commitment to—and a personal stake in—future business success.

Remarkable gains were made in a few years. Revenue doubled, earnings quadrupled and the debt-to-equity ratio was reduced to 5-to-1. Absenteeism, workforce turnover and the number of product defects and plant accidents—all once high—dropped precipitously. The rest of SRC's extraordinary success story has been making headlines—and believers in its management system—for more than two decades. Thus far, its 25-year-long profitability streak has fueled the creation of dozens of open-book ventures and more than 1,000 jobs. Annual revenue has grown to over \$300 million. And SRC stock worth a dime in 1983 is now valued at more than \$170 per share.



The Great Game of Business has sold more than 229,000 copies in 8 languages. It's in its 23rd printing, and has been cited in more than 130 bestselling business books.

Today, thousands of organizations worldwide, from start-ups to Fortune 500 conglomerates, are using Great Game principles to achieve breakthrough results. And you can too, if your managers are open-minded and your employees are willing to think and act as entrepreneurs, and not hired hands.

This summary of The Great Game system will show you how to play the dynamic, high-stakes game of business in your company. The gains in efficiency, teamwork, profitability and culture can make your organization—and its employees—big winners.



COMMON-SENSE MANAGEMENT

What if everyone in your company could read financial statements and spot business weaknesses and opportunities? What if they could *act* on that information to make your organization better, stronger and faster?

You'd have excellent decision-making at every level. You'd have the ability to nip problems at the source, and the flexibility to make necessary adjustments on the fly. You'd have a more entrepreneurial workforce, better communication, a healthier bottom-line and an enviable competitive advantage in your marketplace.

These are a few of the benefits of implementing The Great Game of Business, a highly effective business-improvement system created by Springfield Remanufacturing Corp. (SRC) that turns everyday work into a stimulating game, and teaches employees how to win. Put simply, Great Game companies “open the books” and teach everyone on staff how the business makes money. Employees then track, forecast and try to improve the key financials and operational numbers that determine company success. And they get generous monetary bonuses when they do so. It's common-sense business management, and it *works*.

But to make it work in your company, you and your managers must be willing to look at business through a whole new prism—and sharpen two critical skills that can rapidly unleash the power of your people:

- ◆ **Teach and motivate employees.** Open the books and share the big picture. Show employees where their daily work appears on the budget and income statement, and how to improve the numbers they control. Unify your team with motivational incentives that bind everyone to the corporate mission.
- ◆ **Walk the talk.** The Game is about positive and lasting culture change. Leaders have to establish organizational trust through open, honest, results-oriented communication. They should demonstrate a genuine commitment to change, and model the desired workplace behaviors, everyday.

BENEFITS OF PLAYING THE GREAT GAME

The Game can make good companies great—and great companies world class. Here's why:

- ◆ **The Game ends organizational ignorance.** Ignorance can kill companies; awareness can grow them. If information is power, then sharing it and using it wisely and profitably unleashes that power exponentially. Keeping employees in the dark about your company's health only stirs the rumor mill. When people lack facts, they fill the void with fiction. Explain to everyone how your business works—and why moving the numbers in the right direction puts more money in their pockets. Once they feel that sense of control and responsibility, they can't help but step up and act accordingly.
- ◆ **It enhances teamwork.** When employees have the same objectives and share in the same well-designed financial incentive program, they tend to support one another, pull together and do whatever it takes to achieve those objectives. SRC employees understand that success takes two steps: owning their annual targets and honoring their commitments to hit them. That's why careful planning and weekly forecasting meetings are vital. Every unit knows what every other unit plans to deliver, and healthy peer pressure kicks in to unify the team and make winning possible.
- ◆ **It generates and spreads wealth.** As company shareholders, SRC employees have a real stake in corporate results. To effectively ensure their own prosperity, they must accomplish one big goal every year: grow corporate earnings. This long-term equity game places employees' fiscal fate directly in their own hands, prompting them to become smarter, more innovative owners. But even if you can't offer equity, The Game allows you to create and share productivity gains as they're made throughout the year. SRC's quarterly bonus program spins off enough money to keep all eyes on the bottom line.
- ◆ **It educates people and boosts job satisfaction.** Most employees already use the basic skills an open-book workplace demands. They just need to learn how to use your financials to strengthen your business. Customized, on-the-job training works best because it's hands-on and rooted in reality. And the lessons tend to stick because the subject matter is relevant; the approach is disarming and informal; and the exchange of knowledge and information is frequent and direct. SRC employees receive



whatever training they need to get ahead. And everyone seeks ways to upgrade jobs and make work more fun and profitable.

- ◆ **It promotes continuous innovation.** SRC's system encourages employees to focus on the present, to work on the business at hand. This frees managers to work on all the issues on the horizon. And that's how SRC decision-makers stay in control. By focusing laser-like on the future, they're able to innovate on the fly, eliminate surprises and deliver consistently good results. But to win over the long haul, *every* department or team must continually improve its processes and procedures. Ultimately, The Game makes companies more agile and better equipped to overcome challenges and champion opportunities in the marketplace.

WHY IT'S A GAME

The Great Game of Business is an open-book management system that takes the elements needed to win any game and applies them to the art and science of growing a successful business.

Business success takes meticulous planning, non-stop communication and *real* motivation to consistently execute well. These are the principles of The Game. In practice, they translate to three steps:

- 1) know and teach the rules of business;
- 2) follow the action and keep score and
- 3) provide a stake in the outcome.

If you adopt these principles and practice them well, you'll achieve great results. Here's how to get started.

UNLEASHING THE POWER OF PEOPLE

Before you even think about opening the books, you want to get your people thinking like winners. Winners are driven, skilled, proud, confident and gutsy. They aim for personal-best performances every time. These are the qualities you want to bring out in your people. How? By building organizational pride and spirit and, perhaps most importantly at first, by developing trust in the leadership team and management system itself.

Early on, SRC managers did whatever they could to knock down walls, build up people and have some fun. They encouraged front-line employees to



THE MYTHS OF MANAGEMENT

In 1992, when *The Great Game of Business* was originally published, only a few hundred companies practiced open-book management. Today thousands do. The word has spread. CEOs have seen the payoffs. OBM is now considered an essential alternative to the conventional, top-down way of running a company. Advice: Just plunge in, ignore the tired management myths and discover the truth for yourself.

Myth: Don't tell people the truth about the financials.

Truth: If you open the books, your leadership team has to establish credibility. You do that by telling the truth. You just can't operate well unless people believe their managers and peers. And what's the downside if your numbers land in the wrong hands? Competitors could never replicate your best practices, corporate spirit or the collective know-how of your employees.

Myth: Managers are paid to figure out all the answers.

Truth: First, no one has all the answers. Second, we need new job descriptions for managers in open-book workplaces. SRC managers teach, coach and give pep talks. When they ask team members for solutions they create a *shared* learning experience. That way everyone learns faster. Managers also have to learn to cope with failure. That's where contingency planning comes in.

Myth: It's a bad idea to promote people too quickly.

Truth: Employees should prove themselves, sure. That's why SRC has a full-service succession program. But it's smart to get your best people moving around so they don't get stale or develop tunnel vision. New, exciting challenges and some cross-training expands their horizons. Suddenly, they appreciate the needs and goals of a larger chunk of the organization. And what happens next? Walls come down, communication improves, things start happening.

Myth: Never mind the big picture, just do your job.

Truth: The big picture is all about motivation, giving employees a common purpose. The broader the picture you paint, the fewer obstacles they see. If people have big goals, they blow right by the little obstacles. But those obstacles can seem huge if you don't move people beyond the daily grind or appeal to something they really want to do. Show them the fact and figures. Explain the challenges and opportunities. When you share the big picture, *you define winning.* ◆

paint their machines. They scheduled factory tours and invited the entire community. They held fishing tournaments and baseball games. They handed out amusing awards at meetings and turkeys at Thanksgiving. Soon, people were speaking up in meetings, researching everyday expenses and developing budgets.

As it turned out, the “little” things meant a lot. Workers began to arrive early and stay late. They kept their shop tidy and felt hopeful about their future with SRC. The bond between managers and employees grew stronger—and so did everyone’s loyalty to the turnaround mission. Over time, SRC reached a point where people were *ready* to learn the financials.

BUILDING YOUR TEAM

Winning is highly contagious motivational energy. One small victory begets another. In some corners of SRC, winning is an addiction. A few simple techniques can jump-start your team-building efforts:

- ◆ **Play business games that promote teamwork.** Early on, SRC couldn’t play games to improve the financials because people didn’t understand them. And so managers picked a few business problems and offered prizes for solutions. The department with the most shipments in a given month received a gaudy trophy and bragging rights. Shop teams collected points for good house-keeping, and traded them in for company hats, mugs and shirts.
- ◆ **Celebrate every win.** Any good result, whether numerical or behavioral, offers managers a fantastic opportunity to give an inspirational pat on the back. And when you do win big, celebrate with gusto. When SRC reached an ambitious goal of 100,000 hours without an accident, managers closed the shop, threw a party and blasted the theme song from *Rocky*. Employees buzzed about it for weeks.
- ◆ **Keep things simple.** Pushing too hard to fire up your employees can backfire. At the outset, keep The Game light and easy, and try to reward group success. Simplicity in goal-setting is essential, too. You want to set a few broad-based annual goals that require maybe five or six accomplishments. Maintain momentum by making goals challenging yet attainable. Targets too ambitious too soon can demoralize the group and undermine your efforts.

Today, SRC still works hard to enhance team pride, but it relies more squarely on The Game itself: the bonus program, the stock plan, the weekly meetings and the departmental games it plays around the critical numbers. At SRC and other Great Game companies, nothing succeeds like success. Every win feeds that desire to win again. And employees begin to challenge themselves to win in new ways and by larger margins.

That’s the beauty of The Game. It makes winning a habit. It makes innovation a habit. And it makes personal success a habit. When that mindset takes root in your company, watch out! You have something very special, indeed. The key point, though, is to begin with some small wins and ramp up from there. You can’t get much simpler than a bucket of paint and a brush.

TEACHING THE RULES OF BUSINESS

The object of The Game is to ensure the long-term success of your business and its employees. You simply can’t win if your players aren’t prepared for the challenge. The more they know about your company, the more capable they are of making the organization stronger. That’s the best reason for playing The Game. It grows the people who grow your company.

The purpose of a business-literacy program is to give employees a common financial language so they can measure their performance and talk strategically about improvements. SRC takes advantage of every possible moment to teach its people how to drive earnings. It has a continuous loop of educational events that helps everyone set business standards and expectations—events people can count on, prepare for, participate in and look forward to.

There’s the annual financial-planning process, the mid-year sales-and-marketing summit, the quarterly bonus payouts and mini-game rewards, the monthly training seminars and in-house workshops with Game coaches, the weekly huddles and chalk talks and the daily review of the critical-number report. This discipline, practiced over time and repeated in the same format, keeps SRC on track to reach its ultimate goal of becoming a vibrant community of successful open-book ventures.

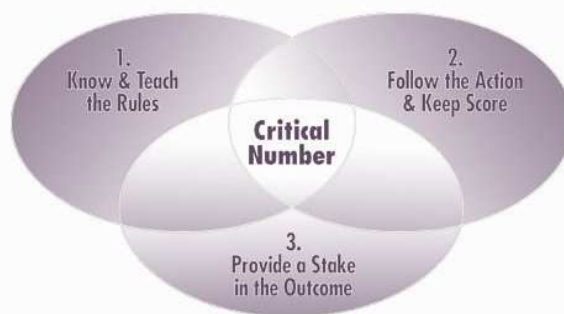
OPENING THE BOOKS

When you’re ready to teach the financials, educate your managers first. They’re the internal market- →

ers of your Game, the folks who will field questions from front-line skeptics. If you don't know your critical numbers—they're the ones that keep you awake nights—your managers can help you define them and develop your first Game plan. That's the master set of customized documents and tools (your simplified financials statements, a sales-and-marketing plan, a bonus program and so on) you'll use throughout the year to reach your specific goals.

When it comes to teaching employees, the bottom line is this: People remember what they find interesting and useful. They retain what they need to know to do their job better. Follow these steps, and you're golden.

- ◆ **Paint the big picture.** What's our niche? How do we stack up? People will be curious about the company's health, its competitive advantages and its growth strategy. Hold cross-training workshops and teach everyone how departments collaborate to make product and profit. Educate them about your services and how they satisfy demand. Without context, they won't have reason to care about the financials.
- ◆ **Teach the critical numbers.** Focus laser-like on your key performance measures, whatever they may be: operating margin, cash flow, net earnings, economic value added. Show people how to calculate them, drive them and forecast them. Be sure to explain the bonus program early and often, and post a running tally of the growing pool. You want to develop and use your *own* financial lexicon.
- ◆ **Establish line-of-sight.** If you don't make clear the link between jobs and the financials, "the business" will remain an abstraction, separate from everyday work. Use visuals to bring these connections to life. Great Game companies use cheat sheets and flow charts to show employees *exactly* where their work activities appear on their budgets, how those budgets affect their group's income statement and so on up the corporate ladder. And they discuss these connections in regular meetings.



- ◆ **Reinforce like crazy.** Decision-makers at Great Game companies understand their numbers (cash, inventories, receivables) not because they went to business school but because they *use* the numbers every day. The same logic holds true for your people: if they get a chance to use the numbers, they'll remember them. And that's why you can't separate business training from the other parts of The Game, such as planning and keeping score. It's also why employees who play The Game learn business a whole lot better than those who don't.

FOLLOWING THE ACTION

Once your people know the rules of The Game, they can begin to play. That simply means they track, forecast and work hard to improve their critical numbers. And they repeat this process weekly until they reach a deadline and either win or lose. Two indispensable tools facilitate play and drive performance. Critical-number *scoreboards* show progress (or lack thereof) as it happens, in real time. And strategic forecasting meetings help players determine any corrective actions they'll need to take to reach their goals.

SRC calls these forecasting meetings *buddles*, and they're held at the same time every week. They're short, focused and lively. Reps of the various operating units review the company's weekly critical-number scorecard and discuss performance issues. Then, forecasters—those employees who *own* key numbers or line items on the budget—announce their near-term predictions, and explain any variances from the master plan. Participants build a new scorecards on the spot, using a simple Excel spreadsheet. The updated version is then posted and e-mailed to all units for further discussion in chalk talks.

Huddles are a powerful tool, if you know how to use them. SRC uses a few techniques to make the most of these strategic gatherings. Meeting leaders focus on what's required to meet goals and remove roadblocks. They're tough on performance, yet easy on the performer. They don't accept excuses for sub-par results, but they do offer advice and assistance



without removing responsibility. They also know how to move people from the stories behind the numbers to the truth. Sometimes it takes a little digging to get to the truth.

KEEPING SCORE

The performance numbers on your scoreboards are the very same ones you review, discuss and forecast in huddles. That means scoreboards should look toward the future as well as the past. They should show plan numbers for the upcoming weeks or months as well as actual results for the week or month to date. They should be designed so that people know what's happening at a glance. The most effective scoreboards take the guesswork out of daily operations. Employees can just look at them and know instantly what actions they need to take to stay on the winning track.

A STAKE IN BUSINESS SUCCESS

SRC's Game gives employees a solid stake in business success through annual bonuses, business games, ongoing recognition for excellent work and company stock. You can't play successfully without the first three. Sharing equity is great, if you can swing it.

- ◆ **Annual bonus plans:** You want to design a plan that's an add-on, not a risk. Take a good look at your entire compensation plan, your critical-number goals and any near-term investments. Be completely realistic about what's achievable on the profit line—and what you can afford to disperse. Make the incentive as motivational as you can, and distribute payouts as often as possible. Quarterly bonuses are excellent because players can accomplish a lot in that time span. Plus, a 90-day window offers ample visibility so that expectations can't too far out of line. SRC and many other Great Game companies

follow a 10-20-30-40 payout schedule. Employees share in 10% of the bonus pool in the first quarter; 20% in the second and so on. If they're ever behind schedule in meeting key goals, this formula allows them to catch up and still win big.

- ◆ **Business games:** Short-term departmental games are open-book management in microcosm. There's a goal, a time frame, some rules, a scoreboard, huddles and a reward for winning. The reason for using them is simple: a series of small departmental wins can add up to big corporate year-end results. SRC plays games to improve sales, labor efficiency, cash flow, product quality and so on. Business games effect positive change, build teamwork, reinforce daily business lessons and nurture the winning attitude. They're simply the best way to encourage employees to act as confident, capable businesspeople.

- ◆ **Strategic recognition:** Successful Great Game players build cultures that embrace the power of recognition. They know that sincere, consistent and widespread praise gives employees purpose, pride and inspiration. Those gifts, in turn, prompt them to become more engaged, more motivated and more empowered. SRC recognizes good work in several ways: public applause, ink in the local newspaper, raises, new benefits, promotions and opportunities for personal enrichment. Spotlight Awards are presented to the stars of the month at the all-company meeting. Solo winners receive a \$50 gift certificate to a restaurant; winning teams get a steak cookout. And new awards are invented all the time. Recently, a humanitarian award was given to a worker who forfeited his vacation to fill in for a line mate out on medical leave.

INSIDE REGEN'S VISUAL FACTORY

Employees at SRC's ReGen Technologies really know how to keep score. Their rally boards track promotional activities and key metrics such as top-line growth, lead generation, dealer relations and plant tours. Operational boards monitor sales by product line, shipments, inventories, warranties, overhead absorption, labor efficiency and quality. The R&D scoreboard helps everyone keep the new-product pipeline humming. An illustrated map of the entire production line is used to eliminate bottlenecks and to boost contribution margin. Large process-improvement boards allow people to detect and fix problems, such as product defects or units behind schedule. A debt-to-equity forecasting tool, developed by an employee, helps the materials team control cash, raw goods and inventory. And the bonus-pool calculator estimates quarterly payouts and records other incentive-related measures such as accident-free hours. As they say at ReGen: If you're not keeping score, it's just practice! ◆

NO-KIDDING OWNERSHIP

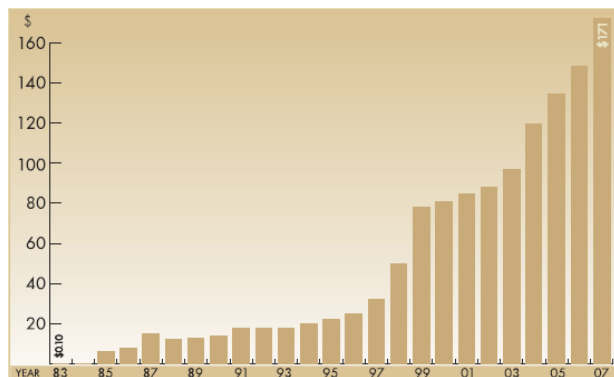
There are at least two powerful reasons for sharing equity with employees.

- ◆ **Ownership gets people's attention.** Bonuses are great and all, but over time stock options or shares in an ESOP can amount to big bucks. When employees understand the magic of the multiple—how increased earnings can generate 5, 10, even 20 times as much in added value—suddenly, goals such as profitability take on a whole new meaning.
- ◆ **Owners are better businesspeople.** Typically, they can grasp key business intangibles such as customer loyalty and goodwill. And they usually don't mind trading today's profit for tomorrow's growth.

At SRC, shared ownership drives employees to take full responsibility for their work, and to pursue smart opportunities at every turn. It's *that* motivational. It gives them a strong voice in daily decision-making and in annual planning. It gives them more control of their personal finances, a larger nest egg and a brighter economic future. If you take a tour of SRC, front-line workers there will tell you they *want* to take more classes and learn new skills. They *want* to help each other reach their goals. They *want* to participate in the company's thriving community-service program. No doubt about it: The benefits of shared ownership at SRC are many, and they continue to spin outward into the community and strengthen it.

As they say in Springfield, Missouri: *You gotta wanna.*

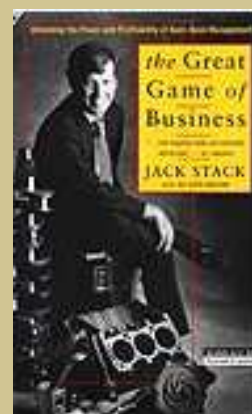
SRC'S SUCCESS: GROWTH IN STOCK VALUE

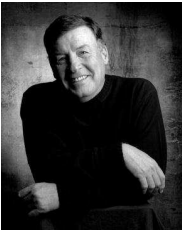


If you invested \$10,000 in SRC in 1983, your stock would be worth \$17.1 million today.

KEY POINTS OF THE GREAT GAME

- ◆ When you appeal to the highest level of thinking, you get the highest level of performance.
- ◆ Business is a game of fractions. The more employees know about your company, the more capable they are of making it better.
- ◆ When the people who create the numbers understand those numbers, communication between the bottom and top of the company is phenomenal.
- ◆ Numbers are not a substitute for leadership. Numbers tell you where the problems are—and how worried you should be.
- ◆ If you can develop a critical-number Game plan, you can create a lot of momentum very quickly.
- ◆ When people set their own targets, they usually hit them. Planning is all about making commitments. Without them, there is no Game.
- ◆ If you can't stabilize a sales forecast, you can't control your company. If you control a forecast, you control the world.
- ◆ If nobody pays attention, people stop caring. Weekly huddles signal to employees that management cares about what they're doing.
- ◆ Know when to push, when to hug, when to cheer, when to boo and when to kick people in the butt.
- ◆ The Game is about continuous innovation. The more successful you are, the bigger the challenges you'll face. ◆





LESSONS FROM THE FIELD

What has Jack Stack, the chairman and chief executive of SRC Holdings Corp., learned about business and people by playing *The Great Game of Business* for 25 years? Plenty.

- ◆ **The Game never ends.** “We have this management laboratory here where I work. We started this process a long time ago, but it’s never finished. It’s not even refined. The more we play, the more we learn, the more we fix, the better we get. It blows me away when I think of all the places you can apply *The Game*—and how effective it is when the lights go on in employees’ heads and they get it.”
- ◆ **Teach business from the outside in.** “Twice a year we do high-involvement planning. We look at the economy, the industry, the competition. We bring the marketplace to our people so they can make some tough decisions. They all vote on the annual plan. And they all sign it because they *believe* in it. But it all starts out there, not in here.”
- ◆ **Let employees set the standards.** “You’ve got something when people feel that psychic ownership of line items. They go on stage, forecast their numbers, defend them, own them. Setting the standards is all about personal responsibility. It sets off this whole chain of events. Bob says he’s going to do this, and Mary says she’s going to do that, based on what Bob says. That’s how the standards are set.”
- ◆ **Innovation trumps optimization.** “Optimization is about hands, not hearts and minds. *The Game* is about innovation, and in our case, trying to create a community of businesses. In terms of valuation, there’s much more money in innovation than in optimization. If someone gives you a dollar, it’s just a dollar. But if you can take that dollar and build a company, *wow*. That’s the *Game* we play.”
- ◆ **Repetition trumps equity.** “The secret to changing culture lies in the simple act of repetition. It’s not the planning. It’s not the bonus program. It’s not even the equity sharing. It’s the repetition. It’s nailing down the routine and getting people to forecast accurately week in and week out. That’s how people learn. And that’s how cultures change.”

- ◆ **You need four kinds of MVPs...** “We want to create leaders who can build great companies. We need strategists who can make changes, start the diversification process and sell. We need change agents with strong leadership skills. We need people who can build relationships. And we need people who are hungry to develop their talent.”
- ◆ **...and a sturdy succession program.** “You have this quandary when you open the books. What road should we take? Do we buy, sell or go public? It’s a very exciting time for us, filled with exciting new challenges. Now the question we face is: Are SRC employees ready to understand what they want? This is how the *Game* keeps pushing you.” ◆

GETTING STARTED

Read the books. Jack Stack’s *The Great Game of Business* and *A Stake in the Outcome* are considered business classics. They’re useful guides for beginners and handy reference tools for players. Learn how to define your critical numbers, set up a standard cost system, develop an annual *Game* plan and empower your team. Order copies at our online bookstore: greatgame.com.



Visit SRC. Attend its *Two-Day Experience* seminar for two incredible days of hands-on instruction in the fundamentals of *The Game*. Take a plant tour with Jack Stack, meet front-line employees, sit in on a live huddle and learn what it’s really like to run an open-book company.

Hire a coach. Most games are won thanks to good prep work and coaching. *The Great Game of Business* is no different. A coach can help you implement *The Game* quickly and efficiently, or help you take your *Game* to the next level. Call us today for a free 30-minute coaching session that will get you on the right track: 800-386-2752.

Join the open-book community. Attend SRC’s big annual *Gathering of Games* conference for networking, fresh ideas and inspiration. And visit openbookmanagement.net for best *Game* practices, Q&A boards, blogs by OBM experts, productivity tools, case studies, news, events, trends and more.

