

OPEN BOOK MANAGEMENT

Sharing Financial information with Your Employees

November 2020

Open Book Management (OBM) is the process of educating employees about the financial realities of veterinary practice to enable your staff to identify ways to improve the bottom line and achieve the goals you wish to accomplish.

A major benefit of sharing certain financial information with your staff is accountability, both theirs and yours! By sharing financial results, you are holding both the leadership and the employees accountable for the outcome of their efforts. Employees feel empowered and will be on the lookout for ways they can improve operations. Employees who are trusted with important financial information also feel they are part of a team, which can increase loyalty and engagement. Also, suppose you have an associate that you are considering bringing into ownership. In that case, OBM could help them become better partners and entrepreneurs if they already understand the business side of the practice.

There are a few related concerns about sharing numbers with your staff, as well as a right way and a wrong way to do it. Unless your staff are all accountants or have owned or been included in a business's financials before, they will have limited understanding of the financial statements and what they measure. Before diving into the numbers or dumping a lot of financial jargon on them, educate your employees on the basic terms and definitions such as gross revenue, cost of goods sold, expenses, and net income, otherwise known as profit. Explain to them that revenue is the client payments coming into the practice - BEFORE any other costs or expenses come out. Give them examples that they can relate to, such as the drugs and medical supplies purchased get recorded in the cost of goods sold accounts because they are directly sold or administered in order to provide care and generate the associated revenue. Invite your CPA to present information at a staff meeting, especially if you work with someone who can explain accounting jargon in layperson's terms. Also, consider asking an accounting professor at your local community college to provide brief tutorials. These instructors are well versed in adult learning styles. Use games and scavenger hunts as alternatives to lectures. The more engaging the process, the more pleasant the learning experience.

Another concern is if the numbers are not exactly what you would hope them to be and portray somewhat of a bleak outlook. Explain some things that may have negatively impacted the numbers along with a realistic, understandable plan of action for improvements. Involve the management team and staff by asking their thoughts and opinions on what some of those areas are and what implementing improvements would look like. Be encouraging, even if the numbers are not!

We recommend only sharing the profit and loss statement. It is the easiest to understand relative to business operations and reports the areas employees can impact. While critical, the balance sheet is more representative of the owners' decisions on what to do with the practice profits. Share numbers regularly and involve staff members in tracking some of the metrics you wish to measure. You and your team can set attainable goals and celebrate when they are met. This can easily be done on a quarterly, semi-annual, or annual basis.

Decide what information you feel comfortable sharing, but also keep in mind what you know the employees would like to know. Compensation, for example, will be the top on their list! We STRONGLY recommend keeping individual compensation amounts private for obvious reasons that mostly include cutting down on practice drama! Instead, collapse this number into a single number, so positions are not singled out. Be up front and let employees know whether or not your compensation is included in that figure, but you do not need to disclose the amount of your salary. (Side note: this is where it comes in handy to pay owners using the same compensation structure as the associates for clinical work plus a management salary for overseeing the operations of the practice. Other "ownership compensation" should come from bottom line profits or rent revenues.) We also recommend sharing the profit and loss as a percentage of revenue only. This means there are no dollar amounts on the report. Instead, everything is reported as a percentage of total revenue (see example below).

Sometimes employees can get the wrong impression or perspective of how well (or how poorly) a practice is doing. This can create discontentment because of the misconception that the owner gets to put every penny that comes into the practice directly into his or her pocket. As the owner or manager, you know well enough that it isn't true. Most employees do not see the bills the practice pays and have no clue how much it costs to keep the doors open.

A fun exercise to do at a staff meeting is "100 Pennies". This illustration is very simple to do with your employees and helps them get a better perspective of the true costs of running a veterinary practice. To start, you give each employee 100 pennies. These pennies represent 100% of the gross revenue - every "penny" that comes into the practice. Then talk through the list of the costs and expenses that the practice has. One by one, go thru each expense the practice has. Ask the employees to put aside (or put in a cup to demonstrate more clearly being GONE) the number of pennies they think are required to pay that expense as a percentage of gross revenue. For example, if they think that drugs and medical supplies are 20% of total gross revenue, they will put away 20 pennies, and so forth. You can give examples of vendor names that belong to each expense category if that helps the employees wrap their heads around the expenses better.

As you go down through the list of expenses, the number of pennies that remain grows smaller and smaller. Once you get down to the end of the profit and loss statement, or net income, ask each employee how many pennies they have left. This is how much profit - or pennies - that gets to stay in the bank account. More often than not, your staff will run out of pennies before you finish the list. But wait. There's more! You have to use what's left to make payments that are not recorded on the profit and loss statement, such as principle payments on any loans the practice may have on equipment or vehicles, along with income taxes on the profit. Then THAT amount that is left over is what actually goes into the owner's pocket for his or her share of owning the practice, also known as owner distribution. By going through this exercise, your staff learns more about how the business operates and gains an understanding of how they impact the results. Once you discuss their thoughts on why they have the amount of pennies they do, show them the practice's last fiscal calendar profit and loss as a percentage of revenue so they can see how close, or far off, they were. This exercise is fun to do because you can literally watch the light bulbs turn on, watch realizations on the employees' faces and hear their comments as they start to get a clearer picture of the business side of the practice.

The open-book management concept may not be for every practice or practice owner. The process requires detailed planning and careful management with every step. Before implementing this concept into your practice, carefully weigh the pros and cons to see if it would be a good fit for you and your staff. The owners and managers should discuss this openly and reach out to peers who have done it before or do it on a regular basis. Sharing financial information with your employees can yield some amazing results. When employees know how the practice is doing and they understand how their input can make a difference in the financial results, motivation and efficiencies can improve significantly. Especially during these crazy times we call 2020, this approach could be a huge turning point for you and how you manage your practice!

	% of Income
Income	100.0%
Cost of Goods Sold	21.9%
Gross Profit	78.1%
Expenses	
Compensation	43.3%
Facility Rent	5.1%
Business Professional Fees	4.4%
Employer Payroll Taxes	2.9%
Advertising & Promotion	2.0%
Collection Fees	2.0%
Repairs & Maintenance	1.4%
Employee Fringe Benefits	1.3%
Utilities	1.2%
Office Supplies	1.1%
Real Estate Tax	1.0%
Computer Supplies	1.0%
Licenses & Permits	0.4%
Insurance Premiums	0.3%
Business Gift & Flowers	0.2%
Payroll Service Fees	0.2%
Total Expenses	67.8%
Net Operating Income	8.7%
Net Other Income/Expense	0.0%
Net Income	10.3%