

EFFECT OF OPEN BOOK MANAGEMENT ON ORGANIZATIONAL PERFORMANCE IN SELECTED MANUFACTURING FIRMS IN ENUGU STATE NIGERIA

Nnaji, Precious Amuche* and Agbaeze, Emmanuel Kalu (Ph.D.)

Department of Business Administration

University of Nigeria, Enugu Campus

* Author for correspondence, Mobile: +234-36748418

Email: samprec@gmail.com

Abstract

This research work critically examined the concept of Open Book Management and its effect on Organizational Performance in Manufacturing Firms in Enugu State, Nigeria. Open book management is based on the principle that managers and employees who know and understand financial performance and goals and share a stake in organizational success are more apt to be highly effective and motivated in meeting those goals. Specifically, the study sought to: ascertain the effect of transparency on organizational survival, and the extent employee participation in decision making affects employee output. The study adopted the survey research design. The population of the study was a total of 1,276 staff of the five selected manufacturing firms in Enugu State, Nigeria. The sample size 125 was obtained from the population using Evans Morris formular at 95% confidence level and 5% margin of error. Data were collected using the questionnaire research instrument and interview which was designed in a 5 point Likert scale and manually

administered to the respondents. The hypotheses were tested using regression analysis. . The findings indicate that transparency had a significant and positive effect on organizational survival ($r = 0.875$, $p < 0.05$); and Employee participation in decision making significantly had positive effect on employee output ($r = 0.866$, $p < 0.05$). The study recommends that in the practice of open book management, organizations should place emphasis on ensuring the practice of transparency among the employees; and employees should be involved at certain levels in the decision making process and/or should be kept abreast of management's decision processes and decisions. The study concludes that open book management processes puts the organization on a pedestal to achieving organizational growth, employee performance and sustainability

Keywords: *Open Book Management, transparency, participation.*

Introduction

Over the years, organizations have adopted and practiced several management principles and methods in a bid to increase organizational performance. Much has also been written about the organizations' corporate strategy, goals/objectives, mission statement, visions and how to transform organizational performance or activities that will result in the appropriate action by the workforce. To achieve the objectives of the organization, the factors of production which include finance, land, labour and entrepreneur must be in place. The employees who make use of the other factors to achieve the organizations objectives are not engaged optimally to achieve better overall results. (Aggarwal and Simkins, 2001). This results in the employees working to earn a living rather than working to achieve the overall organizational objective. Kantian approach to business ethics analysis by Bowie (1999) emphasize that human beings have free will and thus are able to act from laws required by reason; they have dignity or a value beyond price. Thus, one human being cannot use another simply to satisfy his or her own interests. "Always treat the

humanity in a person as an end and never as a means merely” (Kant, 1990 as cited in Bowie, 1999).

Okon and Agbeze (2013) state that Labour-Human Capital, though a factor of production is not ordinary, thus ought to be managed with care based on well-articulated motivational schemes and policies. They furthermore opine that among these, is the most canvassed Open Book Management system, which tends to recognize the potentials in labour and seesameas almost being at par with the entrepreneur.

McCune (2011) defines open book management as a style of management in which employees learn about a company's bottom line, their contribution to it, and are rewarded for meeting financial targets. Open Book Management is a way of running an organization in which the information received by employees should not only help them do their jobs effectively, but help them understand how the company is doing as a whole. It is a management method that orients employees towards building a better business. Instead of using typical motivational tools and expecting employees to complete their assigned tasks, Open Book Management attempts to actively involve employees in all aspects of the business.

Open Book Management is based on the principle that managers and employees who know and understand financial performance and goals and share a stake in organizational success are more apt to be highly effective and motivated in meeting those goals. As a result, management overhead and the agency problems between employees, managers, and owners will be much lower (Aggarwal and Simkins, 2001). Organizations practicing Open Book Management explain clearly the organization's key measures of business success, allowing employees to make better-informed business decisions. They share financial information (such as income statements, balance sheets and other key metrics) with employees, and ensure they understand them and know how they relate to the organization's key measures of business success. All employees track progress on critical numbers (numbers that indicate the profitability or

break-even point) through regular meetings and scorecards. They are empowered to take action to improve performance as needed.

The issue of whether Open Book Management exists in the Nigerian industrial set-up is very controversial. Some organizations would like to keep their employees in the dark when it comes to the financial information. They hoard some important information and are not transparent in their activities and operations. Some of the managers feel that the knowledge of the important information is their sole prerogative and as such should be protected. Top management likes to remain aloof from its employee so as to build an all-important air around them. It is then very significant that the organizations that hide useful information from their staff are moving towards their peril. This means that such organizations will not be efficient and profitable, because they do not allow employees to participate in all aspects of the business. A highly performing organization is made up of people who are basically all pointing in the same direction – that is, they are in agreement about the reason for the organization to exist, and what they would like to see the organization achieve. But here in Enugu State, Nigeria, those involved are not open and clear about the purpose of the organization and about the ways that it intends to work.

This study was aimed at identifying the effects of Open Book Management on organizational performance. It specifically aims to ascertain the effect of transparency on organizational survival and the extent employee participation in decision making affects employee output.

Review of related literature

Open –Book Management, in principle and practice makes provision for sharing with employees at different and all levels of corporate activities, information hither-to consider the exclusive right of management (Bateman and Snell, 1999). This information relates to budget, income statement, sales, forecasts, financial targets and others that influence

corporate performance and prospects. Stack in Buchko and Goiten (2011) identified three basic principles in practicing OBM management. These are - Know and teach the rules, Follow the action and keep score, and provide a stake in the outcome.

Organizational performance demands workers' productivity and at such transparency in the management of organizations is highly needed. For Hultman and Axelsson (2007), Transparency means the individual's subjective perception to be informed about the properties and activities of the other party. In business ethics, transparency is defined as an informational mechanism necessary for performing the virtues of truthfulness, justice, and prudence (Oana B. Albu and Mikkel Flyverbom, 2013). Amittai (2010) in a study on transparency noted that with Open Book Management, financial information is shared with everyone in a company. Moreover, the management also lays out the meaning of the financial information and points to ways the employees can contribute to the company's success.

Stack (1994) states that Open Book Management attempts to actively involve employees to participate in all aspects of the business. The concept of worker participation refers to any arrangement which is designed to involve low cadre employees (workers) in the important decision making within the workplace. This implies that rather than saddling only a group within the enterprise (for instance, Management) with the responsibility of making decisions, all those who are to be affected by these decisions (including the workers) would be involved in its formulation and implementation. Worker participation implies arrangements designed to involve workers in the enterprises decision making process. This allows for workers' involvement in the initiation, formulation and implementation of decisions within the enterprise. In its various forms, employee participation in decision making has been recognized as a managerial tool for improving organizational performance by striving for the shared goals of employees and managers (Ojokuku and

Sajuyigbe, 2014). Vroom (1974) in Irawanto (2015), described participation as involvement. Locke and Schweiger (1979) in Kuye and Sulaimon, (2011) also describe it as ‘joint decision making’ between managers and subordinates. It is a vital element to the practice of open book management in organizations.

In an empirical study in Oko and Agbaeze (2013) on the Open Book Management System: study of selected firms in Nigeria, it was observed that the level of acceptance and operational efficiency of the technique of Open Book Management is low in Nigeria. They conclude that the situation in Nigeria shows that human capital management is based on the principle of the 4 (four) factors of production, rewards and motivation expenses are budgetary issues of rigid application. Matters that may enhance the right of labour to information on corporate financial management do not receive managerial attention; hence the applicability of the Open-Book Management technique even in the face of its obvious benefits is relegated to the background. They recommended that the Nigeria economy and economic activities should be de-regularized for inter and intra industrial competition which will lead to the establishment of quality relationship between entrepreneurs and the labour force, subsequently; the Open-Book Management technique will be commonly adapted if not adopted.

In another study by HamzehAL-Sha’ar (2016) on the Impact of Open Book Management on achieving differentiation in business organizations aimed to know the concept of open Book management and differentiation in the organizations and studying the effect of the relation between open book administration and differentiation in the organization. It was discovered that there is difference with statistical significance of the influence of open Book management on differentiation in the business organizations due to gender, scientific qualification and practical experience variables and at such recommended an interest in developing and training the employees according to scientific programs with the goal

to develop their capabilities and improving their performance level through: Conducting short- medium periods of training programs to train the employees and encouraging the employees and continuously supporting them to learn in all fields relating to their work. Another study by Rathnaker (2012), on Workers participation in Management Decision Making show that employees in organizations demonstrate a high interest in participation in the decision making process within their respective work places. However, the actual level of involvement in management decision making demonstrated by the employees was found to be relatively low. It then reveals a growing desire of non-management employees in the work environment to exercise greater involvement in the decision making process of the enterprise. The study recommended the use of joint management councils as the method of Workers Participation.

Methodology

The research design that was adopted for this work is survey design. The study analyzed primary data and documented information from secondary data. The primary data was collected through the use of questionnaire, structured oral interview and formal discussions with employees of the sampled organizations. Published and unpublished materials were used for the secondary data. The population of the study is the management and staff of the five selected manufacturing firms made up of one thousand two hundred and seven six (1,276) staff. The study used one hundred and twenty five staff as the sample size of the study. The systematic sampling method was used to select respondents.

The instrument for data collection elicited information on demographic characteristics of respondents and the two (2) objectives. The options for the answers were arranged in a 5-point likert-scale of Strongly Agree (SA: 5 point), Agree (A: 4 point), Strongly Disagree (SD: 3 point), undecided (UD: 2 point), and Disagree (D: 1 point). A test-re-test method was adopted to ascertain the reliability of the instrument. Fifteen (15)

copies of the questionnaire were distributed to the firms understudied; three (3) copies to each firm. These were collected afterwards and re-distributed for the second time.

The outcome of the test-re-test was determined using spearman rank order correlation coefficient and the result gave a reliability coefficient of $r = 0.62$. Data were presented in frequency and simple percentage tables. The hypotheses were tested using regression analysis, The decision rule for the study is reject null hypotheses (Ho) if the calculated value is greater than the critical value at 5% error. Do not reject null hypotheses (Ho) if otherwise

Analyses

The perception of the respondents on the effect of transparency on organizational survival is presented in Table 9.2.2.1.

Table 9.2.2.1: Effect of transparency on organizational survival

Item	SA (%)	A (%)	SD (%)	U (%)	D (%)	Mean
Transparency increases open communication among the employers and employee	77 (68.1)	21 (18.6)	5 (4.4)	5 (4.4)	5 (4.4)	3.50
Transparency ensures proper understanding of the organizational goals	33 (29.2)	48 (42.5)	12 (10.5)	10 (8.8)	10 (8.8)	2.92
Transparency increases sustainability	44 (38.9)	40 (35.2)	15 (13.3)	10 (8.8)	4 (3.5)	3.19
Transparency increases teamwork among the individuals in the organization	35 (31.0)	50 (44.2)	20 (17.7)	4 (3.5)	4 (3.5)	2.99
Transparency increases the individuals openness for inspection and feedback	14 (12.4)	56 (49.6)	17 (15.0)	14 (12.4)	12 (10.6)	2.89

As presented in Table 9.2.2.1, 77 (68.1%) respondents strongly agreed that transparency increases open communication among the employers and employee, 21 (18.6%) respondents agreed with this, 5 (4.4%) respondents strongly disagreed with this, 5 (4.4%) respondents were undecided, while 5 (4.4%) respondents disagreed with this. Having a mean score of 3.50 +

0.84, the respondents agreed that transparency increases open communication among the employers and employee.

With 33 (29.2%) respondents strongly agreeing, 48 (42.5%) respondents agreeing, 12 (10.5%) respondents strongly disagreeing, 10 (8.8%) respondents were undecided, while 10 (8.8%) respondents disagreed as well as the mean score of $2.92 + 0.92$, the respondents are of the determination that transparency ensures proper understanding of the organizational goals.

Having a mean score of $3.19 + 0.80$ and the responses of 44 (38.9%) respondents who strongly agreed, 40 (35.2%) respondents who agreed, 15 (13.3%) respondents who strongly disagreed, 10 (8.8%) respondents were undecided and 4 (3.5%) respondents who disagreed, the respondents are of the view that transparency increases sustainability.

Based on the responses of 35 (31%) respondents who strongly agreed, 50 (44.2%) respondents who agreed, 20 (17.7%) respondents who strongly disagreed and 4 (3.5%) respondents were undecided while 4 (3.5%) respondents who disagreed as well as the mean score of $2.99 + 0.88$, the respondents agreed that transparency increases teamwork among the individuals in the organisation.

The respondents are of the view that transparency increases the individual's openness for inspection and feedback. This is captured in the responses of 14 (12.4%) respondents who strongly agreed, 56 (49.6%) respondents who agreed, 14 (12.4%) respondents were undecided on this, 17 (15%) respondents who strongly disagreed and 12 (10.6%) respondents who disagreed as well as the mean score of $2.89 + 0.90$.

The respondents' opinion of the effect of employee participation in decision making on employee commitment is presented in Table 9.2.2.2.

Table 9.2.2.2 Effect of employee participation in decision making on employee output

Item	SA (%)	A (%)	SD (%)	U (%)	D (%)	Mean
Employees are involved in management meetings.	10 (8.8)	23 (20.4)	38 (33.6)	14 (12.4)	28 (24.8)	2.13
Participation in decision making increases the level of employee output.	41 (36.3)	37 (32.7)	11 (9.6)	10 (8.8)	14 (12.4)	2.93
Both junior and senior staff members actively participate in decision making	33 (29.2)	37 (32.7)	23 (20.4)	15 (13.3)	5 (4.4)	2.73
Non Participation of employees in decision making increases the cost of management	20 (17.7)	41 (36.3)	37 (32.7)	5 (4.4)	10 (8.8)	2.72
Employees have a sense of belonging when their suggestions during meeting are welcomed	42 (37.2)	41 (36.3)	5 (4.4)	10 (8.8)	15 (13.3)	2.97
Superior quality decision is reached as a result of participation.	66 (58.4)	15 (13.3)	9 (8.0)	18 (15.9)	5 (4.4)	3.42
Individual output is heightened by employee participation in decision making.	31 (27.5)	50 (44.2)	17 (15.0)	10 (8.8)	5 (4.4)	3.12

Source: Field Survey, 2016

Based on the data presented in Table 4.7, the respondents are not of the opinion that employees are involved in management meetings. This is captured in the responses of 10 (8.8%) respondents who strongly agreed, 23 (20.4%) respondents who agreed, 38 (33.6%) respondents who strongly disagreed, 14 (12.4%) respondents were undecided on this and 28 (24.8%) respondents who disagreed, as well as the mean score of 2.13 + 0.89.

From the responses of 41 (36.3%) respondents who strongly agreed, 37 (32.7%) respondents who agreed, 11 (9.6%) respondents who strongly disagreed, 10 (8.8%) respondents were undecided and 14 (12.4%) respondents who disagreed, as well as the mean score of 2.93 + 1.02, the respondents agree that participation in decision making boosts employee commitment.

The mean score of 2.73 + 1.07 and the responses of 33 (29.2%) respondents strongly agreeing, 37 (32.7%) respondents agreeing, 23 (20.4%) respondents strongly disagreeing 15(13.3%) respondents were

undecided and 5 (4.4%) respondents disagreed, show that both junior and senior staff members actively participate in decision making.

The views of the respondents as captured in the responses of 20 (17.7%) respondents who strongly agreed, 41 (36.3%) respondents who agreed, 37 (32.7%) respondents who strongly disagreed, 5 (4.4%) respondents and 10 (8.8%) respondents who disagreed as well as mean score of $2.72 + 0.91$, show that the respondents agree that non participation of employees in decision making increases the cost of management.

With 42 (37.2%) respondents strongly agreeing, 41 (36.3%) respondents agreeing, 5 (4.4%) respondents strongly disagreed, 10 (8.8%) respondents were undecided on this and another 15 (13.3%) respondents disagreeing as well as the mean score of $2.97 + 1.02$, the respondents are of the view that employees have a sense of belonging when their suggestions during meeting are welcomed.

Having a mean score of $3.42 + 0.83$ and 66 (58.4%) respondents strongly agreeing, 15 (13.3%) respondents agreed, 9 (8%) respondents strongly disagreed, 18 (15.9%) respondents were undecided and 5 (4.4%) respondents disagreeing, the respondents are of the determination that superior quality decision is reached as a result of participation.

Based on the responses of 31 (27.5%) respondents who strongly agreed, 50 (44.2%) respondents who agreed, 17 (15%) respondents who strongly disagreed, 10 (8.8%) respondents were undecided and 5 (4.4%) respondents who disagreed and the mean score of $3.12 + 0.83$, the respondents are of the opinion that individual commitment is heightened by employee participation.

Test of Hypotheses

The results for the two tests of hypotheses are presented below.

Test of Hypothesis One

Transparency significantly has effect on organizational survival

This hypothesis is tested using the regression analysis. The summarized results are presented in Table 9.2.2.3

Table 9.2.2.3: Summarised regression results for Hypothesis One

Variable	Coefficient	t-value	p-value
Constant	-0.072	-0.416	0.678
Transparency (T)	0.875	18.119	0.000

$r = 0.875$; $r^2 = 0.747$; RegSS = 59.970; ResSS = 20.277; F-value = 328.283; sig. = 0.00

Source: SPSS Results Appendix 2

The result of the regression analysis summarized in Table 3. shows that the model for the relationship between Transparency (T) and organizational survival (OS) is:

$$OS = -0.072 + 0.875T$$

This reveals that transparency has positive impact on organizational survival. With t-value > 1.96 (t-critical) and p-value < 0.05, this impact is significant.

Also, the regression coefficient (r) of 0.864 indicates a strong relationship between the independent variable (transparency) and the dependent variable (organizational survival). The coefficient of determination (r^2) of 0.747 reveals that 74.7% of the variation observed the dependent variable is caused by the independent variables. Having a regression sum of square of 59.970 > the residual sum of squares of 20.277, this variation is not due to chance. The F-value and corresponding significance value of 328.283 (0.000) shows that these results are significant. Based on this, the results indicate that transparency has a significant and positive effect on organizational survival.

Test of Hypothesis Two

Employee participation in decision making significantly has positive effect on employee commitment.

This hypothesis is tested using the regression analysis. The summarized results are presented in Table 9.2.2.4.

Table 9.2.2.4 Summarised regression results for Hypothesis Two

Variable	Coefficient	t-value	p-value
Constant	1.111	10.018	0.000
Employee Participation in Decision Making (EPDM)	0.877	18.276	0.000

$r = 0.866$; $r^2 = 0.751$; RegSS = 68.526; ResSS = 22.772; F-value = 334.026; sig. = 0.00

Source: SPSS Results Appendix 3

The result of the regression analysis summarized in Table 4. shows that the model for the relationship between Employee Participation in Decision Making (EPDM) and Employee output (EO) is:

$$EO = 1.111 + 0.877EPDM$$

This reveals that employee participation in decision making has positive impact on employee output. With t-value > 1.96 (t-critical) and p-value < 0.05, this impact is significant.

Also, the regression coefficient (r) of 0.866 indicates a strong relationship between the independent variable (employee participation in decision making) and the dependent variable (employee output). The coefficient of determination (r^2) of 0.751 reveals that 75.1% of the variation observed the dependent variable is caused by the independent variables. Having a regression sum of square of 68.526 > the residual sum of squares of 22.772, this variation is not due to chance. The F-value and corresponding significance value of 334.026 (0.000) shows that these

results are significant. Based on this, the results indicate that employee participation in decision making significantly has positive effect on employee commitment.

Discussion of findings

The findings of this study are discussed on the objectives of this study.

Effect of transparency on organizational survival

The study revealed that in the application of open book management, transparency plays a very vital role. The role of transparency is captured in the relevance to enhancing communication among employers and employees. This goes a long way to ensuring that the goals of the organization are properly understood and there is role clarity among the employees. Furthermore, when transparency is promoted in organizations, teamwork increases and employees become more receptive to inspection and feedback. This concurs with the assertion of Hultman and Axelsson (2007), who noted that transparency in the management of organizations is highly needed as it places demands on workers' productivity which results in organizational performance.

Effect of employee participation in decision making on employee output

Employee participation in decision making is an effective aspect of open book management. Its effectiveness is especially noticed in the boosting of the employee output. Employee participation in decision making is practicable when employees are grouped in teams or committees to supervise different segments of production or service provision. With this being the case, decisions are rarely implemented without the employees' knowledge. This creates a sense of belonging among employees, more so when their suggestions are welcomed during meetings. As a results quality decisions are reached that have positive impacts on the employees,

management and the organization, as a whole. This finding is in agreement with the opinion of Ratina (2012) who pointed out that the objective of participation for management is to achieve more elaborate organizational ends, such as improvement in employee output, improved industrial relations, motivation and commitment, and quality of work life.

Conclusion

Open Book Management plays a vital role in the survival and growth of organizations. This is premised on the gains of open book management which aims at ensuring that employees effectively carry out their job description based on the information received from their employers. This management process puts the organization on a pedestal to achieving organizational growth, employee performance and sustainability. Specifically, this study revealed that open book management is relevant to organizational performance in the manufacturing firms in Enugu state. When open book management is practiced in organizations, it ensures that transparency significantly has positive effect on organizational survival and employee participation in decision making positively affects employee output.

Recommendations

Based on the findings of the study, it is recommended that:

- i. In the practice of open book management, organizations should place emphasis on ensuring the practice of transparency among the employees;
- ii. Employees should be involved at certain levels in the decision making process and/or should be kept abreast of management's decision processes and decisions;

References

- Aggarwal, R., & Simkins, B.J. (2001). Open book management – Optimizing human capital. Retrieved from <http://www.researchgate.net/publication/4884879> on 6th June 2016.
- Amitai, E. (2010). Is transparency the best disinfectant. *Journal of Political Philosophy*, 1-16. Doi:10.1111/j.1467-9760.2010.00366.x
- Bateman, T., & Snell, S. (1999). *Management: Building competitive advantage*. (4thed.). Boston Irwin McGraw-Hill.
- Bowie, N.E. (1999). *A kantian approach to business ethics*. Retrieved from 1405101024_001.pdf
- Buchko, A., & Goiten B. (2011). *Employee engagement through open book management*. A paper presented at the Bradley University. Retrieved from <http://www.peoriomagazines.com/ibi/2011/mar>.
- Hamzeh AL-Sha'ar, (2016). The impact of open book management on achieving differentiation in the business organization. *International Journal of Human Resources Studies*. 6, 223-233. Retrieved on 17th June, 2016.
- Hultman, J., & Axelsson, (2007). Towards a typology of transparency for marketing management research. *Industrial marketing management*, 36, 627 – 635.
- Irawanto, D.W. (2015). Employee participation in decision making: Evidence from a state –owned enterprises in indonesia. *Management Journal*, 20(1), 159-172.
- Kuye, L.O., & Sulaimon, A.A. (2011). Employee involvement in decision making and firms performance in the manufacturing sector in Nigeria. *Serbian Journal of Management*, 6 (1), 1-15.
- McCune, J.C. (2011), How open book management can help your small business. Bankrate.com
- Ojokuku, R.M., & Sajuyigbe, A.S. (2014). Effect of employee participation in decision making on performance of selected small and medium

scale enterprises in lagos, nigeria. *European Journal of Business Management*. 6(10), 93-97.

Oko, O., and Agbaeze, E. K. (2013).The open-book management system: Study of selected firms in nigerian.*Online Journal of African Affairs*. 2(2), 19-28.

Rathnaker, G. (2012). A Study of Workers Participation in Management Decision Making at BHEL,HYDERABAB. *International Journal of Marketing, Financial Services and Management Research*. 1(9), 135-141.

Stack, J. (1994). The great game of business. Retrieved from http://www.marshalf.com/assets/book_reviews/the%20great%20game%20of%20busin