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The relationship between open book management and trust with organization financial performance

Manteghi Nikzad ^{a*}, Golkari Maryam ^b

^a Ph.D, Department of Industrial Management, Shiraz Branch, Islamic Azad University, Shiraz, Iran
^b M.A student, Department of Industrial Management, Shiraz Branch, Islamic Azad University, Shiraz, Iran

Abstract

This research is aiming to find the relationship between OBM indicators and trust with the financial performance of Saderat Bank branches in Shiraz. Saderat Bank has 77 branches as a sample. To collect the required information, a questionnaire was prepared. To evaluate the OBM, 8 closed questions were considered to have Yes or No answers. To investigate the trust in management, 22 questions in four groups indicators were considered. The results show that there is a positive correlation between these variables and just in a few cases with the little deviation it has not high positive correlation.

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Keywords: Open Book Management, Trust, Financial Performance of an Organization;

1. Introduction

One of the challenges for the researchers in management and accounting is finding new models for accounting management which can help to solve the problems in an organization. Use of modern techniques in management accounting and their underlying philosophies, are obvious results of such developments.

In recent years, there has been lot of publicity about Open Book Management and a lot of discussions around it. There are many claims on the potential of Open Book Management in revolutionizing the businesses. Many cases show that Open Book Management, if applied correctly and suitably will be beneficial. In fact, Open Book Management has simple but effective means for organization management. (Maurer Rick, 2001).

2-Structure

Over the 15 years, a growing number of small and medium- sized companies have been experimenting with an innovative management philosophy known as Open Book Management (OBM). This philosophy (pioneered by Jack Stack, CEO of Springfield Remanufacturing Corp. An engine- rebuilding factory in Springfield Missouri) represent an approach to running a company in which employees are empowered with decision- making ability. The basis of Open Book Management is that the information gained by the staff should not only help them to do their jobs but also should be beneficial for their understanding of the overall performance of the organization.

* Manteghi Nikzad. Tel.: +989173086997 fax:+987116281744
E-mail address: nik163@yahoo.com

Organizations believe that the employees are their main assets and are their main competitive advantage. In this circumstances staff retention and motivation for increasing job productivity by using different mechanisms is one of their important duties.

Contrary to popular belief, and a great deal of economic theory, money and the pursuit of a personal financial fortune are not as significant as the desire for personal involvement, responsibility and the independent quality and style of life which many small business owner- managers strive to achieve. (Jennings & Beaver, 1997, P63)

John Case, an enthusiastic proponent of OBM, defines three basic principles which separate this approach from conventional business:

- a) Every employee sees and learns to understand the company's financials, along with all the other numbers that are critical to tracking the business's performance.
- b) Employees assume that, whatever else they do, part of their job is to move those numbers in the right direction.
- c) Employees have a direct stake in the company's success.

The best sentence for understanding the philosophy of Open Book Management is said to be; "all for one and one for all" in which "one" is the organization. In the other word, under the umbrella of Open Book Management all conflicts of interests will go away that means your interests and my interest will become our interests which according to the philosophy of Open Book Management is the real meaning of achievement.(Case, 1995.p.37)

Today with globalization, a lot of attention has been paid to the importance of trust in social, economical, political and organizational relations. The traditional models of management concentrate on the control strategy and leadership elements for staff motivation. These strategies encourage managers to directly check employee activities which increasingly can diminish the trust in an organization (Tyler, 2003). This is the point that Fox stresses on it. Fox argues that by continuously dictating and evaluating the performance of employees an organization cannot build trust. He supports delegation and believes it can build relations based on trust in an organization.

One of the most important factors for organizations failure is that they do not have the right indicators to measure Open Book Management and performance achievement of the organization. In this research we intend not to rely only on management and economics theories but to combine accounting and management to firstly define the indicators for measurement of Open Book Management and real achievements of an organization and then get to know the effective factors and finally to investigate the relations between these factors and organization achievement. In the other word in this research we intend to say if an organization from the view point of accounting management (applying Open Book Management and trust) is successful, is it successful from the view point of financial accounting? In simple words, what is the relationship between modern accounting management indicators with financial indicators?

In this regard we are aiming to understand the following:

Determine the relationship between OBM (Open Book Management) with financial performance indicators of the bank, trust with financial performance indicators of the bank, relationship between OBM and trust, and linear relationships between them and applying the concept of Open Book Management in measuring the financial success of the bank. In this regard, the following hypotheses will be examined.

Hypothesis 1: There is a significant dependency between Open Book Management and trust.

Hypothesis 2-a: Open Book Management has a significant and positive effect on financial performance of the bank branches.

Hypothesis 2-a-1: Open Book Management has a significant and positive effect on the percentage of money given as loans to total savings of the branch.

Hypothesis 2-a-2: Open Book Management has a significant and positive effect on the averages of money given as loans of the branch.

Hypothesis 2-a-3: Open Book Management has a significant and positive effect on the averages of savings taken by the branch.

Hypothesis 2-b: Trust has a significant and positive effect on the performance of the branch.

Hypothesis 2-b-1: Trust has a significant and positive effect on the percentage of money given as loans to total savings of the branch.

Hypothesis 2-b-2: Trust has a significant and positive effect on the averages of savings taken by the branch.

Hypothesis 2-b-3: Trust has a significant and positive effect on the averages of savings taken by the branch.

Hypothesis 3: Financial performance and trust of branches which have accepted Open Book Management more is more than the financial performance and trust of branches which have accepted open book management less.

Hypothesis 3-a: Financial performance of branches which have accepted Open Book Management more is more than the financial performance of branches which have accepted Open Book Management less.

Hypothesis 3-b: Trust in branches which have accepted Open Book Management more is more than the trust in branches which have accepted open book management less.

3-Research Conceptual Model:

Given the before mentioned and to summarize the independent and dependent variables the following research conceptual model is considered;

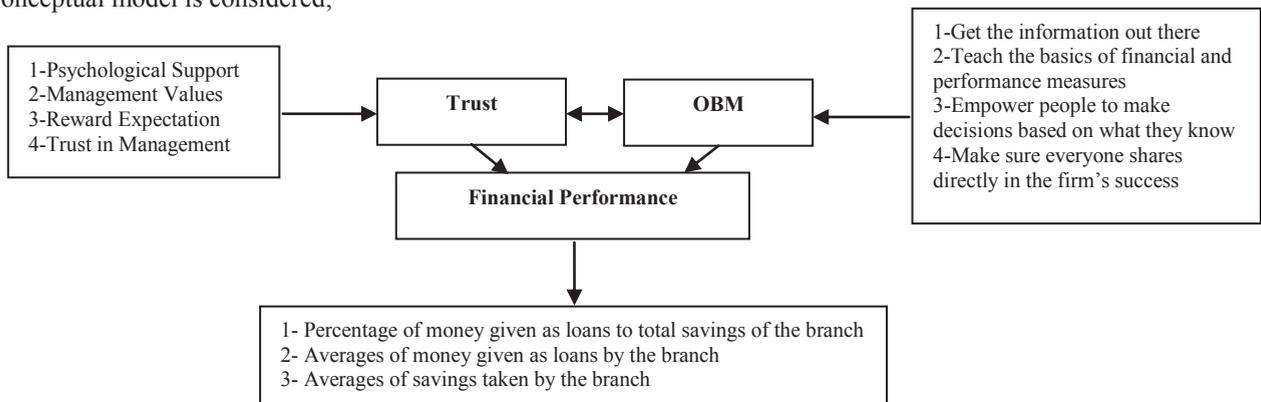


Figure1: Research Conceptual Model

3-1-Open book management

Open book literally means opening the book or notebook, but in management it means distribution and sharing financial information, industry processes, quality reports, customer service reports, ...between staff in an organisation.

By distribution of organisation information between staff, at the time of change there would not be any resistance or opposition to change because the staff are aware of the information and procedures (Maurer Rick, 2001).

The variable of “Open Book Management” is a quality variable. To quantify it, a questionnaire containing 8 closed questions (to answer Yes or No) was designed and used. The percentage of “Yes” answers shows the level of acceptance of open book management:

$$\text{Percentage of OBM} = \frac{\text{the number of yes answers}}{8}$$

3-2-Trust

Trust is one of main topics in sociology. Trust is considered as the basis for social discipline and is considered to be the main key for interpersonal relationships. Lower level of trust can cause staff to divert the stream of information in an organisation to create the pessimism among staff and destroy the open and truthful relations in the organisation to diminish the decision making quality (Baird & Amand, 1995).

The variable of “trust” is also a quality variable. In order to quantify it, a questionnaire containing 15 questions (to rank the answer as minimum trust as 1 and maximum trust as 5 answer) was designed and used. Although the 3rd question was asked negatively and the calculation for that was considered symmetric as follows:

Percentage of Trust= sum of value of answers / (22×5)

3-3 Organisation Financial Performance

According to Iranian Accounting Standards, the financial performance of a business is the result of resources that a business has under its control. The information about financial performance is presented in the form of Profit and Loss statement.

In the process of privatisation of banks, and by removal of government monopoly in money and financial markets the competition between banks and improvement in customer service quality and bank performance seems inevitable.

In a competitive market, the stakeholders analyse the financial statements and ratios to evaluate the profitability and bank performance. The main objective of this study is to get familiarised with analysis of financial ratios related to activities of the banks.

Data processing method:

In this research first the required data pre-processing and then the required quantifying was done. Finally the stepwise regression analysis was used to find the type of relation and significance between variables using Pearson's correlation coefficient.

4-Results of data analysis

The results show that there is a positive relationship between Open Book Management and trust.

The results show that Open Book Management has a significant and positive effect on the percentage of money given as loans to total savings of the branch.

The results show that Open Book Management has a significant and positive effect on the averages of money given as loans of the branch.

The results show that Open Book Management has a significant and positive effect on the averages of savings taken by the branch.

The results show that Psychological Support has a significant and positive effect on all of the financial performance.

The results show that Trust in Management has a significant and positive effect on all of the financial performance.

The results show that Expectation of Rewards has a significant and positive effect on all of the financial performance.

The results show that Management Values has a significant and positive effect on the first and third indicators of financial performance but not on second.

The result as whole show that Trust and financial performance of the branches that have the high OBM is more than branches with low OBM just for psychological support is different.

We consider significant level ($\alpha=0.05$)

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