EMPLOYEE VOICE THROUGH OPEN-BOOK ACCOUNTING: THE BENEFITS OF INFORMATIONAL TRANSPARENCY

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Abstract

This paper explores the concept of open-book accounting. It illustrates the benefits of open-book reporting policies in terms of their potential ability to correct informational asymmetries, and it sets out some ideas for a future research agenda centred around the concept. The discussion is grounded in large part in the experiences of employee-owned businesses because such organisations are at the forefront of informational transparency innovations in social accounting. But the broader principle of sharing organisational information with employees and training them to process financial and strategic information is applicable to any organisation. It is argued that open-book accounting, especially in the context of employee-owned businesses, provides an exciting alternative to mainstream accounting and financial controls and a welcome addition to the social accounting literature.

Keywords: Employee-Owned Businesses, Employee Voice, Open-Book Accounting

INTRODUCTION

When markets misbehave—as markets do (Marx, 1977)—economists have been quick to point out that 'informational asymmetry' is often the source of the imperfection (Stigliz, 2008, 2013). If only all parties to a transaction (whether in capital markets, labour markets, currency markets or any other point of exchange) shared equal access to information, then the 'invisible hand' (Smith, 1998) could work its proverbial magic. Aggregate informational asymmetries can wreak havoc at a macro-economic level (as they did during the financial crisis), but they can also lead to serious micro-level problems within organisations. Whilst previous research has problematised asymmetrical information in organisations (Healy and Palepu, 2001), it has yet to explore a fairly simple solution to the problem: open-book accounting (Mouritsen et al, 2001), also referred to as open-book management (Case, 1995; Schuster et al, 1996; Case, 1998; Barton et al, 1998; McCoy, 2012).

Open-book accounting is defined in this paper as a social accounting practice in which a company's accounts are made available and interpretable to organisational stakeholders (e.g., employees and shareholders), or even to members of the general public. It was pioneered in large part in employee-owned enterprises (Erdal, 2011), but has also found favour, for example, in inter-organisational and buyer-supplier relations (Kajuter and Kulmala, 2005). The logic underlying open-book accounting is that informational transparency will safeguard against any unscrupulous 'cooking' of the books á la Enron (Deakin and Konzelmann, 2004), promote greater trust in the employment relationship (Timming, 2009) and concomitantly provide managements with important opportunities for what Marchington (2005) and Marchington and Wilkinson (2005) refer to as 'upward problem solving', especially in the area of employee identification of cost savings.

This paper makes a contribution to the extant literatures on social accounting and stakeholder accountability and democracy. The literature on financial reporting to employees has a rich history dating back at least to the early 20th century (Lewis et al, 1984), but the idea of accountability to the workforce (Gray et al, 1987) began to wane by the late 1970s (Buhr et al, 2014). Around that time, there was something of an ‘environmental turn’ within the heterodox and critical accounting literatures (Gray and Bebbington, 2001). Whilst this environmental turn has made a welcome contribution, more recently the concept of reporting to employees has made a comeback (Williams and Adams, 2013 offer a good overview). This paper should be read in the light of this comeback. By merging key research on employee voice and employee-owned businesses, we present a novel lens through which to view critical social accounting. This paper, therefore, brings together research on social accounting, employee voice and employee ownership into one integrated framework.

In the next section, the concept of open-book accounting is couched in the wider literature on employee voice. After that, open-book accounting is considered within the specific context of employee-owned enterprises. The paper concludes with a discussion of the merits of open-book accounting, and an agenda for future inter-disciplinary research.

OPEN-BOOK ACCOUNTING AS EMPLOYEE VOICE

The employee voice literature examines variations in the level of employee involvement in decision-making. At the heart of the employee voice literature is the idea that employees deserve to have a ‘say’ over key organisational decisions and that, as a corollary, managements should pro-actively delegate some degree of decision-making authority to the workers. According to Wilkinson et al, (2010), the degree of voice ranges from basic information sharing through to complete worker control.

Within employee voice circles, information sharing is generally at the bottom of the hierarchy, and considered inferior to two-way communication, consultation and co-determination. But, as this paper clearly illustrates, information sharing can be a powerful form of employee voice.

The merits of information sharing are well established. Using multivariate data analysis, Timming (2012) uncovered strong correlations between, on the one hand, information sharing and, on the other, job influence, job satisfaction, organisational commitment and employee trust in managers. In Europe, the advantages of information sharing migrated from academia into public policy, resulting in the 1994 adoption of EU Directive 94/45/EC on the establishment of European works councils (Timming and Whittall, 2015), and the adoption, eight years later, of Directive 2002/14/EC on the establishment of national works councils (Dundon et al, 2014). These Directives were subsequently transposed into EU member states' national employment laws, making it a legal requirement for all large firms operating within the EU to inform and consult employees. For all practical purposes, what this means is that there is a statutory, legally enshrined requirement for European managements to provide employees (or their representatives) with information on:

> the structure, economic and financial situation, the probable development of the business, and of production and sales, the situation and probable trend of employment, and substantial changes concerning organization, introduction of new working methods or production processes, transfers of production, mergers, cut-backs or closures of undertakings, establishments or important parts thereof, and collective redundancies (*Official Journal of the European Communities*, 1994).

This legislation is a far cry from open-book accounting, if only because it gives management complete discretion over how much information to release. But it does show that academics and policy-makers are aware of the need for more informational transparency to correct asymmetries in the power imbalance between the representatives of capital and labour.

The arguments *against* information sharing and open-book accounting are worth addressing. First is the supposed need for (publically traded) companies to protect themselves against insider trading. This potentiality can be easily avoided via one or another strategy: either have employees sign a confidentiality agreement prior to accessing the accounts (Carley and Hall, 2000) or simply allow everyone, including those outside the organisation, to have access. Second is the fear that open-book accounting can reveal potentially damaging weaknesses to competitors. Once again, a simple solution presents itself in the form of restricting accounts access to organisational stakeholders only. The third argument against open-book accounting and information sharing is, to put it lightly, employer arrogance, self-righteousness and condescension. Hume-Rothery (2004) provides an excellent example of what we mean. He argues that financial and strategic questions:

> will have had the best brains in the company pondering over them, together with external strategic advisors, investment bankers and a panoply of top technical experts who will all have deliberated long and hard over such questions. And here we hit what I consider to be the crunch point of the issue: what role can the representatives of the workforce play in these matters? I have frequently heard calls from [workers] for more technical training especially in financial matters. But, quite frankly, unless they are brought up to something akin to an MBA level of education, it will be impossible for them to properly get to grips with the issues involved (90).

Reading between the lines, what he is really saying here is that employees are too stupid and ignorant to understand something as complex as accounting and financial controls. This argument is so absurd that it hardly deserves a response. Obviously, because employees are on the front line of production, they are often better positioned than managers to identify cost savings and thus make efficiency recommendations in conjunction with detailed knowledge of the company's accounts.

This point is a nice segue into the arguments *for* information sharing via open-book accounting. First are the organisational benefits in the form of ‘upward problem solving’. Successful organisations do not simply report on financial transactions and cash flows; rather, they use those data strategically in order to make informed decisions on how best to manage the business. Open-book accounting ensures that everyone, from the C.E.O. to the cleaners, can make contributions. Second are the individual benefits. Employees with full access to accounts will feel empowered, trusted and involved in decision-making. They will be more likely to view themselves as strategic partners with management, working together towards a shared goal. Third are the societal benefits. Open-book accounting is a strong safeguard against moral hazard (Hellmann et al, 2000), which often has a deleterious impact on society. It ensures that organisations are not simply run by a Power Elite (Mills, 2000) whose only fiduciary obligations are to each other. It holds all organisations accountable for their actions and, most importantly, the consequences of their actions. Finally, it is worth mentioning that if the neo-liberals are correct that efficient markets depend on informational symmetry, then open-book accounting should improve the functioning of the free market.

Thus, on balance, it would appear that open-book accounting presents an interesting and viable alternative to orthodox reporting of accounting information. In the next section, we examine what open-book accounting looks like in the context of an employee-owned business (henceforth EOB).

OPEN-BOOK ACCOUNTING IN EMPLOYEE-OWNED BUSINESSES

We begin by defining what is meant by employee-ownership, also known as a form of employee ‘financial participation’ (Kalmi et al, 2013). Employee-ownership is traditionally defined as an organisational arrangement ‘where shares of ownership are not necessarily distributed equally, and where a significant proportion (though not necessarily all) of the people who work for the firm, regardless of hierarchical level … possess ownership in the employing organization' (Pierce et al, 1991: 122). Under this arrangement, employees have a direct financial stake in the firm, and in various ways 'help management make decisions regarding the economic activities of the firm' (Freeman et al, 2010: 1). Within this form of corporate governance, employees are thought to have 'a heightened level of voice within the business' (McQuaid et al, 2013: 4). This implies a pro-active, rather than a passive, role played by employees in managing a firm's strategic affairs. Thus, scholars use terms such as 'shared' (Kruse et al, 2010), 'broad-based' (Blasi et al, 2013) and 'inclusive' (Madland et al, 2014) capitalism to denote this type of dispersed ownership model.

Employee financial participation is becoming an increasingly common facet of the employment relationship within advanced industrialised economies (Poutsma et al, 2013), but it has received scant attention in the social accounting literature. It is in the US where financial participation is most common (Blasi et al, 2013). However, many governments in the EU, such as the UK and Ireland, have introduced fiscal incentives to encourage such financial participation schemes (D'Art and Turner, 2006). This policy interest stems from the fact that, in recent years, there has been an increasing body of evidence suggesting that EOBs out-perform their conventional counterparts (Lampel et al, 2012; Blasi et al, 2013; McQuaid et al, 2013). Research in the US has found a consistent positive relationship between employee-ownership and labour productivity (Blasi et al, 1996). Owing to factors such as greater levels of employee engagement, lower levels of absenteeism and higher levels of human capital development (Morris et al, 2006; McCarthy et al, 2010), EOBs have been found to have higher levels of productivity and financial returns than non-EOBs, *ceteris* *paribus* (Blasi et al, 1996; Kramer, 2010). Interestingly, recent research in the UK shows that EOBs have also managed to weather the effects of the recent financial crisis better than conventional firms (Lampel et al, 2012).

According to Kaarsemaker and Poutsma (2006), there are five core practices within high performing employee-owned firms: participation in decision-making, profit-sharing, information sharing, training for business literacy and mediation. We argue that open-book accounting intersects closely with 'information sharing' and 'training for business literacy'. To date, very little academic literature has investigated these issues (Skripnik, 2013). Most prior research has typically focused on the nature of open-book accounting as an inter-organisational method in which customers share financial information with their suppliers (Mouritsen et al, 2001; Kajuter and Kulmala, 2005) and disclose data on long-term purchasing agreements (Agndal and Nilsson, 2010). In line with the original aims of the social accounting literature (Gray et al, 1987), our intention is to specifically delineate some of the key features of open-book accounting within the internal organisational context of EOBs where the focus is on making a company's financial affairs more transparent and inclusive via employee reporting.

In light of the differing governmental regulatory frameworks across countries (Pendleton and Poutsma, 2004), there are many variants of EOBs in terms of their levels of profit sharing, personnel stock options and levels of shares owned by employees. Owing to this variability, 'downstream decisions' (Poutsma et al, 2013: 1514) concerning the extent of employee eligibility, size of ownership allocated and level of employee-management engagement also vary considerably within EOBs. The approach towards open-book accounting is another variable element within these firms. While little previous empirical research has specifically been conducted in this area, the second author's empirical research on EOBs has discovered a number of key factors that shape and mediate the nature of open-book accounting in these firms[1].

First, there are important temporal and relational dimensions to open-book accounting. From a temporal perspective, the key to this is the transition phase as firms move into employee ownership. During this time, there is a critical need to foster a process of relational engagement and information sharing with employees. As one observer notes, firms cannot 'just give people ownership and expect them to feel and behave like owners' (Erdal, 2011: 356). Instead, as firms move into employee-ownership, there is a need to promote greater awareness and understanding of wider employee participation. This requires changes to be made both by management and employees. From the management side, much greater emphasis has to be placed on conveying financial matters in a clear and comprehensible fashion. Not only does this require firms to 'share' financial information, but also to 'translate' what this data means for the enterprise. From the employees' perspective, there is also a need to be able to 'absorb' this financial data. Contrary to some ill-informed commentators (see Hume-Rothery, 2004 above), there is a strong appetite and indeed capability to digest this kind of financial information. One recent study, for example, found that 'the employees are pretty interested in the numbers' (McQuaid et al, 2013: 51).

Second, a key component of open-book accounting is the ability of employees to 'assimilate' the information being produced within an organisation. A vital component in this respect is financial training. By this we do not mean in-depth accountancy training on complex issues such as return on capital employment (ROCE), but rather the ability to foster a culture of learning within employees who can then extract the 'meaning behind the numbers'. We believe that firms have a duty of care to their 'new owners' to make them 'business literate' (Rousseau and

Shperling, 2003: 558). During the migration towards employee-ownership, it is critical that employees are given sufficient training to be able to properly comprehend and assimilate information within an open-book environment. This should be seen as a vital part of human capital development for firms moving into employee ownership.

Third, another important dimension of open-book accounting relates to the organisational context such as the size of the firm. This has implications both in terms of the formal obligations on firms to submit their accounts to regulatory authorities and the practicalities of ensuring informational transparency. There are sometimes considerable differences between the activities of small and larger firms in these respects. When it comes to the visibility of formal accounts, firms over certain size thresholds have to file their accounts with regulatory authorities in most advanced economies. For example, in the UK, firms have to file their accounts with Companies House. Smaller firms have more scope to keep their formal accounts less accessible and can submit abridged versions. This can foster informational asymmetries between management and employees and can potentially make financial information more opaque in smaller firms where data disclosure is more discretionary.

In contrast, most small EOBs have the ability to engage closely and directly with employees to help the process of informational exchange and tacit knowledge sharing, which is often facilitated via face-to-face communication. In some smaller firms, this occurs through 'monthly financial updates'. In larger firms, this type of interactive informational exchange becomes much more problematic. Research on large employee-owned firms like the John Lewis Partnership in the UK shows that often in these situations, there is a 'fundamental paradox' between the desire to share power and the 'concept of managerial prerogative' (Cathcart, 2013: 12). Related to the point about firm size is the degree of employee participation within the management structure of the firm. In some EOBs, workers are directly represented on senior management teams. In larger firms, where only partial ownership resides with employees, there is sometimes no direct or formal representation within the executive management team. This disconnect produces a lack of 'psychological ownership' among employees (McCarthy and Palcic, 2012). Clearly, the operationalisation of open-book accounting is highly context-specific and different strategies will need to be adopted and customised to the nature of the organisational context in question.

Finally, it is also important to remember that the environment in which open-book accounting takes place is dynamic. As firms grow in size, they will have to consider how this growth affects the involvement of employees in terms of their financial affairs. There may also be certain financial issues that management wish to withhold from employees for confidentiality reasons. For example, as firms expand, an increasingly important growth mechanism is to use acquisition as part of their growth strategy. In these instances, management may wish to withhold this information in case it leaks outside the firm[2]. However, understandably, employees may wish to consult with management about whether an acquisition would entail any job losses within a firm. Additionally, regulatory factors are subject to change, which can have knock-on effects for EOBs. Research has shown that changes to accounting regulations can lead to firms altering or discontinuing some forms of employee ownership (Carberry, 2013). Therefore, the nature of open-book accounting within firms is a fluid and contested process that is likely to change over time.

DISCUSSION

We are not able to draw any concrete conclusions at this stage about the organisational benefits of open-book accounting since the lion's share of the research thus far has been exploratory. In theory, by promoting informational transparency and reducing informational asymmetries within firms, both management and employees can mutually benefit. Rising levels of interest in employee-ownership and open-book accounting is partly a response to the kind of ‘disconnected capitalism’ (declining security, pensions, increased performance targets, surveillance and the like) that has arisen in recent years (Thompson, 2003, 2013). Yet ironically, while ‘the protective capacity of labour market institutions (as well as trade unions) is diminishing’ (ibid, 2013: 482), interest in employee-ownership and greater levels of informational transparency may be offering workers a potential antidote to help ‘reconnect’ and reconcile capital and labour relations within this unstable and economically turbulent post-Fordist environment.

It is ironic that the level of interest in these alternative organisational models of governance is increasing in those countries (such as the UK and the US) that have been most closely associated with the kind of neo-liberal economic orthodoxy that precipitated (Peck, 2010; Stigliz, 2010), and is perpetuating, the current financial crisis (Harvey, 2010; Blyth, 2013). In countries with more participatory forms of labour relations, such as Germany, there seems to be less of an impetus to embrace these organisational arrangements. In many ways, these economies operate forms of ‘indirect’ employee voice through practices such as works council, employee representation on boards and so on.

Despite this, some neo-liberal economists remain uneasy about shared capitalism arrangements, owing to the so-called ‘free rider’ problem (Freeman et al, 2010). However, we have shown that through the process of open-book accounting, a more pro-active and participatory system of employment relations can be fostered. As seen from our preceding discussion, open-book accounting within EOBs is a complex, indeterminate phenomenon. As a consequence of this complexity, the level of ‘informational transparency’ within these employee-owned firms is highly varied. What does seem to be apparent is that organisations need to have a pro-active stance towards this issue to ensure that employees can play an active role in the financial affairs of these firms. Some organisations acknowledge that they have responsibility to share this kind of financial information. But just providing people with data does not ensure assimilation and proper participation. Education and increasing employees’ ‘financial absorptive capacity’ is also needed. From a practical standpoint, this is likely to have repercussions for accountancy professionals because EOBs and other high-involvement organisations will require them to work jointly to help in this up-skilling process.

Moving forward, the concept of ‘open information’ might be one way of encapsulating how employee participation can benefit firms in a similar way to how it has been applied within the sphere of ‘innovation’[3]. An ‘open information’ strategy can produce a situation whereby employees make better connections between day-to-day activities and the financial health of the business. A simple illustration of this would be employees identifying ways of minimising levels of waste within a manufacturing environment, which can then translate into significant cost savings for a business. This certainly qualifies as ‘upward problem solving’ as articulated by Marchington (2005) and Marchington and Wilkinson (2005). Plus, when employees become more familiar with the financial affairs of a business, they can become more committed, promoting a sense of ‘psychological ownership’ (McCarthy and Palcic, 2012) as well as financial ownership. Through an ‘open information’ approach, greater scrutiny of a firm’s financial affairs can also serve as a powerful ‘surveillance mechanism’, potentially preventing financial malpractice and moral hazard within high risk-taking firms, as was the case in Enron, noted above. In short, the potential benefits of open-book accounting extend far and wide.

FUTURE RESEARCH

Given the field of research on open-book accounting remains in its infancy, this paper aims to prompt further empirical investigations in the area of social accounting and accountability. First of all, research on open-book accounting should not be limited to examining these practices purely within EOBs. Research has shown that open-book management practices are well established within many non-EOBs, especially in the US where the practice is becoming much more common (McCoy, 2012). Second, research in this sphere should include a focus on the role of employees. Even within the field of employee-ownership, the dominant perspective taken by researchers is from the side of management and the reasons why organisations become employee-owned. Much less research is actually focused on 'the employees' (Poutsma et al, 2013: 1514). Going forward, future research could, for example, examine the particular problems of informational opacity faced by workers.

There are three key thematic areas within the domain of open-book accounting that require further research from labour relations scholars and social accountants: surveillance aspects, performance issues and inclusion/voice. First, from a surveillance viewpoint, research could usefully examine how greater financial transparency can reduce financial misconduct within firms. Second, examining how this kind of organisational change impacts on firm and employee performance is another useful direction for further research. Finally, researchers should also examine how greater financial participation by employees affects the relational behaviours between management and employees. One specific area of interest is whether greater levels of informational transparency reduce or increase the fear of job security among employees (Burchell et al, 2002). Collaborations between management researchers and accountants could allow these processes to be better understood.

We wish to end with a plea for methodological pluralism within any future research agenda. To date, much of the research in the field of employee-ownership has been dominated by large-scale quantitative studies (Blasi et al, 1996) or single-case studies of individual organisations (McCarthy and Palcic, 2012; Cathcart, 2013). Given that this is an emerging area of research, perhaps more multiple case study type approaches could help yield important explanatory insights (Eisenhardt and Greabner, 2007). This could potentially illuminate our understanding of the functioning of open-book accounting within organisations and its implications for social accounting, accountability and democracy.

END NOTES

1. The paper's second author was recently involved in a research project which involved interviews with fifteen EOBs in Scotland. Some of the issues within this paper draw on this empirical study. We are very grateful to the EOBs who participated in this research project for their participation.

2. This is important because the disclosure of a firm as an acquisition target can alert other firms to the willingness of the management to sell the firm which can then lead to an increase in the value of the acquisition target.

3. 'Open innovation is the purposive use of inflows and outflows of knowledge to, respectively, accelerate internal innovation, and expand the markets for external use of innovation' (Chiaroni et al, 2011, p. 34).

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