Open-Book Management:
Implications for Record-Keeping by Organizations
Owen Ambur, March 7, 2003

In his book entitled *Open-Book Management: The Coming Business Revolution*, John Case says:

> ... when the books are open, everyone can see what's going on. It's harder for managers to fall back on excuses or to point the finger at someone else. Open-book management gets people involved and helps them take responsibility rather than shirk it. It's a way by which ***everyone in the business can hold each other accountable***. (p. xxi, emphasis added)

Holding each other accountable means assessing our respective contributions to our mutual and collective well-being based upon the *records* that each of us creates as we carry out our business processes.

With respect to the kind of work we do, Case points out, "nearly three-quarters of us work in some form of service business." And in that regard, he say, "... service-sector work is ... working mostly with information ... or working mostly with people ... or working with both at once ..." (p. 11)

The processes of working with people may not automatically create records, but ***if we are working with information, the processes themselves naturally create records by which our performance can be assessed***.

Moreover, if our work is primarily with people, assessing our performance can be as simple and easy as asking them and recording what they say. Indeed, if we enable them to provide feedback on-line, they themselves create the necessary records and they may be more than happy to do so – particularly if our performance has been exceptionally good or egregiously poor. And that is exactly the kind of information we need in order to improve our performance individually as well as collectively through our institutions and organizations. As we learned in Total Quality Management (TQM), it is the special causes of variance that are of interest in managing, controlling, and improving our value-additive production processes.

Since it is relatively easy in the information age to gather, maintain, and assess performance quality information, the failure of organizations to do so suggests that perhaps the people in control don't really care to know. After all they got to where they are in the organization without such knowledge, and to begin to gather and use such information may entail little benefit and significant risk to them. Failure to be able to "get along" with others is the greatest single cause of failure to advance in organizations, and getting along often means "going along" even if the path may not be optimal.

Indeed, speaking of working with people in relation to strategic planning, Case says, "All the big-picture stuff, the mission and the strategy and everything else, is critically dependent on getting individuals working together." (p. 15) He expands upon that point as follows:

> All businesses are dependent on the willing cooperation of their workers. All the changes in jobs and the nature of work ... make this task harder than ever. ***You need to get people working together efficiently, but knowing whether they're doing so can be difficult.*** (p. 16, emphasis added)

To the degree that organizations rely upon tacit knowledge, it is difficult to know whether their employees are doing anything at all, much less working together toward a common objective. In that regard, Case says: "When "work" consists mostly of delivering services ... supervision is less effective... If workers aren't willing and eager to do ... these jobs right, it's tough for a supervisor to make them." (p. 17) With respect to complaints about the difficulty in hiring good employees, he suggests:

> ... it's unlikely that most workers are less well trained or less motivated than twenty-five or fifty years ago. *What has changed is the work*. In the past, employees with average or low skills and desire could be stuck in a job where, frankly, they couldn't do too much damage. If they screwed up badly enough they could be fired. If they did just enough to get by, well, the company would survive. There aren't many of those jobs left. (p. 17)

Further describing the change in workplace dynamics, Case notes the creation of a separate managerial class:

> ... functions that had once been performed by foremen or plant bosses were given to specialists. Personnel offices took over hiring, firing, and record keeping. Cost accountants took over the gathering and analysis of cost data. Gradually, these white-collar jobs came to be defined as professional careers requiring formal training and accreditation. Engineers, accountants, even marketing managers formed their own associations and sponsored their own professional journals... Business education moved from secondary schools to colleges and then to new graduate schools ... Thus was born the corporate bureaucracy, in which ranks of professionally trained managers supervise other managers and specialists ... (p. 22)

Turning over record-keeping to a "managerial class" means that other workers are disempowered – because the managers end up "controlling" the record. In many, if not all instances, that means they end up skewing the record to suit their own purposes. There are so many corporate scandals reported in the press that it is hardly necessary, much less possible to begin to catalogue them here.

Case notes this is not a new phenomenon: "When the modern corporation was being created ... workers rarely had any organized voice. That didn't stop them from protesting innovations like scientific management, which they feared would curtail what little autonomy they had." (p. 23) Ironically, even when workers organized themselves into unions, all-too-often those rising to positions of power in those organizations took it upon themselves to abuse the workers' trust by enriching themselves and their cronies.

Supporting that dynamic, Case observes that old-style management assumed an adversarial relationship between managers and employees. In large measure, the same is also true with respect to relations between members and leaders of *voluntary* organizations, particularly if membership is less than truly voluntary. And with respect to this dynamic, Case suggests, "Behind this assumption of adversarialism was another one, which is that *it's management's job to run the business."* (p. 24) However, he argues that is changing as old style management meets the new economy:

> Even the very words "employee" and "manager" are out of fashion. Progressive companies now call their workers "associates," their managers "coaches." And in place of the usual bureaucratic hierarchy, companies have set up teams... So many teams, a wag once remarked, that some companies could be mistaken for bowling leagues.[1] The ***one thing that everyone seems to be searching for – or trying to create*** – is just what we saw that companies in the new economy need: ***employees who care about the company's success and whose efforts on its behalf will therefore show up on the bottom line***. (p. 28, emphasis added)

As implied by the continuing search, many organizations still have not discovered how to create the proper incentives for employees to care about the greater good of the organization as a whole. Thus, as Case quotes David Freedman, "... despite the proliferation of techniques ... the fundamental principles of a new managerial paradigm are far from clear." (p. 29) Nevertheless, Case suggests a close examination of the leading companies reveals three key principles:

> First, *people should see themselves as partners in the business ...*
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> Second, *people should be empowered* ... as part of their regular daily jobs ...
>
> ... most important ... *they have to understand what the business is all about*. (p. 30)

He asserts that ***employees "... need information – a ton of it ... on a regular basis, just as a manager does."*** (p. 30, emphasis added) While Case does not reference ISO 15489, no doubt, he would agree the information provided to employees should have the attributes of a record as set forth in that international standard – reliability, authenticity, usability, and integrity. Otherwise, the implication is that misinformation or even disinformation may serve just as well as high-quality records.

Moreover, Case misses or at least he fails to emphasize and make sufficiently explicit a very key point – ***communication is a two-way street. Employees are both the suppliers as well as the consumers of information. Managers cannot create a record of which the organization can be proud without the active support and involvement of employees, and that means each employee must continually be creating records of which he or she can also be proud***. It is the

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[1] The prevalence of teams despite their relative ineffectiveness prompted Michael Schrage to rename the second edition of his highly acclaimed book entitled *Shared Minds: The New Technologies of Collaboration*. The new title he chose was *No More Teams! Mastering the Dynamics of Creative Collaboration*.

sum total and, hopefully, combinations of those records that exceed the sum of the individual parts that lead to a record of which the members of the organization as a whole can be proud.

Consistent with that thought, Case does point out that open-book management "... gets rid of the ***old approach to management***, in which bosses run the show and ***employees do what they're told (or what they can get away with***)." (p. 37) Instead, ***under the new approach, employees "... are accountable to each other for their unit's performance*** ..." In other words, under the old approach, employees (as well as managers) could get away with being unproductive (or even defrauding the company) because not only were the "books" *closed* but also because the books could easily be "cooked" to convey whatever flavor the chefs desired.

In a nutshell, Case says, the logic of the open-book system is: "Companies in which everyone helps make money will *outperform* companies in which only a few people at the top see that as their job." (p. 38) Undoubtedly, the same logic applies to nonprofit and public service organizations whose mission is something other than "making money." Regardless of whether the ultimate objective is to make money or provide a public service, Case's point is that all of the organization's employees should view it as their job, rather than deferring to managers to bear full responsibility for the outcome.

Nevertheless, among the "homely truths" Case highlights is the following: "**The things that change in an open-book company are ways of thinking and acting. The basic structures of the corporation may or may not change**." (p. 44) No doubt, that is true, since inertia is a very powerful force in all large bureaucracies.[2]

However, based upon the principle that form follows function, it is questionable whether open-book management can truly exist and be sustained if the organizational structure remains the same. Indeed, the term "agile corporation" has come into vogue in recent years. At the very least, Case's observation suggests that existing structures may reflect an immature understanding of truly high-performance organizations. It also appears that Case may be acting unwittingly as an apologist for the old order, in a tacit admission of its continuing potency to support its own survival at the expense of the greater good.

With respect to what distinguishes open-book management, Case says, "People get a chance to act, to take responsibility, rather than just doing their job." (p. 45) Accountability naturally follows responsibility and, in that regard, he notes:

> Changing the accumulated weight of ... history is like redirecting the flow of water over Niagara. And yet the beauty of open-book management is that it cuts a whole new channel, all at once. It works because it steps outside of the mind-set we inherited from the last industrial revolution. It says, *we're all in this business together and we're all*

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[2] Inertia was not among the seven sources of social power identified by French and Raven, but it is implicitly reflected in their concept of so-called "legitimate" sources of power. For a discussion of the higher-order illegitimacy of legitimate social powers, see http://ambur.net/French&Raven.htm.

> *accountable to each other for making sure it succeeds.* (p. 46)

Case draws an analogy to highlight the need:

> The average business is a lot like Washington, D.C. Everybody knows there are common objectives somewhere. But the common objectives get lost amid the cacophony of turf wars and special-interest pleading. Special interests don't disappear in an open-book company, they just get put in the right perspective. (p. 47)

Putting special interests in the right perspective means learning from history and being able to apply those lessons to current and emerging circumstances. Toward that end, Case highlights a dynamic that contributes to high-performance: "... ***open-book management helps build the continuous-learning mentality right into the organization, because the report cards ... are out where everyone can see them***." (p. 49, emphasis added) Expanding on that point, he quotes Mike Chiles:

> ... It forces managers to know their own numbers. "If every department knows they've got to turn in these numbers at least once a week," ... "***it forces a certain rigor*** in their thinking. It means that their own ***tracking procedures tend to become more automated*** because people get tired of adding up all these things. (p. 50, emphases added)

To the extent that automated information systems are used to conduct the business process, it virtually takes willful negligence to *fail* to maintain adequate records and *use* them to track performance. For those who are working with information, doing business literally means *documenting* business – as it is actually occurring, rather as we might like either to dream about it in advance or to reconstruct it after-the-fact. Case says, "The point of a business is to *move* [the] numbers" in the here-and-now, and in that regard, he suggests open-book management:

> ... builds dynamism – a driver – into the system... It builds the basic logic of business into the very sinews of the organization. Managers and executives are no longer alone in worrying about whether the company is making money. They'll have a lot of help – which means that they can spend less time issuing orders and more time coaching employees in how to make money effectively. (p. 51)

In addition, Case says: "Open-book management ... turns business into something resembling a game. A contest. It offers a chance to win, every week and every month. Business-as-game is the most common metaphor of open-book companies." (pp. 51-52) Expanding on the analogy, he observes:

> Making people accountable for moving those numbers turns them into "players." A bonus is a "win." The game metaphor isn't perfect. The outcome of most games, for example, doesn't matter once you stop playing. (That's why they're called games.) The outcome of business matters a lot. Livelihoods and economic futures are at stake. But the metaphor is immensely powerful because it captures basic aspects of the open-book philosophy. As in a game, ***people do need to know how they're doing – otherwise they can't take part.***

> ***They need to know the rules***, which means understanding how their company makes money. ***They're expected to be active players, not just automatons who show up every day, perform some tasks, and then go home***. The metaphor of games has another pleasant aspect as well. Games are fun. Work in an open-book environment can be fun, too. (p. 52, emphasis added)

He suggests that what makes business fun is the opportunity "... to match wits with the marketplace. Every day you face the challenge of doing something a little better, a little smarter, than before... Every day you can find out the score. Every month or quarter you can tally up the results." (p. 52)

It may be more difficult to tally the results of business processes whose aim is something other than making money, but the dynamic of matching wits in the marketplace of ideas is essentially the same. Moreover, if the process does not produce a result that can be measured, it is not truly a business process and we might as well stop kidding ourselves and acknowledge as much.

Moreover, to state the obvious, Case also notes that fun is not the only motivation: "***One small company's owners decided to open the books because they had been burned by not one, not two, but three crooked bookkeepers in succession***. Posting the financials seemed the only way of preventing what felt like a chronic disease." (p. 57, emphasis added)

How many times has that problem been repeated not only in small but also very large companies as well? Indeed, Charles Ford asserts that "everybody lies" and, in this example, Case highlights a widely unrecognized reality: The greatest risk results from *insiders*. They are the ones with the most to gain or lose by being held accountable for their actions and inaction. Thus, they have the greatest incentives to fudge the record. Moreover, perhaps the only distinction between those at the top versus those at the bottom of organizational hierarchies, as well as large versus small organizations, is the degree to which their desire to rewrite the record holds the potential to adversely impact others.

In any event, Case says, "Any company, large or small, should understand the connection between open-book management and its business objectives. That's the only good yardstick for measuring your success in implementing the philosophy." (p. 58)

Aside from philosophical questions, as Case has noted, there are the very practical needs to prevent waste, fraud, and abuse. While his focus is primarily on making money, rather than precluding fraud, many of the same dynamics apply. In order for open-book management to work, Case says companies must: "Get information out there [and] develop a system of responsibility and accountability [to] empower employees to act like businesspeople ..." (p. 60) With respect to industry thought leaders, he asserts:

> In the new economy, a few companies began to realize that Drucker was right all along – that ***at least some kinds of information should be shared and distributed***. Times changed technologically, too. ***The logistical obstacles to timely distribution of information evaporated***. (p. 62, emphasis added)

In short, there is no longer any valid excuse for failure to share with employees and stakeholders the information needed to judge how the organization is performing, including whether its leaders are being good and honest stewards of the trust vested in their positions in the corporate hierarchy. As Case points out:

> Managers need information... What gets measured gets done... Information is power – the power to run a business effectively... When it's dispersed throughout a company, made available to all, it provides a power boost of a different sort entirely ... *information lets people figure out what to do on their own, without being told*. It gives them feedback. It's a measuring stick, a scorecard, that tells them how they're doing. (p. 63)

Presumably, in this context, Case means for the term "managers" to encompass all employees in an organization that is in the business of managing information. However, be that as it may, the flip side of not needing to be told what to do is being held accountable for actually *doing* it. Accountability requires records that capture the essence of the business process and have the attributes outlined in ISO 15489. In that respect, Case notes, "Some companies have *scoreboards* ... that show all the essential numbers." (p. 68)

Expanding on that point, he suggests empowered employees need "a map – and instruction about what the destination is and how to gauge their progress toward it." In short, he says, they need open-book management, which some practitioners call *no-excuses management*. (pp. 88 & 89) Furthermore, he asserts:

> Open-book empowerment ... is empowerment with brains, and with accountability. It means taking ownership of the numbers – forecasting them, tracking them, making them behave. It's like owning your own business... If you need help, you can ask for it. But you can't wait for someone to tell you what to do. (p. 90)

With reference to self-determination and control, Case quotes Jack Stack to draw a distinction between government versus business: "A political democracy derives its authority from the consent of the governed. A company derives its authority from the consent of the marketplace." (p. 95)

Legally speaking, "consent" may not be enforceable in court unless it can be proven to have been *informed consent*. In short, it is logically impossible for anyone to agree to anything unless they understand it. Understanding is fostered by clear and complete records, and clear and complete records are required to document that understanding, much less agreement, has occurred.

Needless to say, the success of a company will speak for itself in the marketplace – provided company officials are not permitted to distort the facts, which depends upon the quality and completeness of the records the company is required to maintain and disclose. Moreover, the ability of officials to fudge the record is limited and will eventually be exposed. The only question is at what cost and to whom the consequences will accrue.

Likewise, as has often been stated, democracy depends upon an informed citizenry. That means public officials must create, maintain, and disclose current and complete records of their activities. Elected officials may be rewarded and returned to office based upon something other than a true and complete record of the outcomes and implications of their actions. Indeed, that is commonly the case, but to the degree that is true, the actual form of governance being practiced is something other than democracy.

Unfortunately, in the real world it is a sad fact of life that rewards are commonly disconnected from responsibility for action, not only in politics but also in industry. "In a conventional company," Case notes, "the bonus or profit-sharing check depends on the whim of management." (p. 98)

By contrast, in an open-book organization, "If they get it, employees know they have earned it. If they earn it, they get it. It isn't discretionary... People know what they have to do to get it. They know from week to week and month to month whether they're on track for a bonus or not – *because they can see exactly how the business is doing."* (p. 101)

Case says: "***Public scorekeeping ... is a matter of building trust*** – of proving to people that the numbers aren't rigged, that there are no secrets. An open-book company has to operate by the sunshine principle. Get the numbers out where everybody can see them and can watch what happens to them over time." (p. 103, emphasis added)

He suggests, "The trick is to figure out what the organization's key numbers are – the numbers that, if you meet them, indicate that you're doing your job well." (p. 166) And he concludes:

> It's really pretty amazing when you stop to think about it. We live in a democracy. We're free, independent, responsible citizens. We raise families, manage our finances, and elect the people who govern us. We're *grown-ups*. And yet, when it comes to the workplace, most of us assume that our obligations is to look for a job, hope that some company "gives" us one, and then do whatever the boss tells us to. Our obligation is to be a good employee. That's the lesson we have learned from the first hundred years of industrial capitalism, and we have learned it well. (p. 178)

The implication is that we can do much better than that, and the key to doing so is to "open our books" to reveal the realities documented in the records being created in the routine course of our business processes.

On the other hand, we should not be surprised at resistance from those who are benefitting from the failure to share records freely. Indeed, it would be contrary to human nature to expect them to do otherwise, and after all, we are all human. Thus, the real question is whether we can overcome our own human nature not merely to insist that others share records freely but also to ensure that we ourselves are properly documenting and sharing records of our own business activities. Technological advancement makes such prospects very real. That seems to make many folks very nervous, and that might make the rest of us wonder what they've been up to ... even if they aren't smiling.

The time has come for a new social contract governing business, government, and organizations formed for anything other than purely personal or recreational purposes[3] ... a new social contract based upon President Reagan's famous admonition "Trust but verify."

Verification requires records having the attributes outlined in ISO 15489.

[3] This is not to exclude businesses whose purpose is to provide recreational products and services. Indeed, as economies become more and more efficient in meeting more basic human needs, recreation becomes a bigger and bigger industry. The point is merely to suggest that there is a basic distinction between that which is done for no purpose other than enjoyment of the intrinsic value of the moment versus that from which other, longer-term, more extrinsic values are anticipated.