



Designing and implementing open book accounting in buyer–supplier dyads: A framework for supplier selection and motivation

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ABSTRACT

Though Open Book Accounting (OBA) is a well-known practice in supply chain management, the lack of guidelines to support managers to implement it effectively has been highlighted in the literature. This paper discusses a methodology to support the selection of suppliers with whom to successfully cooperate in OBA projects and the identification, for each buyer–supplier dyad, of appropriate incentives to enable cost data disclosure. The methodology has been developed using empirical findings from an action research the authors have conducted in close collaboration with an Italian manufacturer of modular kitchens and 19 of its suppliers. It emerges that the sourcing strategy and the nature of cost data disclosed should drive the buyer's decisions on how to use disclosed account data and how to select the most appropriate set of incentives to encourage suppliers' participation. In particular, the sourcing strategy mainly affects the supplier's reaction to incentives and the uses of cost data shared, while the nature of open books agreements primarily influences the buyer's attitude to commit resources to specific suppliers and, therefore, to activate the more costly incentives. These findings have interesting implications for the identification of the suppliers with whom to collaborate in open books programs, for the selection of incentives to mitigate suppliers' natural reluctance to disclose cost data, and for restrictions in the use of disclosed data to ensure that they are not abused within and outside the relation.

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1. Introduction

The concept of Open Book Accounting (OBA) concerns the disclosure of cost and other data generated by the accounting systems among supply chain members. In practice, data disclosure is often unidirectional, from supplier to buyer (Agndal and Nilsson, 2010). For the buyer the aim is to acquire knowledge about upstream processes and to conduct joint activities with supply chain partners to reduce costs. In fact, opening the books allows the buyer to support the supplier in identifying critical areas where efficiency improvements can be implemented (Agndal and Nilsson, 2008).

Although there is a growing interest in the cost information sharing field (Kajüter and Kulmala, 2005; Agndal and Nilsson, 2008), recent studies point to the lack of empirical evidence regarding the implementation of OBA practices (Agndal and Nilsson, 2010) and the avoidance of pitfalls that could negatively affect managerial efforts (Chin-Chun et al., 2008; Piontkowski and Hoffjan, 2008). In particular, authors concur that the careful identification of suppliers with whom to collaborate in open books programs plays a key role in

successful OBA implementation (Agndal and Nilsson, 2009). Selecting the wrong counterpart can jeopardize the achievement of the desired cost improvements. A further key task for the buying company is to enable cost data disclosure by creating the conditions under which the selected suppliers agree to share the specific cost information the buyer intends to acquire (Baiman and Rajan, 2002; Madlberger, 2008). Again, selecting the wrong set of incentives can expose OBA implementation to the risk of failure. The literature still lacks a comprehensive implementation model that simultaneously supports supplier selection and the identification, for each buyer–supplier dyad, of the conditions that mitigate a supplier's natural reluctance to disclose cost data. This paper aims to fill this gap through an action research the authors conducted to analyze the relationships between an Italian manufacturer of modular kitchens and 19 of its suppliers. The buying company is among the five largest kitchen manufacturers in Europe (268 million € turnover in 2010; 1650 employees in 8 production plants located in Italy, France and Germany), purchasing the major part of its components from external suppliers and then assembling the final product. The value of OBA as an approach to identifying the potential in reducing costs is particularly relevant in the modular kitchen context because the total purchase cost represents a large proportion of the final cost of a kitchen.

This study contributes to existing research in the OBA field by outlining how the sourcing strategy adopted by the buying firm (single-sourcing vs. multi-sourcing) interacts with the nature of

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cost data disclosure (detailed and frequent vs. general and occasional), the uses of disclosed data and the conditions under which data are disclosed. From a managerial point of view, the research findings have interesting implications for the identification of the suppliers with whom to collaborate in open books programs, for the selection of incentives to mitigate suppliers' natural reluctance to disclose cost data, and for restrictions in the use of disclosed data to ensure that they are not abused within and outside the relation.

The paper is organized as follows: the next section focuses on the literature review, from which it emerges that there is a lack of guidelines as to how to implement OBA. The third section describes the action research process which led to the development of the proposed OBA implementation model. The following sections describe the proposed model and discuss the results. In the conclusions, we present the academic and managerial implications together with some indications for future research.

2. Literature review

2.1. OBA implementation: benefits and problems

Several authors have dealt with cost disclosure practices and used different terms such as *open book accounting* (Mouritsen et al., 2001; Kulmala et al., 2002), *open book negotiation* (Lamming et al., 2005), *open book costing* (McIvor, 2001), *open books policy* or more generally *open books* (Agndal and Nilsson, 2008). Though these terms refer to different definitions of open books management, they agree that *open books* concern the exchange of cost information between suppliers and customers. In particular, in this research we address OBA from the point of view of a buying company interested in obtaining information on costs from some suppliers to eliminate waste, and generate and transfer value to final customers.

OBA plays a key role in inter-organizational cost management literature (Cooper and Slagmulder, 1999; Mouritsen et al., 2001; Kajüter and Kulmala, 2005; Agndal and Nilsson, 2009). In this setting, the main purpose of OBA is to enable collaboration between customer and supplier, so that they work together to eliminate waste at their interface and to capture value for both participants (Agndal and Nilsson, 2008). Hence, OBA is not seen as a cost reduction tool only, but rather as an approach to improve relations among counterparts in supply networks. In fact Kulmala (2004) and Agndal and Nilsson (2008) agree that sharing confidential cost information may lead to an increase in the level of trust, cooperation and commitment between buyer and supplier. For instance, opening the books can be a way to ease the tension occasionally occurring in negotiations particularly in regard to pricing. Therefore, mutual trust can benefit from OBA implementation thanks to the reduction of cost information asymmetries between the parties.

Although researchers underline the beneficial effects of cost information sharing, in the literature increased transparency is also acknowledged as a potential source of problems (Hultman and Axelsson, 2007). The main concern about OBA is related to the opportunistic use of cost information by the buying company. In this case, the supplier can perceive open books as an attempt on the part of the customer to lower prices by exercising a form of contractual power. To make managers aware of this problem, Lamming et al. (2005) introduce the concept of "value transparency", in contrast to what they define as "one way open book negotiation", which is limited to the unidirectional information exchange from suppliers to customers, without sharing benefits with suppliers. Value transparency implies a mutual engagement which aims to reduce costs and all the causes of value waste in

both customer and supplier activities. In order to reduce the possibility of opportunistic behaviors, information given to the customer would concern only the areas of immediate interest and aspects of the improvement plans (Lamming et al., 2006).

Therefore, as argued by Eggert and Helm (2003), to limit the potential sources of problems managers should carefully evaluate and plan the efforts required to effectively implement cost disclosure practices with their business partners. In this sense, it is important that buyer and supplier find some form of agreement to share benefits and risks associated with OBA implementation.

Underestimating the negative impact of an unbalanced customer-supplier relationship can invalidate managerial efforts in OBA projects, as emerges from the list of causes of OBA implementation failures proposed by Kajüter and Kulmala (2005). The main causes they identify are:

- suppliers experience no extra-benefit from openness and main contractors do not offer win-win solutions;
- suppliers think that accounting information should be kept in-house;
- counterparts cannot produce accurate cost information and see no sense in sharing poor cost data;
- suppliers are afraid of being exploited if they reveal their cost structure;
- suppliers do not have capable resources or resource support from main contractors for the development of OBA systems and
- counterparts cannot agree on how OBA practice should be implemented.

In addition, McIvor (2001), in his analysis of failures in cost reduction programs based on information exchanges, points out that the culture of "people" involved in such activities is a considerable barrier to OBA implementation. Therefore, the success of a relationship involving OBA is heavily dependent upon the attitudes of the people from both organizations engaged in the relationship at the operational level.

2.2. The need for an OBA implementation model

The literature has well described the OBA concept, its beneficial effects for both customers and suppliers, and its fit with other cost reduction approaches such as target costing, activity based costing and kaizen improvement (Agndal and Nilsson, 2008).

With few exceptions, the extant literature on OBA is vague regarding how to effectively implement cost disclosure programs. We have found three frameworks, developed by Kulmala (2004), Kajüter and Kulmala (2005) and Agndal and Nilsson (2010), addressing key aspects in OBA implementation, such as partner selection and motivation, conditions for cost data disclosure and types of data disclosed.

Kulmala's (2004) model identifies the conditions for successful implementation of OBA programs. Three factors should be jointly considered: *balance of power* between buyer and supplier (customer dominant vs. supplier dominant context); *trust* (adequate vs. non-adequate) and *volume of mutual business* (high vs. low). Trust is an important prerequisite for OBA especially in transactions characterized by committed and long-term-oriented exchange arrangements. Conversely, in transactional "arm's length" relationships, where the buyer and supplier play "adversarial" roles, trust is less relevant, since a buyer can more forcibly make the supplier open its books by leveraging contractual power.

Kajüter and Kulmala (2005) develop a contingent model which identifies the factors inducing cost data disclosure in supply

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