

Democratic Company Management: A Critique and A Suggestion

The following discussion is a dialogue related to the article "A New Capitalism – or a New World?" by David Schweickart appearing in WorldWatch Magazine, September/October 2009 www.worldwatch.org

I am very appreciative and supportive of your efforts to try to define a future-oriented business model to move us beyond the obvious defects of the capitalistic system as it has evolved in the current world economic environment, without moving to the opposite extreme of a centrally-directed economic model.

I would like to add some observations based on my experience so that we can create a dialogue that can meld the academic with the practical and hopefully thereby eventually find a path from the current system to the future one.

It is clear, and the article's author has pointed out effectively, that the current system is untenable for a number of reasons. However, it is also clear from the basis of experience, that the prescription proposed is probably not feasible nor would it yield the ideal-type results suggested.

While the idea of a democratic workplace is certainly appealing philosophically, it overlooks the fact that the democratic process does not, in the context of making business decisions, necessarily yield a result in line with the long-term needs of either the business or the society within which it functions. The idea of democratically electing corporate leadership for instance does not necessarily put the most competent in charge, as many other factors tend to sway voters other than pure competency. While it is argued that perceived self-interest of the workers in the organization will yield the right choices, in fact, this implies that the workers actually SEE what their actual self interest is, both immediate and long-term, and that they actually vote according to what they see. Both assumptions however are subject to some scrutiny. Let us add here another factor or two as well.

Businesses require funding in order to make necessary investments and build sales. The proposed mechanism of taxation being used to have communities allocate funds to enterprises clearly means that visionary, future-oriented or unpopular concepts would be likely frozen out, establishing a "status quo" mentality that would be very change-resistant. It is not clear that governments or communities "see" and make decisions about their long term interest either. Witness the inability to make necessary choices in either global warming or health care to evidence the fact that the government allocation of resources would not necessarily be either timely or even good choices.

While the article provides for a mechanism for privately held and developed companies, the idea that the state would take it over on the exit of the founding entrepreneur is somewhat naïve, in that vested interests entrenched at the state level would not necessarily buy into the concepts and therefore decide to allocate capital to that direction.

Businesses must be able to balance a number of different factors with a level of complexity that is extremely high. This includes the survival and future success of the company, investments versus

overhead, worker benefits versus re-investment needs, company benefit versus society need, and company success versus environmental and social concerns.

Any democratically elected company leadership will have to both have the skill set required to integrate these multiple different levels of complexity, and withstand the tug of forces within the company's staff and elected management that over-weights or under-weights any of these factors.

It is not clear that all elections within companies actually result in choosing those individuals who have the ability to understand and balance these opposing forces; nor is it clear that the motivations of the people working for a specific company necessarily go beyond their own immediate comfort zone and perceived needs toward a larger social and environmental concern, or even towards the long-term health and well-being of the company itself.

In times of economic stress and enhanced competition, we find that the companies who most clearly vision the future and see the opportunities for change have an advantage over those which conservatively try to maintain their past functions in spite of a changing world. But investment in that future is both risky and not always agreed upon by the majority of people who in many cases are more concerned with immediate concerns and needs. A failure to invest in that future however reduces the long-term success of companies, and thus, may actually work against the workers' interests in the long-term.

Having been involved in business management for more than 35 years, in small business and small corporate frameworks, and having had the opportunity to see a number of business cycles and business operational models (including an ESOP model with a democratic decision-making structure), I have to point out that the least adaptable model was the democratic management model! The complexity of the decisions that had to be made, the competing concerns brought to the table, and the vested and immediate self-interest concerns of the vast majority of the workers undermined the clarity and focus of the company, stripped its ability to make needed changes and investments, and eventually pushed it to the brink of bankruptcy.

The key concept here is that not all people are cut out to manage the complexity of decision-making in today's highly complex economic, social and environmental climate, and worker-voters are swayed in many cases by factors other than "best competency"; further, when decisions are at odds with short-term desires or needs, the continuity of management and worker support for those tough decisions can be compromised.

While it is quite clear that the present model has seen more than its share of abuses, it is quite certain that trying to elect business management will not improve chances of success, particularly on larger environmental concerns which are less immediate to most workers in their daily decision making processes.

Some things that are necessary include providing a societal framework that encourages longer-term planning and decision making in favor of short-term results; that rewards workers and managers equitably based on their efforts to bring about success; that mitigates individual risk and shifts it to the

entire company's workers and investors in ways that give everyone the incentive to "get it right"; and which ensures that other stakeholders, including the public at large, the environment, and the other people around the world all have their long-term needs met.

It is very clear that a decision-making process focused on a "company by company" basis through a worker-elected leadership does not, in and of itself, actually solve any of these larger issues, and may actually yield to more short-term decisions with disastrous long-term consequences if the worker-voters do not have a much more complex framework within which to make their decisions.

What is likely required is a serious re-thinking of the relationship between the individual, the company, the society and the environment, and the development of a series of ground rules implemented to ensure that all companies are taking into account the real impact of their decisions both short and long-term; thereby giving the competent decision-makers the incentive and knowledge needed to further the needs of the society while meeting the needs of the workers and risk-takers.

Democracy, while a very admirable conceptual framework in a number of areas, does not, in and of itself, ensure effective management, appropriate allocation of risk and reward, nor any kind of environmental awareness or consciousness.

One change in our business structure however would have an extraordinary impact on the decisions made by all companies, and that is to ensure that the entire "cradle to grave" costs of any businesses actions are built into the pricing model for that business's products and services. That means the cost of pollution has to be borne by the polluting companies, not by society at large, and the goods produced by that polluting company will have to be priced accordingly. This would have the result of forcing company decision makers to address this next level of the overall complexity in determining their choices for products, production processes etc. Similarly, products or production processes that increase diseases should be priced to pay for the health care and social costs. And companies who do not provide sufficient economic benefit to their employees, including adequate health care, should contribute to the cost of the public systems that their employees and families are forced to utilize to survive. Obviously the complexities involved in making these determinations and implementing them are immense and would lead to enormous changes in things we take for granted today. Many of these changes would not be well received when long-term habits are priced for "real" cost to society.

Once we begin to match up the real, long-term costs of each action with the companies whose actions create those costs, we will see a lot of the imbalances in our current system begin to come into balance. This will take a complete rethinking of public policy however as the transitional steps must necessarily come from governmental leadership and tax policy to re-structure the revenue streams based on complete "impact" as opposed to the current "cronyism" that tramples real public policy concerns based on a system of lobbying and payoffs that distorts real cost / benefit analysis.

Very truly yours,

Santosh Krinsky

Santosh Krinsky is an entrepreneur at the small business level with more than 35 years experience in starting, building and operating small businesses in the natural health and wellness field.

institute@infobuddhism.com

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Racine, WI USA 53405

www.wholisticinstitute.org

262 619 1798