

**Communitarian governance: the development of  
management, governance and ownership models**

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# **Communitarian Governance**

## **The Development of Management, Governance and Ownership Models**

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## **Abstract**

The purpose of corporate governance as the protector of shareholder interests is a view that is still widely held. Recently it has been subject to repeated challenge. A new conception of governance that recognises a plurality of interests, particularly those of employees, has received both theoretical attention and practical examination. This paper examines the connection between liberal and communitarian philosophy in the recent debate about corporate governance. Empirical evidence from a critical ethnography is used to show how communitarian ideas can influence the governance model of a medium-sized company, and also how social influences constrain and frustrate the application of these ideals. The result is a formal statement of culture built through a process of consultation, and institutionalised in contractual rights and responsibilities. The company leaders have been drawn towards models of control and ownership found in the employee-owned and co-operative sectors. These are perceived to increase participation and involvement, and give voice to more people in the enterprise. During debate and discussion, however, the management group reduced the powers initially proposed for the governing body, and empirical data suggests this was partly to win support from those sceptical about the proposals, partly to protect decision-making powers, and partly to protect the company from the inexperience of non-executives.

## Introduction

This paper investigates the way that liberal and communitarian philosophies affect notions of corporate governance. Custom Products Ltd – a medium-sized business based in the north of England – has evolved a model of governance over a 15-year period. Throughout 2003, the directors investigated a number of new models from the employee-ownership and co-operative sector and used ideas from them to create new models for management, governance and ownership.

Based upon a critical ethnography conducted over an 18-month period – including a 7-month period of intensive participant observation - the paper describes the intentions, concerns, and communication strategies of the company leaders in their attempt to evolve their models of governance. The result is an emergent theory of corporate governance that shows how liberal and communitarian philosophies manifest themselves in corporate governance.

Evidence is evaluated from additional primary and secondary sources to critique the emergent theory and highlight issues with the practices that result. This critique suggests that the behavioural model that underpins ideals of governance is a form of “liberal communitarianism” (Lutz, 2000:343), a distinct philosophical position which integrates aspects of both philosophical traditions.

## Individualist Philosophy

The purpose of corporate governance as the protector of shareholder interests is a view that is still widely held (Berry, Broadbent and Otley, 1995; ICAEW, 1999; Coad and Cullen, 2001). This view is bound up with individualist philosophy as far back as Plato, based on the concept of pure reason. Within this philosophical tradition, reasoning is a private thought process in which people can separate themselves from the world and think rationally about it. The idea of pure reason is taken up in the writings of Locke, Smith, Hegel, Hobbes, Kant and Rawls. Taken together, they establish a body of thought that decisions are based on rational self-interest and that it is possible to determine an “absolute” or “universal” truth about social phenomena.

From a similar ontological stance different philosophers have applied this notion and suggested very different types of ideal society. In a Hobbesian view, individual self-interest leads to inevitable conflict and a constant “state of war” (see Cladis, 1992; Gaus, 2003:62). He argues that to counter this tendency, a sovereign power is required to bring order and social control. Smith, on the other hand, regards the pursuit of self-interest as something that contributes to a common good. He

contends that a great many people all pursuing self-interest results in the market's "invisible hand" where equilibrium between producers and suppliers ensures the most good for the most people. The resulting society – in which free-traders are in abundance – is one where economic power is distributed widely.

### ***Contemporary Debate***

Liberal philosophers have struggled to free themselves from the Enlightenment view that the application of reason reveals universal truths. As Gaus (2003:2) states:

*Milton and Mill advance classic statements of a basic liberal theme. Given freedom of thought, speech and inquiry, our common human reason leads us toward increasing agreement on truths and rejection of falsehoods.*

"Scientific" knowledge is believed to advance through positivist assumptions and the search for universal laws. Rational economics – based on models of human behaviour that assume people act in individualistic profit-maximising ways – evolved from Adam Smith's ideas about the division of labour (Smith, 1776) and Taylor's doctrine of scientific management (Taylor, 1911). Taylor broke down jobs into easy repetitive tasks, offered higher wages for those that were prepared to do them, and succeeded in demonstrating that productivity could be hugely increased by – in effect – bribing people into acting as component parts in the mechanics of production.

A contemporary articulation of Smith's views can be found in the work of Charles Handy (2002), who argues that we can only be truly at the service of other people when we are pursuing what we love to do. But even Handy concedes that the only way to tame the market, and put capital at the service of humanity, is for people to discover their own *social* purpose. Having discovered it, he argues – as do Smith and Rawls - that the mechanisms of a liberal market economy provide the freedom to pursue these to society's best advantage.

Rawls (1999:24) describes how scientific management ideas were transferred into the public domain:

*The nature of the decision made by the ideal legislator is not, therefore, materially different from that of an entrepreneur deciding how to maximize his profit by producing this or that commodity, or that of a consumer deciding how to maximize his satisfaction by the purchase of this or that collection of goods. In each case there is a single person whose system of desires determines the best allocation of limited means. The correct decision is essentially a question of efficient administration.*

Governance, therefore, is seen as the enforcement of one person's (or a ruling elite's) vision. Although Rawls' personal views are at variance with the above, his philosophy still amounts to a defence of private interests through publicly agreed minimum standards of rights.

As Morrison notes, these views of organisational life are underpinned by the notion that "people tend to project onto the world the order they find in their minds" (Morrison, 1991:107). The debate amongst liberal philosophers, therefore, has moved onto new ground. How can we create the conditions in which people can deliberate together and find *workable* solutions in political, civil and business life while accepting that different ways of thinking and divergent opinions are inevitable?

### ***The Influence of Social Psychology***

Gaus (2003:9) describes the influence of psychology on liberal philosophy:

*Independently, psychological studies of human reasoning have led to doubts about whether everyone shares the same norms of reasoning. The work of, amongst others, Richard Nisbett, Lee Ross, Paul Slovic and Amos Tversky showed that normal adults often do not employ the norms of reasoning long-advocated as correct by philosophers.*

This view is backed by a large body of social psychology research (see Aronson, 2003). The emerging view from this discipline is that people frequently engage in *rational self-justification* as a result of cognitive dissonance (Festinger, 1957) – a process by which they are influenced by their social context to adopt a course of action and then justify it to both themselves and others. In doing so, their values change to match the actions they have been induced to follow – but only if there is an element of choice. One key finding is that the more choice a person *feels* they have, the more they will internalise new values and adopt them as their own.

As a result, liberal thought has begun to grapple with the idea that cognitive processes have a significant social element, and that different points of view are inevitable. From Berlin to Gray, and Hobbes to Rawls, the debate has centred on how "collective reason" can be achieved in societies that are pluralist (Gaus, 2003:93). John Rawls (Rawls, 1999:10) suggests a structure for society based on:

*..the principles that free and rational persons concerned to further their own interests would accept in an initial position of equality...[that] specify the kinds of social cooperation that can be entered into and the forms of government that can be established.*

He argued that such principles would regulate all political life and be oriented towards the establishment and protection of basic individual freedoms that all "free and rational persons" could

pursue. In the economic sphere, Rawls position was taken to strengthen the arguments originally put forward by Adam Smith. Looser controls on trade (free markets), reductions in the power of the state and other monopolies (state businesses and trade unions) and policies to strengthen private ownership (houses and share ownership) would all lead to a more liberal and equitable democracy.

### ***Critiques of Individualist Views***

Rawls ideas have been critiqued on a number of fronts. Philosophers from the tradition of Aristotle and Hume regard knowledge as a social creation. Aristotle set out in Politics his view that people are social animals that have to participate in society (Aronson, 2003). Hume supports the Aristotelian view that knowledge is linked to experience (Open University, 1981:229).

*It is only experience which teaches us the nature and bounds of cause and effect, and enables us to infer the existence of one object from that of another. Such is the foundation of moral reasoning, which forms the greater of human knowledge, and is the source of all human action and behaviour.*

Another problem is the question that haunted Kant in particular: “Whence reason?” (Cladis, 1992:18). The principles that Rawls puts forward can only be the outcome of a political process and discourse. The views of Giddens (1984, 1991) that we recursively evolve our own social structures suggests that rights are necessarily an outcome of social processes. How, then, can they ever be primary and precede social life?

Lastly, individualist philosophers are challenged on the nature of learning and knowledge creation. Philosophers from the existential school believe that reasoning is an outcome of interacting with the world. It is based on experiential learning and, therefore, constrained (and enabled) by the social context in which it takes place. This assumption can be found in the works of Marx, Engels, Rousseau, Durkheim, Mayo and Dewey.

### ***The Communitarian Critique***

Lutz (2000:343) describes two contemporary strands of communitarianism; the first he associates with a school of thought with "an inclination towards moral and cognitive relativism" and which he disparagingly calls *republican communitarianism*. The second, a form he finds more congenial, stems from the thinking of Durkheim, Dewey and Hobhouse. This line of thought has been developed in recent years by Etzioni (1995) and Tam (1999).

Durkheim recognised individualist and communitarian philosophies as "two extreme positions around which moral theories are grouped" (Cladis 1992:1) and sought to find an explanation for the relationship between private and public that would avoid the tendency to reduce it to these two contrary positions. He...

*...sought to protect liberalism from egoism, and communitarianism from fatalism, the absorption of individuals into the social mass. The result was a social theory that articulated and promoted the dignity and rights of the individual within the moral idiom of social traditions and commitment to a common good...*

This is articulated persuasively by Etzioni (1998:xvi). Describing the "apple that hit my forehead", he recalls research in which young Americans overwhelmingly state their desire to be tried by jury. However, a substantial number of the same group also state that they do not wish to serve on a jury. It occurred to Etzioni that rights cannot be exercised without acceptance of responsibilities: the right to trial by jury can only be *protected* if we accept our responsibility to serve on juries. The apparent tension between the primacy of rights and responsibilities dissolves and the debate moves to one where we seek to identify the responsibilities that protect corresponding rights. Governance becomes a role through which community leaders take responsibility for protecting citizens rights through measures to encourage (and ensure) that all citizens fulfil their responsibilities.

Etzioni's position appeals to logic. How can we exercise the right to education without some members of society taking responsibility for our education? But herein lies a circular problem. The character of that education will be deeply affected by the attitude of the educator. If education is offered to serve the needs of the educator then the practices and outcomes will be different to an education offered to help students establish and pursue their own goals. In short, it matters whether the educator is acting from individualistic or communitarian motives and how they perceive notions of the common good.

Etzioni does, however, successfully communicate two key tenets of liberal communitarian thought; firstly a need to restore the balance between rights and responsibilities; secondly, that rights themselves cannot exist without social agreement on what responsibilities we are required to uphold. It is Tam, however, who extends these principles to the sphere of business (Tam 1999:10).

*Companies must learn to treat their workers, suppliers and customers, as well as their senior management and shareholders, as members of a shared community.*



*Cooperation in this context does not mean bargaining to secure the best advantage for one's own group with minimal concession to others, but to developing shared values and long-term goals so that each is ready to contribute to the well-being of the whole enterprise.*

In short, he argues against adversarial relations and argues that social *and business* problems require resolution through people learning to question and deliberate together.

Tam, however, is unable to completely free himself from Enlightenment thinking. While he accepts that many values may be culture or context specific, he claims there are four *common values* that "can be traced back thousands of years and across different cultures" (Tam 1999:16). Love, wisdom, justice and fulfilment are the most deeply valued human experiences.

While Tam defines these as shared values, psychologists argue that they may be grounded in innate human *needs* (Glasser, 1998, Aronson 2003). Glasser speculates whether they are part of our genetic heritage, but Aronson takes the view that human beings – particularly those with high self-esteem - are protective of their own self-concept as good and decent people. This leads them to articulate *their own* behaviour as good and decent, leading to divergent opinions about what constitutes good and decent behaviour. Where such a person engages in a business enterprise and persuades other people to follow him or her, followers adopt the same (or similar) values to reduce the dissonance that arises if they challenge the values of those on whom they are dependant.

As a result, there have been a number of challenges to the individualist view of corporate governance (Ellerman 1990; Turnbull 1994; Cornforth 1988, 1995; Major 1996, 1998; Major and Boby 2000, Johnson 2004). A new conception of governance that recognises a plurality of interests has received both theoretical attention (Turnbull 1994, Coad and Cullen 2001, Ridley-Duff 2002) and practical examination in studies (Whyte and Whyte 1991; Kasmir 1996; Lutz 1997; Cheney 1999; Coad and Cullen 2001).

In the following section we consider the methodology and methods used to capture and analyse data from the primary case study and additional sources. Then we will examine the extent to which communitarian values are expressed in the business practices of three organisations.

## **Methodology**

There are two key aims in this research. Firstly to describe the formal and informal culture (Buchanan & Huczynski, 1997) in a company that has a communitarian model of behaviour. This requires that I describe the culture from the perspective of its participants (not forgetting that I am

also a participant). Secondly, I need to analyse the underlying philosophy and values implicit in the behaviour of participants. In this section, we look at the methodological implications of exploring these two dimensions of organisational life.

### ***Description of the Behavioural Model***

The primary case study was undertaken to explore how employees are affected by the application of communitarian ideas in governance. This requires a descriptive approach as there is no hypothesis to test. Hypothetico-deductive techniques are inappropriate but we do not have to abandon positivist assumptions that there is an external reality. Nor do we have to discard the aim of representing the phenomenological world of the participants in an authentic way.

Ethnography, with its combination of participant observation, interviews and document analysis, is an appropriate methodology. The truth – at least initially – is the truth as seen by participants. Its triangulated approach – using multiple sources of data, and a mixture of methods to collect data - enables a researcher to claim that the phenomena described are authentic and a good basis for further theorising.

### **Philosophy, Values and Meanings**

Having described the set of attitudes and values implicit in the model, the focus will turn to the justifications for it, and the meanings that participants assign to it when interpreting events and making decisions. To examine this area, I present the formal statements of culture and examine how managers rationalise and justify them. I then examine how participants interpret them and the extent to which they believe the formal statements of culture match their own experience. In doing so, I share critical theory's epistemological and ontological assumptions, and propose to draw on its tools and techniques of analysis.

This takes us beyond what Johnson and Duberley call “conventional ethnography” and sets us on the path of “intensive analysis concerned with combining interpretive understanding, causal analysis and critique” (Johnson and Duberley, 2000:135). The study is a critical ethnography (Thomas 1993) in which there is a search for the nature of ideological hegemony and explanation of mismatches between publicly stated philosophy and the private philosophies employed by individuals operating within its framework.

One of the key choices of the ethnographer is the extent to which they immerse themselves in the culture, or restrict their role to observation (Gill and Johnson, 2002). I proceeded on the basis that my own subjective experiences would assist me in understanding organisational life, and help me empathise with other organisation members. I accepted the view that "the researcher's knowledge of his own feelings becomes a vital source of data" (Gill and Johnson, 2002:145).

I asked the person acting as my line manager – as far as was possible – to treat me in the same way as other organisation members. I also took opportunities to expose myself to experiences that would provide me with as much insight as possible into the thoughts and feelings of others. In my journal, I recorded more than descriptions; it included data on my own feelings and thoughts about the experience of working as an employee.

### **Theory Building**

In constructing theoretical explanations, and exploring disparities between public and private philosophies, I have chosen to draw on the techniques of grounded theory (Glaser and Strauss, 1967). However, the final objective is not to build a neutral theory to explain social life, but to show how different interests influence social relations. In particular, I will show how the interests of the organisation leaders in using governance as an agent of change has produced different sets of social relations.

### ***Methods***

Data was collected between October 2002 and March 2004 – a period of nearly 18 months. For 7 months, I worked inside the organisation for approximately 20 hours per week. I also participated in social events, weekend and evening shifts, and socialised with some staff in the evenings. During the summer months I worked for 12-hours each week in the Operations area where value-added manufacturing activities, packing and dispatch took place.

Throughout the whole study, I made journal entries each time I was in contact with the organisation. Due to the large amount of contact, many of these had to be recorded on a digital dictaphone and summarised and analysed at the end of the data collection period. In order to ensure that analysis took place during data collection, the journal was used to capture both descriptive material and reflections on the processes within the company, the evolution of my thoughts, comments on how relationships with people changed over time, and reflections on how reading affected my interpretation of events in the workplace.

As it is a principle of Grounded Theory to set aside theoretical reading during data collection and analysis (Glaser and Strauss 1967, Partington 2000, Locke 2001), I limited reading to those books that were in active circulation inside the company. This was intended to help me understand the influences on their thinking, how these informed their actions, and also to enable me to engage in more meaningful discussions with a range of people.

To focus on corporate governance I participated in initial discussions on changes, a field trip, board meetings, management meetings and company-wide meetings throughout the whole research period. I was invited to give input into early discussions with two directors. Once the proposals went to the board, my input was more limited, but still sought from time to time. Once the proposals were submitted to managers and staff, my input diminished further and I played an observational role.

I collected additional documents: minutes of board meetings, powerpoint presentations prepared by directors for managers and staff; working documents created to assist discussion of the principles for new governance and ownership arrangements. One of these – a submission to a DTI consultation – became a focal point for discussion and agreement about the principles of governance that should apply to the company. The way these proposals were modified during board discussions is discussed in the next section.

Additional primary data was collected from SoftContact Ltd to compare the development of communitarian objectives and management practices in the two companies. As I held a senior position, I was able to access e-mail correspondence, documents, constitution, business plans, staff appraisals, and witness statements to an employee tribunal. SoftContact Ltd comprises two organisations; a common ownership co-operative and an employee-owned sister business. The way democratic values were re-interpreted over a thirteen-year period, particularly in the formation of the employee-owned business, is helpful to this research.

The last set of primary data was collected on a 2-day field trip to the Mondragon Corporacion Cooperativa (MCC). This trip served a dual purpose. Firstly, it was a chance to interact with and study two of the directors from Custom Products Ltd. Secondly, it provided an opportunity to collect primary data on another comparison company. Our host Mikel Lezamiz, organised a series of interactive lectures on governance and philosophy, arranged a tour of one company, and a visit to the entrepreneurial unit based in the local university. This was supplemented by informal discussions over the lunch table. I took notes throughout and wrote these up as part of the journal.

On our return from Mondragon, I participated in follow up discussions (2 hrs each) with the two directors from the primary case study company in order to capture their interpretations and reactions. Interpreting primary data was assisted by further reading (Oakeshott 1990; Whyte and Whyte 1991, 1998; Morrison 1991; Turnbull 1994; Kasmir 1996; Lutz 1997; Cheney, 1999).

To analyse data I made summary notes of all journal entries up to the end of August 2003 (the end of the work placement) and reviewed all manual notes of board meetings, management meetings and company presentations. I used NVivo to do text analysis, but found that working on paper was also useful in sketching emergent theories while writing up journal entries. The theories were authenticated and developed by constantly comparing them against newly summarised journal data, and by using opportunities for ongoing contact with members of the company to authenticate my findings.

All methodologies have their limitations. Ethnography's strongest claim is that it can "penetrate the various complex forms of misinformation, fronts, evasions and lies' that are considered endemic in most social settings" (Gill and Johnson, 2002:145). But this strength leaves the researcher deep in the contestable world of social meaning, relying on their own interpretative skills to authenticate findings. Triangulation, of both methods and data sources, can assist in determining the course of events. In the sphere of behavioural and linguistic meaning all claims are open to challenge. The ethnographer's best hope is to capture an authentic interpretation, rather than an unchallengeable truth.

In this research, I was able to actively participate in (and observe) different work settings. All these activities were documented in a daily journal, and contemporaneous notes were taken at pre-arranged meetings. A few meetings were recorded and transcribed. Interviewing was often ad-hoc and haphazard. Note-taking was not always possible due the informal and diverse settings in which chance meetings took place. This inevitably affects the scope for triangulation during analysis.

Lastly, this paper was written at the half way stage of a 3-year research project. Further data analysis and reflection may result in the amendment of theoretical claims. Therefore any theoretical contribution in this paper should be regarded as provisional and tentative.

## Case Studies

Custom Products Ltd is a 15-year old company in the North of England that has established itself as a market leader. It buys in products from a number of suppliers and decorates them for different markets. The company was established by its current Managing Director in the late 1980s: he currently holds 55% of the equity of the company. Using a number of recognised measures, the company would be regarded as successful. In 1999, it was listed as one of the fastest growing companies in the UK. In 2002 and 2003 it won awards for customer service and the development of its staff. In 2002, its profits approached £1m.

About 50% of staff have small shareholdings with the majority (over 80%) in the hands of directors and early supporters<sup>1</sup>. In early 2004, proposals were agreed to transfer 51% of the directors' shares into an Employee Share Ownership Trust (ESOT) in order to protect the company's values and ensure that there is internal control over future decisions. This also provides an exit route for the founders whose shares will be purchased through a bank loan that will be repaid out of future profits. Linked to this is a proposal to establish an elected Council with powers to appoint and remove the MD. The directors regard this body as "guardians of the culture" with responsibility to review the social impact of business plans and policies.

The proposals were influenced by the other case study companies. In 2002, the MD of Custom Products approached SoftContact Ltd to establish a dialogue over democratic constitutions and organisation change. In early 2003, directors from Custom Products Ltd visited the MCC to learn more about democratic governance arrangements and the problems and benefits of greater worker involvement in governance.

### *Control Through Culture*

The company has a public statement of its culture that is communicated to potential recruits in the form of a leaflet which outlines the early history of the company and how the two founders pursued their own "agenda for the kind of working environment they wanted and the values that they intended to uphold". In a key passage, the "essence" of the company is described.

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<sup>1</sup> People who bought shares during the start-up phase of the company's development.

*The essence of [the company] is centred on the ideal of a group of people sharing common goals and values, with a culture based upon equality of respect and tolerance. The [company] exists primarily to enhance the lives of all those employed within it.*

I was able to verify with many members of staff that the process of developing shared values did include all members of the company and was perceived by many participants to be a genuinely inclusive process. However, when I later observed one of these company-wide events and the presentation techniques used to communicate new ideas, feelings about the way shared values were established varied widely. Many enthusiastically involved themselves in discussions, but some were confused about what to think and took refuge in asking the opinions of others. People on one particular table expressed the view that it was “an insult to any thinking person” and “an exercise in manipulation”. One of the more cynical participants commented: “if you ask the right questions, you’ll get the answers you want.”

The other case study companies – Mondragon and SoftContact – made similar attempts to create a formal statement of culture. During the field trip to Mondragon, Mikel (a director of the management school) outlined the 10 key principles agreed at a congress and adopted by each member business after debate and a vote. When Mikel heard us use the word *equilibrio*, his eyes lit up and he became very animated. He grabbed a pen and balancing it on the tip of his finger he said “always the balance”. Later, while again balancing the pen on the tip of his finger, he used phrases such as “we do the business, we do the philosophy” or “we do the ‘social’, we do the ‘economic’”.

In SoftContact’s spin off company, a statement of Guiding Principles formulated by the founding members is included in the company mission statement. This was prominently displayed in the company entrance and also printed as the second page of the business plan distributed to every member of staff. The notion of rights and responsibilities is implicit in the following clause:

***Membership not employment** – Staff who work in our company are members not just employees. Each member must fulfil their obligations in order to earn their rights regarding governance of the company.*

### **Recruitment and Induction**

At Custom Products Ltd, the recruitment and induction process has been organised so that people will deselect themselves if they feel that they are incompatible with the company culture.

- Application forms are not sent out (except to sales reps) – the company organises a short tour of the offices/warehouse. If a person is not prepared to attend a tour, they effectively deselect themselves.
- The tour is designed to give information on the company, salary levels and flexible working so that people who do not like what they hear do not apply.
- The application form states that CVs are not accepted in order to prevent applications from job seekers whose interest is speculative.
- The application form includes questions on personal philosophy and conflict handling – the covering notes say that if the applicant struggles to answer these questions then perhaps they should reconsider whether to apply.
- Short-listed applicants are sent a leaflet and told to read and consider its content for the interview. The leaflet includes the company’s vision statement and text that stresses that the applicant must satisfy themselves that they are willing to accept the responsibilities outlined in the document.
- The first interview is ‘behavioural’ – each question is designed to test cultural compatibility. The behavioural interview enquires into the person’s upbringing, schooling and job history. It can take up to 3-hours (up to 2 hours for temporary staff). HR staff look for evidence of behaviours that indicate a match to the company’s values (e.g. flexibility, interest in self-development, sensitivity in conflict handling, support for others, recognition of interests wider than their own etc).

In all these stages, the management rationale is that the process should *deter* people who are interested *only* in their own advancement or material (financial) gain. After going through the interview myself, I recorded these reflections in the journal:

*It focuses on character, not technical skills, although technical ability will become manifest through the career development described by the candidate. Anyone who is not reflective and thoughtful about their workplace and themselves will not score well in the interview process. Anyone who is not able to describe how they have dealt with conflict or disagreement will also not score well.*

The opinions of those who had come through the interview process were varied. One member of staff regarded it as a “wacky interview”. Some were amazed at the questions about personal philosophy. Another found it strange but not difficult, and was impressed at the awareness of the



company's understanding of culture. Others reported that the experience was quite emotional, particularly when talking about close family members.

Temporary members of staff who applied for permanent jobs but did not pass the interview were perplexed about the reasons. One claimed that she had been labelled "too loud" and was openly hostile about not being given a job after several years as a temporary worker. Another temporary member of staff was sad rather than angry:

*I could tell she was down – she was not her normal cheerful self. I asked "have you got the job?" She had not. She felt her inability to answer some questions counted against her. "I just don't know what they want from me."*

The HR view is that people who do not understand why they have failed the interview "just don't get the culture". However, some of those who have passed the interview take a different view. Two people claimed there is no fairness at all, that selection depends on whether your face fits. One man felt that the recruitment process selected people on the basis of how easily they could be manipulated.

Managers and directors, however, put considerable faith in the interview process. Even when a whole department challenged the directors over the rejection of a particular applicant, they rode out the conflict and refused to appoint the person. One director took the view that the system had served the organisation well over a number of years and that they were right to trust it.

### **Communicating Cultural Expectations**

The evolution of the behavioural model is described at seven voluntary culture classes. In one class there was a discussion about recruitment and some class participants expressed the view that good people were not being taken on because of the way the interview was conducted and evaluated. They were concerned that this was detrimental to the company:

*There was genuine concern amongst the people there at the potential pitfalls regarding recruitment and induction. The MD made a robust defence of recruitment policy based on the argument that training people is easier than changing people's values. He asked a question which I found strange, but which reveals a great deal about the rationale for their recruitment policy:*

*"Is it morally right to try to change a person's values?"*

*He clearly thought not, hence his concern to select people whose values matched those set out by existing members.*

In a follow up discussion with another director, I discussed the system of assignments used to assist selection of future team leaders and managers. I felt this provided a sophisticated level of control over promotions and allowed the person who marked the assignment to act as a “gatekeeper” of the culture:

**Director:** *There are control mechanisms in every organisation where people feel pressure if they want to advance their careers, we are not so different.*

**Researcher:** *At SoftContact Ltd there was no “appointment” system for managers, but inevitably people assumed management roles (otherwise the place would not have functioned). This led to a paper in which we put together an understanding of the way management responsibilities were assumed. It was conceived as a person’s evolution: Trainee – Professional – Expert – Manager: I don’t think your system is wrong – just that there are outcomes of the system in place due to different cognitive models. Do you think we become trapped by our cognitive models?*

**Director:** *Very interesting – and to a degree we are “trapped” by our own models. Schema theory suggests that we wouldn’t be able to function effectively if we didn’t have these pre-formed schemas through which we view the world. Obviously, these schemas are influenced by a variety of things such as personality, genes, values, experience and the interplay of each of these on the others.*

Another director felt that the assignments were not the final determinant of appointments. He could not recall anyone who had been proposed and seconded at board level being denied a promotion and was uncomfortable with the concept that his colleague was a “gatekeeper”.

The classes were very enjoyable and I learned a lot, but I had two significant concerns which I fed back through the assignments. The first was a lack of balance in the focus on responsibilities and rights:

*I feel there may be over emphasis on upholding responsibilities and insufficient attention to upholding the rights of others. There seems to be a presumption that rights will be upheld automatically, but my experience suggests that rights can get ignored too, particularly in self-management situations. Has a team member ever felt a **colleague** is not receiving a ‘Fair Reward’ for example – and acted on that feeling? Not an easy step to take, one that leaves you feeling in a vulnerable position if opposed.*

Secondly, I felt that staff were being encouraged to see their own workplace as much better than other workplaces in an uncritical way. In one session this became so extreme that I commented on the self-congratulatory character of the discussion:

*In the discussion, we drew positive examples from our company and negative examples from other employment. I felt this inclined the group towards a utopian view which did not help the learning experience. While I know it is a lovely place to work, it might have invited more critical reflection if we had also been asked for positive examples from other workplaces and negative examples*

*from ours. Then – I believe – we would have got real balance into the debate rather than “We, Good, Others Bad” kind of attitude.*

Managers acknowledged both these points in a follow up meeting to discuss changes for the future.

## ***Control Through Pay Policy***

### **Surplus Sharing**

The policy of Custom Products Ltd was to pay local market wages regardless of the profitability of the company. On top of this, after setting aside monies for reinvestment in stock, some of the end-of-year surpluses were distributed to all permanent staff (excluding temporary workers). Surpluses are distributed in the form of dividend payments to shareholders, profit-share for every member of staff (equal amounts), and profit-related pay distributed pro-rata according to salary.

A 55-page document includes Appendices B and C that outline the Profit Share and Share Ownership schemes as they stood in 2000. The rationale is clearly stated.

1. *Encourage maximum turnover from customers*
2. *Encourage maximum cost savings through greater efficiency and improved supplier rates*

Depending on the level of profit, between 5% and 12.5% of profits are allocated to a Profit Pool: 35% of this is distributed equally; 65% is distributed according to “extra-hours” worked (accumulated units over the course of the whole year).

The share ownership scheme committed the company to offering at least 20% of shares to non-director employees after the company had been in existence for 20 years. This process was taking place. On a show of hands at a company wide consultation, it was clear that approximately 50% of staff held some shares although the exact percentage held by non-directors was unclear. Everybody I spoke to said the shares had been a good investment for them.

At Mondragon, a much greater percentage of surpluses/losses (up to 45%) are distributed to individual “social accounts” held by the local bank (Field Notes 2003). Our host claimed that after about 20 years service, workers accumulate in the region of £100,000 in their social accounts and proudly waved his bank book to illustrate the point. Similar claims appear in the literature on Mondragon (see Oakeshott, 1990; Morrison, 1991).

Although not technically owning shares, the joining fee entitles members to a share of surpluses and the organisation's assets. As there are strict rules about wage differentials, the distribution of surpluses to the workforce is more widespread and equitable than at Custom Products Ltd. Members can sell their co-operative, but our host said that this was a low priority and considered a "bad dream" by those who thought this way. He recounted a story of one management group that proposed selling out to a German company<sup>2</sup>. After many hours of debate the employees (members) narrowly threw out the proposal. The management group was immediately replaced. However, the fact that this debate took place illustrates that members have the same rights to capital growth and residual assets as shareholders in private companies, as well as effective control over the governing elite.

Retained surpluses at Mondragon are reinvested either in the business or through corporate bodies (both charitable and commercial) serving the whole group of companies. No surpluses are paid to external shareholders (these are not permitted) and reinvestment levels are extremely high. Additional finance, if required, is arranged through fixed and variable interest loans from a local bank.

SoftContact Ltd originally modelled its arrangements for surplus sharing on Mondragon. Individual accounts for the distribution of surpluses/losses were introduced in the mid 1990s and 100% of surpluses (after reinvestment decisions) were credited to them. These were not held in a bank, however – they existed only on paper as part of the informal management accounts of the company. Nor did they appear in the audited company accounts. Consequently, when members left – and should have received the proceeds from these accounts – the executive director responsible persuaded members that the company was justified in delaying payment. In 2003, the company had to defend this position in a court case and lost.

The spin off company pre-empted such a situation by changing to a system of shares. Each employee received voting shares (1 for each of the first 5 years), and non-voting shares in proportion to their financial investment (minimum 15% of starting salary). Surpluses were divided 50/50 between staff bonuses and dividends for shareholders. If any part of surplus is transferred to reserves, new shares have to be issued to existing members in recognition that this constitutes an

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<sup>2</sup> Each member stood to make over 100,000 euros.

additional investment. As at the other two companies employees had a majority stake in the residual assets of the organisation.

## Wages Rates

The management rationale for the pay policy at Custom Products Ltd was discussed at one of the culture classes. Salary bands were set on the basis of local market rates for particular jobs. The stated intention was to protect jobs by creating a mechanism for distributing extra pay on the basis of company performance in the previous year. A director made the case that increasing wages above market rates in good years could cause problems in subsequent years if the company did not perform well. In short, setting wages too high could threaten jobs in the longer term.

At an earlier class, members discussed how much input they had been able to give the pay review:

*There was disagreement about this. It was given from the floor as an A2 decision<sup>3</sup>, but someone said it was fait accompli, people were not consulted. Others argued with him and said they were given a chance to feedback. But this person kept stressing it had come down from the top and was a fait accompli.*

Privately, some staff were unhappy at changes to the pay system. One woman spoke about how demotivated she felt that the salary for her position had been capped. Another anonymously sent me their response to a company survey on which extreme dissatisfaction was expressed. One man spoke to me privately about the unfairness of the review and the fact that managers “had done very well out of it”. When I talked up the profit related earnings scheme that had been introduced he said “let’s wait and see”. His comments about managers' salaries were confirmed by a director; some managers had received increases as a result of the review; non-managerial salaries had remained the same.

At SoftContact Ltd, there was a long history of equal pay (from 1979 to the mid 1990s<sup>4</sup>). This was eventually replaced by pay for length of service in the mid 1990s in order to retain experienced members. The ratio between the lowest and highest paid, however, was 1:2. When the spin off

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<sup>3</sup> An internal description of a decision where the framework has been set by managers but staff can suggest modifications to a proposal.

<sup>4</sup> There was frequently an annual vote on whether to keep this policy. In the early years of my employment this was supported by an overwhelming majority (14 to 1 in 1990, 11 to 1 in 1995). It was not until the late 90s, after losing members with increasing family and mortgage commitments that the policy was changed to reward length of service.

company was formed, graduated pay scales were replaced by a market salary assessment similar to that in operation at Custom Products Ltd and the ratio increased to 1:3. To ensure accountability of both managers and staff to each other and changing social conditions, there was a requirement that salary levels be approved by a vote of all members<sup>5</sup> and be subject to external mediation in the event of a dispute. The Articles contain the following clauses:

25 (g) *An ordinary resolution of any shareholder class can require revaluation of any member's Market Salary by an independent expert with experience of assessing local wage rates. Any costs associated with revaluation will be borne by the shareholder class that proposed the resolution.*

This rule was designed to allow both workers and shareholders to control management pay and to counter the influence of managers' direct control over workers' pay. It also allowed groups of workers to collectively challenge the pay of other groups (or a particular person) if they felt there was bias or favouritism. To prevent a stalemate, parties had to agree to final arbitration at ACAS if no internal agreement could be reached<sup>6</sup>.

The cultural and behavioural impact of the reward system at Custom Products Ltd is observable in a number of ways. Each month, directors and managers give information to staff at a Figures Meeting. The importance of keeping costs down – in order to increase profit-share – was raised in two of the meetings I attended. Indeed, the awareness of staff as to how their own work affected the commercial success of the organisation was something I spotted very early on:

*Nearly all the staff I have talked to seem commercially aware of their actions. Neil talked to Misha and I about the issues in accepting products of marginal quality, and also about the purchasing decisions that affected cashflow and unit cost. Of course, lots of people in the workplace will be commercially aware, but I felt there was an unusually high understanding of the need to avoid waste and ensure the fewest possible number of errors during the processing of an order.*

Every item of wastage was recorded in a book, and responsibility for the wastage was investigated and signed for by the relevant department manager. Each month, departments would review their wastage performance against budget and look at the causes, and discuss ways to reduce it. Although wastage was a small percentage (about 0.3% in the departmental meetings I attended), this was

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<sup>5</sup> All employees became members and received one vote upon appointment.

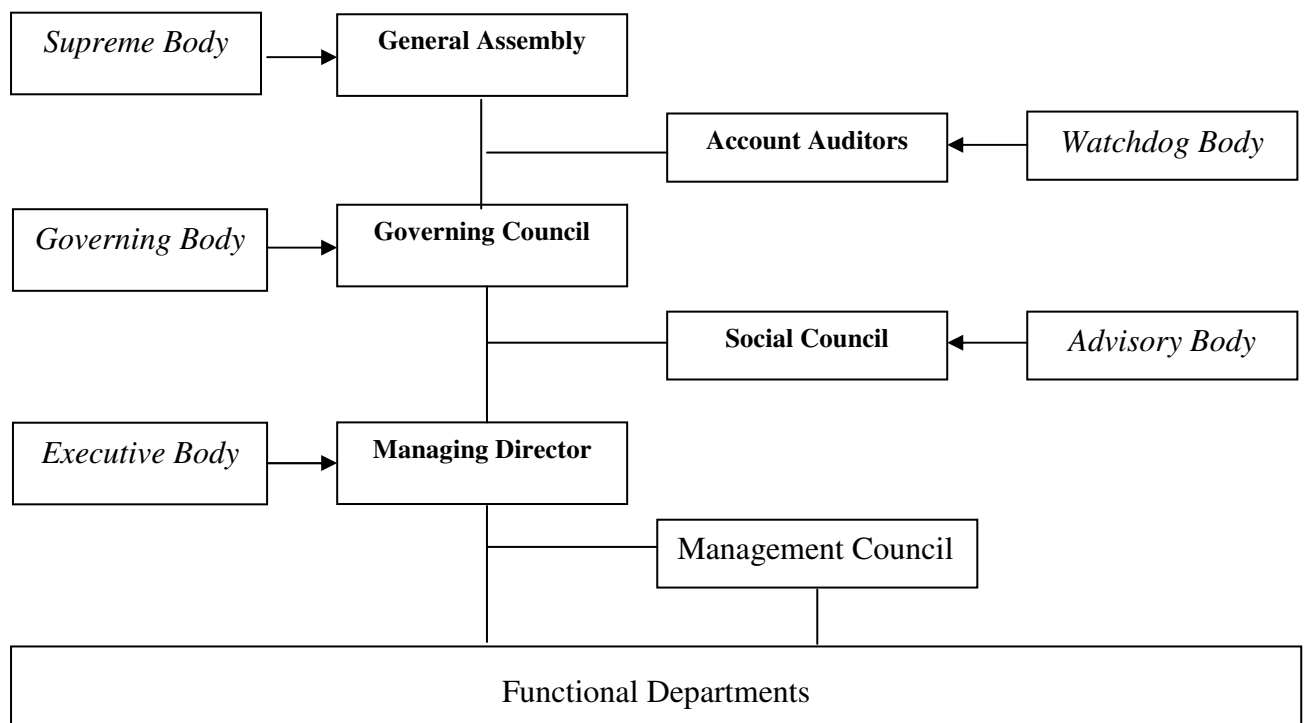
<sup>6</sup> Articles of Association, Rule 41.

translated into an amount per year and communicated in terms of money available to recruit new staff, or additional £s available for profit-share.

The concern for quality control and commercial awareness was found in both the other case study companies. All the Mondragon co-operatives and SoftContact's spin off company had implemented ISO 9000 systems.

## *Constitutional Change*

In March 2003, two directors of Custom Products Ltd visited the Mondragon Corporacion Cooperativa (MCC) in Spain<sup>7</sup>. They were considering a range of governance models from employee-ownership and co-operative organisations (from SoftContact Ltd, Baxi Investment Trust, Democratic Business Ltd, and Mondragon). The stated aim was to protect both the company's values and assets. One drew attention several times to a text that discussed the separation of ownership and control (Ridley-Duff, 2002) and was keen to visit Mondragon to explore the way this separation worked in a corporation comprising some 190 member businesses (145 co-operatives and 45 commercial partnerships). The group has enjoyed significant commercial success – 57% of goods were exported internationally, staff numbers had grown to 67,000 and turnover approach €10 billion<sup>8</sup> worldwide. Our host, Mikel, discussed the following governance model<sup>9</sup>:



<sup>7</sup> I accompanied the two directors, together with a colleague from the Sheffield Hallam University

<sup>8</sup> Source: Field notes from presentation materials and annual reports handed out during the field trip.

<sup>9</sup> Source: Handouts during seminar on governance



Within this structure, full members (typically 90% or more of those employed) have a vote in the General Assembly. The General Assembly elects between 5 and 12 people to a Governing Council for 4 years (50% rotated every 2 years). Key plans and policies are prepared by managers, discussed and approved by the Governing Council, then presented for debate and vote at an annual General Assembly. In this way, the Governing Council not only has powers to appoint/remove the General Manager, but also control over which business plans and policies are presented to the whole organisation for discussion and approval.

Our host described how he participated in some key debates and verified that the General Assembly has, on more than one occasion, forced the resignation of the Governing Council or Executive Body when it was perceived that they threatened the interests of the member company or the corporation. Key policies – such as management pay – could be debated for many hours before a vote took place<sup>10</sup>.

Discussions during the field trip centred on the role that could be played by the Governing Council, and particular attention was given to the impact of non-executive members of the organisation serving on a governing body. There was a frank discussion about the potential for conflict, and how support structures can help make this a constructive, rather than destructive experience.

***Mikel:** It was a fight and also a political problem....a political something, they fight the blue collars workers.*

***MD:** Is that having a bad effect on the company's performance? Is that negatively affecting the company performance?*

***Mikel:** Yes, in our opinion. I am helping them as a coach to the Governing Council. As a coach, because – as I told you before – they have to develop their three skills; communication skills; how we can make decisions; and the third one is leadership. I am the coach of this Governing Council. We speak sometimes about these problems, about the political problems, and this confrontation. They realise this not good.*

At Mondragon a management school provides induction training to Governing Council members, and then provides a mentor for a period of 2 years to assist with skill development. The impact of Mondragon on one director at Custom Products Ltd was apparent in the company newsletter the following week:

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<sup>10</sup> Source: Mikel Lezamiz participated in one debate lasting 5 hours and told us that the staff voted against proposals to link senior managers pay to market rates.

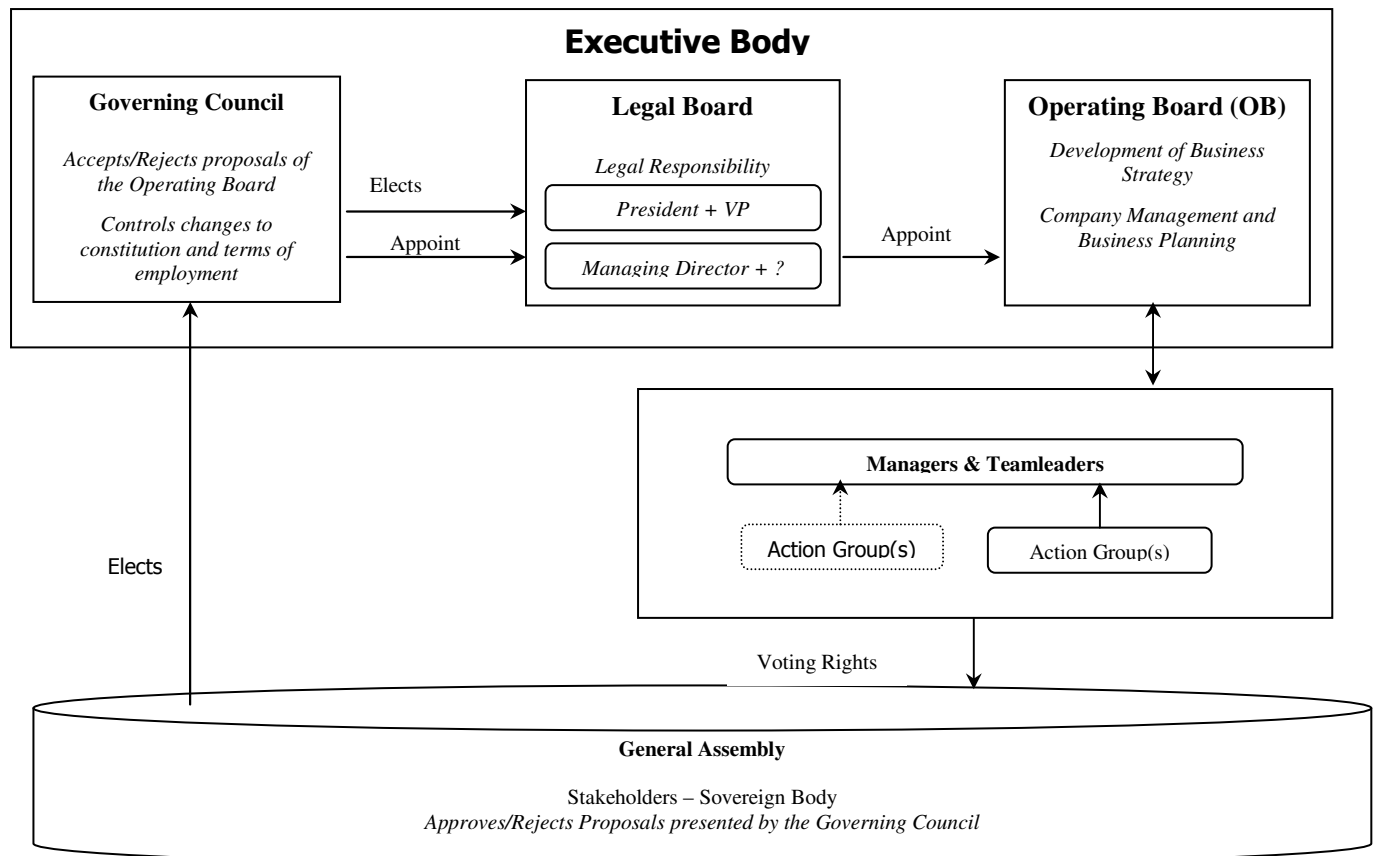
*We all came away thoroughly energised from the trip with many issues to ponder and consider. I see this trip as the start of a long and prosperous relationship with the Mondragon people. We also now speak fluent Basque (“Ya”!!)*

Over the next two months, I discussed the field trip at length with two directors. We produced a governance model adapted to UK law incorporating elements from Mondragon. This was submitted to the DTI and the board of Custom Products Ltd.

There are a few key points to note in this model:

- The Operating Board prepares proposals that are presented for discussion and approved by the General Council.
- The General Council decides which proposals go to the General Assembly for debate and company-wide approval.
- The General Assembly has the power to reject proposals originated by the Operating Board.
- The Governing Council is responsible for proposing changes in the constitution and terms of employment.

In these early discussions, there was a wish to avoid creating an adversarial structure that was bureaucratic. Fears were expressed about introducing an “extra level” and avoiding a “them and us”. There was concern that the introduction of new bodies would result in staff “avoiding existing structures” which were perceived to be working well. In particular, there was a wish for discussion of policy to remain within Action Group Meetings (departmental staff meetings) rather than the General Assembly. The proposals eventually put to the board are shown below:



## Debates About the Governing Council

A journal entry on 3<sup>rd</sup> June 2003 makes it clear that discussion originally centred on the authority of the Governing Council (GC).

*The MD feels the Governing Council members should not be directors at Companies House (that they should be from the Operating Board). The current thinking is that the GC should govern the culture. I wondered whether the GC would have sufficient influence if not containing any legal directors – that they should avoid a situation where the people who have a veto over business plans were overruling others who have legal responsibility for the business. The Operating Board may not accept the authority of GC if it does not have any legal responsibility for the impact of its decisions.*

The understanding at this time was that the Governing Council (GC) would have decision-making powers to block policies and plans that it did not feel were ready for approval in the General Assembly. Out of this discussion, it was also proposed that the legal board should comprise two Operating Board (OB) and two Governing Council members to ensure that both bodies had legal responsibility for its decisions.

However, upon presenting these proposals to the full board, there was opposition from two of the five directors to the whole idea:

*There were objections from the board to the model. It was seen as bureaucratic and had the potential to debilitate the company. The MD feels the objections are understandable. Others generally felt the new governance model may be unnecessary. They questioned whether it was just a safety net. There was also an issue regarding who may get voted onto the Governing Council. One director put forward the positive impact that would result from people's perceptions of ownership and involvement but he felt others probably don't feel this.*

To discuss these objections, and win support, the two directors proposing the changes agreed to have one-to-one discussions with the others before bringing the issues back to future board meetings.

At the next board meeting, new concerns were voiced. Firstly, a board member wanted reassurance that the Governing Council (GC) would not be responsible for appraising senior managers' performance. After discussion, it was agreed this would apply only to the MD.

Secondly, it was felt that the Governing Council (GC) should not have powers to block business or strategic plans and that it should only have responsibility for social policies. Opinion converged on a view that the GC could act as "guardians of the culture". A summary document to the board (25<sup>th</sup> June 2003) outlined a decision agreed at the meeting:

*11. Further discussion will take place to clarify the social/commercial remits of the GC and OB. The consensus view was that the primary concern of the Governing Council was social, and the primary concern of the Operating Board was commercial.*

By the time the proposals were put to managers, the decision-making rights of the GC on social issues had been modified so that it would be "proactively consulted on the social impact of strategy". Its powers, therefore, had been reduced so that it would act as an *advisory* body except in the key task of appointing the MD:

*The MD raised the election of his successor. There was a big discussion. Two directors wanted the GC only to have veto rights over the appointment of a future MD. All others wanted the power of appointment the other way around. They made the argument that the Operating Board (OB) may look at the appointment of a future MD from predominantly a management or operational perspective. The existing MD put a scenario. His successor resigns – the OB as a whole may be tarnished. What then? Should we allow a tarnished board to appoint its own MD? The others did not really have an answer.*

There were two key arguments against the OB appointing the MD; firstly, there would be a "circular problem of accountability" if the MD was responsible for appointing the other executives and vice versa; secondly, it may be necessary for an incoming MD to change the OB. If the OB were responsible for the appointment of a new MD, they may be tempted to protect their own position rather than the interests of the company as a whole.

The issues over eligibility continued for the next two board meetings. At the last board meeting I attended, the selection criteria were reviewed.

*There were 4 key criteria. Firstly, that a person has been in the company for 2 years. Secondly, that they have a clean disciplinary and grievance record for 2 years. Thirdly, that they have attended an 'orientation' session to explain what is involved. Lastly, that they agree to undergo training and assignments. I felt the provision of disciplinary and grievance could be abused; a manager could accuse someone in order to prevent them standing for the council. When I raised this, the board members were unanimous that this would only apply if a complaint was found to be justified. I feel this clearly gives managers effective control over who can stand for the council.*

I compared the proposals to the other two case study companies. At SoftContact Ltd, a person was eligible to vote after completing their probationary period (normally 6 months)<sup>11</sup>. At SoftContact's sister company, eligibility to vote started upon appointment<sup>12</sup> and there were no restrictions on eligibility for directorship<sup>13</sup>. At Mondragon, eligibility was tied to membership<sup>14</sup> and training was given after election. I clarified this in a follow up e-mail to two of the directors.

*I found in reviewing my notes from Mondragon, the training (cultural and management) takes place **after** a person has been elected (as something they need to fulfil their democratic duty) - it is not something they have to do to exercise their democratic rights. I think, therefore, that the arrangements proposed are part of a re-discussion, re-negotiation of the mechanisms of management control - the culture still has key differences in this regard from those I've been part of before, or others we are studying. In recognising this, I don't want you to think I'm for or against what has been proposed - it may well be this approach sustains your commercial advantage and none of us would want to throw that away.*

## ***The Social Council***

Initially the MD took the following view about the Social Council:

*I don't even know whether we need to go there. The Social Council – we could see why in a 500 staff company it was necessary. But we don't believe in 500 staff companies (laughs).*

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<sup>11</sup> Conditions of employment, clause 3.

<sup>12</sup> Article 3a (i)

<sup>13</sup> Article 13 defines members rights in General Meeting, which include standing for directorship. Articles 21a, b, c and d define the voting process.

<sup>14</sup> Mondragon Article 11 and 12, quoted in Oakeshott (1990:187)

It was quickly dismissed as inappropriate for a company with just over 100 staff. Whyte and Whyte (1991), however, found that the first social council was formed when Mondragon co-operatives had only 50 members. It was intended from the outset to provide a voice for marginalised workers and became a key forum for non-managerial staff and staff representing the views of external bodies (e.g. trade unions). The only strike on record at Mondragon was triggered, in part, by a failure of the social councils to represent the views of a marginalised minority.

Its practical role, despite its formal constitution as an advisory body, often included negotiation with managers on issues typically handled by trade unions. Its ambiguous position in the constitution – as a communication body chaired by the President – resulted in a mixed history with both executives and grass roots activists using it to influence debate. After repeated calls for the Social Council to elect its own chair from its membership, the Governing Council finally conceded control. Even with this, the effectiveness of the Social Councils is still highly variable across the corporation<sup>15</sup>.

### **Constitutional Change at SoftContact Ltd**

SoftContact Ltd was originally a company limited by Guarantee and registered under the Industrial and Provident Societies Act. All members have 1 vote and 1 share after completing their probationary period. There are no external shareholders. A different conception of management and governance existed in the early 1990s. Management was conceived as a series of functions distributed amongst the members of the company according to the willingness and skills of members to undertake them. Care was taken to ensure that functions were rotated amongst members in accordance with their personal development wishes. Upon completing their probationary period, each member was expected to take on one or more management task to ensure no-one had a monopoly on management power.

Over time, however, the competence of some people in a range of management skills resulted in others deferring to them (by choice or necessity) with the result that they came to be seen as “expert” in one or other area of technical or personal management. Their responsibility for these tasks intensified when other members left and new members were recruited and over time they became *de facto* - rather than appointed – managers but without any powers to discipline other members of staff.

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<sup>15</sup> We discussed this with our host during our field trip who confirmed that effectiveness often depended on the commitment of the membership to use it and the strength of support amongst Governing Council members. In some co-operatives senior staff championed the Social Councils but others were much more lukewarm.

This understanding of management as a social process, in which some people emerge as managers (whether desired or not) was captured in a discussion paper (see page 15). The impact this eventually had on formal governance arrangements is outlined in a statement to a court case in 2003.

*In the London office, there was collective management until December 2000, although longer serving members often played important roles in the organisation, led discussions and prepared proposals for group consideration. In the Yorkshire office, while staff were consulted and involved in changes in their own sphere of work, there was a line management arrangement.*

*In December 2000 I put proposals forward to the General Meeting that we should elect two executive directors and a General Manager to steer the company back to profitability...The General Meeting elected two members to the position of executive director, and elected me to the position of General Manager. I reported to the executive directors. Monthly General Meetings gave way to monthly executive meetings and quarterly General Meetings. The executive directors and General Manager still reported to (and were accountable to) the General Meeting – decisions made at General Meeting were the highest authority in the company. There was a clear management structure – but managers were constitutionally accountable to the members of the company (its employees).*

When establishing a sister company (Limited by Shares), this view of management as a set of social and technical functions was extended to the reward system. Salary bands were linked to local market rates *and also* to the extent that a person had developed along their evolutionary path. Changes to the reward system were subject to a vote of all members. In practice, pay levels and the empirical evidence needed to verify an evolutionary progression were agreed with a representative of each job function. In this way, a person's current salary, job title and career progression opportunities were established.

After formal line management arrangements were introduced, the kinds of disputes typical in conventional companies began to surface. One employee claimed that I “had too much power”. Later a person threatened an industrial tribunal if his terms and conditions of employment were changed against his wishes<sup>16</sup>. The company introduced 360° appraisals in 2000 so it is possible to compare feedback before and after my appointment as CEO. Appraisals started to contain more critical and mixed comments:

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<sup>16</sup> In the period from 1979 to 2001, during which members had 1 vote in all management meetings, there was no occasion when a person threatened an industrial tribunal during periods of poor trading performance.

*“Good at putting view over, perhaps could give appearance of listening better”<sup>17</sup>*

*“Does not listen to queries, you interrupt & anticipate questions”*

*“Listened better and more widely this period”*

*“Your plan is the ‘only’ plan”<sup>18</sup>*

Later, however two members of staff swore on oath that I “was very good at discussing matters”<sup>19</sup>:

*“...the business was run on democratic lines and [the CEO] adhered to this principle by consulting everybody throughout my time there. I was given a voting share and believed that I was entitled to an equal say to everybody else.”<sup>20</sup>*

Active discussion and debate about my powers and relationship skills became more contentious *after* my promotion to CEO. This suggests that changes in relationship dependencies may be more important than personal characteristics.

In the next section, I review the cultural, governance and ownership characteristics of the case study companies and outline a theory to illustrate how communitarian values are manifest in business forms. Lastly, I develop a philosophical framework that illustrates the contrast with prevailing views based on liberal philosophical assumptions and use this to reassess the three case study companies.

## Discussion

The data provides evidence of communitarian values in start-up, medium size and large scale organisations but only in the formal statements of organisation culture. Custom Products Ltd has adopted a communitarian position on rights and responsibilities (Etzioni, 1998). Rights are not absolute – they depend on members’ acceptance of corresponding responsibilities. Fulfilling

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<sup>17</sup> All comments from Rory Ridley-Duff v The Secretary of State for Trade and Industry, Claim No 2800131/2003. (Witness bundle, p197-209)

<sup>18</sup> Company records show this was not true, only a perception on the part of this employee. A ‘Contingency Business Plan’ was prepared in advance of trading on 26<sup>th</sup> November 2001. This was later revised for potential investors on 08 February 2002.

<sup>19</sup> Witness Statement (Software Developer)

<sup>20</sup> Witness Statement (Company Administrator)



responsibilities are conceptualised as something that protects the common good, and makes it possible for individuals to pursue choices and have their rights protected.

Both the other case study companies subscribe to the notions of rights and responsibilities. At Mondragon, this is expressed primarily as *equilibrio* – a balancing of interests in all domains of administration and decision-making. At SoftContact Ltd, they are expressed as obligations through which a person earns their rights. However, it is only at Custom Products Ltd that the idea has been developed to the point where rights and responsibilities are formally defined in contractual and constitutional documents. It offers a clear example of liberal communitarian ideas affecting formal organisation.

The focus on rights and responsibilities is expressed throughout the culture at Custom Products Ltd. In materials presented to potential recruits, in interviews, induction sessions, culture classes, “community pillars” are discussed in terms of rights and responsibilities. The design of the recruitment process, and the manner in which the culture is disseminated shows awareness of dissonance theory (Festinger, 1957). This is likely to draw people into the culture more quickly and accelerate their acceptance of its underlying values.

### **Pay Policies**

All the case study companies embraced the principle of market-related salaries and surplus sharing, although the levels and constitutional arrangements varied considerably. At Custom Products Ltd, there were three ways that surpluses were shared; dividends, profit-share, profit related earnings. About half of the staff were only eligible for profit share (as they held no shares) and the level was set depending on profits at between 5% and 12.5%. At Mondragon, up to 45% of profits are distributed to individual “social accounts” (Oakeshott, 1990; Field Notes, 2003) and other contributions are made to corporate bodies servicing the company. Arrangements at SoftContact Ltd were more ad-hoc, but modelled on arrangements at Mondragon.

There are signs, therefore, that workers as well as senior managers and shareholders are being treated as part of a shared community (Tam, 1999). Surplus sharing is a value embedded in the culture of all companies not a scheme introduced to increase productivity. This means that the company can be held to account through the courts if it does not honour the terms of any agreement. Customers are only recognised as stakeholders in some of the Mondragon organisations, however. Suppliers, while not formally recognised as stakeholders in any of the companies are sometimes invited to major company events indicating that they do have informal recognition.

## ***Governance***

All case study companies adopted the principle of one-member one-vote for some aspects of governance and decision-making. Voting is not dependant on the size of the shareholding, although in all cases there is a minimum financial contribution required before voting rights are granted. The range of issues that members can vote on varied from company to company.

At SoftContact and its spin off company, the principle of one-member one-vote was well established. This originally extended to all aspects of management, but later it was restricted to debate and approval of proposals brought by managers and executive directors to General Meeting. In the spin off company, the position was further restricted to constitutional changes, policy, business planning and the election of directors, leaving the executive freer to run the operational aspects of the company. Voting became linked to labour investment rather than financial investment, although the cap (at 5 votes) was designed to enable members to 'earn' equality and prevent those with many years service from outvoting other dedicated members of staff.

At Mondragon, the principle of one-member one-vote was also well established, and the division between governance and operational management is explicitly recognised in the corporate structure. The Governing Council works with – but also controls – the executive, while the members of the organisation (its employees) have influence and limited control over the Governing Council. In many ways, the organisational arrangements are similar to SoftContact's spin off company where the directors were elected by the workforce and then appointed the top executive to organise the company. The top executive was formally expected to work with other directors on strategic and business planning issues, prepare and present proposals for discussion at General Meeting. Members – in General Meeting – could remove the directors, and the directors could remove the top executive, if required.

At Custom Products Ltd, the proposed arrangements are slightly more complex. The Operating Board – by reducing the powers of the Governing Council - retains much of its current decision-making powers. As these constitutional arrangements have only just been approved, it is not possible to evaluate how they will play out in practice. Nevertheless, the current proposals point towards a management preference to use existing line-management structures to control discussion of new policy developments and business plans. This restricts the democratic assembly and governing body to a narrower range of powers.

The power relationship between the Operating Board and the Governing Council chosen by Custom Products Ltd – except in the area of appointing the MD – is the reverse of Mondragon. In Mondragon, the key decision-making body is the Governing Council (see Whyte and Whyte, 1991, Field Notes, 2003) which can accept, refuse or refer a matter to a vote of the whole company. Although our field visit confirmed that the Governing Council accepted the advice of professional managers about 98% of the time, the onus was on the management team to satisfy the elected representatives, and not on the elected representatives to persuade the management team.

The final proposals put to staff at Custom Product Ltd for the Governing Council are strikingly similar to the *Social Council* at Mondragon. Its formal responsibilities are to *advise* rather than decide on the social impact of changes proposed by the Operating Board. Evidence from Mondragon, however, suggests that it may become a structure that moves beyond its formal role to challenge and negotiate with the executive on a range of issues (Whyte and Whyte, 1991; Kasmir, 1996).

In all cases, forums are used for debating policy. At Custom Products Ltd appointed managers facilitate these, whereas in the other two case study companies the forums are chaired by elected representatives. In all companies there are practices (or proposals) to enable *employees* to decide who has the responsibility of working with and controlling the executive. While the extent of participation varies, and changes over time, there is convergence on a distinct position where an elected body appoints and is formally responsible for controlling the executive. The elected body does not run the company directly, it delegates this authority to a professional management team.

There is both representative democracy and direct democracy in all companies although the balance and effectiveness varies in each case. In SoftContact Ltd, monthly – and later quarterly meetings – were open democratic forums at which anybody could bring proposals for discussion and debate. Proposals were circulated in advance to give people time to prepare questions and arguments. There was a tendency, particularly over time, for these proposals to be brought by those with management responsibilities, but it remained the case that – constitutionally at least – anyone could advance proposals before a meeting and add them to the meeting agenda.

At Mondragon, proposals are vetted by an elected body, but thereafter presented for open debate in the General Assembly. Field data confirmed that proposals are forwarded to the Governing and Social Councils in advance of discussion in the General Assembly giving all parties time to prepare questions and arguments. Primary and secondary data suggests that debate can be vigorous and

genuinely democratic (Whyte and Whyte 1991; Cheney 1999; Field Notes 2003), particularly on matters that affect everybody or which challenge the core values of the organisation. Although control of the agenda is in the hands of elected representatives, company-wide debate is possible and discussion in forums that do not include managers should ensure that divergent points of view can be more freely discussed. The result is an inclusive culture in which economic expediency and managerial whim are balanced with the social objectives of the organisation.

At Custom Products Ltd, meeting agendas are controlled by the executive and managers but there is an opportunity for open debate in departmental Action Group Meetings. Empirical data suggests that debate is lively on departmental issues of direct concern to the participants, but the way new policy proposals are introduced to managers and staff across the company may stifle rather than increase democratic debate.

On the basis of direct observation, the practices at Custom Products Ltd are at variance with the other case studies. While there are opportunities between presentation and finalisation for individuals to feedback and affect the proposals, feedback is channelled through managers rather than the elected representatives. The rationale for this is that it gives all people a chance to contribute and therefore contributes to wider democracy and greater debate. Some writers, however, would regard these arrangements as managerialist (Parker, 2002) or examples of a “subtle and manipulative” form of normative control (Kunda, 1992:15) which stifles genuine debate. Employees' own views were mixed. Many are publicly enthusiastic; some look to others for a lead; some openly (or privately) object.

The dissemination process itself utilises techniques that give the impression of free-choice but which some participants object to. As Aronson points out (2003:151):

*People are not passive receptacles for the deposition of information. The manner in which they view and interpret information depends on how deeply they are committed to a particular belief or course of action. Individuals will distort the objective world in order to reduce their dissonance.*

It can be argued that the presentation techniques used will maximise the chances of winning support but reduce democratic debate. None of the techniques recommended by Berry and Robert (1984) to increase democratic debate are in evidence; executives do not circulate proposals in advance of presenting them; non-managerial staff are not able to speak to company members as a whole and cannot originate alternative strategic proposals. Those who prepare and present the proposals dominate the discourse and the quality and quantity of debate in sub-groups is mediated by and fed

back through managers. The company consultations are a far cry from Habermas's "ideal speech situation" (Johnson and Duberley, 2000:121).

On a more positive note, managers do consult widely and take care to allow everyone to contribute. The process of consultation also appears to be efficient and effective. The direction of change is also to increase representative democracy alongside direct participation. The elected body will increase the voice of non-executive staff at the early stages of policy discussion. The power to appoint and remove the managing director will mean that the top executive, for the first time, is answerable to an elected body. This will increase the accountability of the whole executive to the workforce (particularly if members have direct access to elected representatives and vice versa).

The constraints on eligibility, however, reduce the credibility of the Governing Council as a democratic body. Members must show commitment to the company by attending the culture classes before they can stand for election. They must also work for two years, keep a clean disciplinary and grievance record, attend orientation sessions and agree to take management training. At the other companies, appointment or completion of a short probationary period are the only criteria. While it can be argued that these arrangements are to protect the company, it leaves managers and directors with control mechanisms that can prevent an 'undesirable' from standing for election even if they have popular support.

Whether through shares or co-operative membership, *all the case study companies encouraged employee-ownership* and this increases the social pressure to communicate plans, ideas and involve members in the running of the company. The explicit intention in all cases was to limit the influence of external parties, increase the control of internal stakeholders, and ensure that the organisations could not be sold, closed down, or merged with another organisation without the consent of recognised stakeholders.

### ***Management Hegemony***

The rationale for management hegemony at SoftContact Ltd and Custom Products Ltd differs considerably even though the outward form appears similar. In the former, it was rationalised that managers evolved as a result of accumulated skills and dependencies. Eventually, *de facto* managers were recognised formally in the structure. At Custom Products Ltd, the cognitive model used to identify and select managers was grounded in the executive's belief in its own right to select people

for promotion. The use of formal assessments, designed to evaluate compatibility with the culture and values, is an aid in this process.

The significance here is in recognising that different cognitive systems were derived out of their social contexts. The entrepreneur-led company understood promotion as the responsibility of those at the top of the hierarchy; those wishing to be promoted had to show their commitment to the values upheld by the executive rather than those manifest in peer-groups. While it can be authentically claimed the values have been agreed in workshops, the *interpretation* of those values remains in the hands of managers and directors. In practice, it is the interpretations that give the culture its character and not the forums that originally decided the wording, or the words themselves.

The influence of the MD remains unclear. Given that he held 55% of voting shares, it is difficult to determine the final mix of motives that brought about support for democratisation. His power to influence the careers of the other board members is likely to affect their ability to voice all their concerns. When faced with proposed changes, the immediate reaction of some was to ask why anything needed to be changed at all. It took one-to-one discussions and three board meetings to convince sceptical directors to support the proposals. Reactions included concern for their own accountability, concern over the loss of decision-making rights, concern over the qualities of the people who may be elected to govern, all of which were rooted in a general concern not to “rock the boat”.

On one level, we can see individuals asking questions and raising concerns that can be interpreted as a protection of their own interests, or the interests of the board as a whole. On another level, we see the board backing the MD’s suggestion over the appointment of his successor, on the basis that the company’s interests are more important than their own. An optimistic view is that there was a genuine concern not to change a winning formula and that the directors were concerned to maintain economic stability. A pessimistic view would be that individuals acted so as not to lose their influence and control over anything they currently controlled. With hindsight, we can see that a considerable number of concessions had to be offered before all board members backed the changes. The evidence suggests that the minority in favour could only win the support of others by satisfying their concerns and ensuring a balance between economic stability and democracy. Those concessions, it could be argued, did not halt the progress towards greater economic democracy, but resulted in limited progress towards social democracy. All but one of the powers available to members of the other two case study companies were discarded during negotiations.

At SoftContact Ltd promotion was understood as the responsibility of the peer group; those wishing to advance had to demonstrate *de facto* technical or social leadership qualities to win the support of colleagues. I draw attention to this dynamic with reference to French and Raven's theory of power (1958) in a text written for social entrepreneurs (Ridley-Duff, 2002:43)

*As co-operatives mature and grow, they usually evolve management structures based on representative democracy....Managers are significantly more accountable to the enterprise's workers than is the case in a private limited company. This has a profound effect on the style of management and the manner in which leadership can be exercised.*

*Some co-operatives limit (or prevent) managers' use of coercive or reward power to influence their subordinates. Their legitimacy rests more on the referent and expert power that they can establish.*

The above example shows how rationales for management hegemony are a function of the social contexts that produce them. In the case of SoftContact Ltd managers were eventually accepted, but the understanding that evolved from that process resulted in future arrangements that would depend on the continuing approval of subordinates, peers and directors. At Custom Products Ltd, the understandings continue to evolve centred on the approval of board members. The example supports the findings of social psychology regarding rational self-justification (Aronson, 2003). In both cases, the arrangements for the selection of future leaders were derived from rational self-justifications of past actions.

In comparing Custom Products Ltd to Mondragon, there are both differences and similarities in underlying assumptions. At Mondragon managers are hired on 4 year contracts. While their position as workers are secure, their position as managers are subject to the control of the (elected) Governing Council. This means that instead of line managers being in a position of power over workers' contracts, workers are in a position of power over managers' contracts.

At the executive and grassroots level, the power relations between workers and managers at Mondragon are typically the reverse of Custom Products Ltd. At the middle-management level, however, they are similar. All companies eventually opted for middle-managers responsible for day-to-day operational management, pastoral and technical support, discipline and service levels.

While it is true that managers at Mondragon have the power to remove people, this is balanced by the power of the workforce's representatives to terminate a manager's contract (as a manager) or to overturn the manager's decision in a democratic forum. This is a very sophisticated balance of power. At Custom Products Ltd, the only person proposed to have this right is the Managing Director. However, this may be the first step in a change which sees power gradually

transferred from a sovereign entrepreneur to a sovereign body comprising the whole workforce. At present the two organisation's power structures belie their different social roots, but the precedent has been set for an employee to argue their case for continued employment in a democratic forum and it will be instructive to see whether this right is extended to all members in due course.

We can state with some confidence that communitarian values are deeply embedded in the formal culture at Custom Products Ltd and there is evidence of these values in the formal culture of the other case study companies. These findings are themselves quite unusual and are indicative of concrete attempts to democratise the workplace for both commercial and social advantage. The disquiet amongst some staff at Custom Products Ltd, however, and Kasmir's study of Mondragon (1996), makes it less clear that formal organisation structures, or statements of culture, are able to influence the informal culture of an organisation. This seems to be determined more by the social dynamics between individuals in positions of influence, the social dynamics within and between different peer groups, and their relationship to those at management level. Whether behaviour results from calculative compliance, identification or internalisation (Kelman, 1961) is not always clear, and it may arise from the "culture trap" identified by Kunda (1992:224):

*Culture is not a prison and managers are neither jailers nor tyrants in the simple sense of the word, but it does, nevertheless, represent a rather subtle form of domination.*

Taking all this together, we can relate the practices back to the literature and outline the principles and business practices within a philosophical framework. This enables us to contrast the ideas of communitarian and liberal thought.

### ***A Theory of Communitarian Business***

Communitarian organisations are not necessarily the outcome of a socialist ideology. Handy (2001:61) remarked on "the oddity that giants of the free market were themselves centrally-controlled totalitarian states, the antithesis of all that they abhorred politically". Skoble (1994:3) specifically links communitarian values to corporatism.

*Corporatism as a commercial mode parallels communitarianism as a social theory. The idea of being a "team player" in the corporate hierarchy parallels the idea of contributing to the "common good" in social theory. In communitarian social thought, each person is supposed to subordinate individual preferences (in varying degrees) to the good of the community, and indeed, frame his or her conception of self-interest in terms of service to the community. In the corporation, each employee is supposed to think of individual needs in terms of the needs of the company.*



Corporate businesses have such dispersed ownership (through pension funds, trusts, individual shareholders etc.) that no single person or institution can control their operation. In this sense, it can be argued that the separation of ownership and control is not dissimilar to communitarian organisations that are commonly owned (Limited by Guarantee) or state controlled. Control is achieved through political affiliations and networks of social influence rather than through the application of economic muscle (see Sloman and Sutcliffe, 2001: 41). We can regard these as extreme forms of communitarian organisation.

In Nove's (1985) exploration of feasible socialism, he recognised a need to combine state or corporate bodies with other socialised enterprises that were privately or co-operatively owned. He contrasts the necessity of hierarchical management in large-scale organisation with the need for executive accountability through political structures normally found only in civil society. Nove's work attempts to integrate communitarian values with liberal political principles and stands alongside the literature on a pluralist and liberal democratic approach to corporate governance (see Rothschild and Whitt, 1986; Cornforth, 1988, 1995; Oakeshott, 1990; Morrison, 1991; Cheney, 1999; Major and Boby, 2000; Coad and Cullen, 2001; Ridley-Duff, 2002; Johnson, 2004).

The table below attempts to identify and divide the key assumptions that underpin three distinct philosophies in business. Of course, in real life the boundaries do not exist and values evolve on a continuum between extreme communitarian and liberal positions. However, the typology allows us to re-examine the case study companies and place them within this philosophical framework.

**Table 1 – Key Assumptions and Objectives**

<b>Communitarian</b>	<b>Liberal Communitarian</b>	<b>Liberal</b>
State Socialism / Corporate Capitalism	Market Socialism / Socially Responsible Capitalism	Free-Market Capitalism
Fulfilment through subordination of the self to the common good	Balanced private/public, social/economic behaviour (equilibrio)	Fulfilment through autonomy
Indivisible Ownership	Mixed collective/private ownership (shared ownership)	Private ownership
Governance as the <i>protection of collective interests</i>	Governance as the <i>alignment of stakeholder interests</i> (pluralism)	Governance as the <i>protection of shareholder interests</i>
Culture as a product of collective	Culture as a product of social dialogue	Culture as a product of charismatic

<b>Communitarian</b>	<b>Liberal Communitarian</b>	<b>Liberal</b>
responsibility	and social interaction	leadership
Collective Wealth (Public Property)	Shared Wealth (Public / Private Property)	Private Wealth (Private Property)

The characteristics of companies that are influenced by (or have evolved) a liberal communitarian position could be regarded as attempts to modify prevailing social relations. They design governance systems that acknowledge the interests of different groups and specifically acknowledge stakeholders that are normally excluded from governance. In this sense, such organisations can be regarded as “social enterprises” (Ridley-Duff 2002:64; DTI, 2003) with business goals rooted in social transformation. When we consider the business practices that are evident in the empirical data, we can suggest a typography that will predict the divergent formal statements about company culture and objectives.

**Table 2 – Business Practices**

<i>Business Practice</i>	<i>Communitarian</i>	<i>Liberal Communitarian</i>	<i>Liberal</i>
<i>Underlying Philosophy</i>	Society improves through the development of shared values	Society improves when private individuals pursue <i>social</i> goals	Society improves through the pursuit of personal goals
<i>Relationship Orientation</i>	Communal	Mutual Benefit	Personal Benefit
<i>Primary Focus</i>	Social (People)	<i>Integrated</i>	Capital Accumulation (Money)
<i>Primary Resource</i>	Capital	<i>Integrated</i>	Labour
<i>Attitude to Workers</i>	Fair treatment determined by cultural norms	Fair treatment based on humanistic principles	Fair treatment determined by market conditions
<i>Management Philosophy</i>	Participative	<i>Integrated</i>	Hierarchical
<i>Business Outcomes</i>	Collective Management / Indivisible Ownership	Elected Management / Mixed Ownership	Autocratic Management / Private Ownership
<i>Primary Beneficiaries</i>	Members	Stakeholders	Investors

We can now reinterpret the formal organisation of the three case study companies remembering always that organisations change over time and are subject to different dynamics and influences at different stages of their development. We also need to be mindful that organisations are not monolithic. Even in their formal organisation, different parts of an organisation can embrace different approaches.

Custom Products Ltd is moving from extreme liberal and communitarian positions to a more integrated liberal communitarian position. Philosophically, there is an acceptance of the market and social responsibility. Since visiting Mondragon, there has been much talk of equilibrio and concrete attempts to adopt this in practice (balance between a governing council and executive, a balance of influence on the legal board). The current private ownership arrangements are being changed in favour of mixed collective/private ownership.

In some respects, however, it still holds to more extreme communitarian positions. The language and practice of governance is oriented towards corporate capitalism and collective interest rather than the protection of individuals. Responsibilities are stressed more than rights. In political structures and assumptions, the outlook is “unitary” (Darwin, Johnson, McCawley, 2002) and there is a presumption that directors do (and should) speak for the whole community. There is a presumption that everyone does (or should) share the same interests.

The resistance by board members individually and collectively to submit themselves to the decisions of an elected body suggests that the organisation is uncomfortable with a pluralist outlook on political organisation and policy debate. Indeed, the signs are that board members prefer the current approach where an operating board is responsible for framing the key policy debates and consults others in the final stages of a proposal. Democratisation is intended to improve the existing consultation process rather than introduce a fundamentally new outlook. This unitary outlook is also reflected in the trend towards the elimination of external investor influence.

SoftContact Ltd has also evolved its position between communitarian and liberal communitarian positions. Originally it had extreme communitarian positions on collective ownership, governance and wealth sharing, but these were combined with a strong culture protecting individual rights (to a voice, to a vote) and personal sovereignty through the application of egalitarian principles in management. It accepted the disciplines of the market and social objectives. Over time, however, some of these positions softened to allow mixed ownership, elected rather than collective management, and an erosion of individual rights in favour of a perceived collective interest.

In its approach to ownership and control, SoftContact Ltd moved to a liberal communitarian position, encouraging external organisations and individuals to become shareholders and all members to use their voice in democratic forums. Its constitution explicitly recognises investors as a separate class of shareholder with their own interests and elected board members. While the balance is tipped

towards employees during periods of profitability, the balance changes if their decisions damage the commercial interests of other stakeholders. In these circumstances investors assume control.

Mondragon has a long history, but its organisation shows a consistent commitment to the liberal communitarian position through the pursuit of *equilibrio*. While some commentators draw attention to the collective nature of ownership, there is – in a very real sense – both a personal and collective dimension. While external organisations cannot hold shares, the corporation has strong contractual relationships with the suppliers of capital and formally allows external bodies to have influence through a variety of structures.

There is an especially strong commitment to dialogue and self-criticism, and to the creation of structures that give a voice to stakeholders that are normally marginalised by shareholders. These structures do not *always* work effectively, but the responsiveness and self-reflection of corporate bodies to a strike in the mid-1970s, and subsequent strong economic performance and workforce commitment, lends support to the argument that the political arrangements provide roughly the right balance.

## Concluding Comments

Aronson (2003) looks at how cognitive dissonance is produced by differences between former and current social contexts, and our tendency to engage in *rational self-justification* to protect our individual self-concept as good and decent people. Where the social context induces a new choice – and there is little coercion – a person rapidly internalises the values and attitudes implicit in this new behaviour and incorporates it into their value system.

His analysis, therefore, suggests a reason for the *divergence* of views and ways of thinking observed by earlier philosophers. If we take Aronson's argument to its logical conclusion, we can expect people pursuing *self-interest* to attempt to justify (rationalise) their own behaviour by looking for positive outcomes from their self-interested behaviour. People who, other the other hand, pursue and defend *relationships* will attempt to rationalise their behaviour in terms of the positive outcomes that they perceive from the protection of these relationships.

We can, therefore, suggest a social root for individualist and communitarian philosophies. Perhaps those who were influenced by their social context to behave in a self-interested way will evolve (and be drawn to) individualist philosophies. Conversely, those who were influenced by the social context

to engage in equitable relationships will evolve (and be drawn to) liberal communitarian philosophies.

Where such individuals engage in business activities, they bring their personal philosophies into play and evolve working practices that give expression to their values. These, however, will modify over time as social constraints limit the choice of possible behaviours resulting in modified philosophies and cognitive models. The evidence presented here suggests there is a tendency to move towards a liberal communitarian approach over time in organisations committed to balancing the twin demands of economic efficiency and social democracy.

The acceptance of market disciplines and some form of hierarchy, but subjecting the executive to selection and control processes by those they govern, can be seen as a distinct approach that differs from collective management or unfettered control by the owner(s). If implemented, it would change economics dramatically by preventing the sale or merger of organisations unless the *stakeholders* (rather than only shareholders or employees) in *both* companies accepted the changes. It would also discourage speculative short-term investments in favour of long term value-adding economic activity. In accepting the market and a distributed network of smaller, closely interrelated production units, a liberal communitarian approach differs markedly from more extreme communitarian approaches which seek to supplant or distort the market with centralised or monopoly control of production, planning and decision-making.

Any communitarian commitments stand in contrast with traditional liberal views linking personal sovereignty over life, liberty and property to the primacy of person freedom and autonomy. The laissez-faire tradition (Smith, 1776; Friedman, 1962; Rawls, 1999) not only focuses on rolling back community or state intervention in commercial life, but also prioritises the rights of private individuals to ownership, and shareholder prerogatives to establish a chain of command in which they control managers, who in turn control workers.

Further research into the way social contexts affect our attitudes to governance would be helpful in the context of the current government's interest in social enterprise (DTI 2002; DTI 2003). Liberal communitarian models of governance – rooted in recognition of multiple stakeholders within a market economy – would probably be helpful in developing (and recruiting) social entrepreneurs. It may also benefit business advisers in economic development units that advise social enterprises, and social entrepreneurs. Conventional models of governance based on individualist philosophies and

economics are unlikely to be attractive to this sector, or offer a structure that can facilitate the social transformation that is often desired.

Outlining the business practices that characterise the case study companies do not – in themselves – satisfactorily explain why the individuals who founded them adopted communitarian forms, or the contexts that encourage communitarian behaviour. Nor does it suggest how communitarian values can be embedded and institutionalised in the *informal* culture of an organisation or even whether these are desirable. Further research in this area would be helpful to understand the contexts which promote communitarian behaviour, and the forms of organisation that might sustain it over long periods. This would be particularly useful to those committed to corporate social responsibility, social enterprise and the socialisation of the economy.

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