Issue 2 • April 2020

Democratising Business: Towards Meaningful Participation in Business, Finance, and Value Chain Governance

Jodie Thorpe[1]

Summary Fifty years of focus on short-term financial performance and maximising shareholder value has contributed to soaring inequality, unsustainable development, and global instability. The time is ripe to build a new type of economy, in which people have a meaningful voice. This Brief focuses specifically on the business sector. It presents examples of more participatory business, finance, and value chain governance, and highlights three conditions that have enabled meaningful participation in decision-making: distributed authority, inclusive processes of deliberation, and greater democratisation of knowledge. To conclude, four recommendations for democratising business are offered.

Introduction

Business governance typically takes place behind closed doors. Decisions are taken by top executives and senior managers, which are cascaded down to each level in a company's hierarchy. Yet there is a growing sense, including in the business community, that the system is not working. In the context of rising inequality, unchecked climate change, and the erosion of trust in economic and political leaders, new means of governing the economy which support more inclusive and sustainable forms of development are essential.

In 2006, Michael Porter, management guru at Harvard Business School, in collaboration with business administration expert Mark Kramer, began to write about a concept that has become known as 'creating shared value' (CSV). The authors made the case that business success is linked with the social consequences of companies' actions. They argued that optimising short-term financial performance and maximising shareholder value over securing the wellbeing of customers, the viability of key suppliers or the conditions of communities in which businesses operate, is outdated and foolish. Instead, business and society must come back together through heightened forms of collaboration and the principle of shared value. In other words, economic value that also creates value for society.

Porter and Kramer understand CSV as an internally generated agenda, with business executives learning about resource stewardship and studying deeper human needs and how to serve them. However, they fail to acknowledge that the human capacity to acquire and process knowledge is inevitably limited, meaning that managers' understanding will always be partial. They also fail to acknowledge that this decision-making will bump up against competing interests, implying that business executives should assess and make decisions regarding trade-offs between these different priorities.

Beyond CSV, others in the business sector have rediscovered the concept of 'stakeholder capitalism', an idea that dates back at least to the 1930s. In stakeholder capitalism, companies engage all stakeholders, understood as those affected by a firm's decisions, namely employees, customers, suppliers, and communities, in shared and sustained value creation. This approach recognises that those affected by a decision will have different perceptions of issues and potential solutions, based on their position, role, and experiences, although it does not necessarily assign them with a decision-making role. There is a commitment to inform and consult, but company managers remain in the driving seat.

Table 1 Cases of alternative business and financing models

Name	Country	Description
Banco Popular of Costa Rica	Costa Rica	Hybrid public and worker-owned and controlled bank serving social ends and sustainable welfare of Costa Ricans
Buen Vivir Fund	USA/ international	Lending models and practices controlled by communities and supporting their holistic wellbeing
Ethical Trading Company (Etico)	UK/ international	Association of small farmers, companies, consumers, and charities producing high-quality products that benefit producer communities
IBEKA	Indonesia	Community-owned and managed mini-grids enabling villagers to become producers and consumers of their own energy
John Lewis Partnership	UK	An employee-owned business for nearly a century, managed through a democratic governance system
Malawi Tea 2020	Malawi	Sector collaboration towards a tea value chain that sustains living wages for workers and living incomes for smallholders, while remaining globally competitive
Markets for Change	Solomon Islands	Increased voice and participation of women vendors' associations in market governance
Participatory Guarantee Systems (PGSs)	Tanzania	Locally focused alternative quality assurance schemes for local food markets, based on farmer-to-farmer knowledge exchange and review
RSF Social Finance	USA	Public benefit financial services organisation transforming investing, lending, and giving (i.e. grants) to better serve individuals and enterprises
W.L. Gore & Associates	USA	Workplace democracy in a transnational corporation through employee self-management and horizontal decision-making

The purpose of this Brief, therefore, is to offer an alternative. It presents examples of more participatory business governance, highlighting the forms and conditions that enable meaningful participation in decision-making, and recommendations for how it can be achieved.

Participatory business and financial decision-making

Among the various definitions of 'participation' is that offered by Matthias Stiefel and Marshall Wolfe in 1994: '[Participation involves] organised efforts to increase control over resources and regulative institutions in given social situations, on the part of groups and movements hitherto excluded from such control'.[2] This definition shifts the focus from informing and consulting to control, including control over resources, which implies an economic focus. More simply put, participation is the act of people engaging in decisions that impact their lives.

Ten cases of business and finance that invite workers, consumers, communities, and other stakeholders to have a real voice in the way that businesses are run, investment decisions are made, and value chains or sectors are governed are outlined in Table 1. They are drawn from broader research to map and analyse cases of participation in economic decision-making.[3] These examples employ new governance arrangements that support collective decision-making based on shared ownership (Banco Popular of Costa Rica, John Lewis Partnership, and IBEKA) or peer-to-peer arrangements (W.L. Gore & Associates, Etico, Malawi Tea 2020, PGSs, and RSF Social Finance), or that drive more transparent and accountable decision-making by authorities (Markets for Change). These cases include:

Businesses owned by employees or managed through workplace democracy: Workers or their representatives have direct influence over business decision-making. W.L. Gore & Associates, for example, is a privately held multinational company that has operated through a 'lattice' system of employee self-management since it was founded in 1958. This system has no strict hierarchies. Instead, decisions are made through a system of self-managed work teams that are small enough to secure ownership in collective decision-making, and free flow of information.

Whole markets, sectors or value chains managed through participatory governance: These cases give multiple stakeholders from across a value chain or market system a voice in decision-making, including workers, farmers, buyers, communities, vendors and/or consumers. To take one case, the Maendeleo farmers' group in Tanzania has implemented a Participatory Guarantee System (PGS) to certify organic tomatoes, carrots, aubergines, cabbage, and bananas for the local market. PGSs are alternative certification schemes, built on trust and social networks, for produce intended for local markets. Through a general assembly, all producers within the PGS have equal rights and decisions are taken democratically.

Banks, financial institutions or funds where society has greater control over resources: These cases involve greater community and worker participation in the allocation and management of financial capital. The Buen Vivir Fund, for example, is a participatory impact investment fund that was founded in 2018 by Thousand Currents, a non-governmental organisation, and co-designed by financial investors and grass-roots organisational leaders. It is governed by a Members Assembly made up of institutional investors and community investees. Projects borrow and return 100 per cent of the principal received and make a solidarity contribution, or '*aporte* payment', over and above return of principal. The amounts of these *aportes* are self-determined by the organisations and are made during or upon completion of successful projects.

Features that enable participation in business decision-making

Distributed authority changes the locus and distribution of decision-making authority to allow for a plurality of interests to be pursued through cooperation and reciprocity. In contrast to business forms based on hierarchical or centralised decision-making and/or ownership, these examples involve more horizontal governance structures and/or (re)distribute organisational or asset ownership to those who are otherwise typically excluded.

For example, the Members Assembly of the Buen Vivir Fund is made up of one representative from each of the ten grass-roots organisations, eight financial investor organisations, and one Thousand Currents representative, such that community groups hold the majority aggregate position. The Members Assembly steers all decisions made in relation to investment, strategy, membership, and conflict resolution, requiring a majority vote for all investment-related decisions. The founding members were also fully involved in fund design, rather than only having a voice in operational decisions within a system defined by others. Together they set out the investment terms, financial practices, and governance structure.

In the case of W.L. Gore & Associates, leaders are not defined by their position in a hierarchy but are employees (known as 'associates') with relevant expertise who step forward for the role. Their decision-making also involves those directly affected by a particular issue or set of problems. Although this practice of 'knowledge-based decision-making' takes time, it means that decisions are made by those with the most relevant knowledge. Over the past 60 years, it has enabled the employee-driven innovations that are core to the company's success.

Deliberation is a communicative approach to conflict resolution and problem-solving. Participants, including those normally on different sides of economic processes, exchange arguments, share viewpoints, and consider different perspectives and options. This process makes different participants' interests explicit while seeking to generate solutions that enable different interests to be pursued through cooperation. The aim is to confer legitimacy on decisions reached, to produce higher-quality outcomes and to enable issues of ethics and societal wellbeing to be brought into economic debates. Deliberation may also support respect and trust building between different constituencies.

At W.L. Gore & Associates, for example, the decision-making structure enables complex interpersonal engagement and direct person-to-person communication, fostering ownership in collective decisions and commitment in implementation. The small size of the teams also enables free flow of information.

While deliberation is often premised on face-to-face interaction, it can take place remotely. The Buen Vivir Fund combines an annual in-person learning event with two virtual meetings of the Members Assembly where joint decision-making takes place. Importantly, the Fund's operation brings together investors and investees that are normally on competing sides of financial transactions, enabling them to discuss their needs and interests, and collaboratively agree investment terms that satisfy both.

Democratised knowledge involves widening the scope of those who have control over knowledge resources and demystifying technical information, while also recognising the legitimacy of different types of (non-technical) knowledge. Democratised knowledge is particularly important in the deliberative forms of decision-making described above, where knowledge and expertise are powerful resources. Without it, claims to knowledge-based authority can be used to prioritise certain framings of issues and potential solutions and to exclude others.

In the case of PGSs, for example, the emphasis is on farmer knowledge, and capacity building, as well as ownership over the whole scheme. Farmers are not only trained on relevant standards, such as organic production, but also collectively manage the scheme on the basis of knowledge exchange. Certification takes place through farmer-to-farmer exchange which enables the sharing of knowledge on challenges and solutions, and also ensures greater equality between farm inspectors and the inspected.

The Buen Vivir Fund's investment terms and practices are drawn heavily from grass-roots organisations' expertise and experience of traditional lending and wealth-sharing models, rather than imposing those from Wall Street. These traditional structures shift risk away from the grass roots and onto investors that can more easily shoulder it. Investors and investees together have also developed diagrams and infographics in order to enable people to gather and make sense of economic data on their own terms.

Recommendations

Based on the ten experiences outlined above, this Brief has highlighted key features of more participatory business, finance, and value chain governance. Achieving these changes calls for a collective rethink of business and its role in society. In summary, this will require the following:

1. **Redefine the purpose of business:** Optimising short-term financial performance and maximising shareholder value cannot deliver a democratic or sustainable economy. Business needs to refocus on harnessing entrepreneurship to create sustainable solutions to societal challenges.
2. **Build structures that enable participation:** Widening asset ownership, including collective worker or community ownership of enterprises, is one avenue. For example, retiring entrepreneurs have transferred business ownership to employees, while social enterprises are being created in which productive assets are controlled by communities. Flat hierarchies, decentralised decision-making, and more self-managed work teams are another means to enable significant participation without a change in ownership.
3. **Widen the scope of participation:** While many businesses currently provide information and possibly obtain feedback on alternatives, there is rarely a clear commitment that this engagement will impact decision-making. Meaningful participation implies directly involving or partnering with stakeholders to define problems and formulate options for solutions, with a commitment to incorporate recommendations into final decisions. At its most empowering, participation places final decisions into stakeholder hands, including decisions regarding the design of the model itself.
4. **Respect different types of knowledge:** While economics, finance, and engineering remain vital, their technical nature and language excludes or is used to marginalise wider voices. Space needs to be made for equally important information, experience, and knowledge from customers, patients, suppliers, and community organisations to influence decisions. Their knowledge is not only vital for high-quality outcomes in the context of complex decisions, it also opens the door for issues of ethics and societal wellbeing to be brought into governance.

Endnotes

1 Institute of Development Studies, UK.
2 Stiefel, M. and Wolfe, M. (1994) *A Voice for the Excluded: Popular Participation in Development, Utopia or Necessity?*, London: Zed Books.
3 www.eldis.org/keyissues/mapping-participation-economic-advancement

Further reading

Thorpe, J. and Gaventa, J. (2020) *Democratising Economic Power: The Potential for Meaningful Participation in Economic Governance and Decision-Making*, IDS Working Paper 535, Brighton: IDS

Higdon, G.L. (2019) *Linking Participation and Economic Advancement: Buen Vivir Fund Case Study*, Brighton: IDS

Cannon, M.; Thorpe, J.; Emili, S. and Mader, P. (2019) *W.L. Gore & Associates Inc.: Workplace Democracy in a Transnational Corporation*, Brighton: IDS

Cannon, M.; Thorpe, J. and Emili, S. (2019) *Participatory Guarantee Systems in Tanzania: Locally Focused Quality Assurance Systems*, Brighton: IDS

O'Flynn, P.; Higdon, G.L.; Besamusca, D. and Shetty, A. (2019) *Deepening Impact through a Participatory Due Diligence Process*, Brighton: IDS

Supported by a grant from the Open Society Foundations.

This Brief forms part of the collection of materials produced for the 'Linking Participation and Economic Advancement' project led by the Institute of Development Studies and funded by a grant from the Open Society Foundations. This research project recognises that economic processes impact the lives and livelihoods of people who frequently have little or no power in these processes. Through this research we identify alternatives: ways that communities, governments, and enterprises are making economic decisions in which 'ordinary' people have a real voice. The aim of this research is to build an evidence base of these alternatives in order to explore the question: What constitutes meaningful participation in economic advancement?

IDS is a charitable company limited by guarantee and registered in England (No. 877338)

Institute of Development Studies, Brighton BN1 9RE UK
T +44 (0) 1273 606261 **E** ids@ids.ac.uk **W** www.ids.ac.uk
W www.eldis.org/collection/participation-economic-advancement
twitter.com/IDS_UK facebook.com/idsuk

Institute of Development Studies