

# A New Enterprise Model

## **The Long March Through the Market Economy**

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## Working Towards a Work-in-Progress

**The following is not even a work-in-progress. It is working towards a work-in-progress, intended as a contribution to the Nevin Economic Research Institute's initiative on the indigenous market economy. The following does not yet deal with the formal public sector (public economy) and multinational enterprises (global economy).**

# Why a New Model

Market concentration, resource depletion, human rights breaches, commodification of public spaces, regulatory and political capture, CEO pay, share buy-backs, cash piles, secrecy, loss of privacy, tax havens, atypical contracts.

In Ireland, indigenous companies over-reliant on housing, property and servicing of foreign capital; concentrated in low value-added, low-wage sectors with an aversion to high value-added activities. Recently this has been accompanied by falling productivity in native firms over the last 10 years.

Long-term economic growth more reliant on skills, education, and innovation while long-term labour trends leading to higher precariousness – degrading the elements of long-term growth.

All this against a backdrop of a de-politicised economy and a de-democratised polity informed by an aggressive shareholder ideology complemented by an increasingly inimical managerialism.

# A New Enterprise Model

**Proposition:** A New Enterprise Model (NEM) – a way of doing business that maximises economic, social and individual prosperity by *unleashing the potential of civil society*. A NEM is

- ✓ First, a *pragmatic* process, identifying those participatory activities which leads to superior enterprise performance.
- ✓ Second, it proposes a *plurality* of business forms to accommodate people's innovative capacity.
- ✓ Third, it seeks to *popularise* or *democratise* enterprise as an aid to productivity growth while re-politicising the economy and re-democratising the polity.

A NEM asserts that it is only through a variety of democratic channels can enterprise performance be maximised ensuring the highest level of social prosperity. This seeks to complement rights-based arguments for the privileging of civil society over current corporate governance.

# Starting Premise: No One Owns a Corporation

*'If I own an object I can use it, or not use it, sell it, rent it, give it to others, throw it . . . But **shares give their holders no right of possession and no right of use.** If shareholders go to the company premises, they will more likely than not be turned away. They have no more right than other customers to the services of the business they "own". The company's actions are not their responsibility, and corporate assets cannot be used to satisfy their debts. Shareholders do not have the right to manage the company and even their right to appoint the people who do is largely theoretical. They are entitled only to such part of the income as the directors declare as dividends, and have no right to the proceeds of the sale of corporate assets — except in the event of the liquidation of the entire company, in which case they will get what is left; not much, as a rule.'*

**John Kay (Financial Times)**

# No One Owns a Corporation

A rich legal and business literature (and court rulings) has long discovered that no one owns a corporation. Corporations are a 'legal person'. Shares are contracts. This legal person is not 'owned' in the popular sense of the word. It is the ideology of ownership that persists.

Actually existing enterprises are a *social space*, with dense layers of contractual relationships between stakeholders: shareholders, workers, management, suppliers, creditors, the community, the environment: each with their own interests and rights. If there are hierarchies within the firm they are a product of economic and societal power-relationships.

A NEM sees enterprise as a *social space* - a value-added generating *commons*.

- One consequence of this is that management has a new purpose: away from acting on behalf of only one contractual relationship (shareholders) to acting on behalf of all; resolving conflicts between, and accountable to all, stakeholders. As Sean Lemass observed:

## Lemass and the New Management

*'Nobody nowadays regards the operation of an important industrial undertaking as being **the exclusive private concern of its owners**. Rather, each such undertaking is looked upon as a national asset contributing to the country's economic and social advancement . . . . the social consequences of fluctuations in the level of business activity are matters of public debate. The industrial manager has **unavoidable responsibilities, wider than those placed on him by his employer**. He should be regarded and regard himself as a public servant in the finest meaning of that term.'*

**Sean Lemass (1957)**

The following briefly describes three among many components of a NEM.

## 1<sup>st</sup> Democratic Entrepreneurship

*‘The knowledge of the circumstances of which we must make use never exists in concentrated or integrated form but solely as the dispersed bits of incomplete and frequently contradictory knowledge which all the separate individuals possess. The economic problem of society is thus not merely a problem of how to allocate "given" resources...it is a problem of the utilization of knowledge which is not given to anyone in Its totality.’*

**Friedrich Hayek**

# Democracy and Entrepreneurship

Hayek argued that the mass of information needed to 'plan' the economy was too much for an elite of planners to absorb and act on; that knowledge was fragmented and dispersed. He claimed decentralised market-pricing was more efficient way to makes these fragments cohere efficiently.

Same argument can be applied to the enterprise –the totality of knowledge is too much for an elite of executives to optimise performance. If Hayek's argument holds, it leads to a decentralising decision-making process within the firm.

It also leads to an insight. *Everyone is an entrepreneur*, undermining the individualistic notion of the 'heroic' (read: elite) entrepreneur - reformulating entrepreneurship as a collective or democratic process. Everyone has a piece of the knowledge puzzle, everyone has the capacity to utilise it (though not everyone is allowed).

One test of this potential capacity is employee participation.

# Measuring Employee Participation

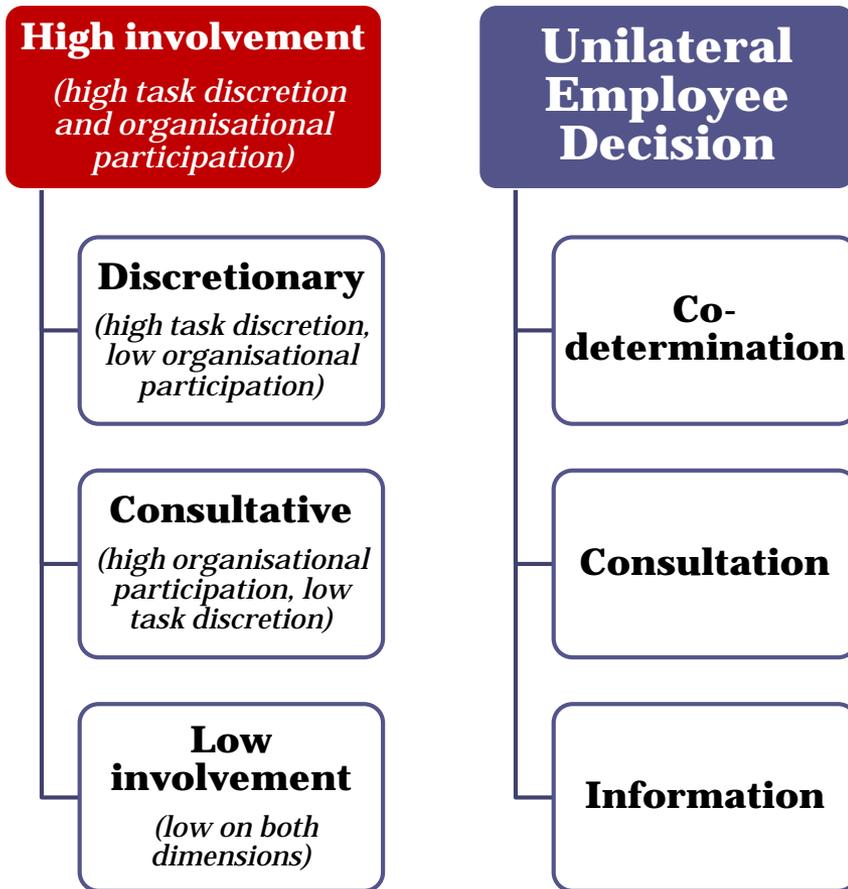
Employee participation is an intrusion into managerial prerogative, even when initiated by management (in many instances this is done to undermine trade union organisation). There are two issues with measuring the impact of participation on firm performance.

First, the subject of measurement: participation operates in a continuum ranging from the right to receive information to right to protest, to suggest, to prior consultation, to bargaining, to veto, co-decision, and finally to unilateral workers' decisions – with different degrees of power at each level informed by the particular IR regime in the particular political economy framework

Second, the ability to measure:

*‘ . . . the components involved are difficult and complex to define, and the synergy amongst the different components hard to evaluate. The literature suggests that the research is not uniform in its approach, and most research does not clearly define the variables involved or agree on the expected results of such systems.’*

# Ladder of Participation



A common distinction: between (a) direct or *task discretion* (employer and employee, usually initiated by the employer) and (b) indirect or *organisational* (representative bodies) which usually arise out of the IR and statutory regime.

There is a consensus in the literature that direct participation leads to productivity gains. No consensus regarding indirect. Not surprising – this constitutes a substantial, organised and bureaucratic intrusion; through collective bargaining, works councils,

When measuring indirect participation, it is difficult to factor out the larger IR noise.

# Employee Participation Plus Other Factors

The US Commission on the Future of Worker-Management Relations found:

*'Where employee participation is sustained over time and integrated with other organization practices, the evidence suggests it generally improves economic performance . . . employee participation and labor management cooperation may contribute to the nation's competitiveness and standards of living.'*

Conclusion was based on 3 studies:

- 1) A Xerox plant where management recognised the union without resistance and gave workers a no-layoffs guarantee.
- 2) A survey of auto plants in 17 countries concluded that a commitment to employment security was essential for productivity to increase.
- 3) A review of 15 HR practices in the steel industry found that firms with the highest performing outcomes were unionised.

What drove productivity increases?  
Employee participation, collective bargaining, employment security?  
What is the positive interaction?

# Collective Bargaining and Participation

Ireland's National Centre for Partnership and Performance (NCPP) noted a similar process. It reported one provocative finding:

*Interestingly, unionisation combined with innovative work practices delivers higher levels of productivity growth*

Eurofound reports a strong and positive co-relation between more centralised wage coordination and both direct and indirect participation.

Workplace Characteristic	Impact on Productivity
<b>Scenario 1:</b> Non-Union Low Involvement	Productivity Base-line
<b>Scenario 2:</b> Union No Involvement	Productivity decreases by 15% below baseline
<b>Scenario 3:</b> No Union Involvement	Productivity increases 11% over baseline
<b>Scenario 4:</b> Union Involvement	<i>Productivity increases 20% over baseline</i>

# EU Worker Participation Rating

Total Ranking		Workplace Representation		Collective Bargaining Coverage	
Denmark	0.83	Denmark	0.68	Austria	0.98
Sweden	0.82	Sweden	0.63	Belgium	0.96
Finland	0.81	Finland	0.6	France	0.93
Luxembourg	0.68	Belgium	0.53	Sweden	0.90
Netherlands	0.67	Luxembourg	0.52	Finland	0.90
Austria	0.63	France	0.5	Netherlands	0.89
Germany	0.61	EU Peer Group	0.47	Denmark	0.80
EU Peer Group	0.61	Netherlands	0.45	EU Peer Group	0.79
France	0.50	Germany	0.41	Germany	0.64
Belgium	0.43	<b>Ireland</b>	<b>0.29</b>	Luxembourg	0.60
<b>Ireland</b>	<b>0.38</b>	Austria	0.21	<b>Ireland</b>	<b>0.35</b>
United Kingdom	0.16	United Kingdom	0.17	United Kingdom	0.34

# Riding Two Horses

For workers and trade unions the issue can be complicated.

The representatives' role can be marginalised by direct participation in issues that would normally be part of collective bargaining; alongside losing sight of the employees' agenda, becoming incorporated into the employer's. One shop floor representative described the problem:

*'I am a negotiator and it's difficult to switch to strategic involvement as the roles are quite different. I have recently been involved in a management focus group. We made our input but it is very difficult not just to be raising problems. I have found myself at the cross-roads of being an extension of the management system which are likely to compromise my role, accepting proposals which as a negotiator I would oppose. It is difficult to ride two horses. If we can clear up our role in the strategic framework then it may become clearer.'*

# Clearing Up Labour's Role

Wider participation under indirect conditions benefits firm performance. There is evidence that organised 'intrusion' (unions, collective bargaining, formal structures) is also beneficial. If there is conflict at an organised level is this the function of participation itself? Is it due to the stakeholder *inequality* which, in itself, leads to sub-optimal outcomes? Is it due to the contradictions between 'taking responsibility' for enterprise outcomes and 'representing workers' interests'? And can these be resolved under current corporate, shareholder privileged, governance?

If a little bit of democracy (participation) leads to superior performance, does a lot more lead to even more gains? Is the *ladder of participation* causally related to a *ladder of productivity*?

It is these questions a NEM seeks to 'clear this up' by challenging the current framework with a new (and functionally more sound) one: enterprise as a social space, the commons. But this cannot be done within the firm alone. Other components are needed.

## 2<sup>nd</sup> Enterprise Plurality

Alongside democratic entrepreneurship, a NEM would pursue a strategy of promoting a variety of different enterprise forms or models in the commercial sector. This is not only to facilitate civil society's potential economic and social contribution.

It also creates a competition between alternative models, for a NEM is first grounded in a superior way of doing business. Three models (not an exhaustive list) are presented here:

- New Generation Enterprises
- Public and Municipal Enterprises
- Civil Society Enterprises

## (a) New Generation Enterprises

- Mariana Mazzucato asks:
- *‘ . . . how many people know that the algorithm that led to Google’s success was funded by a public sector National Science Foundation grant? Or that molecular antibodies, which provided the foundation for biotechnology before venture capital moved into the sector, were discovered in public Medical Research Council labs? Or that many of the most innovative young companies in the USA were funded not by private venture capital but by public venture capital such as through the Small Business Innovation Research (SBIR) programme?’*
- Sean O’Riain noted that in the 1990s the key investor in high-tech indigenous sectors was the state:
- *The ‘Celtic Tiger’ is not a product of heroic entrepreneurs but is a (partial) success made possible by the embeddedness of entrepreneurs and workers in dense **social institutions**. There is a **significant collective contribution** to the success of those who have benefited (professional classes, entrepreneurs) which rests heavily on **collective social and state institutions**.’ (bold: mine)*

# A Socialising Process

Given the inter-dependent relationship between the state and private companies as argued by Mazzucato and O’Riain, New Generation Enterprises can emerge out of a new partnership that reflects the role of the state as risk-taker.

- The state will promote companies through a *special* suite of grants, supports, R&D, knowledge transfer, networks, etc.
- In return, the company will commit to collective bargaining, high organisation participation (up to co-determination), in-house training and R&D, investment, etc.
- The means of exchange will be equity in the firm. The state would get the benefit of its investment if the company is successful.

The state would become an ‘*entrepreneur*’ in the original sense of the word: Cantillon’s risk taker. Its intervention would have a *socialising* character through equity. And it would facilitate more *democratic* relationships between stakeholders.

## *(b) New Model for Public Enterprises*

### Reasons for public enterprises

- **Market failure:** the private sector cannot or will not invest (e.g. electricity and ESB).
  - **Stewardship:** only public enterprise can be entrusted with management of a particular resource (e.g. Bord na Mona).
  - **Natural monopoly:** for example, the electricity grid.
- We need to develop new reasons for public participation in the market economy, building on a re-invigorated logic of the public enterprise form.
- **Investment Driven:** without shareholder interests, enterprise can be investment-machines.
  - **Benchmarking Best Practice:** provide a 'role-model' through market competition (e.g. in Somerset, the local council set up a public petrol station to force down the prices of private firms).
  - **Revenue:** raise revenue (between 2009 and 2014, public enterprises contributed nearly €2 billion in dividends).
  - **Safeguard Assets for Local Benefit:** prevent loss of assets due to closures, sell-offs, mergers and acquisitions.
  - **Laboratories for democratic experimentation:** for participation to co-determination and labour management.

# New Municipal Entrepreneurship

Public enterprise is usually associated with Fordist models such as electricity and water (Fine Gael proposed six new public enterprises in 2010) . But in the US and Europe public enterprise is decentralised. Local governments are involved in a range of commercial activities that raise revenue, increase employment and enhance workers' rights;.

*Real estate, professional sports, retailing and retail merchandising, training and consulting, fertilizer and soil enhancer production, venture capital provision, methane recovery, energy production, commercial development,, auto-towing, fibre-optic broadband, off-licenses, hotels and restaurants , tourist activities, professional services, banking services . . . ‘*

These can create partnerships with local capital and skills, spin-offs, and new market opportunities . Most important, it develops a public and civil society entrepreneurship rooted in democratic practice.

In Europe over 700 economic and social activities have been re-municipalised - most of them have been in the market sector (utilities, transport, finance and administration support services).

## *(c) Civil Society Enterprises*

Civil society-led enterprises are distinct from public and private firms. While taking many forms, most prominent is the labour-managed enterprise (LME) which occupies the top rung of the participation ladder. In a review of the international data Perotin found workers cooperatives:

- To be larger than for-profit firms and not necessarily less capital intensive
- To survive as long as other businesses with more stable employment
- To be more productive than conventional businesses, with staff working “better and smarter” and production organised more efficiently
- Retain a larger share of their profits than other business models
- Have lower pay differentials

However, the literature also shows up LMEs in a less favourable light in terms of productivity, investment and innovation.

## Focus on Eco-System

The downside of LMEs: lack of start-up capital and under-capitalisation, formations under unfavourable circumstances, management quality, unfavourable legal-political environment, lack of institutional supports (education, training, banking), employee motivation and psycho-social factors.

Rather than focus on individual enterprise development, a NEM would identify the elements of an *eco-system* needed to sustain these and other civil society forms (small and micro-businesses, community cooperatives and interest companies, community development corporations, networks of own-account workers), including hybrid forms with municipal enterprises.

Successful LMEs and similar civil society enterprises have over the decades developed dense support networks. In Italy the cooperative pillar benefits from strong legal and economic support from the state which is constitutionally mandated to support these firms.

# Institutional Supports

A NEM will require new and expanded institutional supports:

- Banking geared towards the productive economy (the Government's review of Sparkassen-type banking is encouraging, privatisation of AIB is not).
- Reconstitute the National Centre for Partnership and Performance with a renewed mandate to analyse and trial democratic enterprise practices
- Substantial devolution of power to local/regional government to facilitate municipal and civil society enterprises
- Public policy interventions - educational and training supports for civil society enterprises (and hybrid forms)

These are not specific to a NEM; for instance this could be a new eco-system for traditional SMEs. But it would be delivered along the same lines as New Generation Enterprises, in a new social contract.

## 3rd TIER: The Cultural Struggle

A NEM first presents as a cultural struggle.

There is a tendency to devise short-cut strategies via statutory intervention. It should not be under-estimated the extent to which the current model is deeply embedded in the public understanding of what makes enterprise successful. Employers monopolise key concepts such as competitiveness, flexibility, efficiency, etc. This constitutes a *cultural struggle*:

*‘Culture shapes how people see their world and how they manoeuvre within in it and, more importantly, it shapes their ability to imagine how it might be changed, and whether they see such changes as feasible or desirable.’*

This requires a long-term *war of position* that first challenges the hegemony of employers while at the same time laying the foundation of an alternative way of conceiving how we can do business differently.

# Protagonists in the Long War of Position

**Cultural warriors** – commentators, researchers, academics, analysts challenging the current hegemony, working in their respective spheres. Developing, propagating, sharing resources that can be used by activists in their struggles – constantly pushing out the Overton Window.

**Trade unionists** – trade unions are the voice of workers, without whom there is no NEM. In their drive for greater organisation and collective bargaining they come under hegemonic attacks: ‘labour is a cost’, conflating managerial interests with the objective interests of the firm, competitiveness, efficiency, flexibility.

**Political activists** – who can put elements of a NEM on the programmatic agenda, working other protagonists.

**Civil society activists** – working with suborned constituencies and geographically-disenfranchised regions, constructing market initiatives to create shared wealth and living standards.

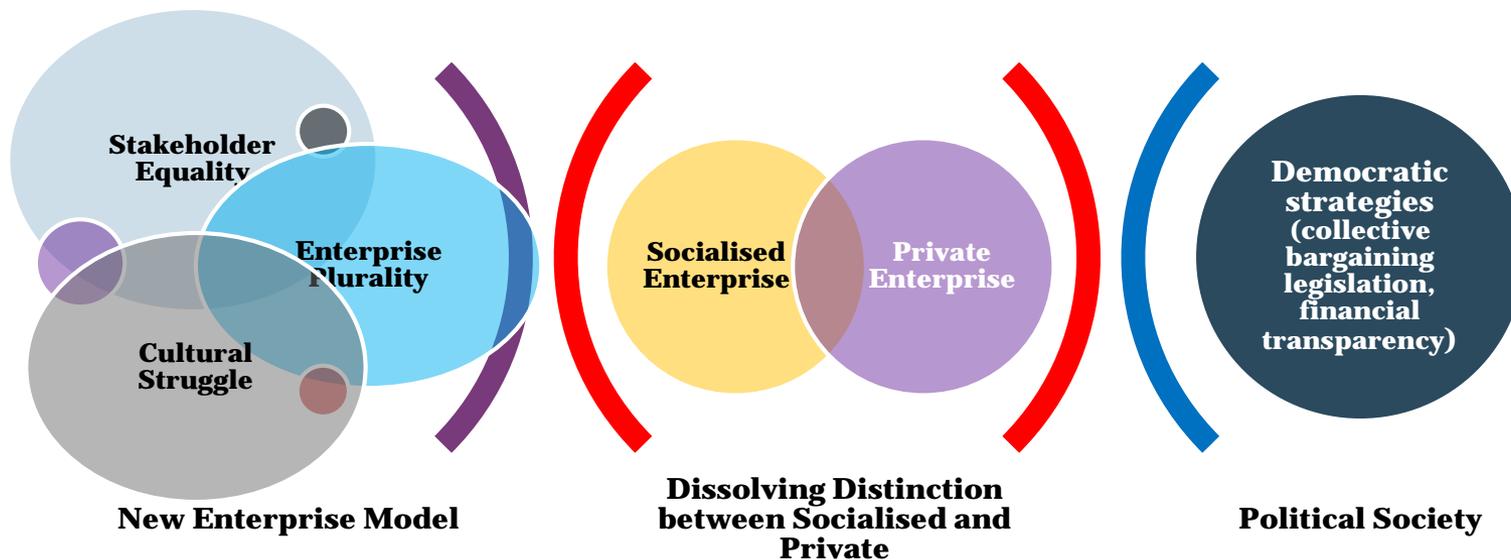
# The Life of the Enterprise: A New Metric

One example: from a fringe interest only a couple of decades ago, there are now mainstream attempts to devise alternative measurements to GDP. There should be an alternative enterprise measurement that goes beyond mere profit-loss accounts. For instance, a firm may show positive on this score but externalises costs on to households, government and society – thus depressing economic growth.

A first step: align company accounts with national accounts – so that labour is not categorised as a cost but rather a co-equal compensation payment with capital, paid out of collectively created value-added.

Go further: measure standard and precarious contracts, ratio of workers and CEO pay, distribution of social benefits (pensions, sick pay), environmental audits, recognition of workers' voice (bargaining), etc. This new metric would require greater transparency but this is already happening in small ways (Irish companies will have to publish gender pay accounts; US companies have to publish pay ratios).

A NEM borrows from the Nevin Economic Research Institute's 'unitary' model in the housing market – slowly dissolving the distinction between the public and the private, the social and the private, in a democratising process.



# Conclusion

Starting from the premise that no one owns the corporation, a NEM proposes multi-level strategies to socialise this 'commons', to provide a systemic framework in which we can better analyse, understand and organise the democratisation of firm activity. This complements wider strategies to democratise the economy and society.

The firm is the 'motor' of growth in a market economy: investment, wages, general living standards. It is also where world-views are formed, reinforced and potentially undermined – where the everyday indignities, reminders of subordination and only partially-realised (if that much) life-chances occur.

James Connolly was once asked how a class-less society could possibly come into being – it being such a vast undertaking. He replied that you do it one workplace at a time.

There are 7 million corporations throughout the European Union, 100,000 in Ireland. It is a long march.