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Curing World Poverty: The New Role of Property

Justice-Based Management:
A Framework for Equity and Efficiency in the Workplace

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As the world prepares to enter a new millennium, change has become the rule of the day. From the macro to the micro level, from the global marketplace to the individual enterprise, long-sacred ideas underpinning the economic status quo are being challenged.

Leaders in business and labor, spurred by competition or sheer survival, are reexamining such basic questions as how people participate in production and how they earn an income. Inexorable forcesadvancing technology, expanding worldwide communications and information networks, the increasing mobility of capital and labor (particularly technical know-how), unpredictable geopolitical conditions, rising populations, and the opening of global marketsare shaking the foundations of "business as usual."

Consequently, institutions such as the corporation and the labor union are being impelled into an intense period of reformulation. Shareholders, infuriated by soaring executive pay in the face of plummeting corporate profits, are organizing to demand their property rights.[2] Workers, lulled by annual cost-of-living increases and promises of job security, are now desperate merely to have a job, any job. Management, seeking a magic bullet to raise corporate productivity, is shifting from autocratic (Theory X) to participatory (Theory Y) to empowerment (Theory Z) approaches.

Profound changes are taking place in the labor movement as well. From a peak of 35 percent of the American nonagricultural work force in 1954, union membership fell to 15.8 percent of employed wage and salaried workers in 1992, according to the U.S. Department of Labor. Evidencing an even more dramatic decline, just 11.5 percent of all U.S. private sector employees today belong to a union, compared with 36.7 percent of federal, state and local government workers.[3]

Some within the labor movement are therefore questioning whether the old modes of thinking are sufficient or even viable. Irving Bluestone, former Vice President of the United Auto Workers, and his son and professor of political economy, Barry Bluestone, note in their recent book *Negotiating the Future: A Labor Perspective on American Business*:

> [I]n recognition of the requirements of the global marketplace, we believe that labor and management have more in common than in conflict. Finding a new structure for labor-management relations that rests on common interests and mutual concerns is, we argue, a *sine qua non* for economic prosperity if not

outright survival.[4]

Long-accepted assumptions and theories which have patterned our economies and workplaces are proving themselves inadequate for reconciling the common man and woman with the coming Age of the Robot. It is not just a matter of retooling our industries or retraining our workforces. We are being forced back to the drawing board, to reconstruct the institutions and systems which sustain us.

A House Divided

While frequently maligned as a tool for exploiting human beings, the corporation is, notwithstanding, a remarkable social invention for increasing business efficiency. Its main functions are to: (1) aggregate, organize and maximize the efficiency of labor and capital for the production and distribution of goods and services; (2) maximize financial return to shareholders; and (3) insulate from the risks of the business the personal (non-corporate) assets of the owners. The corporation has thus become the most significant organizational form for facilitating the production, marketing and distribution of goods and services on a global scale.

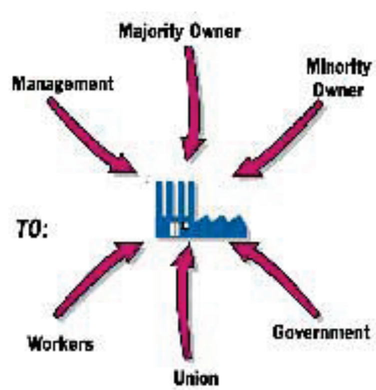
When we look at most business corporations, however, we generally see a disharmony of interests. Owners and management seek higher profits, lower costs (particularly labor costs) and greater efficiency. Workers and unions, meanwhile, seek higher fixed wages/benefits and job security. Customers desire higher quality goods and services at a lower price. Governments, of course, want a stable economy and a bigger tax base.

From the standpoint of the corporation, the divergence of interests between owners, workers, unions, the government, and other "stakeholders" can only weaken its competitiveness within a global marketplace. With pandemic recessions threatening the survival of small and giant companies alike, we can only wonder how long a house so divided can stand.

In the long run, the critical question for every enterprise is whether there are universal principles and a practical framework of action which can unite these divergent interests, so that the enterprise can work for everyone's benefit.

The Problem: Transforming the Corporation

The Conflict Model ("Zero Sum Game") of Industrial Relations



The Proprietary Interest Model ("Win-Win" Strategy) of Industrial Relations

Assessing the Structural Flaws

Business organizations reflect their external as well as internal institutional environments. A truism, perhaps, but we often overlook the degree to which laws, policies, procedures, and rules shape the creation, operation and development of a company. Significantly, as nations and businesses enter the Age of the Robot, we find that their economic environments are manifestations of the anachronistic, nineteenth century-style "wage system."

All wage systemswhether capitalist, socialist or mixedshare some basic assumptions. They presuppose that a small number of people, or the State (run in the name of "the people," of course), will own the means of production. They also presume that everyone else must therefore be workers-for-hire or welfare recipients.

Consequently, most people are led to believe that the only legitimate way they can raise their standard of living is to receive higher and higher wages, salaries and other fixed benefits. The resultant ratcheting up of costs (primarily through rising fixed labor rates) naturally works against a business' ability to operate effectively in the competitive marketplace.

But as the wage system grows, working people lose their means to acquire economic self-sufficiency. They end up dependent on a job or welfare. Management and labor, buying into the wage system's zero-sum, conflict model of industrial relations, pit themselves against each other. Meanwhile, businesses go under, workers walk the unemployment lines, and ownership and economic power grow more concentrated in fewer and fewer hands.

If the conflict-producing wage system is destroying our economies and workplaces, what is our alternative? Starting within the corporation, how can we introduce a "win-win" system for running business that creates broadly enjoyed prosperity and empowerment? As we "re-engineer" the corporation to fulfill these objectives, what would its management system look like?

Management's Dilemma: Sorting out the Buzzwords from the Basics

Another consulting industry has recently emerged: repairing the damage in companies which have installed "Total Quality Management" ("TQM"), one of the newer and highly touted additions to management's "tool kit." A 1991 survey of 300 electronics companies by the American Electronics Association found in fact that "73 percent had quality programs in place, but of these, 63 percent said they had failed to improve quality by even as much as 10 percent."[5]

Few would argue that approaches such as "Total Quality Management," "quality circles," and "Management by Objective" articulate good principles (e.g., improving communications between managers and workers, and encouraging greater worker commitment to quality and customer service) and promote useful practices (statistical quality control, gain sharing linked to increased productivity, etc.). So what accounts for the dubious success rate of many of today's management theories and techniques?

Some of the blame can be laid at the feet of those selling (or buying) a quick, slick cure for slumping corporate competitiveness and profitability. And uncontrollable forces in the business environmentsuch as market downturns, the sudden obsolescence of a key technology, and hostile credit policies and tax lawscan buffet the strongest of companies.

But the main problem with all these approaches is not what they offer. It is what they leave out Because they omit key building blocks they inevitably fail over the long term leave out. Because they omit key building blocks, they inevitably fail over the long-term to *systematize and institutionalize* high involvement and true empowerment of working people.

Searching for the Missing Pieces

Today's management theories and techniques tend to fixate on *how* people do thingson "process" for its own sake. While new and improved processes may facilitate better interactions between individuals or may temporarily spark motivation, these approaches are often piecemeal, superficial and short-term in their means and objectives.

Furthermore, many new management techniques ignore the importance of creating a regular, understandable, and fair system of economic feedback (both short-term and long-term) linking workers' compensation and rewards to their increased contributions to the bottom-line. A recent survey of 100 top managers from Fortune 500 companies by Rath & Strong management consultants showed that 87 percent believed that "delivering value to customers was critical." Yet "80 percent of the same companies did not tie compensation for all employees to customer satisfaction."

A senior engineer and founder of IBM's Activity Based Management Competency Center, observed: "TQM or any of the other alphabet soup programs really are not cost-effective until every individual employee can see some benefit to them personally."[6]

Process-focused approaches also tend to ignore the management structures within the enterprise which confer real powerthe ability to influence, direct, hold accountable, act upon, or achieve an objective. These structures (whether they be a company's bylaws, governance and shareholder representation structures, production and distribution methods, compensation systems, or policies and procedures) embody organizational values and habit patterns built up over time. For good or bad, such institutional structures guide and reinforce the actions of human beings within the organization. They are the "system software" that drives the company's ongoing operation.

Process vs. Structure: A False Dichotomy

We should not, however, trivialize the importance of sound process. After all, participation (a key principle of economic justice) is an ongoing process. But without *structure*, you have process which goes nowhere and leaves nothing behind. A company which ignores the impact of the institutional environment on human behavior cannot adequately address such long-term challenges as: (1) how to make participation a permanent part of the company's culture; and (2) how to ensure that participation is not leader-manipulated.

Clearly, a participatory corporate culture also needs to establish new organizational structures, or redesign existing structures, to systematically diffuse power down to every individual. This will best ensure that participation does not become something which can be terminated at the whim of the leader.

In this respect, "structure" refers to a framework of powers, like a constitution, which defines a person's rights, responsibilities and duties. Such structures of a business organization include its written core values and code of ethics, its bylaws, policies, rules and organizational systems. These set the parameters for the processes which emerge. They also govern the power and control relationships between owners, management and employees.

History has shown that participation without the structure for channelling power down to each individual is tenuous and short-lived. On the other hand, structure without human participation is like a house without people living in it A structure becomes human participation is like a house without people living in it. A structure becomes static and obsolete without human interaction and organized process. It soon becomes disconnected from the real-life needs of human beings. It loses its soul.

Thus, good structure (reflecting good values and design principles) cannot be separated from good process, or vice versa.

Ownership: The Missing Keystone

A common objective of every business approach and management theory is to formulate those factors which will actually improve a company's productiveness and profitability. One thing is cleara motivated workforce, all other things being equal, is a more productive workforce than one which is not.

Many experts in personal and organizational development have observed that a basic key to motivation derives from the human need to feel a sense of control and responsibility over one's own life and work. Thus, management jargon of the moment speaks of "empowering" workers," letting them "participate," and making them "feel like owners."

All too often, unfortunately, the rhetoric of *psychological* ownership obscures the fact that *property* ownership is integral to full empowerment. Why is direct ownership, or private property, so critical? The answer is that property confers "inalienable" (or permanent) rights to profits, to information, and to governing power, that cannot be taken away from an owner within a legal system that protects property.

Without full rights of property, "participation" and "involvement" become mere manipulation by those who hold real power over the livelihoods of others.

Because power is inextricably linked to property, the process of participation without the substance of property (where people have something tangible they can lose) eventually becomes meaningless.

While there is a valid distinction in the modern corporation between management and ownership, as pointed out by Berle and Means,[7] the property nexus gives the owner, through his representatives on the corporate board of directors, the ultimate control over the affairs of the corporation. For the efficient operation of the enterprise, professional managers must have effective day-to-day control over corporate decisions. But by law, managers are supposed to be accountable to all the owners, and can be removed by the elected board of directors if they fail to perform effectively for the benefit of the shareholders.

What a voter represents to the machinery of governance in a political republic, a shareholder represents in a corporation's governance: the ultimate holder of power, who can delegate his power to representatives to whom managers must report. The voting power of a single shareholder of a large corporation may seem insignificant. But when combined with the power of other shareholders, his power is the most effective check against non-accountable or corrupt management, and is the key to effective representational democracy in the corporation.

There is another reason why "worker empowerment and participation" without real ownership will not stick. Psychological rewards such as praise and recognition are important to human beings. But a management approach which does not tie economic rewards to improved performance and results will in the long-run generate apathy, if not resentment on the part of workers. They eventually realize that they are working to create profits for someone else.

But does significant ownership participation really help a company compete and

But does significant ownership participation really help a company compete and succeed? Growing evidence indicates that the most healthy, productive and profitable companies are those which share ownership, profits, information, and power with all workers so that each can become more fully involved and actively connected to the organization's performance.[8] Going beyond the rhetoric of empowerment and participation, these organizations consistently and systematically demonstrate respect for the dignity and rights of the individual worker. These rights notably include the right to share as an owner in the increased productiveness and profits of the company.

Jack Stack, President of Springfield Remanufacturing Corporation (SRC) in Springfield, Missouri, explains in his book *The Great Game of Business* how sharing information ("open book management"), ownership and power with all the employees made his company so successful. In 1983, in a management-led buyout of a failing division of International Harvester, 119 SRC employees purchased their company through an employee stock ownership plan (ESOP). Four years later, from a first year's loss of $60,488, pre-tax earnings had risen to $2.7 million. Nine years after the buyout, the SRC workforce had increased from the original 119 employees to 650, and the value of SRC's stock had increased from 10 cents per share to $18.30, an increase of *18,200%*.[9]

As Jack Stack puts it, "You can accumulate more wealth by sharing equity than by keeping it all yourself." Why is this? One reason, Stack observes, is that "a company of owners will outperform a company of employees any day of the week."

Justice-Based Management:
A System for Rebuilding the Corporation

A commitment to fostering true participation and empowerment in the corporation, however, necessitates an ongoing system which purposefully promotes the dignity and development of every person affected. Such a system would provide all workers access to the means and opportunities to maximize the value of their contribution to the organization. It would structure the company as a whole to deliver maximum value to the customer. In return, that system would also reward every worker for the value of his contributions, linking him to the organization's performance in the marketplace.

Such a comprehensive framework is called *Justice-Based Management(SM) or JBM(SM)*.[10] As both a business philosophy and management system, Justice-Based Management is organized in accordance with universal principles of economic and social justice.[11] The objective of JBM is to increase long-term corporate profitability by providing value to the customer. Its ultimate purpose is to economically empower each person as a worker and an owner.

JBM embodies two precepts of *equity*: (1) that people are entitled to a proportionate share of what they helped to produce with both their labor and their productive assets; and (2) that all people are entitled to live in a culture that offers them equal dignity and opportunity.

As an interlocking philosophy and problem-solving framework, JBM recognizes the interdependency between moral values and material value. It holds that maximizing justice and maximizing productiveness and profits within a free market system can and should be mutually reinforcing. What Justice-Based Management uniquely offers is a moral framework for succeeding in the global marketplace.

The central value of Justice-Based Management is the *value of every person*each worker, each customer, each supplier. JBM empowers people and raises their human dignity and quality of life by enabling them to enjoy goods and services of the highest value. Its principal means for achieving this end is expanded capital ownership.

Building a Lasting Ownership Culture

Management science, in its deepest human sense, is a branch of social morality which guides the continual creation and perfecting of those invisible structures called "institutions." Management systems largely determine the degree to which institutions, such as the corporation, can be structured to promote the dignity and empowerment of each person affected by those "going concerns."

In transforming the workplace, Justice-Based Management seeks to provide every worker with the most effective means to become a co-owner of the place where he works. JBM's primary means for turning workers into corporate shareholders is the Employee Stock Ownership Plan (ESOP). This powerful tool was uniquely designed to restructure corporate financewhich historically has been the taproot of ownership concentration. The ESOP provides workers with access to capital credit to pay for their shares out of future corporate profits which they help the company to earn.

A well-designed and empowering ESOP is a flexible legal structure which can also help solve the problem of how to build and sustain a participatory ownership culture beyond the lives of its founders. The ESOP offers a framework for establishing management systems that can survive poor managers or managers unable to accept a corporate philosophy based on the dignity and empowerment of workers.

The ESOP alone, however, is insufficient for building a justice-based corporate culture. The ESOP has in a few cases been used as a tool to exploit workers.[12] Or the ESOP can be designed in such a way as to deprive workers of their full rights as first-class shareholders, thus violating the fundamental principles of private property and economic justice underlying Justice-Based Management.[13]

How a particular ESOP is designed reflects both the company's external (legal) environment as well as its internal culture and values. Within a corporate culture moving toward participatory ownership, ESOP is merely one component, albeit a vital component and powerful tool of the overall system called Justice-Based Management (SM).

The Three Components of a Justice-Based Management System

What does a Justice-Based Management system look like? A birds-eye view of JBM reveals three interconnected components reflecting both ethical and material aspects of "value":

(1) **Justice-Based Operational and Governance Structures**. A social structure, such as a business corporation, should be engineered to achieve a specific function, according to sound principles and *universal moral values* which enable people to interact more effectively together. The sharper its organizational focus and better its structural design, the more likely the company will succeed and prosper.

The overall structure or "invisible environment" of a particular company consists of such institutional elements as: a company's statement of core values, code of ethics, and mission statement; its strategic, operational, financial and marketing plans; its organizational charts, bylaws, etc. These substructures largely affect the quality of the interactions among people, as well as those between people, their physical environment and tools. In JBM terms, these interactions of people with their physical and institutional environments make up the overall "culture" of the company.

(2) **A Justice-Based Focus on the Customer.** JBM's focus on serving the customer

derives from a belief in the value of each customer as a human being, who as such deserves to be treated with dignity and fairness.

JBM also recognizes that it is ultimately the customer who signs the paycheck of everyone in the company. In terms of the main social purpose of a business--- namely, delivering goods and services of the highest *value to the customer* -- Justice-Based Management follows a simple formula:

V = Q/P

where V=Value, Q=Quality, and P=Price

In other words, value will rise as quality of goods or services increases and/or price decreases. The **"V=Q/P"** formula offers a key to long-term success in the competitive marketplace.

(3) **A Justice-Based Pay and Reward System.** Assuming that the company's structure is based on sound ethical principles and its central focus is on delivering maximum value to the customer, then the reward system should also be structured to reflect these principles. Under JBM, every person in the company is compensated for the *value of their contributions or inputs* to the company, both as workers and as owners. This component of JBM (which is measured by a company's quality and cost control systems, and is reflected in the company's "bottom line"), reflects the "private property" principle of distributive justice.[14] It represents pay based on performance and contribution, not charity.

Initiating a JBM System

While Justice-Based Management is based on universal moral principles which relate to human nature and the basic needs of human beings, *how* these principles are implemented will be different in each company. This is because every company, like every person, is unique. Each will be shaped by such factors as size, industry, location,

demographics, marketing strategy and leadership style; each will reflect its own corporate "personality" with its own history, cultural values and traditions.

In structuring a new company or reengineering an existing company to improve its performance, a corporate leader who wants to institute the Justice-Based Management system should start the process by developing a written set of:

> (a) company *core values* (commonly shared ethical principles which define what the company stands for and which guide how the organization operates and grows); and
>
> (b) a *code of ethics* (a set of habits for guiding individual behavior toward strengthening the company's culture and interpersonal harmony).

Ideally these core values and code of ethics are (i) agreed upon by consensus by every person in the company, (ii) reflected in the company's organizational structure and bylaws, and (iii) subject to periodic review and improvement (as with the "renewal process" practiced at Herman Miller, Inc. of Zeeland, Michigan[15]). These principles serve as the "compass" for guiding a company's operations and governance, as well as the daily interactions of its members.[16]

Building upon the foundation of a written set of core values and code of ethics, the organization should then design or reengineer its internal structures in accordance with the three main components of the JBM system. Among the most vital JBM structures and processes are:

- JBM education programs for corporate prime movers and key executives
- The training of an in-house JBM technical team with primary responsibility for introducing, improving and sustaining the JBM process at all levels of the company
- Customer-focused quality improvement systems
- Equity-linked compensation systems, including team and individual cash incentives and entrepreneurial rewards (i.e. dividends) which are regular, frequent and formula-based (linked to unit and company-wide profits)
- Statistical quality control systems tied to participatory problem-solving and cost saving
- Two-way (upward and downward) accountability systems
- Participatory conflict resolution systems
- Corporate ownership and governance systems (legal structures), including:

An "empowerment ESOP" and other ownership-expanding corporate finance strategies, where individual workers share as first-class shareholders in the equity growth, voting power, and profits of their company.

Participatory corporate governance structures with appropriate checks-and-balances, allowing employee-shareholders to select their own representatives.[17]

An ownership-linked model of labor-management relations.

- Technical training linked to customer service and cost savings
- Open book management (financial and shareholder education and information sharing with built-in confidentiality safeguards).[18]

Justice-Based Management recognizes that changing a corporate culture does not happen overnight. The habits of people and institutions were ingrained over time; only through constant reinforcement over time will the new habits of ownership take root.[19]

Leadership in a Justice-Based Management System

High involvement management systems such as Justice-Based Management are leader-guided, but not leader-dependent. They derive their energy and creativity from "below," but their direction and goals from "the top"specifically from the values and vision of the leader, as they are manifested in the workplace. For this reason, Max DePree, Chairman of the Board of Herman Miller notes: "The first responsibility of a leader is to define reality."[20]

Genuine leadership values are universal, absolute values such as Truth, Love and Justice. These values (ideals which are never perfectly comprehended or attained) complement yet transcend purely personal and subjective values. They help to unify people's divergent self-interests toward a common set of objectives. No matter the contextwhether it be business, politics, or sportsthe vital role of the leader is to guide and *empower others* with a shared set of principles, a shared vision and shared goals. A leader must also recognize his or her own human imperfection and accountability under those higher universal values to other people.

JBM defines a genuine leader as the ultimate servant and teacher, one who empowers others to realize their hidden potential, not one who rules by coercion or is accountable only to himself. Leadership within a culture based on universal values is reflected in a commitment to the value *of each person*, and to delivering value *to each person*. Max DePree observes:

> In addition to all of the ratios and goals and parameters and bottom lines, it is fundamental that leaders endorse a concept of persons. This begins with an understanding of the diversity of people's gifts and talents and skills.[21]

True leaders promote working environments that surface, encourage and develop leadership in others.

If the leader is doing his job rightis articulating and teaching universal values, and is inspiring a long-term visionhe will encourage others to buy into those values and that vision. The successful leader knows that once those guiding principles have been internalized by others in the company, he can trust them to make intelligent decisions. This requires, of course, that people be given the necessary education, tools and information for making those decisions.

Institutionalizing leadership values serves the organization and its constituencies in another way: If the wrong person steps into the leadership position, the system will generate its own pressures to remove that person as the leader, because that person's values will clash with the values of the organization.

Once established, a successful justice-based system will not easily disappear just because an authoritarian leader comes into the organization or if a good leader becomes a bad leader. This is because a justice-based system is one where the system itself has built in a safeguard against monopolized or non-accountable power. The structured decentralization of ownership, power and accountability down to every person in the company offers the ultimate in checks-and-balances, and the most practical way to minimize abuses of concentrated power.

Justice-Based Management and the Labor Movement

Justice-Based Management seeks to transform the corporation into a more inclusive and just mechanism for delivering value to the customer and generating broadly owned wealth for workers and shareholders. It is also designed to transform the labor union into a social institution for delivering economic justice through expanded capital ownership.

For the small business owner of a nonunion company, Justice-Based Management's concern with the union's transformation may seem irrelevant. However, in the global picture, particularly with respect to major industrial and service corporations, the labor union is a fact of life.

A developed economy cannot remain strong without a strong industrial base. And the competitiveness of large unionized corporations within the global marketplace will affect growth in the national economy, and thereby affect the growth and profitability of smaller, nonunion companies which serve and supply the major corporations. Thus a new and more collaborative "social contract" between management and labor unions within companies affected by global competition from lower-wage foreign competitors, is in the long-run critical to every company's success.

Why is Justice-Based Management important for the labor unions? The drastic decline in the number of union members in the private sector indicates a major shift in the economic structure of the U.S. It also raises the question of whether the labor movement will continue to be relevant in the productive/private sector This decline of the labor will continue to be relevant in the productive/private sector. This decline of the labor movement in the U.S. industrial sector can be attributed to the shrinking global competitiveness of U.S. corporations, brought on by the failure, on the part of both management and labor, to abandon the antiquated and conflict-ridden wage system.

Unions are considered by most business executives to be the "kiss of death." Small businesses in particular fear unions as an outside force antagonistic to the interests of the company. Given the proclaimed allegiance of union leaders to the "conflict/adversarial labor-management relationship"[22] a blatantly anti-business, anti-profit, and anti-ownership by-product of the zero-sum "wage system"it is not surprising that many business executives (who may themselves reflect the autocratic or paternalistic orientation of the wage system) would rather see unions go down the drain.

However, the union was democratic society's original answer for addressing injustices at the workplace which attended the birth of the Industrial Revolution. In fact, unionism was born to bring social and economic justice for working people, particularly nonmanagement workers. This is still a valid social need. The problem with the labor movement, from the standpoint of Justice-Based Management, is that it became transformed into an instrument for accommodating to the wage system, and thus not for achieving justice. And in some cases, it can be fairly said, unions have empowered their leaders, not their members.

Rather than seeking direct ownership and empowerment for its members (which necessitates a thriving private sector and profitable companies), unions have sought to raise fixed labor wages and benefits. This strategy, in the long-run, will make businesses noncompetitive. And it ultimately defeats the union's social purpose of protecting the rights and long-term welfare of workers.

How Henry Ford Fathered The Modern Wage System

To understand how the labor movement became locked into the wage system, one need only look at the story of Henry Ford, the father of modern wage feudalism. From the vantage point of Justice-Based Management, we can see where Ford went right and where he went wrong.

Following sound JBM principles, Henry Ford launched the modern industrial era in America by reducing in stages the price of the basic automobile from over $900 a car to $330 a car, thus delivering more value to the customer. (The phenomenal growth of the personal computer industry can be attributed to the same formula for success.)

Ford was wrong, however, when he excluded his workers from direct ownership and profit sharing opportunities as a means of supplementing their market wages. He chose instead to raise artificially the purchasing power of his workers by increasing the market wage rate to $5.00 a day from $2.50 a day. Having locked out the workers from the opportunity to share in the gains and capital expansion of the Ford Motor Company, Ford let the genie out of the bottle. He established a precedent and unleashed social and political forces which disconnected wages from productiveness, and inevitably, in the face of rising global competition, propelled American labor costs to over $20 an hour.

It is hardly surprising that in the 1960's lower-wage Japanese auto workers were able to out-compete their American counterparts in terms of price and quality. The unit labor costs of the Japanese wage system were a fraction of those in the U.S. wage system. And what happened to the American worker is now happening to Japanese workers, as manufacturing in Japan shifts to low-wage countries. According to the *Wall Street Journal*, "the average Malaysian worker earns in a month what a Japanese or German worker earns in two days."[23] To understand the strident opposition of American workers to the NAFTA agreement with Mexico, one need only recognize that average manufacturing compensation (wages plus benefits) in Mexico is only 15% of manufacturing compensation (wages plus benefits) in Mexico is only 15% of manufacturing compensation in the U.S.[24]

In hindsight, it is unfortunate for today's high-wage American workers that Ford did not offer his workers an alternative where their gains would be linked directly to productivity and bottom-line profits. For example, in employee ownership companies like Allied Plywood Corporation of Alexandria, Virginia[25] and Lincoln Electric Company of Cleveland, Ohio,[26] workers have received in some years as much as two to three times more from profits than they have from wages. By sharing in monthly cash bonuses, annual bonuses, ESOP shares and dividends, workers at these companies have increased their job security and total cash compensation without increasing fixed labor costs.

Clearly we cannot turn back American wage rates to levels of the early 1900's. But management, workers and unions in Japan, the U.S. and other high wage countries now have the opportunity to rewrite their "social contract" and begin to serve the customer through the V=Q/P formula of Justice-Based Management. So does the rest of the industrializing world which today looks to Japan and the U.S. for answers which can be found only in companies which have adopted the principles of Justice-Based Management.[27]

Operating under wage system patterns, labor unions can only exacerbate the competitive problems of industry. For its own long-term survival and revitalization, as well as the good of society in general, the labor movement needs to reevaluate its attachment to wage system incentives. It needs to become a more positive force for business competitiveness, growth and economic justice through expanded capital ownership.

Under Justice-Based Management, the labor union and other democratic forms of worker associations can play a vital role within the corporation and society, raising the living standards of their members by enabling non-owning workers to share in equity growth and profits.

The Objective: Justice-Based Management

- Leader monopolizes power
- Leader commands through fear
- Ownership and control concentrated
- Paternalism
- Accountability upward only
- Trickle-down incentives
- Rewards disconnected from productivity
- Waste of time, materials, and human potential
- Short-term sense of income security
- Target of political attacks

- Leader serves by teaching and empowering others
- Leader guides through Justice
- Every worker an owner
- Management by shared values and customer satisfaction
- Governance by checks, balances and two-way accountability
- New labor deal: gain sharing, risk sharing, profit sharing
- Efficiency maximized by Justice
- Waste converted into production
- Shared interest in long-term survival
- Broadened political constituency

Redefining the Roles of Management and the Union

Under Justice-Based Management, an essential role of the union (or other democratically elected body representing nonmanagement employees) is to provide an institutional counterbalance to the role of a company's management. While JBM seeks to unite all workers as owners, it is clear that management and nonmanagement workers reflect distinct interests. Furthermore, in well-functioning companies with unions, professional managers and the union have clearly defined roles and functions.

Management, which must have the ultimate responsibility and authority for making daily operational decisions, should be mainly concerned with satisfying customer demand by offering higher quality goods and services at lower prices than its competitors. Management's effectiveness can then be measured by the company's ability to generate profits on invested capital, subject to the normal external constraints of reasonable regulatory, union, and market forces. Management's focus in a participatory ownership company, therefore, must continue to be on efficiency, productivity, and profits. Otherwise, the workers, in their role as owners, will suffer the consequences.[28] Management must also be held accountable for its decisions; when managers do not do their job, they can be replaced.

The role of the union under Justice-Based Management, on the other hand, should be exclusively concerned with issues of economic justice for nonmanagement employees, from individual grievances to bargaining with management over compensation, safety, ownership rights and other issues affecting nonmanagement employees. In sizeable enterprises, the union or similar body should also organize nonworker stockholders for asserting their ownership rights and prerogatives vis-à-vis management and the board of directors.[29]

No matter how benevolent or participatory a company's management, there is always a human tendency at some point to withhold power from others. (This stems from the underlying fear of those who hold power that others may use that power unwisely or against them.) Whether the institution is a worker-shareholders' association formed voluntarily within the company or whether it is a body organized by a union, nonmanagement worker-owners need some form of democratic organization which has the internal solidarity of the workers. This would give workers the status, access to information and power necessary to bargain effectively and settle grievances with management when they arise.

What would be the new role of the labor movement under Justice-Based Management?[30] Simply, unions should become facilitators of Justice-Based Management, collaborating with management on ways to increase productiveness and profitability, helping their members negotiate for larger ownership stakes, profit sharing and full shareholder rights, and for using their considerable political influence for promoting expanded capital ownership opportunities for all citizens. Under Justice-Based Management, unions will recognize that by promoting the long-term good of the corporation, they can bring long-term good for working people.

Conclusion

In the final analysis, Justice-Based Management redefines traditional power relations within the enterprise and other economic institutions. JBM cannot take root where management wants to remain accountable only to itself, or where ownership power is structured to remain concentrated at the top. It also cannot exist where nonmanagement workers (or their representatives) and management cling to the conflict-ridden wage system.

Leadership in a justice-based management company requires a long-range vision, patience, persistence, and the willingness to share power with employees. For many owners, managers and executives, the idea of sharing equity with workers will be impossible to accept. But for those who seek a new management system based on the sharing of equity and power, there will be many rewards. As Jack Stack notes:

> Equity is the basis for all long-term thinking. It is the best reason for staying the course, for sacrificing instant gratification and going after the big payoff down the road. If you have equity and understand it, you know why it's important to build for the future. You can make long-term decisions. You still pay attention to the day-to-day details, but you're doing it for the right reason: because it's the best way to achieve *lasting* success.[31]

Justice-Based Management recognizes that each person's identity and development flows from his or her work, both economic and noneconomic. In this sense, every person is a worker, of one kind or another. Where people work together for serving others in the economic marketplace, Justice-Based Management offers a new moral framework for raising their dignity and quality of life, while building efficiency and justice at the workplace.

Notes:

1 *"Justice-Based Management" and "JBM," are service marks of the Center for Economic and Social Justice (Washington, D.C.), which has granted permission for use in this article.*

The author wishes to acknowledge the important contributions to this article by Stephen F. Hardiman, Norman G. Kurland and Thomas J. Simon. Together with the author, these members of Equity Expansion International's Justice-Based Management project team have been refining JBM's conceptual framework into an applied management technology.

[2] One such organization promoting shareholder rights is United Shareholders of America, 1667 K Street, N.W., Suite 770, Washington, D.C. 20006.

[3] "Unions, After the Fall," *The Washington Times* (May 2, 1993) A14.

4 Barry Bluestone and Irving Bluestone, *Negotiating the Future: A Labor Perspective on American Business* (New York: HarperCollins Publishers, Inc., 1992) xiv.

[5] "Totaled Quality Management," *Washington Post* (June 6, 1993) H1.

[6] Ibid.

[7] Adolph A. Berle, Jr. and Gardiner C. Means, The Modern Corporation and Private Property (New York: Commerce Clearing House, 1932).

[8] See "The Performance Effects of Employee Ownership Plans," a study by Michael A. Conte and Jan Svejnar, which appears in *Paying for Productivity: A Look at the Evidence*, Alan S. Blinder, ed. (Washington, D.C.: The Brookings Institution, 1990).

[9] John P. (Jack) Stack, *The Great Game of Business* (New York: Doubleday, 1992) 3-4.

[10] The original term used to describe this system--"Value-Based Management(SM)" or "VBM(SM)"--was first coined in the late-1980's by lawyer-economist Norman Kurland, an internationally recognized pioneer in Employee Stock Ownership Plans (ESOPs) and expanded capital ownership methodologies. To avoid confusion with a later and different usage of the term "Value-Based Management" by Wall Street firms and various business management schools, Kurland and the Center for Economic and Social Justice decided to change this name to "Justice-Based Management," to reflect the system's underlying principles of economic and social justice. JBM, as formulated by Mr. Kurland and the author, offers a practical application within the workplace of Louis Kelso's binary economic theory and moral principles of participatory ownership.

[11] Justice-Based Management(SM) follows the theory of economic justice first advanced by the ESOP inventor Louis Kelso and the philosopher Mortimer Adler in their book, under the controversial title of *The Capitalist Manifesto* (New York: Random House, 1958; reprinted by Greenwood Press, Westport, Connecticut). The three principles of the Kelso-Adler system were later refined by the Center for Economic and Social Justice. JBM's core philosophy of economic justice is comprised of:

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1) an "input" or *participation* principle of justice (how people in a modern economy can contribute legitimately through their labor *and* capital);

2) an "outtake" or *distribution* principle (how people receive a just return for their labor or capital contributions, with the value of those contributions being determined in the competitive free marketplace; and

3) a "feedback" or *harmony* principle (which monitors whether or not the system is maintaining balance between the participation and distribution principles; Kelso and Adler referred to this as the "anti-monopoly" principle).

For a more in-depth discussion of this theory of economic justice, see "Toward Economic and Social Justice" (Arlington, Virginia: Center for Economic and Social Justice, 1986).

[12] See *Business Week* cover story "ESOPs: Revolution or Ripoff?" (April 15, 1985) 94-108, 174. Another source on ESOP abuses is Joseph R. Blasi's book, *Employee Ownership: Revolution or Ripoff?* (Cambridge, Massachusetts: Ballinger Publishing Company, 1988).

[13] Over the last decade, the blossoming of the shareholders' rights movement and employee share ownership plans in America are among the phenomena representing a growing force to restore property rights and economic justice for corporate shareowners.

It should also be pointed out that for almost two decades, the ESOP community in the U.S. has been split on the issue of voting rights of employee-shareholders with respect to their ESOP-held stock. The ESOP under U.S. law has been criticized by many people around the world for allowing closely held companies with ESOPs to dilute the property rights of employee-shareholders by withholding the right to vote their shares in the manner of an ordinary shareholder (except, as required by U.S. law, on major issues such as a merger or the sale of the company). Thus most ESOP companies in the U.S. do not allow their employee-shareholders to elect a representative to their company's board of directors.

ESOP advocates such as Senator Russell Long have argued (*Business Week*, September 12, 1988, page 6) that making the "voting passthrough" mandatory would halt the adoption of ESOPs, thus sabotaging the long-term goal of broadening the citizen base of corporate share owners. Even supporters of democratic or participatory ESOPs, such as Corey Rosen of the National Center for Employee Ownership (ibid.), have acknowledged that in terms of the measurable impact on employee motivation and productivity, participation at the job level has a much greater effect than giving workers the right to vote their shares.

While both these arguments may be true and pragmatic from the standpoint of encouraging more ESOPs, they ignore the moral issue regarding the property rights of an owner. It can be said quite fairly that most ESOP participants have been relegated to the status of second-class shareholders.

In order to reconcile the pragmatic and moral demands of the "ESOP voting issue," ESOP proponents such as Norman Kurland have suggested that all present ESOP incentives be left untouched, with no legal requirements for voting passthrough. However, Kurland argues, any significant improvements in incentives for ESOPs (e.g., access to low-interest bank loans through the discount window of the Federal Reserve) should be conditioned on full ownership rights for employee-shareholders.

[14] See endnote 11.

[15] Max DePree, *Leadership is an Art*, (East Lansing, Michigan: Michigan State University Press, 1987) 85.

[16] In his best-selling book *The Seven Habits of Highly Effective People* (New York: Simon and Schuster, 1989), Stephen R. Covey mentions the importance of company mission statements and other organizational expressions of core principles. In developing these statements, Covey emphasizes, "Everyone should participate in a meaningful waynot just the top strategy planners. . . . [T]he involvement process is as important as the written product and is the key to its use" (page 139).

[17] The National Labor Relations Board (NLRB) in recent decisions has been critical of worker-management participation groups, TQM and quality circles. A central issue seems to be on how the worker representatives are selected. To the extent that people are selected on a top-down basis to represent the viewpoint of nonmanagement employees, the NLRB has frowned upon this practice. A solution to this problem is to ensure that all, or a significant percentage, of those selected as "representatives of the workers" be selected democratically by the workers themselves in order to ensure that the representative enjoys the confidence and support of workers, and not simply be symbolic leaders. Certainly where a union selects the worker representatives, this question should never arise.

[18] Stack, op. cit., Chapter 5.

[19] In addition to *The Great Game of Business* and *The Seven Habits of Highly Effective People* cited above, there are other good sources providing case studies and practical methodologies for building an effective participatory ownership culture. While some of these sources are not completely consistent with all of the principles of JBM/Kelsonian theory, they contain useful how-to material.

Frank T. Adams and Gary B. Hansen, *Putting Democracy to Work: A Practical Guide for Starting and Managing Worker-Owned Businesses*, (San Francisco: Berrett-Koehler Publishers, 1992).

Robert Levering, Milton Moskowitz, and Michael Katz, *The One Hundred Best Companies to Work for in America,* (New York: Signet, 1985).

Tom Peters and Nancy Austin, *A Passion for Excellence: The Leadership Difference*, (New York: Warner Books, 1985).

John Simmons and William Mares, *Working Together*, (New York: Knopf, 1983).

William F. Whyte and K.K. Whyte, *Making Mondragon: The Growth and Dynamics of the Worker Cooperative Complex*, 2nd edition, (Ithaca: ILR Press, 1991).

Other useful materials can be obtained from:

National Center for Employee Ownership at 2201 Broadway, Suite 807, Oakland, California 94612

Northeast Ohio Employee Ownership Center, Department of Political Science, Kent State University, Kent, Ohio 44242

[20] DePree, op.cit. 11.

[21] DePree, op.cit. 9.

[22] In his presentation at the University of Notre Dame on May 3-4, 1982, Secretary-Treasurer of the AFL-CIO, Thomas R. Donahue stated: "We believe in a conflict theory of collective bargaining as the soundest basis for worker representation, worker participation and worker gains, in the current labor-management climate. . . ." ("A Trade Union Perspective of Laborem Exercens," 14).

[23] Karen Elliott House, "Malaysian Premier Says U.S. Policies Hurt Chance for Global Growth, Stability," *Wall Street Journal* (March 29, 1993) A8.

[24] For the main thrust of the opposition in the U.S. Congress to a free trade agreement with Mexico, see article on the editorial page of the *Washington Post* (September 17, 1993, A21), entitled "NAFTA: Exporting U.S. Jobs," by Representative David E. Bonior, Democratic House Majority Whip.

[25] See article on Allied Plywood Corporation by Tom Peters in Section 4 of *Curing World Poverty: The New Role of Poverty.* Also see article by Norman G. Kurland, "Practical Guidelines for Building Justice at the Workplace," *Every Worker an Owner*, (Arlington, Virginia: Center for Economic and Social Justice, 1987).

[26] Maryann Mrowca, "Ohio Firm Relies on Incentive-Pay System to Motivate Workers and Maintain Profits," *Wall Street Journal* (August 12, 1983) 23.

[27] See articles on Avis Rent-a-Car, Fastener Industries, Allied Plywood, La Perla and Springfield Remanufacturing in Section 4 of *Curing World Poverty*.

[28] Letter of CESJ President Norman G. Kurland to Dr. David Ellerman, Industrial Cooperative Association, September 4, 1980.

[29] Ibid.

[30] For an in-depth discussion of the new role of the union under Justice-Based Management and participatory ownership, as well as a worker ownership-linked "new labor deal" and safeguards to safeguard the specialized institutional roles of management and the union, see Kurland article in endnote 25.

[31] Stack, op.cit., p. 210.

Additional Sources on Justice-Based Management(SM)

For more information on Justice-Based Management(SM) and building an ownership culture, contact Equity Expansion International, Inc. at P.O. Box 40711, Washington, D.C. 20016, (Tel) 703-243-5155, (Fax) 703-243-5935, (Eml) info@eei-consultants.com, (Web) http://www.eei-consultants.com.

Also see:

"Justice-Based Management: A Framework for Equity and Efficiency in the Workplace" [pp. 189-210 in ***Curing World Poverty: The New Role of Property***. [Originally titled, "Justice-Based Management: A Framework for Equity and Efficiency in the Workplace."] Available for $15 plus $3.00 shipping and handling (in U.S.) from the Center for Economic and Social Justice, P.O. Box 40711, Washington, D.C., (Tel) 703-243-5155, (Fax) 703-243-5935, (Eml) thirdway@cesj.org, (Web) http://www.cesj.org.

"Beyond Privatization: An Egyptian Model for Democratizing Capital Credit for Workers" [pp. 247-258 in ***Curing World Poverty: The New Role of Property***] See above.

Journey to an Ownership Culture: Insights from the ESOP Community, ed. Dawn Kurland Brohawn, published by Scarecrow Press and The ESOP Association, 1997. Available from CESJ, $35.00 plus $3.00 shipping and handling (in U.S.).

"Theory O." Available from National Center for Employee Ownership (NCEO), 1201 Martin Luther King Jr. Way, 2nd Fl., Oakland, California 94612-1217, (Tel) 510-272-9461, (Fax) 510-272-9510, (Eml) nceo@nceo.org; (Web) http: //www.nceo.org).

Various publications of the Ohio Employee Ownership Center, Dept. of Political Science, Kent State University, Kent, Ohio 44242, (Tel) 330-672-3028, (Fax) 330-672-4063, (Eml) oeoc@phoenix.kent.edu.

Various publications of the Beyster Institute (formerly the Foundation for Enterprise Development), 2020 K Street, NW, Suite 400, Washington, D.C. 20036, (Tel) 202-530-8920, (Fax) 202-530-5702, (Eml) dbinns@fed.org, (Web) http://www.fed.org.