Re-thinking business structures – how to encourage sustainability through conscious design choices

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Business could be the most powerful force in the world in achieving higher levels of sustainability and resilience. Unfortunately, its potential is blocked by laws and by hierarchical structures that mean that shareholders' interests are put before those of society and the planet. Some firms, however, are adopting new structures that free them to place proper emphasis on social and environmental concerns.

"That government is best which teaches us to govern ourselves"
Johann Wolfgang von Goethe

Our generation faces a massive challenge. We have to steer human society away from its present destructive path and towards a new era of peace, responsibility, social justice and low carbon emissions. If we are to succeed, we need everyone working together; individuals, communities, governments and, perhaps most of all, businesses. Business has become the greatest power on the planet but can we rely on businesses, and the talented people who work for them, to help?

Frankly, the signs are not good. Big businesses seem to have their own drivers, detached from ordinary life. They are focused above all on wealth maximisation. Saving the planet may be important but it cannot get in the way of short-term profit and long-term growth. As the CEO of oil giant Shell, Peter Voser explained recently when asked why Shell was cutting back on its investments in renewable energy: "I have a business to run, and the purpose of a business is to achieve returns, to achieve long-term sustainable growth."[1]

We cannot expect governments to step and in and correct this. Even if we could dream up legislation that would oblige businesses to make environmental considerations their highest priority, it is too much to expect our political system to adopt such a radical measure until there is far greater consensus about the need for urgent action. So what can be done?

The premise of this chapter is that if we organise business differently we will see different behaviour. My contention is that the structure of most businesses, and particularly of large public corporations, holds back the people in them from acting to address climate change and other social and environmental issues. These structures are a hangover from a bygone age of feudalism and slavery; they are ripe for change. They foster unhealthy relationships amongst participants and uphold a belief system that places financial interests above human and ecological needs.

In this chapter I will examine the way in which business structures influence the development of these unhealthy relationships, and look at the root causes. I will also share some examples of businesses that have already adopted alternative structures, pointing the way to a healthy and more sustainable future. In doing so I hope to encourage us all to re-think the purpose of business in society and to support the development of alternative businesses consciously designed to bring out the best in their people and to serve the entire community of life.

About business

"*It is in exchanging the gifts of the earth that you shall find abundance and be satisfied. Yet unless the exchange be in love and kindly justice it will but lead some to greed and others to hunger*". Kahlil Gibran.

Business at its best can be something creative and beautiful - one person or a group of people meeting the needs of other people, for mutual benefit. The hairdresser, the corner shop, the local plumber, all have a significant and meaningful place in the community, as their predecessors have done for hundreds or thousands of years.

What stood out in the 20th century was the emergence and rapid growth of large businesses in the form of corporations, wielding huge power and influence. Such businesses now dominate our airwaves, our high streets, and our supermarket shelves. Through their lobbyists they exert a powerful influence over our public policy.

Their list of achievements is impressive. They have helped shape our modern world, achieving miracles in engineering (cars, aeroplanes, high-rise buildings), medicine (vaccines, low-cost drugs such as aspirin), retailing (low-cost food distribution), communications, computing and world trade.

At the same time there is much that these corporations do which is frivolous and, in the worst cases, positively harmful. They profit from the sale of weapons, drugs, tobacco, alcohol and polluting chemicals. They dig up wildernesses in pursuit of minerals and lobby governments to water down environmentally-friendly regulations. They pay their staff as little as they can get away with while systematically increasing executive remuneration well above the rate of inflation.[2].

They hop from country to country in search of higher subsidies, lower taxes, lower wages, and more relaxed labour and environmental standards.[3] And every now and then they crash spectacularly, leaving society and the planet to pick up the pieces. Think of Enron and WorldCom, Railtrack, the banks recently in Ireland, the US, UK, Switzerland and elsewhere, to name but a few.

To many outsiders, corporations have a disturbing amorality, caring little for what they do so long as it makes money. You might say the corporation is the ultimate cynic – knowing the price of everything and the value of nothing. I have seen all this as an insider. Employed by powerful corporations, I plied my trade as a lawyer for 14 years. I had my generous salary and bonuses, my company car, my business class flights around the world and sojourns in fancy hotels. I enjoyed the lavish Christmas parties, and conferences in sunny places. And, in return, I knuckled down to help these corporations grow and profit.

For a long time I saw nothing wrong with what I was doing. I earned a good living, I liked and admired my colleagues and the work was stimulating and challenging. It didn't occur to me to question the aims or morals of the businesses where I worked. But at a certain point a personal crisis caused me to wake up and start asking questions. What was the purpose of business, I wondered? The answers I received seemed banal. Business is about "making a profit" or "creating wealth", or "delivering long-term sustainable growth". Yet I knew that money can never be an end in itself but merely a means to an end. There had to be something more meaningful.

The only answer that really made sense came from the poet Kahlil Gibran. In *The Prophet* he wrote: "You work that you may keep pace with the earth and the soul of the earth.... When you work you are a flute through whose heart the whispering of the hours turns to music.... Work is love made visible."[4]

Work is love made visible. This spoke to my soul in a way that talk of profit and long-term sustainable growth never could. So what was I to make of my role at the time, which was to lead merger and acquisition projects for a multinational retailer? Did helping this behemoth to grow have any meaning for me? I realised with increasing dismay that it didn't. My work had become fundamentally disconnected from my deepest values. I had to leave.

That was the start of a journey of exploration, as I sought to make sense of my experience. I read widely, spoke to lots of people and took on various roles in charities and social enterprises. Slowly a pattern began to emerge from the fog in my head.

We are not free

"*Aboriginal man always been free… just Aboriginal. But white man… he was slave one time… maybe he slave himself.*" Bill Neidjie

"*Non voglio piu servir*" ("I no longer want to serve") Da Ponte[5]

It all starts with individual human beings. Every single action or omission by an organisation ultimately translates into a decision by an individual or group of individuals at some level in that organisation. In order to understand an organisation we need to understand humans.

Our starting point is to understand that we are not free. We feel that we are our own person, free to make our own decisions. Yet we are unconsciously influenced in all sorts of ways from many directions. Our upbringing, our life experiences, what our peers, our family, our parents think or expect, societal norms of behaviour, the physical environment [6], the weather, our physical and mental health, all affect our decisions in subtle ways and to varying degrees.

In organisations we are influenced by the rules, the practices and the culture of the group we belong to, particularly in large organisations or those with a long history. The influence of this institutional framework can be so powerful that the people can change with no effect on the institutional behaviour. This can be seen in the grand old institution of Britain's parliamentary democracy, where it gets harder and harder to distinguish between one party in power and the next.

Over time, in response to these influences, we adopt habitual patterns of thinking and behaviour, which become part of us, in the way a tall man who continually stoops ends up with a permanent hunch, unless he exercises to correct it. This is what Buddhists refer to as a samskara: a habit of thinking which locks us into patterns of behaviour over which we have less and less control with every succeeding repetition. We don't react appropriately to a new situation, we react out of habit.

Sometimes these patterns of behaviour are passed down from generation to generation. As Karl Marx put it: "Men make their own history but they do not make it just as they please; they do not make it under circumstances chosen by themselves, but under circumstances directly encountered, given and transmitted from the past."[7]

One of the common patterns we have inherited is the habit of obedience to authority. Historian Theodor Zeldin observed that we are all descended from slaves [8] and the history of work is rooted in feudalism and slavery. You can see this in language; for example the Russian word for “work” is derived from the word “slave” [9].

The institutional structure of the corporation exploits this tendency. This is not surprising since the structure has been passed down for centuries, as Canadian law professor Joel Bakan points out in his book *The Corporation*. This structure has been designed to allow capital (the shareholders) to control labour (the managers and staff). And it works. Each day across the planet millions of people come together to offer obeisance at the altar of “shareholder value”.

In a corporation, so-called “shareholder value” is the highest value – higher than basic human values such as honesty, respect, compassion or responsibility. It is the bottom line, the alpha and omega. As Bakan puts it “in all corporate decision-making, life’s intangible richness and fragility are made invisible by the abstract calculations of cost-benefit analyses.”[10] Did BP really give proper weight to environmental considerations when designing their deep-drilling rig in the Gulf of Mexico, the one that failed so dramatically? It seems likely that cost savings had too high a priority.

Prioritising the interests of capital is so embedded in the corporate culture that it is rarely, if ever, questioned by those involved. I never heard a fellow employee challenge those two great pillars of shareholder value, the pursuit of growth and the primacy of profit. But don’t take my word for it. Listen to the words of Roger Carr, Chair of the Board of iconic British chocolate maker Cadbury, which was taken over in early 2010 by the American corporation Kraft after a long, proud history of independence. You might think the board decision to agree to the takeover would be a complex matter, involving consideration of issues such as the effect on staff and the local community. Yet Roger Carr didn't worry himself with such matters. “I am paid to do a job and that job is to deliver the best value for shareholders”, he told the London *Evening Standard* [11].

The power that shareholders wield is somewhat mysterious. Why do people serve shareholders at all? After all, it seems quite unnatural for human beings to willingly serve a group of people they have never met, have no connection with and no ability to influence.

Of course shareholders do provide the money, and money has long been associated with power in our society. Those who pay our wages expect to be able to control us. There is also the law. For example, in Britain, section 172 of The Companies Act 2006 requires directors to consider first the interests of shareholders and then of other participants such as staff when making decisions. This was intended to oblige directors to take their responsibilities to stakeholders more seriously. However the way the law is drafted, shareholders’ interests still prevail, as law professor Andrew Keay has pointed out [12].

There is another factor, operating on a more subtle level, which is the power of capital at the top of the hierarchical order. Shareholders are too remote to interfere with the day-to-day business but they hold a very powerful weapon, the ability to sack the executive, and they don’t have to use this weapon very often to ensure they get what they want. All they need is for executives and employees to be aware that the weapon is there and may be used at some point.

Professor Stephen Lukes of New York University [13] points out that there are different ways in which power is manifested. At the most obvious level there is coercion – using force or threat of force to get what you want. At the opposite end of the spectrum is latent power, power so subtle that people don't know it is being exercised. As he puts it, "…is it not the supreme exercise of power to get another or others to have the desires you want them to have?" This is the nature of shareholder ownership. Like Big Brother in George Orwell's book *1984*, shareholders do not show themselves in public yet their influence is felt everywhere.

Critics see corporations madly pursuing growth and blame the executives. Yet it is the subtle influence of capital, in the shape of the shareholders, which encourages such a strategy. In this sense, shareholders as a group are just as much responsible for the near-collapse of the Royal Bank of Scotland as the CEO, Sir Fred Goodwin.

In effect we have a "tragedy of the commons" situation [14]. Everyone in the system is behaving rationally in their own self-interest, but the system as a whole is not serving anyone. In this situation it is largely unproductive (although satisfying!) to blame individuals. It is far more useful first to look at how the system affects each individual and then look to change the system.

How the corporate structure affects individuals

1. The shareholders

"*Men should not be ruled by an authority they cannot control.*" R.H. Tawney

Shareholders are the owners of the corporation but it is a strange sort of ownership; they have no involvement in or legal responsibility for the actions of the business. Like absentee landlords, they only need to turn up and collect their rent. They are not expected to care about anything other than returns.

You might think that the shareholders, as human beings, would care about the behaviour of the corporation they own, and its social and environmental impact, but they are too distant from the business to know or care.

As humans we care for things we feel a connection to. Something close to us matters more than something far away. We are interested in a flooding 15 miles from our home, not so much in a flood that happens 2,000 miles away.

Small shareholders feel distant from the business and very insignificant in the scheme of a large corporation. Their holding is a tiny fraction of the whole, they are one among tens of thousands, and lack the detailed information to question effectively the full-time executives who run the business. How could they hold these people to account? The only formal chance to express their views is the annual general meeting, which is controlled very tightly by the board.

As for the large institutional investors, they are run by professional fund managers who are very focused on the financial bottom line (they have to be, since their remuneration depends on it). They have no incentive to take a long-term perspective - many of them "churn" their shares regularly, buying and selling in rapid succession to take advantage of temporary rises or falls in prices. Why should they care about the long-term social or environmental record of individual corporations?

Thus investors are discouraged by the system from taking an interest in anything other than returns. A German investor in a British utility provider has no incentive to care how much the company charges or overcharges its customers, so long as he gets dividends and capital growth. It is a question of distance. By contrast, distance does not stop investors caring about money. £1 is the same whichever bank account it is in.

In summary, the role of the shareholder is a remote one, marked by lack of emotional involvement and undue attention on financial returns.

2. The executives

"*I was having a drink with the CEO of one of the largest oil companies in the world and he admitted, "Yes I'm concerned. You are absolutely right. This world is going to pieces." And then he said, "But, hey, what can I do*?" ' Ichak Adizes [15]

The senior executives sit at the heart of the corporation. Wielding huge power and carrying huge responsibility, these are our modern day generals, leading armies of foot soldiers in the brave fight for greater efficiency, lower prices and wealth creation.

Heroes or villains, it is hard to say. In many people's eyes the executives are the real cause of corporate wrong doing. Yet before we blame them we need to understand the pressures they are under. For they, too, are not free.

When a CEO sits down to write his list of things to do for the day, it is a long one. Every day he (or she) has to consider the needs and expectations of many people including staff, customers, suppliers and shareholders. At the same time he has to keep an eye out for what the competition are doing whilst ensuring the business complies with the law. He also has his own personal needs and dreams to consider.

At the bottom of his list are some nice-to-haves. These are things which he hopes to get around to but will never be fired for failing to achieve. These include social and environmental matters.

Not surprisingly, few CEOs reach the end of their daily list. They simply don't have the time or the energy or the thinking space to deal with all these often-conflicting matters. Fortunately for them, they usually don't have to. Provided they keep shareholders happy, and don't break the law, they will keep their jobs. No one can hold them to account for failing to serve social or environmental needs, provided they hit their financial targets.

In fact, CEOs have considerable autonomy. Uniquely in the corporate structure, they have no direct supervisor. What's more, they amass great power through the hierarchy, which concentrates power just as a magnifying glass concentrates light. This is what concerns many people, because the combination of autonomy with power can lead to moral corruption and excess.

Power is intoxicating - it goes to people's heads. Not to everybody's, perhaps, but to most ordinary mortals. They begin to believe that they are wiser, more charismatic and more beautiful than ordinary men or women. They start to listen less and become detached from reality. They surround themselves with people who tell them what they want to hear.

They also, given half a chance, pay themselves and their close colleagues extremely generously. Executives as a group have proved adept over the years at systematically increasing their salaries, bonuses and share options, irrespective of the company's performance [16].

Looked at from a human perspective, these patterns of behaviour are understandable. As we have seen, the executives are obliged by law and by the corporate structure to put money for shareholders first. Yet the pursuit of money on its own is meaningless; it can never satisfy our highest yearnings as human beings. The need for meaning in our lives is hardwired into our system, as the social observer Dana Zohar has commented [17]. Without meaning or purpose, we lose our bearings and sink to a frivolous pursuit of wealth, power or other distractions.

3. The staff

"*Organisations of all kinds are cluttered with control mechanisms that paralyze employees and leaders alike… We never effectively control people with these systems, but we certainly stop a lot of good work from getting done.*"[18] Margaret Wheatley

Below the senior executives are layers and layers of managers, supervisors and low-level staff, arranged in a rigid hierarchy. A hierarchy is a power structure that lowers some and elevates others in an often arbitrary manner, with the aim of achieving control from above. It is inefficient at distributing information and, as we have seen, leads to excessive power at the top, but the main trouble with hierarchy is its effect on the human spirit.

A hierarchy does not teach employees to accept responsibility for their actions – it encourages them to hand over responsibility to their "superiors". There is little need to think for themselves; they can simply follow orders and blame the manager when things go wrong. Equally, it can be demoralising for managers since they have the unrewarding task of motivating staff whilst trying to keep their own bosses happy.

Hierarchy could theoretically work well in an ideal world where all the managers were talented leaders with no ego, who lead by example and inspire their staff to give their best, while the staff were self-motivating, enthusiastic and humble. In the real world, however, this is rarely the case. Managers and staff are humans, with human failings, and a hierarchy doesn't bring the best out of them.

We all like to feel in control of our work – in fact psychologists point out that this is a vital ingredient in mental and emotional health. [19] Being given orders can undermine our self-respect. The result is that in these institutions, staff seek survival routes. Some rebel and eventually leave. Some choose blind conformance, relinquishing responsibility in return for a steady income and a quiet life. Others become cynical, pretending to work while quietly doing as little as possible and passing the hours until it is time to go home. [20]

The net result

If we understand each individual's position, we can start to explain why corporations systematically subordinate social and environmental interests. It is a natural tendency in humans to care for others and for the environment but these instincts are suppressed by the corporate structure.

Many, including Joel Bakan, think that if we want to improve standards of corporate behaviour, we should increase regulation [21] but regulation is rarely the best long-term solution. Regulators are always playing catch-up since they lack the detailed knowledge of what is really going on.

Far better, to my mind, would be to change the institutional framework to encourage the sort of behaviour we want to see. If organisation is the “mobilisation of bias”, as one social observer suggested [22], let’s change the bias of the corporation. RH Tawney put it best 90 years ago:

> It is obvious indeed that no change of system or machinery can avert those causes of social malaise which consist in the egotism, greed or quarrelsomeness of human nature. What it can do is create an environment in which those are not the qualities which are encouraged. It cannot secure that men live up to their principles. What it can do is establish their social order upon principles to which, if they please, they can live up and not down. It cannot control their actions. It can offer them an end on which to fix their minds. And as their minds are so, in the long run and with exceptions, their practical activity will be. [23]

There are two things we need to change. We must make the ownership of corporations more democratic and their governance systems more open and less hierarchical. The good news is there are existing models we can learn from, as I discovered once I left the corporate world.

Alternative approaches

“*If you want to build a ship, don't herd people together to collect wood and don't assign them tasks and work, but rather teach them to long for the endless immensity of the sea.*” Antoine de St Exupery

In the last 15 years or so we have seen the emergence of a new term – the social enterprise, which I think of as “business with a purpose”. Social entrepreneurs tend to have a sense of mission – they are not simply trying to make money, but using business as a way to achieve something meaningful.

A leading example of a social entrepreneur is the Nobel Prize winner from Bangladesh, Professor Muhammed Yunus. He founded the Grameen Bank, a microcredit provider owned by its customers, and subsequently set up 31 other social enterprises, including a phone company which is now the largest company in Bangladesh.

There is no single legal structure associated with a social enterprise, but very few are owned by external shareholders. Mainly they are owned by “stakeholders”, those directly involved in the business. Many are customer-owned businesses, such as building societies, consumer cooperatives and mutual insurance businesses and some are employee-owned, such as workers’ cooperatives.

One notable group of social enterprises are fair trade businesses. The whole fair trade movement can be seen as a reaction to the inherent unfairness of the shareholder-ownership model. Not all fair trade businesses have adopted a stakeholder-ownership structure [24] but they all share a commitment to serving the interests of their supplier producers and placing them above or at least equal to the interests of investors.

The beauty of stakeholder ownership is that it aligns the interests of the participants, thus encouraging the formation of a genuine community of interest, with a high level of trust and cooperation, an invaluable asset to any business. It also reduces, but does not solve, the governance issues of excessive executive power and staff alienation. We have to look elsewhere for solutions to these issues.

The most compelling solution to excessive executive power is what Australian academic Shann Turnbull describes as a “compound board”. [25] This is where the traditional responsibilities of the board are divided up between several bodies, rather than being concentrated in one. Well-known examples of compound boards can be found in Mondragon, the highly successful Spanish federation of workers cooperatives, and in the John Lewis Partnership (see below).

And what can you do about motivating staff and bringing the best out of them? Perhaps the answer can be found in the quote above from St Exupery. You have to inspire people and unite them around a common goal. The most passionate and articulate advocate of this way of organising is Dee Hock, the first CEO of VISA International and the driving force behind its creation. He emphasises clarity of shared purpose as a key organising principle, uniting people in pursuit of something meaningful [26].

Another source of inspiration for me has been the work of Elinor Ostrom. The first woman to win the Nobel Prize for Economics, this US professor studied communities that have successfully managed and maintained common resources, many of them for hundreds of years. These communities serve as a reminder that people are more than capable of sharing fairly the planet's natural wealth, if we can just organise ourselves properly. [27]

We can then remove the control systems and scrap the hierarchy. This is not unheard of in creative, people-based businesses but it can also work in more traditional manufacturing industries. W. L. Gore, manufacturers of Goretex and other hi-tech products, has been in business since 1958 and has 9,000 staff. It has what it describes as a “team-based, flat lattice organisation that fosters personal initiative. There are no traditional organisational charts, no chains of command, nor predetermined channels of communication.” [28]

Finally I need to mention one of the most radical and exciting organisational developments of the last 20 years, which is the emergence of on-line communities collaborating to produce free software (Linux and Mozilla), free encyclopaedias (Wikipedia) and even a map of the human genome. These adaptable, anti-hierarchical structures hint at the radical possibilities opened up by new communication technology and particularly the internet. [29]

There is a question in my mind. Given that there are options available, and they appear to be successful, why have they not been more widely adopted? Why do people cling to the established corporate model? The answer I believe is in the mindset.

The mindset

The mindset is the fundamental beliefs that lay behind a system. If you want to cause a significant change in a system, according to systems theorist Donella Meadows, the mindset is the highest place you can intervene [30]. We seem to be stuck with an out-of-date mindset. I have identified four key beliefs that lie behind the corporate structure:

1. An acceptance of domination and subservience.

Our society views it as normal that the powerful dominate the weak. This manifests itself in many ways, in particular through male dominating female, humans exploiting the non-human world, and shareholders ruling over staff and the board.

Some would say the root of this is in the book of Genesis: “And God said, Let us make man in our image, after our likeness: and let them have dominion over the fish of the sea, and over the fowl of the air, and over the cattle, and over all the earth, and over every creeping thing that creepeth upon the Earth.” [31]

2. Property rights as a superior form of right.

Property rights are treated as superior even to human rights. If you are starving and take an apple from a tree on someone else's land, you can go to jail (in Saudi Arabia, you might even lose your hand!).

Shares are a form of property, and the ownership rights that come with shares are not counterbalanced by matching responsibilities. Power without responsibility breeds immorality.

3. Growth is the best measure of success.

In businesses, as in most of our society, there is the unchallenged assumption that growth is the best, indeed the only valid, measure of success. We are obsessed by it and recognise no limits to it. By contrast, once a natural organism attains maturity it stops growing and develops in other ways.

If we are willing to go deeper and look at root causes, we might consider this fixation on growth is rooted in fear of death. By making believe that we can grow forever, we temporarily forget our mortality.

4. Profit is pursued above all other values.

We have become a society of Shylocks, Scrooges and Harpagons. As EF Schumacher put it "Economically, our wrong living consists primarily in systematically cultivating greed and envy and thus building up a vast array of totally unwarrantable wants." [32]

Michel Aumont playing Harpagon, the rich-money-lender in Moleire's play the Miser in a scene from a 1969 production

Choosing an alternative mindset

An alternative mindset, one that serves us better, might look something like this:

Old mindset	New mindset
An acceptance of domination and subservience.	Equality (but not sameness), balance, dialogue, no one in control. Giving back to Mother Earth more than we take.
Property rights as a higher form of right.	Human and ecological rights as more important than property rights. Ownership rights balanced with responsibilities.
Growth as the best measure of success.	Growth as one of many measures, and not the most important one.
Profit is pursued above all other values	Profit and wealth as a means to an end, not as ends in themselves.

It may seem too much to hope that a new mindset will emerge in the near future. Yet I see signs that change is coming. For example, there are signs of recognition of ecological rights at the international level. [33] The power structures we have lived with for so long are being shaken. The rich Western countries are saddled with debt, while new powers such as Brazil, China and India are growing in strength and confidence. Many corporate giants of the past are collapsing (investment banks, the American auto majors) and more will follow.

We are near the end of the industrial age and moving into the information age. Information in the form of words or data is being shared at the speed of light and this is having a profoundly disruptive impact on business and society.

The country of Bhutan has shaken off the constraints of GNP and officially adopted the measure of Gross National Happiness (GNH). Even President Sarkozy of France recently suggested that happiness and well-being should be part of a country's gross national product. [34] Most significantly I feel, change is coming because we are approaching a major global crisis, a combination of the ecological, economic, social and energy crises, and this will precipitate the adoption of new thinking and new approaches. From this new mindset, new structures will emerge.

The way forward

"*You never change things by fighting the existing reality. To change something, build a new model that makes the existing model obsolete.*" Buckminster Fuller

What might these new structures look like? I cannot give you one set recipe; each organisation will need to work out how to make these approaches work in their own particular circumstances. But I can give you four essential ingredients:

1. The business is owned by those who are involved with or affected by its activities, and the executives are obliged to balance the interests of all involved.

2. The business has a meaningful purpose, one that inspires and unites all participants.

3. The business adopts governance systems that strive for balance between two apparent opposites, freedom and accountability.

4. The participants are prepared to accept the responsibility that freedom brings!

Some inspiring examples

John Lewis Partnership – large scale employee ownership

The John Lewis Partnership, including the John Lewis department stores and the Waitrose supermarket chain, is very familiar in the UK. In 2009 it was voted by readers of the Consumer Association *Which* magazine as the best UK retailer.

The purpose of the partnership is the happiness of the staff. The business is structured accordingly; it is owned by a trust on behalf of the staff. The original owner, John Spedan Lewis, started sharing profits with staff in the 1920s and transferred ownership of the business in 1950. Since that time it has thrived and now boasts nearly 70,000 employees in 29 department stores and over 200 food supermarkets.

John Lewis is owned on behalf of, but not controlled by, the employees. In fact, no one is really in control; control is shared amongst employees and management. Half the board are appointed by the Partners' Council, a representative body elected by staff. The other half are appointed by the Chair, who presides over the meeting. The Chair is powerful, but ultimately he can be dismissed by the Partners' Council.

Two more key elements to the governance structure are the registrars, a type of ombudsman, responsible for ensuring that the partnership remains true to its principles, and the in-house newsletter, produced by staff for staff to allow free flow of information within the organisation. Thus, as Australian academic Shann Turnbull has pointed out [35], the John Lewis structure has the four elements of a democracy: executive, legislature, judiciary and free press.

John Lewis is intriguing because it is a rare example of a large scale employee-owned business. Employee ownership is not uncommon at a small scale (up to around 50 staff), but when such businesses try to grow beyond that size, the complexity increases significantly. With so so many owners, the management can get tied down in too much explaining or politicking. Just imagine a democracy where every decision is made by referendum! It appears that John Lewis, by adopting a relatively sophisticated structure that balances control amongst the board and the staff, has found a way to avoid the problems of simple democracy where one person equals one vote. As a consequence the business has grown and prospered.

OBI and Media Markt – local autonomy

OBI and Media Markt are two German retailers, leaders in their fields (respectively home improvement and electrical goods). Both have thrived in what is reckoned by many to be the toughest, most competitive retail market in Europe. They are each very different but they share a belief in the power of local autonomy. Most large retailers retain tight, centralised control of how their stores are run. They have a powerful head office which decides strategy, locates new stores, determines store layout and negotiates with suppliers.

OBI and Media Markt, by contrast, entrust the stores and their local mangers with considerable responsibility. At OBI, for example, it is the store manager who decides the range of goods the stores will sell. Rather than a “head office”, OBI has a central service centre which supports the stores by delivering a range of services on request.

The principle of local autonomy extends to store ownership. OBI has a mixed franchise model – some stores are owned 100% by OBI, some by local franchisees and others are joint ventures, part owned by OBI and partly by locals. Media Markt gives each store manager a 10% ownership stake in his or her store.

These two retailers represent another example of a healthy balance of power, in this case between the centre and the stores. The centre has the high level strategic view, gathering information from across the network of stores, sharing best practice and helping to coordinate activity. The stores have sufficient freedom to ensure that they respond to the particular needs of their customers, and they hold the centre to account whenever it fails to deliver a good quality service.

The Forest Stewardship Council – stakeholder ownership in a not-for-profit

The FSC is the world’s leading timber certification body. It is a not-for-profit business, reinvesting its profits rather than distributing them. The FSC ownership concept is based on the triple bottom line of economic, social and environmental. Its members are divided into three “chambers”; in the economic chamber there are retailers, wholesalers and plantation owners; in the social chamber there are trade unions and indigenous peoples groups; and in the environmental chamber there are NGOs like WWF and Friends of the Earth.

There is a similar structure at board level. The board has nine members, three appointed from each chamber, and no decision can be passed at the board unless a majority of each chamber approves it (this ensures consensus but prevents any one person blocking a decision).

The FSC has been very successful – it now certifies more than 13% of the world’s managed timber, and has seen off a number of commercial competitors. The former CEO of the FSC, Heiko Liedeker, accredits this success in large part to the ownership structure. As he points out, the FSC is the only timber certification body endorsed by Greenpeace and other NGOs – thus it has legitimacy, a priceless marketing asset that commercial certification bodies can’t compete with. As Liedeker commented to me once “If a commercial organisation were structured this way, it would be unbeatable”.

There are certainly challenges with this structure. In particular the board, who lead the business, is composed mainly of amateurs rather than professional business people. According to Liedeker, this means they don’t always appreciate the commercial necessities of running a business and need to learn a lot before they can usefully contribute. Board meetings last three days and need a lot of facilitation.

Its main strength is that by embedding the triple bottom line into the structure, it forces those who usually oppose each other, such as retailers and NGOs, to sit around a table and thrash things out. As with the other companies described here, there is a healthy balance of power, from which well thought out decisions emerge.

Riversimple – a shared ownership model

The last business I want to describe is still at an early stage in its development, and its structure is relatively untested. However there are reasons to believe it represents a new paradigm, where stakeholder ownership is truly embedded in the business. Riversimple is a revolutionary transport business, which is developing a highly efficient hydrogen-fuel-cell-powered electric vehicle. Its purpose is to build and operate cars for independent use whilst systematically pursuing elimination of the environmental damage caused by personal transport.

Riversimple's technology demonstrator June 2009

Riversimple began life in 1999 as a gleam in the eye of Hugo Spowers, an Oxford-trained engineer and former racing driver. A committed environmentalist, he quit the motorsport world in 1997 when he became convinced that the internal combustion engine would have to be replaced with something more benign. He decided he would have nothing more to do with cars! However he was introduced to the work of US physicist Amory Lovins, who had conceived of a lightweight electric vehicle powered by a hydrogen fuel cell. Spowers decided to take on the challenge of developing this concept, pursuing his vision of truly sustainable transport.

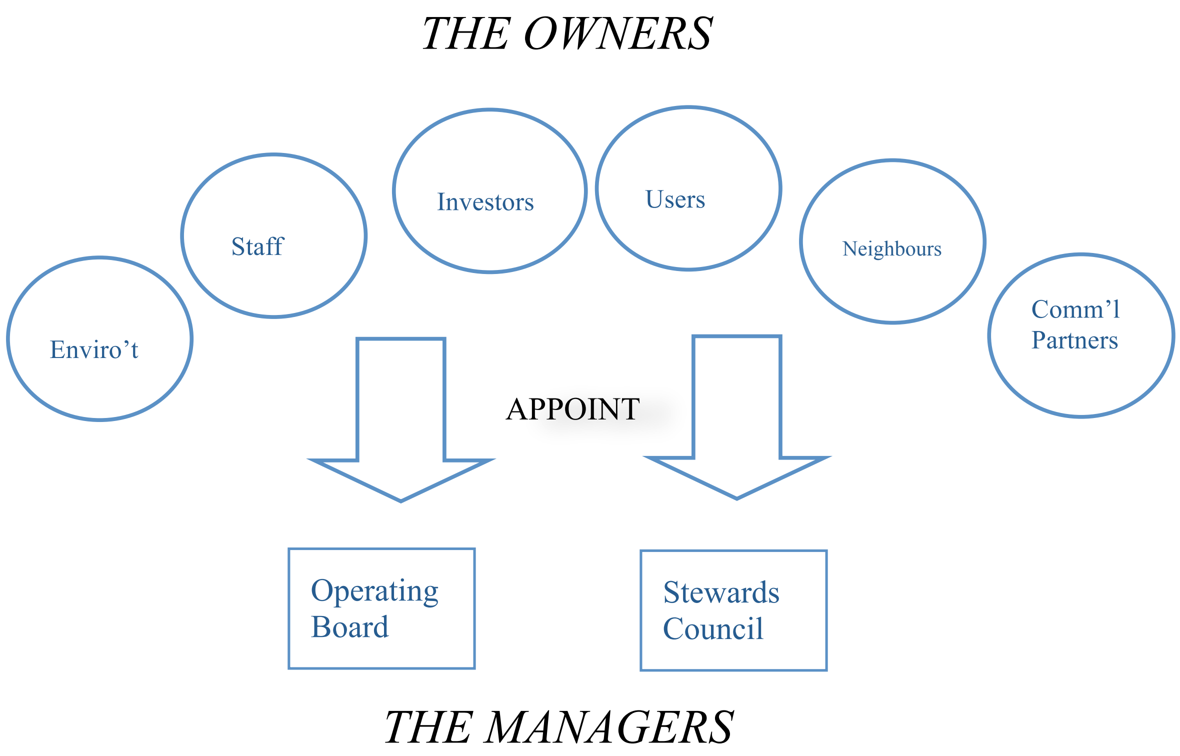
The first milestone came when he successfully lead a research project, in collaboration with Morgan Cars, Oxford University, Cranfield University, BOC and others, and part funded by the UK Department of Trade and Industry, to create an energy efficient sports car. Known as the LIFECar, the vehicle drew much attention when shown at the Geneva Motor show in 2008.

In 2007, Hugo and a team of collaborators formed Riversimple LLP, with funding from the family of Ernst Piech, part of the Porsche dynasty, who have committed nearly £2m to the project to date. The funding was used to develop the strategy and build a demonstrator vehicle which was unveiled to the public at London's Somerset House in 2009. The vehicle is a two-seat local car powered by hydrogen, with the following characteristics:

- range on 1 kg tank of hydrogen:	240 miles
- top speed	50 mph
- fuel consumption	300 mpg (energy equivalent)
- carbon emissions	31 g CO_2/km

As this book goes to press, Riversimple is in the middle of a round of capital raising, aiming to raise £25m to go to the next stage, which is further development of the vehicle, and pilot projects in the UK cities in 2012, leading to vehicle production in 2013.

When looking at the corporate structure, Spowers took the same approach as he did to the car design, starting with a blank piece of paper. The aim was to harness the goodwill and support of the various stakeholders in the business. The challenge was how to do this while attracting and retain capital. The structure that Riversimple devised looks like this:



There are three particular features I want to point out. Firstly, the business is owned by six "custodians", who serve and protect the various benefit streams that the business is aiming to deliver to the environment, investors, staff, users/customers, commercial partners (e.g. suppliers) and neighbours (e.g. local government). The board is instructed to strive to deliver multiple benefits, serving the community as a whole not any one group.

Secondly, the intention is that profits will be distributed amongst all stakeholders. Of course investors will receive the lion's share, since this is their primary interest in the business. But since the business is a creation of all stakeholders, it is right that all should share in the financial rewards.

The other notable feature is the stewards' council, which has a function rather like the Registrar in John Lewis partnership. This function is really important for holding the board to account and encouraging high standards of decision-making. The theoretical justification for the stewards' role can be found in the famous experiments by Stanley Milgram at Yale University in the 1960s [36]. Milgram conducted tests on students and members of the public, asking them to give electric shocks to a volunteer (in fact it was an actor, and no shocks were actually given). The results showed that the average person, when ordered to by an authority figure, would inflict a surprising amount of pain on another. Milgram found that people were far less likely to obey orders automatically if there was someone else present in the room putting the case against, a rival authority figure. In Riversimple's structure, this is the role played by the stewards.

This structure is very new so there is not much else to say, except that those involved in devising it are convinced that it matches the purpose of the business and provides a solid basis for future success.

But are they more sustainable?

Are these businesses more ethical, more caring, more kind to the planet than their shareholder-owned competitors? I can't pretend to have done any rigorous analysis. To my eyes, compared to their peers, the John Lewis partnership food stores put more focus on quality and customer service and less focus on pushing cheap food to cash-strapped consumers at any price. They play less with prices and use less gimmicks. Rightly or wrongly, I trust them more.

I am not a regular customer of OBI or Media Markt. What can be said is that these businesses have proved successful over the long-term and long-term success is a fairly reliable indicator of a business that finds a balance between its various stakeholders. As for the Forest Stewardship Council, it is the only timber certification body supported by WWF and Greenpeace, which speaks for itself.

These businesses succeed because, fundamentally, they acknowledge that to thrive they need to get the best from the people involved. They empower their staff, and they stretch their organisational boundaries to encompass those who are normally considered to be outside, such as customers and suppliers. They make them all feel like owners, whatever level they work at. The result is that the people show a greater sense of commitment, stewardship, compassion and joy in their work, and the business thrives as a consequence, as does the community as a whole.

Treat your customers like friends and they will return and recommend you. Treat your suppliers like partners and they will work harder to deliver a better service. Treat your staff like collaborators, rather than "human resources", and you'll see the difference. Brad Bird, director of the blockbuster cartoon films "The Incredibles" and "Ratatouille" for Pixar, explained it this way, "In my experience, the thing that has the most significant impact on a movie's budget...is morale. If you have low morale, for every $1 you spend you get about 25 cents of value. If you have high morale, for every $1 you spend you get about $3 of value." [37]

Conclusion

"*We are the ones we have been waiting for*." Thomas Banyacya Sr, Elder of the Hopi Nation

Ultimately it is up to each of us. We can choose to see ourselves in our daily lives as powerless, subject to the whims of politicians and corporate leaders and awaiting our fate with trepidation. Alternatively, we can choose to see ourselves as free, powerful, self-regulating, autonomous and creative individuals with a role to play in the birth of a new age of responsible business. Individuals who "*resist more, and obey less*." [38] as Walt Whitman urged. If we do this, we free ourselves to make better, more conscious choices about the type of organisations we buy from, work with, participate in, create and own. The result will be businesses that demonstrate the best that humans are capable of. I can't wait.

ENDNOTES

1. See www.shell.com/home/content/aboutshell/swol/2010/pv_jan_2010/
2. Thomas Clarke, in his recent paper *A Critique of the Anglo American model of Corporate Governance* (2009), pointed out that in the 1980s the average CEO in a publicly-traded company in the US earned 42 times what the average worker earned. In 2002 this had risen to 400 times. As William McDonough, President of the New York Federal Reserve Board, said in 2002, "I can assure you that we CEOs of today are not 10 times better than those of 20 years ago."
3. For examples of this behaviour pattern, see *No Logo* by Naomi Klein (2000). Published by Flamingo.
4. Kahlil Gibran (1926) *The Prophet*.
5. Words sung by Leporello, the servant to Don Giovanni, at the beginning of Mozart's "Don Giovanni" opera. First perfomed 1787.
6. Architect Christopher Alexander wrote a trilogy of illuminating books discussing the influence of physical space on human activity. These are *The Timeless Way of Building* (1980), *A Pattern Language* (1978) and *The Oregon Experiment* (1978). Published by Oxford University Press.
7. Karl Marx and Freidrich Engels "The Eighteenth Brumaire of Louis Bonaparte," in Marx and Engels *Selected Works* 1962, vol 1:247.
8. Theodor Zeldin (1994) *An Intimate History of Humanity*. Sinclair-Stevenson.
9. The Russian word for work is "rabota" and the word for slave "rab".
10. Joel Bakan (2004) *The Corporation*, Constable and Robinson. p65.
11. Quote from London *Evening Standard*, 25th November 2009.
12. "Moving towards stakeholderism? Constituency statutes, enlightened shareholder value, and all that: much ado about little?" Andrew Keay, available for download at http://hq.ssrn.com/Journals/RedirectClick.cfmurl=http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1530990&partid=503514&did=61040&eid=82567606.
13. In *Power* (second edition 2005), Professor Stephen Lukes suggests that power manifests itself in three ways: (i) decision-making and behaviour; (ii) non-decision making, a refusal to countenance discussion of certain matters; and (iii) our very wants are influenced and shaped by the influencing force. It is this third type of power, which is tremendously subtle and all the more powerful as a result, which is exerted by shareholders.
14. In a now famous article in 1968 published in the journal *Science*, Garrett Hardin described a situation in which multiple individuals, acting independently and rationally consulting their own self-interest, ultimately deplete a shared resource even though it serves no-one's interest for this to happen. He called this dilemma "the tragedy of the commons".
15. Ichak Adizes, founder of the Adizes Institute, quoted in the magazine "*What is Enlightenment?* March 2005.
16. According to *The Guardian* newspaper survey of executive pay, salaries amongst corporate executives rose by 10% in 2009 in a time of world recession and fall in share prices. See http://www.guardian.co.uk/business/2009/sep/14/executive-pay-keeps-rising
17. Danah Zohar and Ian Marshall (1994) *The Quantum Society*. William Morrow and Co. Chapter 11.
18. From *Goodbye, Command and Contro*l (1997) by Margaret Wheatley. Available for download at www.margaretwheatley.com/articles/goodbyecommand.html.
19. For example see R. Karasek (1979) *Job demands, job decision latitude, and mental strain: implications for job redesign*. Published in *Administrative Science Quarterly*, 24, 285-308.
20. This is the approach recommended by Corinne Maier, an economist at state-owned Electricité de France, in her bestselling book *Bonjour paresse* (Hello Laziness) (2004) sub-titled, "The Art and the Importance of Doing the Least Possible in the Workplace".
21. See *The Corporation* (cited above), chapter 6.
22. Elmer E. Schattschneider (1960) *The Semi-Sovereign People: A Realist's View of Democracy in America.* Holt, Rinehart and Winston. P71
23. R.H. Tawney (1921) *The Acquisitive Society*. G. Bell And Sons.
24. Those that have adopted such a structure include Cafedirect, Liberation and Divine Chocolate.
25. Shann Turnbull (2002) "A New Way to Govern: Organisations and Society After Enron". Available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=319867
26. Dee Hock (1999) *The Birth of the Chaordic Age*. Berret-Koehler Publishers Inc.
27. Elinor Ostrom (1990) *Governing the Commons*. Cambridge Univ Press. For her work in this

field, she received the 2009 Nobel Prize for Economics.
28. http://www.gore.com/en_xx/aboutus/culture/index.html
29. For a thorough analysis of the potential for new technologies to transform our society, see *The Wealth of Networks* (2006) by Yochai Benckler, available for download at http://www.benkler.org.
30. Donella Meadows (1999) *Places to intervene in a system*. The Sustainability Institute. Available from: http://www.sustainer.org/?page_id=106
31. *The Bible*, King James edition. Genesis 1:26.
32. E.F. Schumacher (1974) *Small is Beautiful*. Abacus edition published by Sphere Books. p30.
33. See www.treeshaverightstoo.com for more information.
34. See www.guardian.co.uk/business/2009/sep/20/economics-wealth-gdp-happiness
35. See "A New Way to Govern" cited at 25 above.
36. Described at http://en.wikipedia.org/wiki/Milgram_experiment
37. Quoted in an interview in the McKinsey quarterly, April 2008, see http://www.mckinseyquarterly.com/innovation_lessons_from_pixar_an_interview_with_oscar-winning_director_brad_bird_212
38. Walt Whitman (2001) *Leaves of Grass*. Random House. First published in 1855.