SPECIAL TOPIC: DEMOCRACY IN AND AROUND ORGANIZATIONS

Is organizational democracy worth the effort?

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Executive Overview

Organizational democracy is frequently associated with increased employee involvement and satisfaction, higher levels of innovation, increased stakeholder commitment, and, ultimately, enhanced organizational performance. However, democratic processes can also absorb significant time and other organizational resources and bog down decisions, which may lead to reduced efficiency. This article summarizes the pros and cons of organizational democracy. It also introduces and integrates ideas from the three other articles in this special forum. In the end, we conclude that although the economic arguments for organizational democracy may be mixed, increased stakeholder participation in value creation and organizational governance can benefit both society and corporations. In fact, the corporation itself may be envisioned as a system of self-governance and the voluntary cooperation of stakeholders.

Democracy means that members of an organization or society participate in processes of organizing and governance. In essence, they help determine the destinies of the organizations or societies to which they belong. However, democracy in the workplace manifests itself differently from political or governmental democracy. Few contemporary organizations might be viewed as democracies in the political sense. In organizations, stakeholders differ widely in their rights to participate in the decisions of an enterprise and obtain its benefits and proceeds.

In the past few decades, many of the world's nations have moved toward a more democratic political system. Similarly, for many years organizational managers have been interested in implementing processes that give more decision-making and management power to a broader group of constituencies, especially employees. Highly celebrated success stories such as Hewlett Packard and Lincoln Electric have helped to fuel this interest. In those companies, increased employee participation and decision-making led to high levels of innovation (in the first case) or outstanding levels of efficiency (in the latter case). Other manifestations of the trend are found in flattening hierarchies and programs such as self-directed work teams and employee stock ownership programs. "Empowerment" programs have taken a variety of forms. In a broad sense of the term, any action, structure, or process that increases the power of a broader group of people to influence the decisions and activities of an organization can be considered a move toward democracy. In contrast, any action, structure, or process that works to concentrate decision power and management influence into the hands of one or a smaller group of people is a move away from democracy.

Strengths and Weaknesses of Organizational Democracy

The most commonly discussed form of organizational democracy (and the one most discussed in

the articles in this issue) is associated with increasing the decision-making and management power of lower-level employees. Many advantages may be available to organizations that pursue actions that give their employees this sort of influence.[1] They include the following:

1. People like to have a voice, or ability to influence the organizations in which they work. Therefore, democracy may foster commitment to the organization and purposeful behavior on the part of those involved.
2. Participation in decisions tends to enhance commitment to the final decisions made, which can aid in their implementation.
3. Democracy in organizations helps people to feel more responsible for organizational outcomes. This sense of responsibility could reduce the incidence of behaviors that are inconsistent with the values of the particular society in which the organization exists.
4. Democratic processes help create a more participatory climate overall, which may enhance innovation and the ability to change.
5. Giving more discretion to employees and managers allows them to develop skills and abilities more fully, thus making them more valuable to their organizations.
6. It is the right thing to do, from a moral perspective.

However, democratic processes that give employees more power may also lead to disadvantages.[2] They include:

1. To the extent that decision-making power is given to lower levels in organizations, those people may choose a path that is not advantageous for the organization. They may not see the big picture or they may lack the education, training, or experience necessary to make good decisions for the organization.
2. Democratic processes take time, which can hurt efficiency. For example, every issue or decision can potentially result in negotiation and time-consuming analysis.
3. Implementation of democratic processes requires sweeping organizational changes that are difficult and time consuming to make. They disrupt normal operations for an extended period of time and may even fail.
4. Resistance to democratic processes can come from middle- and upper-level managers due to the new skills they will be required to develop and their loss of traditional authority. Lower-level employees may also resist increased democracy because of the increased demands and

accountability that such a change might require.
5. Democracy may not fit some situations. For example, situations that require rapid organizational adjustments (as in a battle) may be better suited to hierarchical command and control structures.
6. It may not be the right thing to do, from a moral perspective. For example, if democratic processes reduce organizational performance, then shareholders, communities, suppliers, financiers, society, and even employees may be negatively affected.

Apparently as many potential disadvantages as advantages stem from organizational democracy. The basic issue is that a lot of risks and pitfalls are associated with democratic processes, while the payoffs, from an economic perspective, are far from certain. Consequently, at this point the question, "Is organizational democracy worth it?" has no definitive answer. However, the articles in this issue add insight into this question.

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The Articles in This Special Forum

The articles published in this forum are as different as they are fascinating. The first two articles are case studies of organizational democracy. First, Gjalt de Jong and Arjen van Witteloostuijn demonstrate how democratic practices and processes can be implemented effectively within an organizational setting. They describe the Dutch Breman Group, a medium-sized construction engineering firm. At the beginning of the 1970s, the company designed and implemented a new form of corporate democracy that is still in use today. The Group developed their system in the context of the Dutch legislation on works councils, but the Breman model goes well beyond what the law requires.

The Breman Group is organized as 25 legally independent entities that are fully integrated into one system. Decision-making is decentralized, but major decisions affecting the whole company are made in concert with the other businesses. Decisions are made through an elaborate democratic process that includes labor and management. A central administrative group helps arbitrate matters in which agreement is not reached at the local level. Employees own half of the stock in the com-

pany through an employee association. About 40 per cent of profits are distributed back to employees, with most of the rest being reinvested in the company.

According to the authors, "The premise of Breman's conception of corporate democracy is a positive perception of the role of employees in the organization, arguing that the latter must be empowered to shape their contribution independently from managerial control and hierarchy. Breman regards its employees as valuable resources, rather than as costs in its accounting system that have to be controlled and managed."

Although de Jong and van Witteloostuijn do not proclaim a causal link between the democratic model of the Breman Group and their sustained high levels of economic performance, it would be hard to discount the relationship as purely coincidental. They build a case that the democratic practices associated with participative human resource strategies, building networks, and learning can make a firm more flexible and able to adapt to changing conditions. Perhaps most firms will not drop their current management systems in favor of the Breman model in its entirety (although some have done so), but at a minimum there are aspects of what Breman does that would fit into many different business contexts. Maybe firms will have to become more democratic in order to compete in the highly volatile and global knowledge-based economy that is emerging.

In the second case study, Edward Powley, Ronald Fry, Frank Barrett, and David Bright observe that while we are in the age of participative management and leadership, most Western business organizations still rely on the traditional hierarchy for most of their strategic decisions. In contrast, these authors advocate an approach to participation and democracy "whereby organization members experience the whole of an organizational system. In such settings, they begin to see strategically, and by tapping into this collective strategic vision, organizations are enabled through and empowered by their employees to grow and change." They call this type of activity a large- group summit. To illustrate the process, they provide a case study of the Appreciative Inquiry (AI) Summit, a large-system change intervention of the U.S. Navy that uses deliberate and dialogic democratic processes.

Appreciative Inquiry is based on the idea that change occurs through inquiry. Democratic and participative processes used during the inquiry facilitate changes and help the organization develop new organizational structures and practices. For a period of several days, the typical hierarchical systems and structures are suspended. As opposed to interventions that tend to focus on overcoming negatives, Appreciative Inquiry takes a positive approach by focusing on core strengths and encouraging participants to discover, dream, design, and implement organizational strategies. It emphasizes consensus building, participation across levels of the organization, and the creation of teams. The authors note that Appreciative Inquiry has been used in organizations in a variety of contexts, but their article focuses on application in the Information Professional Community of the U.S. Navy. Their case is particularly interesting in light of the command-and-control hierarchical decision-making structure associated with military organizations.

The Breman Group and Appreciative Inquiry cases are excellent examples of organizational democracy. The Breman Group demonstrates that a whole organization can be run democratically, whereas the Appreciative Inquiry application to the U.S. Navy illustrates a way to create a separate, temporary democratic environment within a larger organization. As an excellent contrasting perspective, Jeffrey Kerr expounds in his article on the limits of organizational democracy. He points out that political democracy may not be an appropriate or useful model upon which to base organizational democracy. "The fact is, no matter how appealing democracy may be as a political and intellectual construct, organizations are not societies in the political sense, and managements are not governments. Real differences exist in the nature of the collective (economic organization vs. social polity), in the basis and scope of legitimate power (ownership vs. elected government), in the individual's role and responsibilities (employee vs. citizen), and in the decision-making process through which governance is maintained."

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According to Kerr, a genuinely democratic form of organization requires so many fundamental changes and entails so many risks that rational managers are reluctant to try it. Furthermore, if they do try it, early problems and failures can discourage complete implementation. Besides, it is against the nature of humans to give up power, so resistance from managers can derail implementation. Therefore, the more hierarchical an organization is (the more power in higher-level managers), the more likely it will fail in a full-scale democratization process. Also, those governing in organiza-

tions are not as directly accountable to employees as are political officials to the electorate. Instead, high-level executives are accountable to a wide array of internal and external stakeholders, and many of these groups (such as stockholders) are not likely to tolerate a reduction in organizational performance for the sake of democracy. Consequently, in an organizational setting, democratic processes must be defensible on the basis of improved organizational performance. If democracy can assist the organization in developing a competitive advantage, then it is much more likely to receive support.

Kerr argues that it is much harder for an organization to implement democratic processes if they are not in place early in the history of the organization. He also expresses the opinion that piecemeal efforts tend not to succeed. In addition, he mentions that the assumption that democracy will work in every organizational context is likely to lead to disappointment. On the other hand, Kerr points out that democracy is much more likely to work in business settings in which work requires creativity and innovation rather than in more routine settings. Democracy will also be more successful if the work force is better trained, motivated to get involved in the decision-making process, and willing to accept responsibility for the outcomes from those decisions. "For example, where employees bring specialized or proprietary knowledge to the organization, the competitive effect of democratic process is likely to be greater than where the knowledge or experience base of employees is homogeneous and congruent with that of the organization." A participative, collaborative decision process is better able to draw out and exploit the talents of a highly skilled and trained workforce. Therefore, the more highly skilled or committed the workforce, the more valuable will be democracy to the organization.

Is it possible to merge the two cases of successful organizational democracy with Kerr's arguments concerning potential pitfalls? Actually, Kerr argues that democracy is much more likely to be successful if it is implemented early in the history of a firm, such as in the Breman Group. However, the success of the Appreciative Inquiry intervention runs counter to Kerr's arguments against partial implementation of democratic processes. In his defense, he does not argue that democratic processes should not be implemented in organizations. He merely explains why firms may not be implementing higher levels of democracy on a broad scale and why some of their efforts have failed. He also provides guidance with regard to implementing democracy successfully.

On balance, the three articles still don't com-

pletely answer the question of whether organizational democracy is worth the costs. However, they provide ample suggestions to executives regarding how more democratic processes might be implemented successfully. Furthermore, Kerr's article can help executives avoid some of the major pitfalls.

So Is Organizational Democracy Worth It?

Perhaps the biggest problem with answering the central question of value is that we are attempting to answer it from the wrong perspective. An underlying theme in all three articles is that organizational democracy should be pursued only if there is some practical or economic rationale for doing so. So the question has really been, "Do the practical or economic benefits of organizational democracy exceed the costs?" As the articles have demonstrated, and consistent with the management literature on this subject, the answer to this question is undetermined. The most we might be able to say is that in some situations it appears that there is an economic justification for democracy in organizations. But is this really the right way to approach the issue? If we insist on seeing the idea of organizational democracy in its political analogue of giving decision-making power to employees and other stakeholders, and if the metaphors are largely drawn from the social sciences literature on power and voting procedures and governance, we will have missed the underlying worth of the idea.

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Human beings are capable of governing themselves. Indeed one way to conceptualize the very nature of the corporation is that it is a system of self-governance and voluntary cooperation of stakeholder relationships. Here we mean stakeholders to include at least customers, suppliers, employees, shareholders, and communities. The governance of some of these relationships looks more like our political system than the governance of others does. For instance, shareholders have a voting scheme for electing representatives to boards. But just because other relationships look different from the normal voting-power analogy from political life, it does not follow that these relationships are not democratic in the philosophical sense of being self-governing and based on voluntarism.

The bulk of this discussion has dealt with democracy in the sense of allowing a broader group

of organizational employees a higher level of influence over the processes, decisions, and outcomes of their organizations. However, the advantages of democratic process can apply to a much broader group of stakeholders. Firms can gain advantages from allowing greater participation of customers, suppliers, local community leaders, labor unions, and special interest groups, among others. As these external stakeholders feel more ownership in the processes and outcomes of the organization, their commitment levels increase, similar to the increased commitment levels of employees as they feel more empowered. In fact, there may be too much emphasis on giving employees power as a part of democratizing organizations. As Kerr points out in his article, "From the stakeholder perspective, in fact, it might be argued that 'too much' democracy (i.e., too much representation of employee interests) must inevitably come at the expense of the organization's other stakeholders." Perhaps an even more democratic system would provide greater influence to the external constituencies that have a viable stake in the organization.

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One of the most common ways to provide external stakeholders with greater voice is through appointments to the board of directors or other types of organizing boards.[3] Also, suppliers and customers can be invited to participate in product or service development teams. Joint communications systems and joint ownership can facilitate a sense of shared purpose. These are a few of countless examples of successful tactics that organizations are using to increase stakeholder involvement in their processes and outcomes.[4]

In today's world where markets and companies are global, where our political institutions are becoming more liberal and market-oriented, and where powerful information technology lets us communicate more effectively, no one has a monopoly on good ideas in the creation of value. The more that companies can get stakeholders involved in the processes of value creation, and the more they own the governance mechanisms of the transactions among stakeholders and firms, the better off will be both society and corporations.

We suggest therefore that we begin to think about "democratizing" the corporation, not in the sense of gradually extending voting power to constituencies but rather as thinking through, in innovative ways, how to make our companies more attentive to the moral foundations of capitalism, i.e., how we can improve them to make them even better vehicles for the expression of human freedom and the value that we create for each other.

Endnotes

[1] These advantages come from our own thinking as well as the articles contained in this forum. See also Collins, D. 1997. The ethical superiority and inevitability of participatory management as an organizational system. *Organization Science.* 8(5): 489–509; Melman, S. 2001. *After capitalism: From managerialism to workplace democracy.* New York: Alfred Knopf; Losada, M., & Heaphy, E. 2004. The role of positivity and connectivity in the performance of business teams. *American Behavioral Scientist,* 47(6): 740–765.

[2] This list of disadvantages was heavily influenced by Jeffrey L. Kerr's article in this issue, as well as our own thinking. See also Klagge, J. 1998. The empowerment squeeze—Views from the middle management position. *The Journal of Management Development.* 17(8): 548; Randolph, W.A. 2000. Re-thinking empowerment: Why is it so hard to achieve? *Organizational Dynamics,* 29(2): 94–107; Wilkinson, A. 1998. Empowerment: Theory and practice. *Personnel Review,* 27(1): 40.

[3] Ackoff, R. L. 1994. *The democratic corporation: A radical prescription for recreating corporate America and rediscovering success.* New York: Oxford University Press.

[4] Harrison, J. S., & St. John, C. H. 1996. Managing and partnering with external stakeholders. *The Academy of Management Executive,* 10 (2): 46–60.

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