

Managing Democratic Ownership

Balancing ideals and reality in the FairShares model

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Publication date:
2019

Document Version
Other version

Citation for published version (APA):
Nielsen, D., Fuchs, R. E., Grazzini, O. L., Lawson, Y. K., & Jensen, C. R. (2019, Sep). Managing Democratic Ownership: Balancing ideals and reality in the FairShares model. Roskilde Universitet.

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MANAGING DEMOCRATIC OWNERSHIP

BALANCING IDEALS AND REALITY IN THE FAIRSHARES MODEL

A TEACHING CASE BY DANNY NIELSEN, ELUAR FUCHS, OLIVIA GRAZZINI, YASMIN LAWSON & CHRISTINE REVSBECH JENSEN

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1: BACKGROUND OF THIS CASE

Our interest in researching FairShares (fairshares.coop) developed in continuation of our findings from a semester project in the Social Entrepreneurship and Management master's program at Roskilde University, Denmark. During our first semester, three of us studied how a particular social enterprise balanced the tension of the dual mission (i.e., profit maximization and social objectives). Having been critical of the lack of participation in that organization, though we concluded they had other measures in place to manage this tension, researching a more comprehensive structure for participation therefore seemed a natural progression. This led us to question to what extent democratic ownership is embedded into the FairShares Model (FSM hereafter), after one of us introduced the rest of the group to the model.

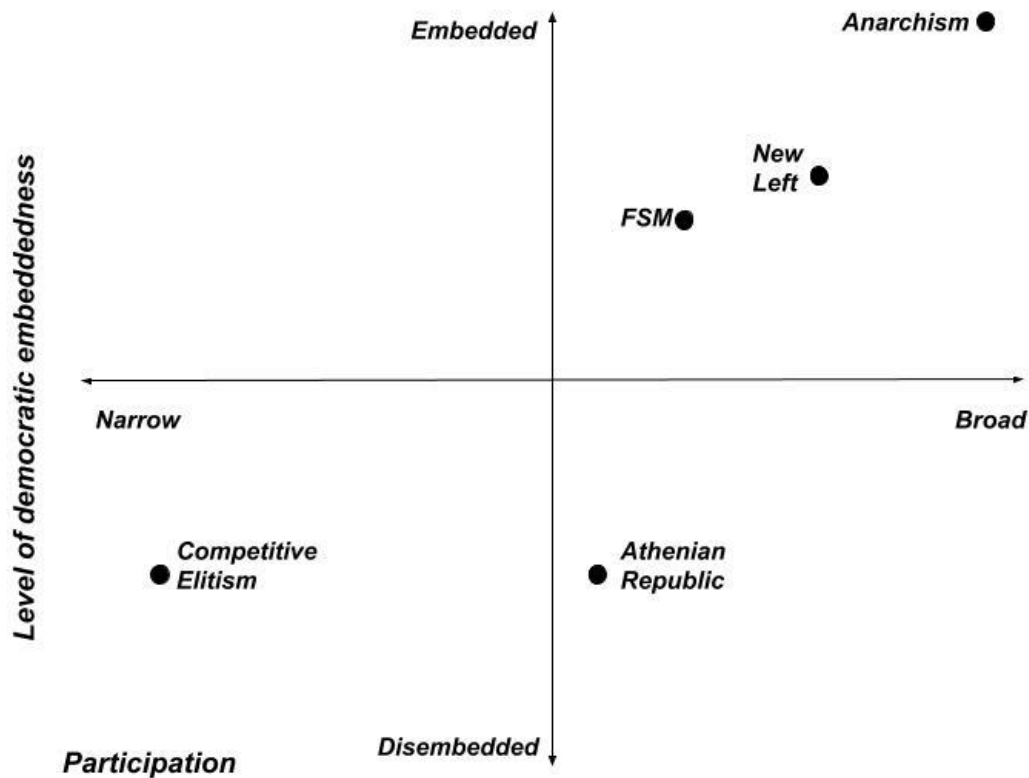
We see the resulting problem-oriented semester project as a study of a concept, namely *democratic ownership*, unfolding within the context of the FSM. We evolved an interest for the FSM due to its innovative approach to rethinking and challenging capitalism in the 21st century and create a foundation for a more sustainable and inclusive business models.

We were fortunate to be put into direct contact with Rory Ridley-Duff, a professor of social entrepreneurship and co-developer of the FSM, through a connection made by one of our professors at RUC. He, in turn, put us in contact with Nina Boeger, and Graham Boyd, who both provided us with valuable information.

2: THE DEMOCRATIC MATRIX

The increasing relevance of the FSM is largely due to the Washington Consensus (see appendix), a set of neoliberal policies intended to deregulate and privatize the economic sphere. One central consequence of this has been the retraction of the state, which has left open a space that is now increasingly occupied by private organizations (Nielsen et al., 2019). Through this mechanism, we have witnessed a de-politization of the individual, markets, and societies, creating a democratic issue, where more of the public good and public decision-making move to the private sphere, which lacks democratic institutions. This leaves us in a situation where corporations have an increasing say in how democratic our lives are. Therefore, we believe that organizational democracy can no longer be seen as simply an issue of management, but it needs to be understood as a central element of any democracy in the 21st century.

With the intention of bringing awareness to a nuanced democratic understanding of modern society and innovative social and financial structures, using the FSM as an example, the following matrix (Ibid.) places and compares four democratic understandings as well as the FSM. It should be noted that as with all models, the reality is a lot messier, as all these models cover a wide spectrum of actual ways people in reality experience democracy. As such, the models' placement, both in relation to the dimensions of the matrix and each other, should not be taken as a precise recreation of reality. Rather it is a rough guide, like a treasure map, to guide your further exploration of a complex issue.



The theory behind the four directions of democracy can be summed up as follows:

Competitive Elitism, first coined by Schumpeter, who sees mass participation in a democracy as unrealistic, which is why a leader or representative must be chosen to make decisions. “*Minimal participation for maximum efficiency*” is its motto. For Competitive Elitists, the ideal democracy is one where participation is limited to the choice of representative in a “*marketplace of ideas*”. (Ibid.)

The ancient Greek Athenian Republic’s understanding of democracy saw direct participation as essential. In modern standards it is, however, highly undemocratic, as only a limited number of male “citizens” were allowed to participate. It also included many elements, like random selection instead of voting in some cases, which are alien to modern democracies. It is thus an unusual model, where those that could participate did so in what we today would consider a radically direct way, but by far, most people living under the Athenian government had no participation at all. (Ibid.)

Anarchist Democratic Models are characterized by voluntary association and the absence of hierarchy. They are based on a radical understanding of democracy; that democracy can only be true democracy if it is present in all aspects of our lives, and that participation is open and equal to everyone. (Ibid.)

The New Left sees the separation of state and civil society as incompatible with reality and sees the state as a continuation of society with structural inequalities and barriers to participation. This interconnectedness requires democratic/participatory structures in both spheres for true democracy, including the workplace and educational processes. A distinguishing feature of the New Left’s democratic model is the concept of “*the educating effect of participation*”, the idea that by participation in decision-making, people develop a better understanding of the decisions they make. Another important element is the focus on equal participation and the barriers that often get in the way of that ideal in practice. (Ibid.)

As democratic theory is a complex and inherently normative field, the focus was laid on two variables:

Level of embeddedness, which is to be understood as democratic ownership extended beyond the public sphere of democracy. The FairShares Company Rules state that values and principles must be respected with democratic ownership for wealth and power sharing. The FSM embeds democratic practices as an example through the General Meeting (see Appendix 8.2) where voting is based on "*one shareholder, one vote*" establishing equality between shareholders. (Ibid.)

Level of participation in a broad or narrow sense. The FSM suggests strong participatory character due to its wealth sharing scheme is participatory and equitable. It goes against shareholder primacy and there is a 3:1 pay ratio for highest and lowest paid employees to which the labour class has influence over. The FSM starts from the perspective of including stakeholders in strategic decision-making, unlike normal companies that limit participation to decision-making in daily operations. (Ibid.)

3: DEMOCRACY IN THE FSM

Democratic embeddedness manifests itself in the FSM in two ways: decision-making and ownership structures. Given that FairShares exists outside of the public sphere, some level of embeddedness is required for the FSM to function. However, FairShares further embeds democratic ownership by implementing both democratic decision-making and ownership structures. Similarly, FairShares broadens participation in both decision-making and ownership, giving a wider group of stakeholders (the Shareholder Classes) a say in decision-making and a direct stake in ownership. (Nielsen et al., 2019)

All this goes directly against the norm of shareholder primacy, a central tenet of neoliberal organizations, that financial investors have primacy in both decision-making and ownership.

The FSM proposes a multi-stakeholder approach to organizational governance and embeds democratically centralized ideals like reciprocity and mutuality into the structures of commercial enterprises, that goes beyond typical co-op models, both in terms of stakeholder inclusion and ownership matters. By granting a wider set of stakeholders - namely, founders, labourers, users, and suppliers, as well as traditional investors - both decision-making rights and ownership in an enterprise. The underlying ideal of the FSM is perhaps best illustrated by this quote from the front matter of the book "*A Case for FairShares*" (2015):

"In short, [the FSM] envisages a society in which every adult becomes a co-owner of the organisations on which they, their family and their community depend."
(Ridley-Duff, 2015)

First developed in 2012 by Rory-Ridley Duff and Cliff Southcombe, FairShares now has approximately 30 running businesses operating around the world. The FSM has Five Values and Principles that address several points of sustainability, including addressing poverty and inequality, improving the quality of work and life, managing the environment and managing the economy sustainably (Ridley-Duff, 2015).

The Five Values and Principles of the FSM are (Ridley-Duff et al., 2017):

1. Wealth and power sharing amongst primary stakeholders
2. Specification of social purpose(s) and auditing of impact(s)
3. Ethical review of the choice of goods/services offered
4. Ethical review of production and retailing processes
5. Social democratic ownership, governance and management

These values show a commitment to both participation and embeddedness, which is part of the reasoning behind the placement of the FSM within the matrix in the upper right corner section, as representative of both broad participation and high level of embeddedness.

4: THE DILEMMA

While the FSM therefore shows an admirable commitment to democratic embeddedness and participation in its principles, practice is where principles meets reality. While it is easy to be confident and black-and-white in principle, reality has a tendency to make everything greyer and messier, and the reality of the FSM is no exception.

The FairShares Model faces a dilemma common to most democratic organizations, from the scale of small associations to that of whole societies. This dilemma is rooted in the prevailing wisdom that while democratic decision-making is perfectly fine, the execution of the decisions must be delegated to individuals. This creates a tension between decision-making, which is democratic and inclusive, and the execution, which is autocratic and exclusive. While it is hard to scientifically prove the validity of the prevailing wisdom, there certainly is an abundance of anecdotal evidence. For one thing, the saying *“too many cooks spoil the broth”* is both long-lived and widespread. Another common reasoning is that democratic execution is too time-consuming, as it takes away time from workers’ core tasks, not only for making strategic decisions at the General Meeting, but also for the implementation of those decisions, a final issue is whether everybody necessarily possesses the skillset for implementation.

The paradoxical nature between democratic ownership and autocratic implementation is not an uncommon theme in democratic organizations and can be seen in a wide variety of democratic enterprises- from small co-ops to entire societies. But how do we balance this tension between democratic and inclusive decision-making and autocratic and exclusive execution? This dilemma is rooted in the prevailing wisdom that while democratic decision-making is socially and ethically acceptable, the execution of the decisions must be delegated to individuals. In the FairShares Model, Executives are responsible for the execution of the strategy set at General Meetings. However, this goes against the very ideas of participation and embeddedness, which supposedly are prevalent in the FSM, by excluding the majority of members from the execution and by disembedding the execution from the democratic process. Like any good dilemma, the question at the bottom of all this defies a simple answer. As we already mentioned, conventional wisdom says this is necessary, but on the other hand the validity of conventional wisdom can always be questioned.

As an increasing amount of public issues are now outsourced to the private sphere, we now see a need to democratize our enterprises, just as we do our governments. While the democratic dilemma faced by FairShares is not unique, it does highlight the need to resolve this tension so that democratically organized enterprises can operate in our neoliberal economy more effectively and efficiently. For if FairShares fails to balance this tension, they will undermine their entire mission.

5: REFLECTIONS

1. Discuss the democratic dilemma model with your peers. Can you think of elaborating points regarding this or situations where you recognize this type of dilemma?
2. Do you agree with the positioning of the democratic philosophies?
3. What other types of dilemmas can you think of when speaking of social organization forms and social businesses in general?
4. How would you personally address this problem in a social organization or social business with a participatory and embeddedness intention?
5. Do you think it's even possible to balance power and ownership democratically? Can you think of other ways to deal with that than what FairShares has done?
6. Do you think that democratically owned and social organizations could be responsible for even more societal democratization and social innovation? If so, how?

6: FURTHER READING SUGGESTIONS

- Nielsen, D. et al. (2019) The FairShares Model & Transformative Social Innovation: How Democratic Ownership Challenges Dominant Institutions. Roskilde University
- Pateman, C. (1970) Participation and Democratic Theory. Cambridge & New York: Cambridge University Press.
- Ridley-Duff, R. (2015) The case for FairShares: a new model for social enterprise development and the strengthening of the social and solidarity economy. Sheffield & Penistone: FairShares Association.

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https://www.researchgate.net/publication/281459753_The_Case_for_FairShares_a_new_model_for_social_enterprise_development_and_the_strengthening_of_the_social_and_solidarity_economy

Ridley-Duff, R., Southcombe, C. and Picken, A. (2017) *Five FairShares Values and Principles*. Available at: <http://www.fairshares.coop/wp-content/uploads/2018/01/V3.0-01-FiveValuesandPrinciples-Final.pdf>

8: APPENDIX SECTION

8.1: THE WASHINGTON CONSENSUS

<i>Original Washington Consensus</i>	<i>Augmented Washington Consensus the previous 10 items, plus:</i>
1. Fiscal discipline	11. Corporate governance
2. Reorientation of public expenditures	12. Anti-corruption
3. Tax reform	13. Flexible labor markets
4. Financial liberalization	14. WTO agreements
5. Unified and competitive exchange rates	15. Financial codes and standards
6. Trade liberalization	16. "Prudent" capital-account opening
7. Openness to FDI	17. Non-intermediate exchange rate regimes
8. Privatization	18. Independent central banks/inflation targeting
9. Deregulation	19. Social safety nets
10. Secure Property Rights	20. Targeted poverty reduction

Source: Rodrik (2006, 978)

8.2: IMPORTANT TERMS

“Labour Shares” are shares owned by a member who makes qualifying labour contributions in the Company, entitling her or him to participate in Company governance and receive a share of surplus.

“User Shares” are shares owned by a member who makes a qualifying contribution through their trading or usage of the Company’s products / services, entitling her or him to participate in Company governance and receive a share of surplus.

“Investor Shares” are shares owned by a member who invests unremunerated labour or equity capital entitling him or her to a share of the Company's assets and surplus.

“Founder Shares” are shares owned by a Company founder, entitling them to govern the company.

“General Meeting” is the democratic forum for decision-making and sets corporate policy, Resolutions are voted on and adopted at the General Meeting, there exist three types of Resolutions; Ordinary, Special and Class Resolutions.

“The Executive” is responsible for the implementation and execution of the policy adopted at the General Meeting, The Executive can either be an individual CEO or an executive team.

Definitions adapted from the model rules for FairShares Company (Ridley-Duff, 2015)