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**Citation:**

Mees, B 2017, 'Industrial democracy and corporate governance: two discourses of reform in liberal-market economies', *International Journal of Corporate Governance*, vol. 8, no. 1, pp. 44-60.

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**Link to Published Version:**

<https://dx.doi.org/10.1504/IJCG.2017.10006089>

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# Industrial democracy and corporate governance:

## Two discourses of reform in liberal-market economies

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**Abstract:** Industrial democracy and corporate governance are intertwined discourses. In present-day use, however, the two expressions seem to represent as different perspectives as two related discursive traditions could become. At a time when calls have emerged for the intersection of the two narratives to be revisited, how the separation of these two related discourses occurred historically and what that separation has entailed seems of particular importance. The received corporate governance approach has become so dominant that it appears to have assumed the status of an ideology – an established way of thinking about the governance of corporations that is largely just assumed (rather than argued) in much financial and legal discourse. Seeking to understand why mainstream corporate governance scholarship has failed to engage with the historically key issue of industrial democratization is the main purpose of this paper.

**Keywords:** Agency theory, corporate governance, democratization, employee participation, industrial democracy, pension funds, stakeholder theory

**Biographical note:** Bernard Mees is a Senior Lecturer in Management and a former finance industry professional. His recent publications include *Workers' Capital* (with Cathy Brigden), the first academic survey of industry superannuation in Australia. His other publications include contributions to the *Australian Journal of Corporate Law*, the *Journal of Management History*, the *Oxford Handbook of Management Theorists* and the *Routledge Companion to Business History*.

## **Introduction**

Industrial democracy and corporate governance are historically related notions, but that is not the impression one receives from introductory texts on corporate governance. From the other perspective, discussions of corporate governance often seem quite absent from journals such as *Economic and Industrial Democracy* or standard industrial relations textbooks. But in his 2013 contribution to the British Fabian Society's *The Great Rebalancing*, the "Blue Labour" peer Maurice Glasman calls for an industrial democracy model to be adopted in British corporate governance, and recent developments in the pension (or superannuation) fund industry have similarly brought to the fore the issue of representation and "independence" in commercial governance (Sayce et al., 2014). Glasman (2013) seeks to revisit and revive earlier debates regarding firm directorship and democratization which have seemed largely forgotten in mainstream business governance discourse in the UK since the 1970s, as have similar advocates of

employee representation on the boards of pension and superannuation funds (Markey et al., 2014).

In the 1960s and 70s, the main controversies regarding the governance of firms concerned union and worker involvement in decision-making processes. Of the major industrialized economies, only commentators from the United States stood significantly outside the key debates of the time. By the 1980s, however, a new concern had arisen in America, one that was soon to spread throughout the industrialized world. This new concern was for the first time labeled “corporate governance”, but was articulated in a manner which displaced previously mainstream narratives that equally centered on debates regarding the proper governance arrangements to be adopted by listed firms. The label “corporate governance” was the umbrella under which a particular kind of business reform was advanced, replacing one discursive formation with another in a classical Foucauldian manner (Mees, 2015).

This paper investigates how a socialist vision of democratized corporations was displaced by a liberal narrative derived from an implicit understanding that firms are characterized by a series of freely entered contracts. Where previous disputes regarding how firms should be governed focused on the lived experiences of employees within such enterprises (i.e. how their working lives are governed), a differently conceptualised approach that is primarily informed by liberal notions of contract displaced earlier understandings which invoked broader democratizing aims and values. Rather than constituting an entrenched “variety of capitalism” (Hall and Soskice Eds. 2001), the liberal market approach to the governance of listed firms has seen a reconfiguration and obscuring of previous discourses of democratization.

Indeed discourses of corporate governance have become so implicit and generally accepted in business thinking that corporate governance has itself arguably reached the level of an ideology, an ideology of financialization (Ireland, 2009; Van der Zwan, 2014). A social democratic or partnership approach to the governance of listed firms has been abandoned in place of a politically and economically uneven narrative of social and economic contracts which neither reflects mainstream social sciences approaches to governance nor the broader historical development of democratizing ethic which had been such a mainstay of social sciences literature previously.

### **Reforming narratives**

Considerations of the proper relationship between employees, owners and directors of firms in a democratic society have a long history in Continental Europe where debates over worker representation and the effective functioning of governing boards were particularly common in the 1950s and 60s (Neuloh, 1956; Meyers, 1958; Clegg, 1960; Czubek, 1968; Peterson, 1968; Blumberg, 1968; Emery and Thorsrud, 1969). Yet the notion of “corporate governance” is commonly held to represent a quite different matter to that which led to the development of a requirement for employee-nominated directors on the boards of Scandinavian, German, Dutch and French firms (Haug, 2004a, b; Müller-Jentsch, 2008; Conchon, 2013; Waddington and Conchon, 2016). Instead the intellectual tradition which has grown up about corporate governance since the 1960s has been limited by its development, particularly in terms of what Foucault (2003, pp. 6-8) termed “global theory”. Foucault argued that the key challenge for historians of ideas is to interrogate the reasons for the subjugation of

earlier knowledges by global approaches and to rescue alternative intellectual traditions which may have been too readily passed over and forgotten. And in the case of corporate governance, the “global theory” is the agency approach, first formulated by the American economists Jensen and Meckling in 1976. In keeping with the earlier work of Mitnick (1975), the agency approach to corporate governance stresses the primacy of the rights of shareholders (as those who company management legally “act for”) in reflection of an intellectual status quo that had already been formulated in the US in the 1930s, particularly in terms of the outcome of a debate between Adolf A. Berle, Jr. (1931, 1932) and E. Merrick Dodd (1932, 1935) in the *Harvard Law Review*, but was revisited by Berle perhaps most pointedly in his *Power without Property: A new development in the American political economy* (1959).

As Foucault (2008, p. 6) once famously put it, governance concerns the “conduire la conduite” (regulation of behaviour) and is commonly held in the corporate context to be a different matter than management (Tricker, 2009). Corporations historically represent a legal structure, first developed to their present form in the nineteenth century, under which parliaments give certain legal protections to owners of corporations in order to encourage economic development. Before limited liability was introduced, for example, owners of firms could be imprisoned as debtors if the business failed (cf. the depiction of a debtors’ prison in Dickens’s *Little Dorrit*). The corporate form was created by parliaments for the sole purpose of aiding businesses to further develop the economic prospects of countries.

Corporate governance is concerned, therefore, with corporations and securities law, legal enforcement, standards of practice, duties, control and the effective operation of governing boards. As such, corporate governance cannot reasonably be

restricted only to matters of firm performance, shareholder value and the functioning of directorial subcommittees, but needs to be taken more broadly as a concept. Corporate governance reflects both how parliaments enact legislation in order to govern broader social relationships, but also how firms themselves govern their employees and other resources – i.e. broader aspects of political economy. First coined as an expression by Richard Eells in 1960, corporate governance is both a firm-external and internal concern, a matter of both public and private government (Eells, 1962; Mees, 2015).

Industrial democracy, on the other hand, is a much older notion, but can also be understood as external or internal to a firm. First coined as an expression (*démocratie industrielle*) by Proudhon in the fifth edition of his *Manual of the Stock Exchange Speculator* (1857, p. 461), industrial democracy contrasts with corporate governance genealogically as originally representing a radical discourse inherited from the nineteenth-century worker movement. Proudhon was a proponent of co-operatives and mutualization, and is best known as a founder of the anarchist movement that rejected the authoritarian socialism of Lenin and Marx (Prichard, 2013). Workers' councils had played a key role in the revolutionary movements in Germany, Italy and Russia, although in most cases they had been brought under union control by the 1920s (Eley, 2002, pp. 160-64). Yet European industrial democracy also draws on Catholic social justice teaching as expressed in several papal writings, from the seminal encyclical *Rerum novarum* of Pope Leo XIII (1891) even to the writings of the conservative Pope St John Paul II who stressed in his *Laborem exercens* (1981, III, 15) that “[t]he principle of the priority of labour over capital is a postulate of the order of social morality.” The external notion of industrial democracy, as articulated

by Sydney and Beatrice Webb (1897), concerns the rights of workers to join unions and to be represented by these external bodies in industrial bargaining, grievance handling and other kinds of employment matters. Internally, however, industrial democracy has usually been envisaged in the form of works councils, employee participation in decision-making, health and safety committees, and the election of worker directors to both pension-fund trustee boards and to the supervisory boards of publically listed business entities (Markey et al. 2010).

Jensen and Meckling's seminal statement of agency theory appeared during the time of the first major corporate governance debates in the US which arose after the spectacular failure of the Penn Central Transportation Company in 1970 (Daughem and Binzen, 1971; Sobel, 1977; Cheffens, 2013, 2015; Mees, 2015). Eells's work analyzing the business corporation from a political-economy perspective seemed largely to have been forgotten by this time. But when his expression "corporate governance" returned to the mainstream of business discourse, it did so in a much noisier manner than Eells had first proposed. The 1970s was the heyday of corporate activists such as Ralph Nader, and one of Nader's groups of consumer crusaders had even published a report into American corporate governance at the time that argued in favour of what would later become known as the stakeholder model of corporate governance (Graham, 2000; Marcello, 2004). The Nader report, *Taming the Giant Corporation* (Nader et al., 1976), was particularly focused on how senior management groups had in many instances become contemptuous of both consumers and shareholders. Nader and his supporters argued that US corporations needed to be regulated to force them to be more responsible not just to their shareholders, but also to societal concerns more generally.



By the 1970s, however, the even more fundamental reforms envisioned by advocates of industrial democracy on the European Continent had spread to the UK. Ever since Great Britain had entered the European Economic Community (EEC) in 1973, questions had been raised over the traditional structure of publically quoted British companies. After the war, the continental European model of two boards – one managing and one supervisory – had been further adapted in countries such as West Germany to accommodate the often-opposing interests of management and non-executive employees. Works councils of various forms had been current in German experience since the late nineteenth century as an “experiment in industrial democracy” (Guillebaud, 1928) and these bodies had been strengthened after the war by the adoption of the first West German codetermination (*Mitbestimmung*) legislation (McGaughey, 2015). First developed in 1951 at a time when employers were still in a particularly weak political position (and, as McGaughey observes, not forced upon the country by the Allies as has often been claimed), in 1976 the German parliament had even extended the number of employee-elected positions on German supervisory boards to 50% in large enterprises (i.e. those with over 2000 employees). German-style codetermination was duly presented as an alternative business structure, tried and tested in the EEC’s dominant economy, and constituted a quite different model for the modern British public company (Mertens and Schanze, 1979; Havlovic, 1990; Fetzner, 2010).

In 1975, the Labour government of Harold Wilson consequently appointed a commission of inquiry to respond to the matters raised in the European Commission’s Draft Fifth Company Law Directive, the first version of which (published in 1972) proposed the institution of a modified West German system of corporate governance

right across the EEC. The Draft Fifth Directive was intended as an EEC-wide company-law harmonization measure that would protect West German businesses from “social dumping” – i.e. it would stop multinationals from employing their staff in member countries that had the worst employment protections (Commission of the European Communities, 1972; Dalton, 1974; Conlon, 1975; Schmitthoff, 1976; Bullock, 1977; Davies and Wedderburn of Charlton, 1977; Creighton, 1977; Gold, 2010). The Conservative Party had duly proposed amending British company law to include a statutory duty for directors to take into account the interests of both shareholders and employees (Department of Trade and Industry, 1973). But when the Labour government responded with a White Paper on industrial democracy in 1978, British business groups were appalled. The committee of inquiry led by the historian (and Labour peer) Allan Bullock concentrated on how electing union representatives to company boards might lead to less industrial conflict in light of the undeniable economic success of West German firms under codetermination. Nonetheless as the government of James Callaghan (Wilson’s Labour Party successor) moved into crisis during the strike-riddled “Winter of Discontent” of 1978-79, the UK’s industrial democracy model for the public company soon disappeared from the mainstream policy agenda (Lopez, 2014; Williamson, 2016).

The majority report of the Bullock committee had proposed the adoption of a single board in British public companies of over 2000 employees with worker-elected directors making up as many members of the board as shareholder-elected directors, with the remainder being independent of both unions and shareholders (the  $2x + y$  model). As the committee noted (Bullock 1977, p. 41):

it seems to us (as it did to most witnesses) that to regard the company as solely the property of shareholders is to be out of touch with the reality of the present day company as a complex social and economic entity, subject to a variety of internal and external pressures, in which the powers of control have passed from the legal owners to professional management.

The minority report, prepared by the industrialists on the committee (who were constrained by the committee's terms of reference to advise on *how*, not *whether* codetermination should be implemented), instead recommended a dual-board model more along the lines which obtained in West Germany.

The Bullock report proved an immediate failure, however. Upon its publication in January 1977, the industrial democracy proposals were loudly criticised by the Confederation of British Industry (CBI). The CBI opposed the matter of union-appointed directors outright. The Callaghan government in turn quickly retreated, its White Paper published in May 1978 refusing to "impose a standard pattern of participation on industry by law" (Dept of Employment 1978, p. 2), calling instead for the extension of participation through industrial agreements (Wedderburn of Charleton, 1984; Carter, 1989; Williamson, 2016). Indeed, with the 1979 replacement of Callaghan as British Prime Minister by the Conservative Party's Margaret Thatcher, experiments with worker directors in nationalised industries were ended and the EEC proposals for codetermination were comprehensively rebuffed. Despite British companies such as ICI still experimenting with works councils in the late 1970s, the idea of industrial democracy quickly disappeared from the British public agenda.

Instead, a new discourse arose in the 1980s. Reversing the direction of influence which had traditionally applied in such matters, the British approach to public company governance reform would become increasingly American in style and focus during the Prime Ministership of Thatcher and her Conservative successor John Major, with British public companies appointing an increasing number of non-executive or independent directors, establishing audit and nominating committees, and pursuing other comparable ways of improving firm performance through formal mechanisms of governance (Mees, 2015). Any suggestions of industrial democracy were now seen as too radical (much as the terms of reference of the Bullock committee had described the proposed adoption of codetermination). Clearly understood as an Americanism, “corporate governance” was imported into the UK during the 1980s at the discursive expense of codetermination. Instead of in terms of democratization, the boards of British public companies were reformed in a manner which sought to increase economic efficiency and to better represent the interests solely of shareholders.

### **Employee participation and representation**

The British situation previously had been mixed. The Webbs had opposed worker involvement in management originally because of the low reputation that British employee shareholding schemes had achieved in the late nineteenth century, but by 1920 had come around to an acceptance of union involvement in the management of industry (Webb and Webb, 1920; McGaughey, 2014). Whitley Works Committees had also been formed in many industries between the two World Wars in a Taylorist

attempt to “tap labor’s brains” (Cooke and Murray 1940), but most of the UK’s Joint Industrial Councils had been abolished by the 1970s (Stitt, 2006; Patmore, 2016). British trade unions did not actively seek to become involved in German-style codetermination arrangements until the 1960s (McGaughey, 2014; Williamson, 2016).

In the US, works councils and employee involvement in industrial decision-making had first been advocated during the First World War, but had subsequently been advanced more successfully by advocates of Taylorism as a method for improving production processes. Joint labour-management arrangements were advocated most notably by Morris Cooke, Frederick Taylor’s ghost writer (i.e. the actual author of *The Principles of Scientific Management*), as the Taylor movement (particularly after Taylor’s death) attempted to extend Taylor’s “mental revolution” by engaging union support (Cooke and Murray, 1940; Derber, 1970; Wrege and Stotka, 1978; Lichtenstein and Harris, 1993; McCartin, 1998; Summers, 2000; Bruce and Nyland, 2011; Nyland et al., 2014). Works councils were judged especially effective when considering technical aspects of production and were a key development in the emergence of codetermination in Europe. Even the dream of a more rational fixing of rates of remuneration (partly as a reflection of the Socialist Calculation debates being held in Europe at the same time) was reflected in the late Taylorist experimentation with works councils (Auerbach and Sotiropoulos, 2014). Works councils in Europe have since tended to be mostly involved in employee-centred concerns such as occupational health and safety, employee discipline and redundancy entitlements. More traditional industrial matters could be resolved by joint union-management consultative committees or other similar bodies.

In the UK, a successful system of mandatory worker-employer participation had nonetheless been instituted in the health and safety area on the recommendations of the Robens Report of 1972, and similar arrangements had long obtained on the boards of pension funds, particularly in the US where the Taft-Hartley Act of 1947 had limited union participation on retirement-savings plans to 50% (McCarthy, 2014). The UK's industrial democracy proposals of the late 1970s, however, also reflected a uniquely British concern in which industrial relations was largely unregulated, an environment that had led to an ungoverned industrial system where wild-cat strikes and disputes even within unions were very much the order of the day (Fox, 1985). Rather than adopting German-style codetermination, the response under Thatcher was to regulate union activity and industrial relations more generally (Marsh, 1991; Shackleton, 1998). But in the 1970s, industrial democracy seemed to have a particular salience throughout much of the Western world and had led to the expectation among many of its proponents that its adoption was inevitable.

Yet the development of a new discourse of corporate reform in the US in the 1970s rapidly led to the dominance of a renewed shareholder-primacy approach to corporate governance. As Milton Friedman had argued since the 1960s (Friedman, 1962), corporations existed to make money, and the main claimants on that profit had been intended to be shareholders historically, not management elites or workers. The new American economic approach to corporate governance that first arose in the 1970s quickly became principally focused on maximizing returns to shareholders, not issues of democratization (Mees, 2015). Works councils and worker directors seemed quite outside the bounds of the new discourse of American corporate governance reform.

Much of the discussion of industrial democracy in the Anglo-Saxon countries has subsequently seen the scope of the democratizing narrative retreat to that of the external model promoted in the late nineteenth century by the Webbs or to an even more etiolated management-controlled model of “participation” or “voice” (Bixler, 1985; Mitchell, 1998; Budd, 2004; Wilkinson et al., 2010). Industrial democracy in this understanding is to be restricted to the right of workers’ voices to be heard through their unions – bodies external to the firm – or are reduced to a purely consultative (and often only token) role. Under codetermination, it is the firm itself which is democratized as shareholder rights to be represented on the board of governance are balanced with those of the right of employees to be heard. The American discourse of corporate governance, however, does not consider democratization at all, with emphasizing the rights of shareholders (over management) often serving as a proxy for democratization more generally.

Most of the focus of liberal reform in the US has been argued in terms of contractual shareholder rights. Figures such as Robert Monks (Roesenberg, 1998) have campaigned unabashedly for the property rights of shareholders to be upheld, not for those of employees or society more generally. Nader’s approach was to focus more on consumers, extending the democratic franchise from shareholders to shareholders and consumers. While Monks sought to democratize corporations from the perspective of their nominal owners, Nader and his followers sought democratization principally from the perspective of their customers.

By the 1980s, Nader had despaired of achieving real reform from the perspective of corporate governance (Nader, 1984). Yet his focus on stakeholders lived on. When stakeholder theory had first been formally propounded by Dill (1975),

however, it was seen principally from the perspective of firm strategy – how could a business best manage its relationships with each of its key constituencies? In the 1980s, business ethicist Ed Freeman (1984) further developed the stakeholder approach along Rawlsian lines (Rawls, 1971), underscoring the liberal understanding of the firm as a series of contracts. Further “constitutionalizing” (Miller, 1959) of the American corporation occurred with the introduction of conservation laws, prohibitions on discrimination in hiring and the further strengthening of legal rights of shareholders, employees and consumers. In 1986, for example, the US Supreme Court confirmed the right of women employees to sue for sexual harassment and in 1992 federal proxy rules for shareholders were amended in a manner that allowed investors to increase their ability to communicate with each other (Anderson, 1987; Schwab and Thomas, 1998). But such an approach to democratizing US business remains an external (or restricted/token) one, not internal (and actual) as in the European codetermination model.

This externalizing has since become the norm in all of the Anglo-Saxon countries. In the externalized model of industrial democracy, employee voices within the firm are managed by unions and senior management. Rather than a fully democratized model, a paternalistic approach instead often ensues. With declining union membership, employee voice retreats to a form of managed employee participation which is at best semi-democratic. Instead of corporate democracies, listed firms remain largely undemocratized under contemporary conceptualizations of corporate governance and industrial democracy. The external model seems to conflict with the broader social-democratic standards which are customarily advanced in most other areas of the political economy today.



The contractual American agency model of the firm also seems discontinuous with the development of management thought more generally. The main problem with the external model from a management history perspective is not merely the defeat of late Taylorism (with the advocacy of employee involvement in decision-making by Taylor's successors such as Cooke) that this development reflects, but that it encourages the form of managerialist paternalism that resurfaced so obviously in the organizational development movement of the 1980s. Where concerns about employee *anomie* and the negative influence that organizational structures can have on personal development were once at the fore in organizational studies (e.g. Mayo, 1949; Argyris, 1959; Blauner, 1964; Maslow, 1965), the focus on improving firm performance which was characteristic of the neo-human relations movement is often manipulative and coercive in nature, its associated discipline of leadership studies often simply totalitarian (i.e. one of "total claim") (Bracher, 1984, p. 47; Hawkins, 1997; Pina e Cunha et al., 2010; Godard, 2014). Very little acknowledgement of the notions of democratization which underpinned older understandings of industrial democracy is represented in this literature.

Nonetheless in Continental Europe, works councils were the subject of new regulation in 1994 (renewed in 2009) as employee participation has become a mandatory aspect of the EU's social democracy agenda (Council of the European Union, 1994; Gold, 2010; Lecher et al., 2002; Whittall et al., 2007). The EEC's Draft Fifth Directive was finally abandoned in 2004, but two years later a review of codetermination in Germany resulted in conservative Chancellor Angela Merkel publicly supporting its role in the "social market economy" (Biedenkopf, 2006; Silvia, 2013, p. 60). Renewed British debates concerning the wisdom of the American

approach to corporate governance are represented in Lord Glasman's appeal to revisit industrial democracy and recent Trades Union Congress studies in the United Kingdom (Williamson, Driver and Kenway Eds., 2014). In fact in July 2016 the soon-to-be British Prime Minister Theresa May even promised "we're going to have not just consumers represented on company boards, but employees as well" (if only to recant several months later) (May 2016). The financial crisis of 2008 has led to new criticism of the neoliberal model of corporate governance triumphantly claimed to represent an "end of history" by two Harvard business professors in 2001 shortly before the collapse of Enron (Hansmann and Kraakman, 2001). But no mention of such matters appears in Durisin and Puzone's 2009 survey of the "maturation of corporate governance research" or even Thomas Donaldson's (2012) more recent epistemic critique of agency theory, much as if industrial democracy has been totally eclipsed from the canonical narratives of contemporary corporate governance.

The decline of industrial democracy in the US in the 1940s and 50s led to the removal of the theme from the business school literature. A continued matter of interest in Europe and the UK throughout the 1960s and 70s, the only American academic contributions to the democratizing debate during this period seem to have been dismissals of industrial democracy on (unclear) economic grounds (Sturmthal, 1964; Jensen and Meckling, 1979; Jacoby, 1985a, b; Dickman, 1987; Frege, 2006). An American League for Industrial Democracy has existed since 1905, but even Nader, whose advocates styled his reform proposals "corporate democracy", criticized industrial-democracy initiatives as unworkable in the US (Nader et al. 1976; Johnpoll and Yerburch, 1980). Subsumed in much subsequent literature under the less charged description of "employee participation", industrial democratization has been displaced

from the canonical narratives of business reform by shareholder-primacy models of corporate governance. As Raymond Williams (1961) stressed, however, democratization was one of the key social and cultural developments of the twentieth century, and remains an outstanding matter of tension in the contemporary political economy.

### **Pension fund governance**

It is this displacement of notions of industrial democracy at the expense of corporate governance discourse which most characterizes contemporary discussions of the role of “independent” trustees on pension and superannuation fund boards (Gold, 2008). Pension funds (or superannuation funds as they were formerly known in the UK) have traditionally been governed on industrial democracy grounds, with seats shared among employer and employee trustees, in a manner often described as “representative” rather than “democratic” – in fact with the number of employee representatives often regulated (Sayce and Gold, 2011). Many occupational pension plans were won as the result of industrial campaigns and their trustees are consequently described in union literature as stewards of “workers’ capital” (Westar and Verma, 2007; Habbard, 2011). And as the representatives of workers, unions have long had an especial interest in the safekeeping of employees’ retirement-savings funds. Yet the industrial democracy model of pension and superannuation fund governance is currently under assault, as advocates of corporate governance thinking aim to extend the listed corporation model into the retirement-savings arena.

Applying the corporate governance principle of independence to pension fund boards has been a growing feature of American public pension schemes where inside directors (representing government employers) have often failed the beneficiaries of the plans (Hess and Impavido, 2004; Ambachtsheer, 2007). Requirements to include independent trustees were also introduced in the UK under the Occupational Pension Schemes (Charges and Governance) Regulations 2015, but not in a manner that (as yet) disturbs pre-existing industrial democracy arrangements. Instead, the anti-democratic nature of the calls for fund trustee “independence” are best demonstrated in Australia where in 2015 the conservative government introduced legislation to mandate a minimum of one-third independent trustees on superannuation fund boards with a recommendation that funds move to a 50% quota, much as applies for Australian listed companies (Frydenberg, 2015). The legislation was eventually defeated, but contrary evidence produced by advocates of the industrial democracy model employed in union-sponsored retirement-savings plans was summarily dismissed by the government at the time (Markey et al., 2014).

A similar debate is presently occurring in the UK. Mandatory employee involvement was introduced under the UK Pensions Act 2004 on the basis that it would improve fund accountability, but groups such as BESTrustees and Law Debenture have continued to advocate for more independent trustees to be appointed to pension fund boards (Maton, 2010; Farand, 2014). Independent trustees are being promoted both by academic and professional opinion as a way of improving the performance of British pension funds in terms of improving “board capital” (Hillman and Dalziel, 2003) at the expense of employer and employee representatives. The notion that retirement savings funds are a key form of “union business” is typically

passed over in these debates, as is the lack of employee involvement in traditional corporate governance thinking. Employee representatives are widely held to have the equivalent “outsider” function as independent directors do in the mainstream pension funds governance literature (Hess, 2005), but this matter has also been passed over by the advocates of independent trustees. More independents necessarily means a better functioning board according to the proponents of this corporate governance model, even if the agency problems of a retirement-savings fund are obviously quite different from those which apply in a listed corporate entity (Sayce et al., 2014). The notion of independence derived from corporate governance discourse has clearly spread into the retirement-savings area in an ideological rather than a democratic or evidence-based manner.

### **Organizational studies**

A key theme in the business ethics literature is how a democratic organizational culture may encourage employees to take responsibility for their actions, whereas a more authoritarian one may not (Trevino, 1986). As Denhart (1981, p. 32) expresses it “we originally sought to construct social institutions that would reflect our values and beliefs; now there is the danger that our values would reflect our institutions”. But the plethora of ethics codes and value statements promoted in contemporary business practice often seem more to represent instruments of social control, rather than expressions of democratization. Similarly, although the stakeholder approach was first proposed in reaction to the influence of Nader’s attacks on US corporations (Dill, 1975), Donaldson (2012) observes that interests other than those of managers and

shareholders are often dismissed in the mainstream of corporate governance literature. Arguments over who the “residual claimants” on the profits of the firm should be often boil down to disagreements along the grounds of what Donaldson (2012, p. 269) characterizes as an ideological preference of the “I like oysters and think everyone should eat oysters” versus “I like strawberries and think everyone should eat strawberries” variety. Jensen (2002), for example, dismisses stakeholder theory as politicizing and irrational, while Freeman, Wicks and Parmar (2004, p. 364) defend their approach by criticising “shareholder ideologists” who “serve neither truth nor freedom”. The demarcation between stakeholder theorists and the mainstream of corporate governance research may again here be characterized as a reflection of an implicit debate over democratization.

Similar criticisms can also be raised of other liberal approaches to democratization – the 2012 call to make Britain a “John Lewis economy” by former Deputy Prime Minister (and Liberal Democrat leader) Nick Clegg was made without cognizance of the degeneration of democratic structures which have been a recent characteristic of the John Lewis Partnership, one of the largest employee-owned firms in Europe (Cathcart, 2014, Paranque and Willmott, 2014). As Hartman (2014) claims, it is in studies of “alternative organizations” (in the sense of alternatively *governed* ones) where empirical and ideological claims concerning the democratization of firm governance can most profitably be examined, modeled and explained. The lack of comprehensive studies of the effects of labour trustees on pension fund performance directly reflects the lack of interest shown by corporate governance researchers on the influence of employee directors, mutualism (and demutualisation), employee ownership, cooperative ownership, and other forms of formal business

democratization generally in the field. The eclipse of the discourse of democratization in the 1980s has been a key influence in many fields of organizational study, not merely that of the mainstream of explicitly corporate governance-focused discourse itself.

## **Conclusion**

Friedrich Hayek (1944, p. 98) claimed in his *Road to Serfdom* that “what matters is that we have some choice”, that “there is almost always a way for the able” to leave a job that “becomes quite intolerable”. And similarly, in his recent book *Democracy: Where and Where Not* (2011), Christopher Gray considers the relationship of US business to American democracy purely in terms of whether corporations should be able to influence the political process – there seems to be a general lack of understanding in such works that democracy is not something necessarily external to the firm, but that it is something that can take place within it. As David Ellerman (1990, p. 32) has stressed, “[d]iscussions of corporate governance are often clouded by insufficient attention to the distinction between those who are governed by the corporation and those whose interests are only affected by the firm.” The fundamental question of political economy – how should we be governed? – seems to be absent from most debates in corporate governance. It is as if the concept of democracy has somehow become alien to the narrative tradition which obtains in corporate governance circles in the main liberal-market economies currently.

Corporate governance is duly seen today by its critics largely as an impossibly conservative, neo-liberal project – indeed much as if it were an inversion of the older movement towards industrial democracy. As Donaldson (2012) adumbrates, the agency approach to corporate governance has tended to crowd out other normative concerns in the associated intellectual discourse. Beginning as a call for business governance reform, for democratizing American corporations, since the 1980s narratives of corporate governance, particularly in their agency-theory form, have been conceptualized predominately as management and shareholder-focused. Originally advanced in terms of democratization, corporate governance is now articulated predominately in a manner significantly at odds with earlier ideals of industrial democratization. Yet the main criticisms of contemporary corporate governance theory and practice tend to be liberal and contractual in their nature, stressing how businesses should be more responsible to the societies that give them legal licence, for them to treat all their stakeholders reasonably and nicely. Democratization in this model makes appeal only to the broader social licence enjoyed by listed entities, not to their formal democratization. Debates about stakeholder representation and corporate social responsibility have often acted to obscure rather than focus on the key issue that was encapsulated in earlier debates over industrial democratization. Indeed the democratizing of the governance of business entities is not even considered in much contemporary corporate governance discourse, solutions to wider issues of social concern typically being proposed either through the means of developing more focus on personal ethics, corporate public engagement or a clearer regulation of the nature of the duties of managers and



directors towards business stakeholders in a liberal-contractual view of the nature of the firm.

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