Corporate democracy would reinforce the legitimacy of America's most influential institutions, its giant corporations—yet such democracy is fundamentally incompatible with the functioning of such organizations. The author explains in depth . . .

Why America Needs, But Cannot Have, Corporate Democracy

Henry Mintzberg

Ours has become a society of organizations. The implications for democracy are profound, since the traditional freedoms—to vote, to be presumed innocent, and so on—can mean little if the citizen has no control over the more mundane matters that affect his or her daily life, in the role of worker, customer, neighbor. Some organizations, such as school systems and unions, are ostensibly subjected to democratic forms of control. But others—in particular, the large, widely held corporations—are not. At one time, their legitimacy was based on shareholder control and responsiveness to market forces. That the former has eroded significantly over the course of this century few people would deny; many believe that the latter has as well. Hence there has been increasing attention to the issue of the governance of the large corporation—to what we shall call "corporate democracy."

Some American critics have labelled corporate democracy an alien or subversive doctrine. During Campaign GM, in which a group of activists sought to have "public directors" elected to the board of General Motors, its chairman, James Roche, "branded such agitation as radical, as the

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machinations of 'an adversary culture . . . antagonistic to our American ideas of private property and individual responsibility.' " But the truth is just the opposite, as George Cabot Lodge, who so quotes Roche, and others have pointed out. It is not concentrated power free of popular control that is in the American tradition, but public accountability and pluralism—the town council, for example. Irving Kirstol has noted that "in no way did the large corporation seem to 'fit' into the accepted ideology of the American democracy. No other institution in American history—not even slavery—has ever been so consistently unpopular as has the large corporation with the American public. It was controversial from the outset, and it has remained controversial to this day." Adam Smith had a form of democracy in mind when he wrote of his invisible hand. The butcher, the brewer, and the baker were to serve society as free men, independent of close government control. But Smith never dreamed of Swift & Co., Anheuser Busch, and ITT Continental Baking Co. What was once a case for democracy now becomes a case of oligarchy.

Nevertheless, the debate over corporate democracy has been slower to develop in America than in Europe. This may simply reflect American conservatism, a greater attachment to Adam Smith's ideology of free enterprise and of independence (of institutions if not individuals). But it probably also reflects American pragmatism. How to democratize the corporation? Who should get what kind of power? Saying "one person, one vote," for example, does not tell us which persons or what the votes will be about. And then there is the concern about efficiency. What price democracy? ask the skeptics.

This article seeks to address these questions, drawing on some of the evidence about corporate democracy. We discuss four

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basic forms of corporate democracy and the consequences of each. The conclusion: Although no pure form of democracy appears to be feasible in the typical large corporation of today, changes can be made in its governance that are likely to prove not only feasible but also desirable—for corporations and their managers as well as for the constituencies they serve.

Note that while we restrict our comments to the corporation—where the governance problems are most evident, as implied earlier—many of them apply equally to the other large institutions of our society, inside government and out. Our control of them is, as we noted earlier, only ostensibly democratic.

Four Forms of Corporate Democracy

One means toward corporate democracy focuses on the board of directors and involves the election of its representatives. We call this *representative democracy*. A second focuses on direct involvement in the internal decision-making processes of the corporation. We call it *participative democracy*. The former relates only to the official governance of the corporation, while the latter—though still involving formal representation—goes further to include employees other than managers in a direct say about the actual processes by which corporations make their decisions.

In principal, anyone who is affected by a company's activities can be included in either form of democratization. But most proposals for corporate democratization focus on one of two basic groups. First are the inside *employees*—in some cases all of them; in others, only the operating workers. The European debate over corporate democracy has focused on this group. Second are outside *interest groups* of one kind of another—consumers, minorities, environmentalists, representatives of local communities or of the "public interest," and so forth. The American debate over corporate democracy—as it has begun to evolve, at least—has tended to focus on these outside interest groups.

Combining the two means with the two groups gives us four basic forms of corporate democracy, which are shown in Figure 1.

In theory, at least, these are forms of corporate democracy. With one possible exception, they have hardly been approached—let alone realized—in practice. That they are even realizable in the corporation remains to be demonstrated, although some have been closely approximated in other kinds of organizations, as we shall see.

Representative Democracy of the Corporation

Those wishing to broaden the legal power base of the corporation have found the board of directors the obvious place to start. Theirs has, in effect, been a search for a representative form of democracy in the corporation, where groups influenced by the corporation would be able to elect their representatives to the body that legally controls it.

The American Debate: Interest Group Representation

While the European proponents of corporate democracy have for some years been concerned primarily with opening up the board to the workers—in effect seeking a constitutional democracy of insiders—the American proponents, far fewer in number, have been pursuing representation of outside interest groups such as consumers and minorities.

Figure 1

FOUR BASIC FORMS OF CORPORATE DEMOCRACY

Focus of Attention		*Groups Involved*: *Internal Employees*	*Groups Involved*: *External Interest Groups*
Focus of Attention	*Board of Directors*	Worker representative democracy (European style—for example, "co-determination" or worker ownership)	Pluralistic representative democracy (American style—for example, "public interest" directors)
	Internal Decision-Making Process	Worker participatory democracy (for example, works councils)	Pluralistic participatory democracy (for example, outsiders on new product committees)

Robert Dahl, for example, referring to the European proposal as "self-management," calls the American proposal "interest-group management": "Interest-group management seems much more in the American grain than self-management. It fits the American ethos and political culture, I think, to suppose that conflicting interests can and should be made to negotiate; therefore, let all the parties at interest sit on the board of directors. It would be a very American thing to do."

What might better be called interest-group representation has become an issue in the United States only quite recently, although there is at least one example that dates back to the turn of the century. Six of the 24 members of the board of Prudential Insurance are selected as public directors by the Chief Justice of the Supreme Court of New Jersey, the company's state of incorporation. This arrangement, instituted in insurance companies of the state after an investigation of problems in the industry in 1906, has been found "quite workable" by the company, according to a Conference Board report. Indeed, the New Jersey law calling for public directors was repealed in 1949, but the practice was reinstated in 1953 "at the instigation of Prudential management itself." Of course, the issue of representation is well known to such nonprofit institutions as universities and hospitals, which for years have had to deal with the problem of allocating seats on their boards to different constituencies. In fact, the board seats of hospitals in the Province of Quebec are formally allocated by legislation to representatives of the hospitals' users, the local community, the clinical and nonclinical staff, and so on.

Interest-group representation in the private sector entered the American consciousness in 1970 with Campaign GM. As noted, this was the attempt by a group of activist Washington lawyers, Ralph Nader among them, to force a number of changes in the governance of General Motors, most notably to elect "public interest" directors. The group, interestingly enough, sought to work within the existing legal machinery of the corporation to activate its dormant shareholders. The lawyers purchased 12 shares of General Motors stock (out of the quarter-billion outstanding) and then, as shareholders, requested that nine proposals related to corporate social responsibility be included in the proxy materials sent to the shareholders of the company before its annual general meeting.

General Motors contested the proposals as being inappropriate for shareholder vote, and the Securities and Exchange Commission, under pressure from both the left and the right, agreed to the inclusion of only two of them: that a shareholders' committee for corporate responsibility be elected and that three "public directors" designated by Campaign GM be added to the board. (An interesting insight by George Cabot Lodge is worth noting here in passing: "Here we have an odd philosophical situation: The hired hands were asking the state to prevent private property owners from discussing how the hired hands should use and direct their property." Elsewhere, in response to Roche's attack on the Campaign group cited earlier, Lodge comments: "In truth, of course, *GM is the radical*; Nader et alia were acting as conservatives, trying [through forcing shareholders to behave like owners] to bring the corporation back into ideological line.")

Following a vigorous campaign to solicit the proxy votes of the shareholders, the two proposals each received only about 2.5 percent of the vote. As an attempt to broaden the legal power base of the corporation, Campaign GM was a failure (although soon after, the company did institute a number of related changes voluntarily).

It was not long after Campaign GM that proponents of corporate democracy began to call for changes, not in specific corporations within the context of their own constitutions, but in the legislation that defines the constitutions of corporations in general. In January 1971, Ralph Nader called for the "popularization" of the large corporation, that "5 to 20 directors should be elected directly by the public at large in a national election. The remaining 15 would be elected by shareholders under a proxy system that would permit the submission of management and opposition slates in a single corporate solicitation at corporate expense." A similar proposal came from Robert Townsend, once chief executive of Avis, that a federal law require "every corporation with assets of $1 billion or more to support the office of a public director to the tune of $1 million a year for staff. . . . He could attend all board meetings; 'all doors and files could be open to him,' and he would call a press conference twice a year 'to report on the state of the corporation and its effect on the public.' "

In a paper written in 1974, Boston law professor Philip Blumberg noted that "the different reform proposals currently in vogue have a fundamental common objective. They seek to transform the large corporation into a public institution." Blumberg found that most of the efforts to seat other kinds of directors used proxy proposals similar to those of Campaign GM and, similarly, attracted only limited support—one receiving more than 9 percent of the votes cast, but most of the others less than 3 percent. Of the various proposals, Blumberg found that the most serious involved the employees, but that American unions had not taken up the issue and that "the proposals are being advanced without grass-roots support." He referred to the proposals that concerned consumers, suppliers, and dealers as "purely theoretical or symbolic," with little or no support, and those from environmentalists as "hard to take seriously . . . except as symbolic or quixotic gestures." Other proxy proposals dealt with women, minority groups, "even" investment bankers. (He noted that only about 20 American corporations had women directors. A more surprising finding, reported in his 1971 article, is that not a single one of the 1,008 directors of California's 67 largest corporations was black or Mexican-American, and only six were women, most of these related to company executives.) Blumberg downplayed proposals for public-interest directors (because of the absence of a clear constituency or appointing agency) and found that proposals for government directors "stir little enthusiasm." He concluded that while special interest representation and related proposals are "no more than topics for academic discussion in the U.S. . . . there are deep-seated underlying forces [notably worker alienation] that could conceivably make proposals of this nature . . . a matter of realistic concern in the future."

In the same volume, this issue was discussed by another law professor, Melvin Eisenberg, at the other side of the country (Berkeley) and, apparently, of the political spectrum as well. Eisenberg reviewed some of the interest groups in question and concluded in each case that their interests would be better served by laws. He noted both the difficulties of election (for example, "Are *all* customers and purchasers to have a voice in corporate affairs, or only small ones?") and the possibility of conflicts of interest, citing one writer on the resulting "political gangsterism that would destroy the efficiency of business management." Eisenberg concluded that the customers and suppliers would be better off negotiating with the corporation as detached economic entities. This, of course, has also been the traditional stand of American labor, and Eisenberg believes that it should stay that way.

Eisenberg's arguments are based on the traditional view of the corporation. He disregards the conflict between social and economic goals in corporate behavior and turns a blind eye to the broader questions of power raised by the activists. In discussing labor representation on the board, for example, Eisenberg referred to the danger of short-run interests, which "will often severely conflict with the long-run interests of the enterprise." As if these long-run interests are (1) given, (2) fixed, and (3) purely economic! Thus, while Eisenberg endorses the view that "political gangsterism would destroy efficiency," others are trying to say that widespread representation would build social responsibility. Nevertheless, the problems that Eisenberg raises about defining constituencies and institutioning election procedures remain with us.

To conclude this discussion, the American debate over representative democracy is hardly more than embryonic; consensus, even pockets of agreement, seem distant. Yet there is something in the American character that suggests that movement toward consensus may one day soon come faster and with greater clarity than most people today could imagine.

The European Debate: Worker Representation

European attempts to broaden the legal power base of the corporation have proceeded along very different lines. From the assumption that authority in the corporation, as in the government, should rest on the consent of those governed, the focus has been on one special interest group—the employees. This, of course, eliminates the technical problems of elections and representation; as Eisenberg himself notes, "there is readily at hand a principle for allocating labor's votes—one per employee." As a result of this, as well as an earlier start and a weaker ideology of free enterprise, European proponents of corporate democracy have had much greater success in broadening representation on the board of directors.

Yugoslavia is the most advanced European nation in this regard, having used worker representation to move from a centralized to a more dispersed, market economy. Since the 1950s, all but the smallest Yugoslavian business enterprises have in effect been owned by the workers themselves, who fill the positions on the boards and elect the managers. In Western Europe, German law has traditionally been the most far-reaching, although other governments have moved toward it; even the Common Market is viewing the adoption of a representative democracy law.

"Co-determination" or "Mitbestimmung" in Germany can be traced back to 1834 when consultative works councils were first proposed, and 1881 when they were first instituted. During World War I, all industrial corporations with more than 50 employees were required by law to have them. After the war, the constitution of the Weimar Republic called for two employee representatives (out of at least six) on the American equivalent of the board of directors of the large corporations. However, this did not satisfy the labor leaders, one of whom referred to the regulation as the "fig leaf of capitalism." In 1951, after much trade union agitation, the passage of a new law gave the workers of the larger mining and steel companies equal representation on the board with the shareholders (hence "co-determination"), and this was broadened by a law passed in 1976 to apply to most large German corporations.

Depending on the size of the corporation, worker representatives on the board include two or three directors named by the unions, and four to seven elected by the employee delegates, themselves elected. The latter directors, all of them employees, include blue-collar, regular white-collar, and supervising or managing white-collar representatives, according to their proportions in the firm. The shareholders elect an equal number of representatives, although they have a certain advantage since the managing representatives tend to side with them and the chairman is elected by a two-thirds vote of directors or, failing that, by the shareholder representatives. A reading of some of the clauses of the 1976 law gives the impression of highly legalistic procedures, the formal governance of the German corporation having become somewhat like that of the nation-state.

The Effects of Representative Democracy on the Functioning of the Corporation

What effect does adding the representatives of constituencies other than shareholders or management have on the corporation? The evidence for worker representation at least seems clear.

A. E. Bergmann sums up the criti-

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cisms of co-determination as follows: "It leads to a politicization of technical questions, increases bureaucratization, hampers entrepreneurial drive, dilutes responsibilities, delays decisions, and endangers the unity and flexibility of management," not to mention that it "is incompatible with the free market system and existing property rights." In light of all this, it is interesting to find in Bergmann's analysis that the *actual* effects of co-determination have been minor and not harmful to the economic interests of the corporation. Bergmann sums up the German changes as having had "no revolutionary effect": "They did not bring about a New Society, nor have they led to socialism, nor have they fulfilled the hopes for true industrial democracy, nor have they changed significantly the working conditions of the individual worker."

In mining and steel, where the experience with co-determination has been the greatest and its form the most advanced, voting splits have been rare, with financial and technical questions left to the management, while the employee representatives have had more freedom of action in wage and welfare matters. In Bergmann's view, this has amounted to a check on management rather than joint management, and has not impaired managerial effectiveness. Furthermore, middle and lower management has been ignored, and paternalism has not disappeared (". . . now we have a joint employer-union paternalism"). The ordinary worker, aside from the few representatives among the thousands, is no better off and is apparently not even very interested in the issue. "Many workers in the steel industry are not even aware of co-determination." These conclusions are supported widely.

In discussing the Yugoslavian experience very much from the party line, J. Kralj claims that the workers are "directly involved" in decision making: "Decisions are no longer made at the top; they are only integrated and co-ordinated there, in the joint interest." Only! One thing the evidence makes clear is that representative democracy is most decidedly not participative democracy. Workers may sit on the boards, but that does not enable them to make the key decisions. In fact, worker representation seems to have the effect of *weakening* internal participation, by strengthening the hand of top management at the expense of other inside groups. Its effect has been, in the words of two reviewers, "to bypass middle management, to weaken the staff function, and to inhibit the development of professionalism."

One clear message of power around or inside organizations is that when a constituency is large and dispersed, it becomes passive, and power focuses on those able to take command at some center of authority or communication. The fact that an individual in a large system gets to choose a representative periodically does not bring him or her any closer to participation in its decision making. In fact, one laboratory study found the opposite result: given differences in knowledge, the greater the participation, the greater the power differences between members!

One thing worker representation almost certainly does do—as noted in our description of the German co-determination laws—is to force in more rules and regulations, more formality. In other words, it drives the corporation closer to a structure of traditional bureaucracy. And that has the effect of robbing managers lower in the hierarchy of their power and concentrating more of it at the top. Thus, while senior managers have been heard to express the fear that democratization will increase politicization, the evidence seems to suggest, instead, that it will increase bureaucratization and centralization.

Ironically, there is evidence that representative democracy may not even make the large corporation more socially responsive. One group of researchers asked the top executives of 32 firms in Yugoslavia, all worker owned, and 35 in Peru—where worker representatives shared seats on the board with shareholder representatives—to rank six sets of goals. "Social contribution" came out last by far in Peru, and second to last in Yugoslavia—behind, in order of ranking, production, economic development, technological leadership (these two tied in Yugoslavia), profitability (in Peru only—it was last in Yugoslavia), and employment. In other words, economic goals seem to remain foremost in the minds even of managers who report to worker-directors. One can, in fact, imagine cases where representative democracy could *lessen* social responsiveness. An all-worker board in a monopoly, for example, could encourage severe exploitation of the customers—unimpeded by market forces, the worker-directors could vote their colleagues ever larger salary increases. Similarly, of course, an all-customer board could make life miserable for workers who have no options—they could cut production costs at the expense of salaries or safety precautions.

This suggests that if there is to be representative democracy, no one group alone should be represented. Nor should there be a blanket formula for representation, as is dictated by the co-determination laws in Europe. Rather representation should be tailored to the situation. We might expect, for example, a greater proportion of customer representatives on the boards of utilities, or of worker representatives on the boards of competitive mass-production firms.

This leaves the technical problem of how to select representatives. As noted earlier, a ready formula is available for selecting workers, since they are a well-defined constituency, but none is evident for most other groups. Yet, as the Prudential Insurance example shows, such problems are never so complicated as they seem once they are approached with a constructive attitude and a little bit of imagination.

We have delayed the most important question for last. Given the evidence of its effects, why should we even bother considering this form of corporate democracy further? Because there is other evidence, of different effects, that supports representative democracy even from a management and an economic perspective. German Chancellor Helmut Schmidt apparently told a visiting British Commission charged with recommending proposals on industrial democracy that "the key to his country's post-war economic miracle was its sophisticated system of workers' participation." While no one can prove this statement, it is certainly indisputable that co-determination cannot have done the German economy much harm. As even the *U.S. News and World Report* has noted: (in a May 10, 1976 article):

> To date, the European experience with co-determination has not borne out the worst predictions of its detractors. As one international labor expert in Geneva put it: "Co-determination has not prevented Germany from becoming Europe's leading industrial power and the wealthiest nation in Europe."

How might representative democracy help economic efficiency? One possible answer relates to its form rather than its substance. Specifically, representative democracy gives an air of legitimacy to the governance of the corporation. Groups over which the corporation exercises power are given formal rights in controlling it. Worker control of Yugoslavian boards, for example, may not have democratized the daily workings of the firms, but it might at least have given workers the feeling that they are working for themselves. That must have improved productivity, though the gains may have been small.

Other, more substantial benefits have been suggested, however. Co-determination has opened channels of communication between workers and managers, and this in turn "has spurred employers to pay more attention to the human side of enterprise" and has made managers "somewhat less authoritarian," according to Bergmann. Managers can more easily come to know the needs of the workers. For their part, German unions, according to G.D. Garson, claim the benefits of "greater access to management information, considerable influence over working conditions and social and personnel policies, and a foothold aiding the spread of unionism into unorganized enterprises." (This last point might best explain the German unions' support of co-determination.) Perhaps most important—and the factor that may best explain the relationship between co-determination and economic growth in Germany—is the sense of cooperation and understanding that this two-way flow of information between managers and workers can engender. Disputes that might otherwise spill into a public arena may be settled quietly in the boardroom.

American observers have, on the whole, been hostile to representative forms of corporate democracy, especially co-determination. Polls find that a majority of American business executives do not believe that employees should have the right to participate in making organizational decisions, let alone have formal access to the top policy-making body (unless managerial prerogatives remain completely unaffected). Reginald Jones, former president of General Electric, has referred to co-determination as "meaning union usurpation of managerial authority," while Peter Drucker, ignoring the broader issues of power altogether, has claimed that the new representatives

> . . . cannot function as board members. Their role is to represent this or that outside group, this or that special interest. Their role must be to make demands on top management and to push special projects, special needs, and special policies. They cannot be concerned with, or responsible for, the enterprise. Nor should they be expected to hold in confidence what they hear at board meetings; in fact their trust is not to the enterprise but to their constituents outside.

Even American unions have generally stood against worker representation on corporate boards, preferring the negotiation of equals to the corporation of partners. Yet the changes in attitudes toward co-determination in certain European nations may well be indicative of things to come in the United States. What are we to make, for example, of the election a few years ago of the head of the autoworkers' union to the board of Chrysler Corporation in return for union cooperation?

We have seen that representative democracy has relatively little impact on decision making, if anything strengthening the hand of top management and possibly even promoting greater harmony as well. So perhaps the American resistance to it is misplaced, an unwillingness to adapt and face new realities. One wonders, for example, whether the telephone company might not be better off negotiating rates with its customers in the confines of its boardroom rather than having to face them at public hearings every year.

Ultimately, representative democracy gives the widely held corporation the legitimacy it often lacks, yet seems to do little harm to the power of its senior managers. The main reason is simply that the board of directors is hardly the place to exercise close control of corporate decision making, especially when the constituency represented there is widely dispersed. The board does have certain official powers, notably the appointment of the chief executive officer. But the directors do not manage the corporation—or, at least, when they begin to, they cease to represent those who elected them (as seems to have happened in the case of the labor managers in Germany).

The problem is one of commitment and involvement. If the directors are full-time, they lose identification with their constituents, as noted above. The director who spends all of his working hours in that capacity is no longer a worker, or a consumer, or whatever; he is a manager. That is his primary identification. And the director who is part-time—who, for example, must spend most of his time working in the factory alongside those he represents—is no match for the senior manager when it comes to control of strategic decision making. By devoting all of his time to these matters, the senior manager hones the requisite skills—not only to make decisions, but also to gather and assimilate the requisite information, to convince and negotiate, and so on. The part-time director, lacking the necessary time, information, and skills, cannot easily challenge the manager, and so tends to be easily coopted by him. (However, the "professional" director who devotes all of his time to a few boards may be a feasible compromise solution.)

As for the commitment and involvement of the constituents themselves, they are remote from their representatives. A worker is only one of thousands who get to elect a representative to sit on top of a hierarchy. That representative's influence reaches him only through that hierarchy—through the many layers between him and his representative. This is hardly sufficient to make him feel that he's in control of his destiny. The problem, as we shall soon see, is fundamentally one of structure; it cannot be resolved by the election of a few representatives. That, presumably, is why study after study of workers in enterprises with representative democracy finds them apathetic and disinterested, often even unaware of their "privilege." The same seems to hold for consumers of the mutual insurance companies and banks that they own. In this regard, the workers and consumers are no different from the shareholders of the widely held corporations!

Thus representative democracy may be a convenient way to broaden the legal power base of the corporation—the board, as we noted at the outset, is the most obvious place to begin—but in the final analysis it makes little difference in the actual distribution of power or in what decisions get made. That is why attention has turned somewhat to the possibilities for participatory democracy.

Participatory Democracy of the Corporation

First we consider worker participation in the corporation's decision-making processes. Then we turn to the participation of those who represent groups outside the corporation.

Participation of the Workers in Decision Making

When the French talk of "auto-gestion," some of them at least seem to have in mind a grass-roots, internal democracy in which the workers would participate in decision making and would also elect the managers (who would then become more administrators than bosses). In this way, top-down hierarchy of authority would be converted into bottom-up participatory democracy. Yet the proposals are generally vague, and we have come across no example of a large corporation—not even one owned by workers or a union—that has achieved anything close to this.

Participatory democracy need not, of course, be an all-or-nothing proposition. One can imagine partial forms of it that would give workers limited formal power in decision making. Only specific decisions might be included, for example, and it might be limited to the power to be consulted or to authorize and veto, as opposed to the actual choice. The works council, already mentioned, is one example of partial participation. Originally set up within German plants to allow management to consult workers' representatives on proposed actions, they gradually gained veto power over decisions related to working hours, vacation, schedules, various wage issues, vocational training, welfare programs, and accident policies. They also received the legal right to be consulted on actions leading to changes in worker assignments and jobs and to be informed on all major changes that could affect the workers.

Evidence on the direct use of these powers, however, appears to be similar to the conclusions presented earlier. The works council representatives tend to be uninformed, so the managers do the talking (75 percent in one study) and the initiating; the workers tend to show interest only in issues that affect them directly in the short run. Nevertheless, the councils have obviously had their indirect influence—primarily in serving to check implicitly some changes that management might have otherwise tried to make. And because the councils are close to the workers and their needs, they have probably had more impact than the worker representative boards have had.

A far less ambitious form of participatory democracy—better referred to, in our view, as a "judicial" form—occurs where workers have been able to force in rules, such as promotion by seniority, that delimit the power of managers over them. As described in one well-known book by Michel Crozier, the workers end up being less at the mercy of arbitrary decisions by their supervisors, but do so at the expense of a structure that is more bureaucratic and centralized. The relationship between worker and supervisor becomes impersonal, while the decision-making power moves up the hierarchy to a remote level where discretion can still be exercised. The lower-level managers lose power, but the workers do not gain it; both are locked into the same straight jacket. It is the top managers who comes out ahead, just as they do in the case of representative democracy.

There is one other form of participation worth mentioning here, but only to ensure that it is not confused with democratization. That is the so-called "participative management," which has been very popular in the United States. In this case, management takes the initiative in involving workers in decision making. But democracy depends on no one's generosity; power in a democratic system is distributed constitutionally.

The Futile Search for Worker Participatory Democracy

Why has worker-participative democracy attained so little real success? One could, of course, argue that it is simply too early to judge, that works councils barely represent a beginning. But there is reason to believe that true participatory democracy for workers will never be attained because the problem lies in the nature of the work and the design of the structure, not in the distribution of power.

In an earlier work, we described five basic forms of structure. Only two of these—referred to as Professional Bureaucracy and Adhocracy—approach democratic ideals. Both do so because the complexity of their work requires extensive delegation of decision making power to experts—in one case experts who work alone, in the other those who work and share power in groups. In the other three forms—called Simple Structure, Machine Bureaucracy, and the Divisionalized Form—no such extensive delegation is necessary because the operating work tends to be relatively simple. Quite the contrary, in fact. These structures need tight forms of coordination, ones that can be achieved only by an administrative apparatus consisting of line managers and staff analysts.

Now, were it democratization of Adhocracy or Professional Bureaucracy people wanted, there would be little problem. But that is not the issue. The proponents of participatory democracy are not lobbying for changes in universities or research laboratories. It is the giant mass producers they are after, in other words the Machine Bureaucracies (often grouped into Divisionalized Forms). And these are precisely the organizations in which the need for tight administrative control and coordination is paramount. Here is where the efforts of thousands of workers producing single integrated products must be coordinated by technocratic standards. Not every assembler in Volvo can decide where the fenders of the car should be bolted on. Only one person decides that, and he sits in an engineering office, taking his cues from someone in a design office. Participative democracy—in which, at the limit, everyone gets a shot at every decision—hardly encourages such coordination. The fact that such decisions require a sophisticated system of bureaucratic coordination is the main reason that automobile firms are structured into rigid hierarchies of authority—not because their managers lust for power (though some of them no doubt do). And that is why mass producers inevitably end up as oligarchies, not democracies, and why Kralj's comment that decisions in Yugoslavian enterprises "are no longer made at the top" but "only integrated and coordinated there" is so amusing.

The need for such coordination precludes serious participatory democracy, restricting it to works councils that can veto specific kinds of decisions, ones that directly affect the mass of workers. This too is the reason attention has been focused on representative democracy. From the workers' point of view, if democracy could not be approached in substance, then at least it might have been achieved in form.

To add to the problem, ironically, representative democracy does not diminish the level of Machine Bureaucracy, the main block to participatory democracy—and the main reason for wanting it. Rather, by promoting greater centralization and bureaucratization, it increases the level, making substantive participation even more elusive. Our large organizations seem to have us caught in a vicious circle.

Pluralistic Participation in Decision Making

Of course, workers need not be the only group involved in decision making. Outsiders can gain the right to participate as well. Thus self-proclaimed "corporate activist" Philip Moore, executive director of the Project on Corporate Responsibility in the United States, commented in 1974:

> . . . it is obvious why the thrust of any change must be in terms of structure—the way the corporations run. People have got to have access to decision making to express their concerns and to influence policies that affect their lives. . . .
>
> What is required is a shift of accountability from management to the people affected by corporate decisions. We need a system of corporate governance by which affected people control decisions. . . .
>
> We need a constitution that defines the internal process by which corporations work . . .

Moore's proposals are rather vague

on this point. But we can imagine at least two ways in which the internal decision processes of corporations could be made accessible to outsiders. One is to allow outside groups to appoint certain inside specialists. If the German steel workers can appoint the labor (personnel) managers, so too presumably could American consumer groups appoint product safety managers and conservation groups appoint environmental protection managers. Of course, creating and staffing such positions would neither ensure acceptance and cooperation by the other managers of the firm nor guarantee against cooptation of the externally appointed managers (as has happened with the labor managers in Germany, according to Bergmann). But the overall influence on the corporation's social responsiveness might be positive.

A second approach, perhaps more effective, would be the direct participation of representatives of external groups on certain decision-making committees in the corporation. This, of course, is hardly a new idea in the public sector, where task forces named to deal with particular issues frequently involve representatives of affected groups alongside civil servants. When the corporation must make a decision that will profoundly affect some outside group, giving that group the legal right to participate in the decision-making process could make some sense. The law already recognized such rights in the collective bargaining process, where management cannot impose wage settlements unilaterally but must instead share its decision-making powers with the representatives of the workers. And most observers today would agree that this has helped the managers as well as the workers. Instead of having to confront a powerful group publicly with a *fait accompli*, management can work out the conflicts before the decisions are made. Might not the same advantages accrue to the firm by extending this practice?

Given increasing pressures from consumer and environmental groups, among others, it may in fact be in management's best interests to have representatives of such groups serve on the committees that reach certain decisions in the first place. Consumers could serve on certain new-product-design task forces, and environmentalists and representatives of local communities could serve on committees concerned with the design of new plants. This would certainly take more management time and effort in decision making, but it might lead to a great deal less time and effort devoted to the execution (and protection) of decisions already made.

These are only two possibilities. But they do suggest that with the application of a little effort and good will, the inner workings of the corporation could be opened up to the participation of outside groups, to the benefit of both sides. Again, we should not expect a great deal of interest group participation, nothing close to what could reasonably be called participatory democracy, for reasons already stated. The need for coordination of decision making will remain paramount if the corporation is to remain viable. But we should expect some useful changes.

To Conclude

America "needs" corporate democracy to reinforce the legitimacy of its most influential institutions, its giant corporations. That can only help resolve some of the conflict and controversy that has surrounded these institutions since the days of the giant trusts late in the last century, and thereby to charge them with renewed energy and enthusiasm. But Americans "cannot have" corporate democracy, because it is fundamentally incompatible with the functioning of large mass production organizations. At least it cannot have a pure democratization of its corporations. But it can open up the governance and functioning of these institutions to greater pluralistic control, without impairing their effectiveness.

There are a number of ways in which to think about democratizing the corporation. Some involve representative democracy, others participatory democracy; some focus on a single "unenfranchised" group—namely, the workers—and others on a host of groups, such as consumers, environmentalists, the general public. All of the proposals to involve them pose problems—including who should be represented, in what numbers, by what means, chosen by whom, and insured by what. As Daniel Bell has written, "We now move to a community ethic, without that community being, as yet, wholly defined." Some proposals raise problems of efficiency and the effective achievement of the missions of corporations. Any reasonable degree of participatory democracy, in particular, may prove incompatible with the kind of coordination most large corporations require. Certain changes can be pursued only so far until the corporation becomes a plague on everybody's house, client and worker and manager alike.

However, the opposite problem must also be recognized by the opponents of democratization: that the corporation as presently constituted is felt to be a plague on some houses, notably the powerless over whom the corporation has a great deal of power. As Kenneth Arrow has noted, "Authority is undoubtedly a necessity for successful achievement of an organization's goals, but it will have to be responsible either to some form of constitutionally planned review and exposure or to irregular and fluctuating tides of disobedience."

Many of the proposals for corporate democracy have been deemed unworkable. Yet it is amazing how quickly things become workable in the United States when Americans put their collective mind to it. The case of Prudential Insurance tells us that feasible options do exist and can be developed. While hardly achieving true democratization of the corporation, these options can increase its legitimacy, give some power to those who see themselves as disenfranchised, and sometimes strengthen its social goals as well. Yet they do surprisingly little harm to the functioning of the corporation as an economic entity.

The search for democracy in the corporation is not just an incidental exercise. It is not designed simply to make the corporation more socially responsive. Nor does it represent some kind of subversion of free institutions. Quite the contrary. That search is a reflection of the fundamental belief that a society cannot call itself free if its most influential institutions do not come under democratic controls. And so the search must go on, as Robert Michels argued in 1915:

> The peasant in the fable, when on his death-bed, tells his sons that a treasure is buried in the field. After the old man's death the sons dig everywhere in order to discover the treasure. They do not find it. But their indefatigable labour improves the soil and secures for them a comparative well-being. The treasure in the fable may well symbolize democracy. Democracy is a treasure which no one will ever discover by deliberate search. But in continuing our search, in labouring indefatigably to discover the indiscoverable, we shall perform a work which will have fertile results in the democratic sense.

We need to do much more digging in the fields of corporate democracy.

(Continued on next page.)

The writings on or relevant to corporate democracy are vast and dispersed. The various sources used for this article, which is drawn from "Who Should Control the Corporation," a section of my forthcoming book *Power In and Around Organizations* (Prentice-Hall, Inc., 1983), give some idea of what is available. Commentaries on the American debate include those of Philip Blumberg, Melvin Eisenberg, and Philip Moore writing in an interesting volume, edited by S. P. Sethi, entitled *The Unstable Ground: Corporate Social Policy in a Dynamic Society* (Melville, 1974). Blumberg's article, "The Politicalization of the Corporation" (in *The Business Lawyer*, 1971), also cited, is still well worth reading today.

Other Americans cited in this article whose comments pertain to these issues include George Cabot Lodge (in "Business and the Changing Society," *Harvard Business Review*, March-April 1974), Irving Kristol (in "On Corporate Capitalism in America," *The Public Interest*, Fall 1975), Neil Chamberlain (in *The Limits of Corporate Responsibility*, Basic Books, 1973), Daniel Bell (in "The Corporation and Society in the 1970s," *The Public Interest*, Vol. 24, 1971), and Kenneth Arrow (in *The Limits of Organization*, Norton, 1974).

European views on corporate democracy cited in this article have come from A. E. Bergmann ("Industrial Democracy in Germany—The Battle for Power," in the *Journal of General Management*, Summer 1975) and G. D. Garson ("The Co-determination Model of Workers' Participation: Where Is It Heading?" in the *Sloan Management Review*, Vol. 18, 1977) on the German experience; J. Kralj ("Is There a Role for Managers?" in the *Journal of General Management*, Winter 1976–77) on the Yugoslavian experience; and G. Strauss and E. Rosenstein ("Workers' Participation: A Critical View," in *Industrial Relations*, Vol. 9, 1970), whose review of the experiences in a number of countries remains germane and insightful.

Also exposing a number of the problems inherent in organizational structures that can result from democratization is Michel Crozier's book about French bureaucracies, entitled *The Bureaucratic Phenomenon* (published in English by the University of Chicago Press, 1964); my own book on organizational structuring also discusses some of these issues (*The Structuring of Organizations: A Synthesis of the Research*, Prentice-Hall, Inc., 1979, recently reissued by the same publisher in condensed form as *Structure in Fives: Designing Effective Organizations*). Still highly relevant, almost 70 years later, is Robert Michels's study of the subversion of democratic norms by administrators in radical European labor unions and political parties at the turn of the century (*Political Parties, Sociological Study of the Oligarchical Tendencies of Modern Democracy*, The Free Press, 1915).

Other writings cited in this article include the public opinion research of R. Krishnan ("Democratic Participation in Decision Making by Employees in American Corporations," in the *Academy of Management Review*, Vol. 17, 1974), the experimental study on participation by M. Mulder ("Power Equalization Through Participation?" in *Administrative Science Quarterly*, Vol. 16, 1971), the study of expressed goals in worker-owned firms in Yugoslavia and Peru by J. D. Hoover, R. M. Troub, C. J. Whitehead, and L. G. Flores ("Social Performance Goals in the Peruvian and Yugoslav Worker Participation Systems," in the *Proceedings of the National Meeting of the Academy of Management*, 1978), a newspaper article by Robert Dahl ("Citizens of Corporation," *The Montreal Star*, May 3, 1971), a Conference Board Study by J. Bacon and J. K. Brown, which refers to the experience of Prudential Insurance (*Corporate Directorship Practices: Role, Selection and Legal Status of the Board*, 1975), a paper by George Cabot Lodge in which he discusses comments by James Roche of General Motors ("The Utility of Ideology for Environmental Analysis," in R. F. Vancil's (editor) *Formal Planning Systems*, Conference for Planning Executives, Harvard Business School, 1972), a paper by Reginald Jones, former chief executive of General Electric ("The Legitimacy of the Business Corporation," *Business Horizons*, August 1977), and Peter Drucker's book, *Management: Tasks, Responsibilities, Practices*, (Harper and Row, 1974).

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