

Justice-Based Management: A System for Building an Ownership Culture*

Excerpted from a paper presented at the **ESOP Association**
21st Annual Conference - May 20-22, 1998 - Washington, D.C.

[*Originally entitled, "Value-Based Management: A System for Building an Ownership Culture."]



Work in most companies today follows the "scientific management" philosophy of Frederick Winslow Taylor. Writing in 1911, Taylor proposed that systemizing efficiency should be the primary focus of corporate managers. He declared:

*"In the past, man was first.
In the future, the system will be first."*

Frederick Winslow Taylor

Unfortunately, Taylor's system turned the worker into a disposable human tool, a worker-for-hire, a wage serf. As satirized in the classic movie "Modern Times," where Charlie Chaplin actually *becomes* a mere cog in the assembly line, Taylor's system dehumanized the worker and the culture of work, pitting workers against technology.

Taylor was also oblivious to another danger inherent in his system: it left ownership, control and the distribution of profits in the hands of a small elite of managers, time-study engineers and owners. His system offered once self-reliant workers higher wages in exchange for their loyalty to what many consider a modern form of feudalism.

Most companies today still operate according to Taylor's top-down vision of the workplace. However, the advent of robotics, advanced informational systems, and the globalization of production, marketing and distribution is forcing a basic shift in how we view the role of the worker and the nature of the workplace.

Because of global and technological change, companies are recognizing that their survival and success will require changes in the way they "do business." More and more, they are seeking new, more flexible ways of rewarding and motivating their workers while controlling costs and delivering ever-higher levels of value to their customers. They are also realizing that these objectives are impeded by the adversarial nature of the surrounding economic and cultural environment, a by-product of Taylor's philosophy of work and the inherent instability of the wage system. Businesses are coming to see that what is needed is a new way of thinking.

This new way of thinking would not reject the critical role of systems, but would redesign systems to put people first. It would create a new management approach that rehumanizes the workplace. It would shift power, responsibility and control over modern tools and advanced organizational systems from the few to every person affected by the process.

The new system would combine principles of equity (justice and ownership) with principles of efficiency, to raise the performance of an enterprise and its workers to their highest potential, in order to better serve their customers and other stakeholders. Instead

of tapping into the wisdom, knowledge and creativity of only a few, the new system would recognize the advantages of drawing out and combining the wisdom, knowledge and creativity of every worker.

Some of the most progressive private sector firms have begun to implement successful new approaches for motivating workers, improving productivity and quality, facilitating changes and maintaining continuity in their organization's culture. One comprehensive approach, developed by the Center for Economic and Social Justice (CESJ) in Arlington, Virginia, is called "Justice-Based Management_(SM)" or "JBM_(SM)." [Note: In the late 1980s, CESJ originally referred to this system as "Value-Based Management_(SM)" or "VBM_(SM)". Subsequently, to avoid confusion with a different usage of the term by Wall Street firms and various business management schools, CESJ decided to change its terminology to reflect the system's underlying principles of economic and social justice.]

What is Justice-Based Management?

Simply put, JBM is a business philosophy and management system for competing effectively in the global marketplace, based upon the inherent value, dignity and empowerment of each person—particularly each employee, customer and supplier. As a customer-focused "service" philosophy, Justice-Based Management (JBM) is built upon a shared set of core values. As a management system, JBM offers a logical framework for designing a company's structures and processes to instill an ownership culture that enables the organization to carry on its mission most effectively.

Justice-Based Management follows the market-oriented theory of economic justice first advanced by the ESOP inventor Louis Kelso and the philosopher Mortimer Adler. The Kelso-Adler concepts underlying JBM reveal a systematic approach for enabling each member to: 1) participate fully as a worker and owner in the company, 2) receive a fair distribution based on what he or she contributes to the company as a worker and owner, and 3) organize with other members to correct problems or defects in the system affecting participation and distribution. (See chapters 4 and 9 in *Curing World Poverty: The New Role of Property*, John H. Miller, ed., Arlington, VA: Center for Economic and Social Justice, 1994.)

Justice-Based Management marries the quality, educational and participation aspects of Total Quality Management and Open Book Management, with the equity and ownership concepts underlying employee stock ownership plans (ESOPs). JBM provides a structured system for diffusing power down to the level of each person in the company. JBM also offers workers an opportunity to participate as first-class shareholders in the company's equity growth, and in monthly and annual profits on a profit center basis.

A JBM system typically incorporates an employee stock ownership plan (ESOP), individual and team performance feedback (i.e. frequent and formula-based cash profit sharing), ownership education and sharing of financial information, and structured participatory management and governance. JBM also reinforces within ongoing information and education programs, a broad understanding by all employee-shareholders of the interdependency among every person, department, and profit center in serving the customer and competing in the marketplace.

Experience has shown that where reinforced by a Justice-Based Management system and culture of ownership, workers become empowered to make better decisions, discipline their own behavior, and work together more effectively as a team. Because each person contributes, risks and shares as an owner, as well as a worker, JBM helps unite everyone's self interest around the company's bottom-line and corporate values.

Justice-Based Management calls for a new philosophy of leadership. It holds that an "authentic" leader sees him- or herself as a teacher, as well as the ultimate servant. A true leader is one who empowers others to realize their hidden potential, not one who rules by fear or refuses to be accountable to others. JBM is catalyzed by such leaders; but it is developed and sustained from the ground-up.

A well-designed Justice-Based Management system sharpens and crystallizes the leader's philosophy around a set of universal moral principles. Through a participatory, company-wide process, these principles are refined and embedded within the organization, laying the foundation for an ongoing ownership-sharing culture.

According to JBM, a leader should always strive to empower and encourage people to be responsible for and make decisions in areas directly affecting their lives and work, and at the level of their competence. Power, responsibility and accountability over policy should be decentralized, to avoid potential abuses which occur when these are centralized or concentrated. Those in higher levels within an organization should avoid making decisions which can be made most efficiently and competently by those at lower levels.

Justice-Based Management is not village democracy where every decision is voted upon by all members of the company. Nor is it "management by committee." Rather, JBM builds checks-and-balances in the company's governance and accountability system. It protects the property rights of all shareholders, but allows executives flexibility to make traditional executive decisions.

The ESOP: A Vital Key to a JBM Culture

The purpose of Justice-Based Management is to help empower people and raise their human dignity and quality of life, both inside and outside the workplace. Its principal economic means for achieving this end is *expanded capital ownership*.

Justice-Based Management offers every worker the most effective tools to become a co-owner of the place where he works. The Employee Stock Ownership Plan (ESOP) was created to provide workers with access to capital credit-previously available only to those with significant accumulated assets-and to pay for their shares out of future corporate profits which they help the company to earn.

But in terms of Justice-Based Management, the ESOP by itself is insufficient. Without a clear articulation of shared moral values and the systematic dispersion of power and accountability in a company, the ESOP can be used as a tool to exploit workers and deprive them of their ownership rights, thus violating the fundamental principles of justice underlying Justice-Based Management. In contrast, an ESOP based on JBM principles respects the property rights of every shareholder.

The Basic Elements of Justice-Based Management

Justice-Based Management can also be described as an ethical framework for succeeding in business. As such, JBM balances moral values with material values.

JBM's three components of value are realized in:

1. A foundation of *universal moral values*, starting with the *intrinsic value of each person*--each employee, customer and supplier.
2. Success in the marketplace based on *delivering maximum justice*--higher quality at lower prices-to the customer.

3. Rewards based on *the value people contribute* to the company--as individuals and as a team, as workers and as owners.

Within a JBM system, these ethical and material aspects of value can be expressed in a business by:

1. Creating structures of corporate governance and management based on **shared moral values**, as expressed in a written set of:

- a. company core values (ethical principles which define the culture and clarify the social purposes and mission of the organization); and
- b. a code of ethics (describing a set of virtues or "habits" to be encouraged, which guide individual behavior toward strengthening the company's culture and interpersonal harmony).

Ideally these core values and code of ethics are agreed upon by consensus by every person in the company, and are subject to periodic review and improvement (as with Herman Miller Inc.'s "renewal process"). These serve as the "compass" for guiding corporate objectives, policies, and other decisions; they also provide a basis for judging people's behavior.

2. **Maximizing value for the customer.** JBM expresses a simple formula for any business to follow for succeeding in the competitive marketplace:

$$V = Q/P$$

where V=Value, Q=Quality, and P=Price

This states that Value delivered to the customer increases as Quality of the good or service increases, and/or its Price decreases. Within a JBM culture, everyone in the company has a self-interest in providing "service to the customer," because ultimately it is the customer who "signs" every employee's paycheck.

3. Structuring the company's compensation and reward system to enable every person in the company to be **rewarded for the value of their contributions** to the company. This is one of the fundamental aspects of ownership. It reflects the "correct" principle of distributive justice contained within the Kelso-Adler theory of economic justice, where a person's returns are based on performance and contribution, not charity. Basic JBM compensation and reward systems would include:

- a. monthly, bimonthly or quarterly bonuses linked to each worker's profit center within the company,
- b. annual, corporate-wide performance bonuses based on formulas tying each worker's contributions to overall company profits, and
- c. a structured, profit-based program of share ownership (i.e. annual ESOP contributions), supplemented by cash dividend payouts to reinforce long-term ownership consciousness.

JBM is designed to "institutionalize" shared responsibility, shared risks and shared rewards within the company's ongoing structures and processes. The key management areas affected by the JBM transformation process include:

- Corporate values and vision
- Leadership style and skills
- Corporate governance
- Open Book Management
- Operations (policies and procedures)
- Communications and information sharing
- Training and education
- Pay and rewards
- Grievances and adjudication
- Collective bargaining with labor unions
- Employee shareholder education and participation
- Future planning

Conclusion: The Benefits of Justice-Based Management

Building an ownership culture is more of an ongoing process than a single event. There is no perfect ownership culture, and even the most justice-based company must struggle with the challenges of a changing market, a changing work force, and its own expansion, while remaining true to its core values. Justice-Based Management, however, offers a systematic way of creating, maintaining, and perfecting an ownership culture for the good of all its members.

What are the Benefits of JBM for Management?

By moving from an autocratic to a more participatory, justice-based mode, a company's leadership can spread around some of management's typical operational "headaches." This gives managers more time to focus on the company's long-range, strategic needs, rather than spending most of their time putting out brush fires.

What are the Benefits of JBM for employees?

A workplace that operates according to the principles of Justice-Based Management empowers employees as workers and as owners. JBM creates a corporate culture where work can be more satisfying and economically rewarding.

What are the Benefits of JBM for Labor Unions?

Just as JBM involves a transformation of the modern corporation, it also involves the transformation of labor unions within JBM companies, offering labor representatives new and more important roles than they have played within the present adversarial system of labor-management relations. Unions can help deliver a higher degree of economic justice and far greater rights for their members than the false security and wage system "crumbs" now bargained for within today's labor-management framework.

What are the Benefits of JBM for the Company as a Whole?

Experience within a growing number of companies indicates that the more that people's self interests are unified within a management system reflecting the principles of Justice-Based Management, the greater will be customer and employee satisfaction. From this can flow increased cost savings, increased sales, and increased profits.

By offering solid principles and a logic for building an ongoing ownership culture, Justice-Based Management helps to create an environment which respects the dignity of

all forms of productive work. JBM recognizes that, regardless of a person's function or role in the company, we are all workers. The success of Justice-Based Management comes when each person--from the CEO and supervisor to the machine operator and receptionist--feels that they own and benefit from the JBM process and share in the results as full participants in their company and its culture.

ADDITIONAL SOURCES ON JUSTICE-BASED MANAGEMENT^(SM)

For more information on Justice-Based Management^(SM) and building an ownership culture, contact Equity Expansion International, Inc. at P.O. Box 40711, Washington, D.C. 20016, (Tel) 703-243-5155, (Fax) 703-243-5935, (Eml) info@eei-consultants.com, (Web) <http://www.eei-consultants.com>.

Also see:

"Justice-Based Management: A Framework for Equity and Efficiency in the Workplace" [pp. 189-210 in [*Curing World Poverty: The New Role of Property*](#). [Originally titled, "Value-Based Management: A Framework for Equity and Efficiency in the Workplace."] Available for \$15 plus \$3.00 shipping and handling (in U.S.) from the Center for Economic and Social Justice, P.O. Box 40711, Washington, D.C., (Tel) 703-243-5155, (Fax) 703-243-5935, (Eml) thirdway@cesj.org, (Web) <http://www.cesj.org>.

Journey to an Ownership Culture: Insights from the ESOP Community, ed. Dawn Kurland Brohawn, published by Scarecrow Press and The ESOP Association, 1997. Available from CESJ, \$35.00 plus \$3.00 shipping and handling (in U.S.).