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The company democracy model for the development of intellectual human capitalism for shared value

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Abstract

Democracy is difficult to define because it is so difficult to understand and apply in practice. Unsuccessful definitions and practice of democracy can have catastrophic results, such as anarchy and idiocy. Democracy therefore needs protective and applicable frameworks, although too much protection runs the risk of making it less democratic. Metron Ariston, a Delphic Maxim, may contribute towards a reasonable definition of democracy and give us possibilities to apply it in practice. Democracy in speech and actions can be demonstrated based on the shared value produced. Shared value in business, in turn, has been defined so that it covers the economic value creation inside a company as well as creating value for society according to its needs and challenges. The target is to achieve economic success through company activities so that all the stakeholders get their own share. In this way, shared value can be seen as a creative means for meeting social requirements as well as a tool to develop company democracy. However, this activity needs a lot of insights, ideas, initiatives, and innovations to meet the outsiderisks, challenges and requirements in the changing world. Shared value should be seen more as created added value so that the added value is delivered continuously as a shared value in the whole society. In this paper, we combine the ideas of shared added value as well as the developed company democracy model to present the synergistic effects in a business context.

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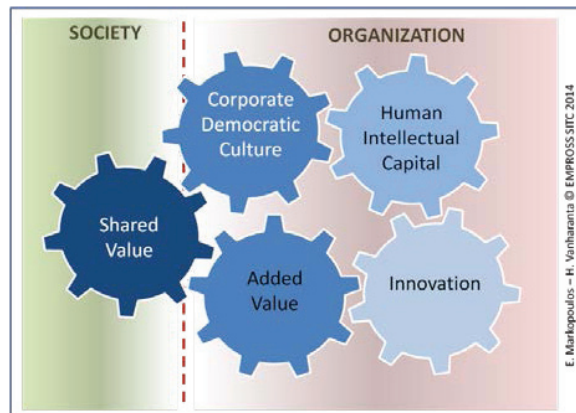


Fig. 1. The organizational shared value chain.

1. Introduction

As everything happens for a reason, it is important to understand the reason in order to evaluate the acts that have happened. Organizations today strive for their sustainability in critical and unstable economic environments worldwide. The world economic crisis demands radical changes in organizational management and leadership to survive this devastating period, which has diminished the buying power and habits of consumers and society. Instead of trying to figure out why sales or development have decreased it may be wiser to face the truth, understand the reality, and seek ways to create shared value for society, which can reboot the economy [12]. Creating shared value for society requires the creation of added value for the organization [2]. Added value in turn requires the utilization of human capital through management and leadership models and practices that promote innovation. Innovation requires the freedom of mind and speech which can be found best in corporate democracies.

The rescue chain for the economy can start from the ability of organizations to generate shared value for societal needs, which will return to benefit them directly or indirectly sooner or later depending not only on their understanding of the needs for shared value, but primarily on understanding that giving precedes receiving (Figure 1).

2. The value of sharing

Shared value has been defined so that it covers the economic value creation inside a company as well as creating value for society according to its needs and challenges [12]. The target is to achieve economic success through company activities so that all the stakeholders receive their own share. In this way, shared value can also be seen as a creative means for meeting social requirements. However, this activity needs a lot of insights, ideas, initiatives, and innovations to meet the outside risks, challenges, and requirements of the changing world. Shared value should be seen more as created added value so that the added value is delivered continuously as a shared value in the whole society [8]. In this new way of thinking, there are two issues. First, who becomes responsible for adding the value? and also who creates the new added value needed? The main problem is how to motivate individuals so that such shared value can be created. One answer to this problem can be through the use of the workforce in a gradual way so that they really feel more respected and committed to their work, thereby achieving a high degree of motivation. It is also important that the whole organization can be involved and that individuals can vote for such shared value creation. People have to understand business better and better and to contribute all together through democratic processes to meeting the shared value requirements that originate primarily outside the organization. It is important to see the balance between supply and demand against the needs of society in more detail. For this purpose there is a need for a sound way to educate and teach the workforce towards the understanding that through co-evolution and co-opetive ways of development everyone can reach new levels in organizational productivity, profitability and performance. cf. [6] [9] [15] [5]

3. The sharedvalue of democracy

In both the external and the internal business world, organizations and companies have become aware of democracy's possibilities as well as its challenges and risks. In the company context, democratic culture, however, has not had any solid structure and it has been difficult to understand and perceive how people inside and outside companies and organizations think about democracy and to behave accordingly. Generally speaking, democracy has been seen as the only construct and concept of a living system and vehicle that can successfully cope with the changing demands of contemporary civilization in business as well as in government contexts. It has been said that the message of democracy is irresistible and its progress is inevitable [14]. This means that management and leadership will be forced to pay more attention to it. Today, more than ever, the need for creating space for company democracy is obvious. A real, and not a virtual space, for such an important concept has to be communicated, operated, controlled and maintained for the benefit of the organization, the economy and the society in a shared value framework. Successful democracy in speech and actions can be demonstrated on the basis of the shared value produced. As democracy is for all the people, the results from exercising democracy must also be for all the people. The company democracy model is based on the utilization of organizational knowledge through democratic methods and practices in knowledge culture, creation, extraction and sharing, towards shared value goals and objectives. The model promotes the concept of 'one person - one vote for shared value' as it expects a democratic reasoning, documentation and justification for each vote. Organizations fail not because they cannot solve their problems but because they cannot recognize and find them. Problem identification and exploitation of possible solutions are approached in the company democracy model by integrating the concept of democracy for everyone as long as their problems, needs, ideas or wishes are supported by a solution giving shared value of any type or size. The company democracy model is therefore applied philosophy in business terms.

4. The Company Democracy Model

The Company Democracy Model [9] [15] is based on the wisdom of the ancient Hellenic Delphic maxims [13], primarily on 'Gnothi seauton: Know thyself', 'Metron Ariston: Moderation is best' and 'Miden Agan: Nothing in excess'. The model is executed through a framework in which an organizational evolutionary spiral method is used for the creation and execution of knowledge-based democratic cultures for effective organizational knowledge-based management and strategic leadership. The co-evolutionary spiral method in the model contributes towards the identification and achievement of the capacity, capability, competence, and maturity needed to turn information and knowledge into innovations. The spiral process, in this context, is based on the idea of the degree of democracy in organizations. The model is structured in such a way that the method reflects the Co-Evolute methodology [6] and its application in organizational democratic performance. Both organizational development methodologies (Co-Evolute and the Company Democracy Spiral Method) are aimed at the creation of an organizational knowledge-based culture [11] [7]. Both methods utilize organizational knowledge by developing a knowledge-based organizational culture that can constantly contribute to the organization by transforming organizational tacit knowledge into explicit knowledge [10].

The Company Democracy Spiral Method levels form a pyramid structure. The pyramid shape has been chosen to point out the incremental progression of the levels and also to illustrate that not all who attempt this route can reach the top without real commitment, determination, and organizational capability and maturity (see Figure 2). The Company Democracy levels provide the actions to be processed to proceed towards the identification of the degree of company democracy through a new pyramid-type representation based on the individual and collective evolution dimensions (see Figure 3). The individual side of the pyramid can remember and see the past inaccessible part of the company democracy process, which may be accessible today and in the future. From a collective point of view, the democratic company culture basis must be firm, the created paradigm must contain all the known information, and the democratic company culture must be understood, interpreted, and perceived by each company member. Therefore, for an organization, it is important first to understand the current degree of democracy and how this degree should be improved over time, through democratically oriented changes.

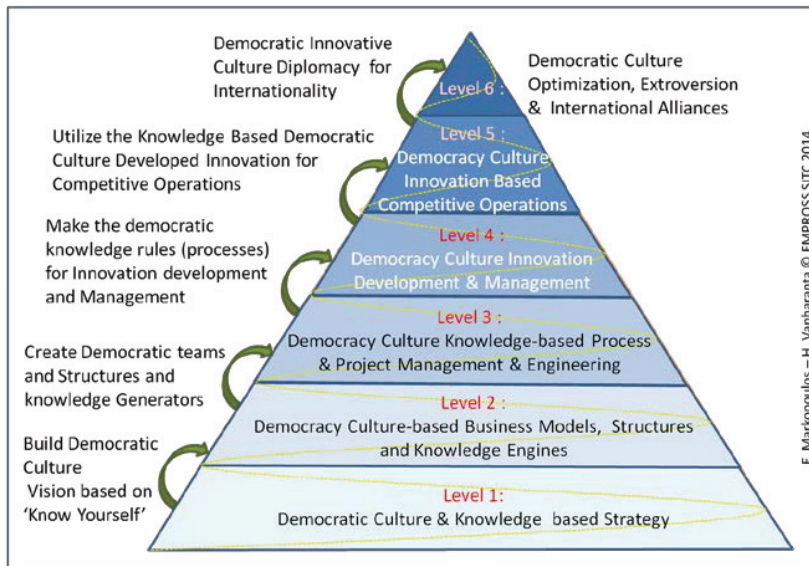


Fig. 2.The Company Democracy Model withpyramid stages.

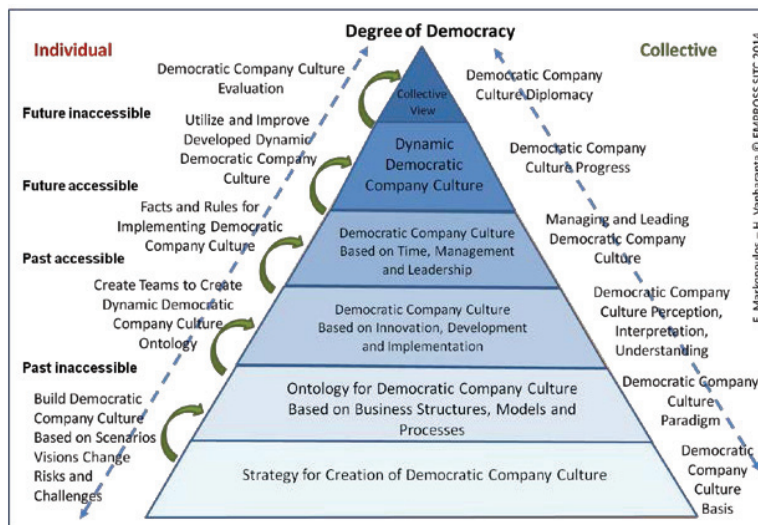


Fig. 3.Co-evolutionary spiral process for dynamic democratic company culture development.

The Company Democracy Model provides a structured path to support an organization to reach democratic management and operations, but in this journey nothing can be considered predictable and standard. As the goal is democracy for innovation, competitiveness, and extroversion, people must learn first to be co-operative in order to co-exist and co-evolve.

5. From company democracy to human capitalism

Besides being a model for innovation-based organizational development and management, the Company Democracy Model can also be considered as a model that promotes the creation of human capital. If all people have been created equal, then all people have the same capability to build and develop their intellectuality. The degree of

intellectual capital varies between the environments that surround people. Structured organizational environments can contribute more to the creation of human intellectual capital, while unstructured ones can be less successful. As all people have the capability to think, they can all be considered human capitalists to a degree. Intellectual power is human capital, and any capital can be monetized or utilized for the benefit of the people, the organization, and the society. Under this prism, the Company Democracy Model, which is based on the freedom of the people to produce knowledge and contribute based on it, can be considered as a human intellectual capital model.

The first level of the Company Democracy Model sets the infrastructure of the creation of human capital. Responsive democratic environments offer people the opportunity to express their thoughts, insights, ideas, visions and beliefs. For knowledge to be generated, and turn into human capital, it is important to let the people be free to generate it, regardless of its quality. The quality of knowledge determines the value of the human capital, human capitalism, and the degree of organizational improvement towards achieving, maintaining or improving the desired results.

The second level of the model utilizes people by allowing them to benefit from the operations of the model. Level two offers those who have knowledge the opportunity to turn it into intellectual capital. This level provides the environment in which the right people receive the right opportunity to stand out, present their knowledge and apply it in practice. Level two actually reshuffles the deck of human resources in an organization. As organizations are living entities in a competitive world, nothing and no one can be taken for granted or be considered irreplaceable. Employees must not see organizations as producers of paychecks. The second level of the model rewards those who see democracy as an opportunity and not as a threat. The second level formulates organizational and individual human capital.

The third level of the Company Democracy Model practically transforms the human capital of each employee into new products, services, projects, procedures, initiatives, and other acts. It is the level where intellectual capital is tested for its applicability.

The fourth level of the model defines the real value of the human intellectual capital at personal and organizational level. Innovation is nothing more than the justifications of valid, solid and applicable human intellectual capital. Innovators are human capitalists who benefit from their capital in monetary and other ways. Level four is the harvest level, the level that pays off and determines the success of the other levels, especially level one.

The fifth and sixth levels of the model determine the leaders among the intellectual capitalists in terms of people and organizations, respectively. Competitive advantages in an organization can be considered people started/generated, while extroversion is more organizational, generated by grouping the competitive advantages for extroversion initiatives in an institutionalized and standardized corporate framework.

Innovation, which is a core element in the shared value generation process, derives from the intellectual human capital grown in democratic progressive, responsive and meritocratic company environments. Figure 4 presents the evolutions of human capitalism.

6. From human capitalism to added value

Human capitalism can only be successful if it can generate added value to those who have such capital. People and organizations must utilize human capital by creating added value that proves the value of the capital and the capitalism. The company democracy model generates human capital as it empowers the people to utilize their potential, initiative, willpower, skills and capability in active form. On the other hand, skilful and charismatic people developed through democratic environments do not necessarily assure the creation of added value from their intellectual capital unless this added value is generated in a controlled way concurrent with the generation of the intellectual capital.

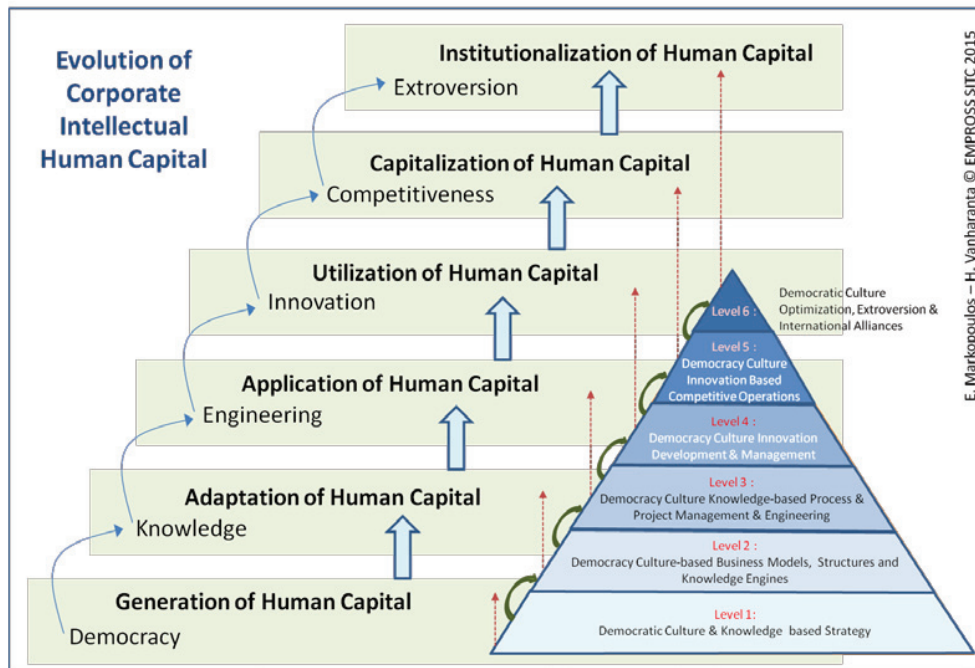


Fig. 4. Evolution of corporate human intellectual capitalism in democratic environments

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Level one of the model generates added value for an organization through the motivation of its people to work inco-operative and collaborative processes towards generating knowledge which becomes human intellectual capital. The added value in this level comes from the alignment of people with a process that can benefit them and the organization. Anything that derives from this process can give added value. In a similar way, level two of the model can consider the proper utilization of every person in the organization based on its capability to generate intellectual capital as added value. Pleasing the right people in the right places can generate added value in an organization from its efficient operations. Likewise, level three of the model generates added value from the new products, services, processes, projects and initiatives selected for implementation by the human capital. Organizations cannot have any added value unless they take the initiative to develop something new. Level four of the model generates the specific, measurable and distinct added value of the organization by identifying the innovation derived from the new actions implemented in level three. Level five directs the added value generated in the organization to competitive advantage, which is what added value is all about, while level six moves the added value of the organization to new areas of application through extroversion.

Added value is what organizations need to survive and prosper. Added value which derives from innovation powered by the intellectual capital of people developed in the democratic environment of an organization. The organization still requires that the workforce is committed to their work and external environment in a proper way and that the degree of organizational commitment is at a high level. Cf. [3] [4]

7. From added value to shared value

The structure of the Company Democracy Model is a responsive environment, which supports organizations to create added value. That, in turn, is the basic requirement for the creation of shared value. The added value triggers shared value creation.

The co-evolutionary management and leadership paradigm has been illustrated using the concept of capital productivity and market productivity. Capital productivity indicates how much capital is invested in relation to all

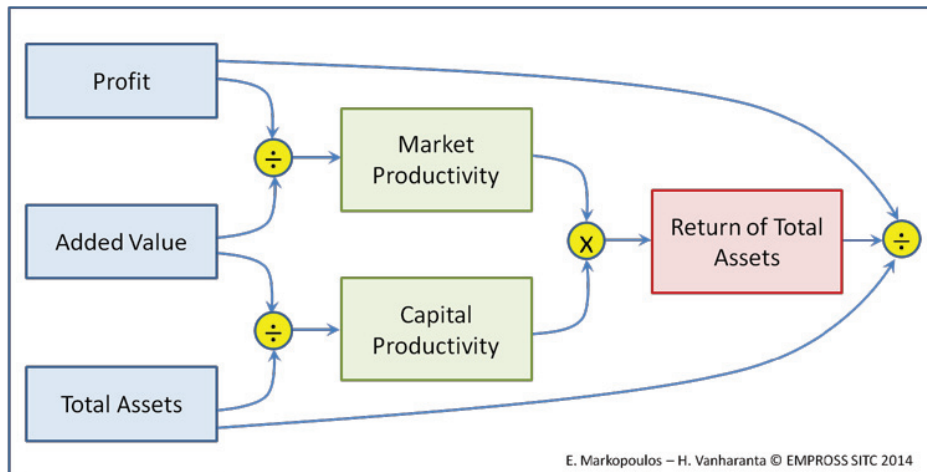


Fig.5. Equation for return on total assets through capital productivity and market productivity concepts.

the added-value operations inside the system, i.e. the company. Market productivity, in turn, indicates the external business performance, when the added value is evaluated and bought by the customers on the markets. Profit is only yielded in relation to all added-value activities.

Inside the company system the concept of capital productivity is added value divided by total capital (total assets). The ratio doesn't "see" any difference between physical and intellectual capital and so profitability is calculated, dismissing the human capital side. In normal manufacturing industry the capital side consists mostly of physical capital. In the new post-modern industrial world especially in the service industry, however, the intellectual capital side is the most important. In the service industry companies "invest" mainly in intellectual capital and the proportion of physical capital is low. Nevertheless, profitability calculations follow the normal way to calculate company productivity, profitability and performance.

By combining all the created added value inside the company we end up with the total added value created in the company, which in fact is the driving force inside the company, i.e. the system, itself. Part of the added value must be reserved for new investments inside the company and part of the created added value goes to the shared value for society and its people. Added value is changed into monetary form through the markets and the company receives money for salaries, new investments, paying taxes and dividends as well as other positive supporting activities inside society. The most important equation in moving from added value creation to shared value creation in a company is the equation shown in Figure 5.

Inside the company and using the Company Democracy Model in practice we have to target the ratios especially so that we can keep high capital productivity with physical capital and intellectual capital. We also have to keep the market productivity ratio high to get money from the markets to be used inside the company as well as to give part to the outside society.

8. Conclusions

Shared value is what drives the new economy. Organizations must give in order to receive, and giving does not mean only offering their products and services, but addressing social needs through their added value which can indirectly generate new revenue streams. The challenge in creating shared value for an organization is to have the added value that can be used to address social needs through shared value initiatives. Organizations with no added value cannot participate in this new global change and demand, being trapped in conventional if not selfish operations, strategies or habits. Creating added value, on the other hand, is an ongoing process as society demands change. To manage this change, organizations need to constantly utilize their human resources in the best way through operations and environments that can contribute to this goal. Environments that use democratic practices to

identify those with intellectual human capital potential, promote the right people to the right place and transform their human capital into new products and services whose innovation will create added value. Creating shared value relies on the capacity and capability of an organization to develop added value from the intellectual capital of its people. It is a people's economy and it is also the people who set the needs and also work towards fulfilling them through organizational vehicles for the benefit of all.

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