‘A penetrating discussion of a business that is so admired yet so little understood. The authors show what a delicate and complex organisation it is, where management have to balance commercial pressures against the happiness of the staff who own it. Throughout, the book also helpfully tries to draw conclusions about how far the John Lewis model can be replicated or used to influence how business works more generally.’

Sir David Norgrove, Chair of the Low Pay Commission and former Executive Director of Marks & Spencer

‘For the first time, the workings of the John Lewis Partnership are instructively examined by academics who have had high level and sustained access to the organisation. This book is a “must read” for anyone wishing to understand what lies behind the “partnership model” of corporate governance and the lessons that it may offer to business and society.’

Hugh Willmott, Professor of Management, Cass Business School, City University London

‘A rare study combining depth and breadth. The authors have a thorough knowledge of the Partnership, both academic and practical, over many years; and they are able to view it in the context of criticisms of capitalist ownership and the experiences of other cooperative businesses across the industrial world. The research is nuanced, careful, balanced, genuinely inquiring. The conclusions greatly advance the understanding of both the strengths and challenges of cooperative governance.’

Charles Heckscher, Professor, Rutgers University School of Management and Labor Relations

A Better Way of Doing Business?
Lessons from the John Lewis Partnership

Graeme Salaman and John Storey
Something is wrong with the modern corporation and the wider milieu within which it operates. It is prone to periodic crisis and to the persistence, and even fuelling, of extreme inequality. The nature and the sources of the problem have been explored with increasing frequency (Appelbaum and Batt 2014; Gamble 2014; Mayer 2014; Streeck 2014; Wolf 2014). The short-termist outlooks and behaviours of shareholders have been frequently noted (Peston 2013). Corporate leaders feel compelled to dance to the tune of the City financiers. The time horizons of these fund managers and their analysts are notoriously short. The trading of stock has become de-coupled from sensible performance evaluation of firms as electronic trading operates in microseconds based on algorithms constructed by technical wizards—a process graphically described by Michael Lewis in his book *Flash Boys* (Lewis 2014).

In a stark example of distorted ‘investment’, Lewis reports on the building of a straight-line trench from Chicago to New York to carry a fibre optic cable that would enable trading orders to be sent in milliseconds (less than a blink of an eye). The only purpose was to allow renters of the line to place orders to trade in a manner which gave them advantage over all other market traders (Lewis 2014). To this end, the effort of thousands of people and the expenditure of millions of dollars were allotted. The distorted priorities indicated by such instances suggest some fundamental problems in the workings of the economy.

But the real source of the problem, it has been suggested, is not share-trading per se but the structure of ownership. The holding period of shareholders has declined in almost every country over the past half century—from an average of eight years to about eight months (Mayer 2014). ‘Yet outside the UK, short-termism is barely an issue elsewhere in the world, with the possible exception of the US. Indeed, it is often difficult to find a foreign translation of the term’ (Mayer 2012). As he argues, the corporation: ‘has created more prosperity and misery than could ever have been imagined… the corporation is becoming a creature that threatens to consume us in its own avaricious ambitions’.
Investment funds, and private equity have transformed the commercial landscape. The shift is nicely captured in the title *When Wall Street Manages Main Street* (Appelbaum and Batt 2014), that is, the excessive intrusion into the productive activity of retail, manufacturing, and services by financial manipulations. Financial capital has assumed a more prominent place in Anglo-Saxon economies and all manner of economic assets and activity have been turned into financial instruments which can be packaged and traded. This phenomenon is often labelled ‘financialization’ (Dore 2008; Batt and Appelbaum 2013). It has been shown to have adverse impacts on employment and employees (Kallebarg 2015).

Likewise, John Kay’s review of equity markets for the Secretary of State for Business and Skills, found that these markets were no longer serving Britain’s need for investment in long-term growth (Kay 2012). Kay found problems of short-termism, lack of a culture of trust and misaligned incentives. He concluded ‘that public equity markets currently encourage exit (the sale of shares) over voice (the exchange of views with the company) as a means of engagement, replacing the concerned investor with the anonymous trader’ (Kay 2012: 10). Even some guardians of the establishment are worried. The chief economist of the Bank of England, Andrew Haldane has expressed concern about the unintended negative consequences of the conventional shareholder model.¹ The professional body of chartered management accountants has expressed the same concerns:

Investment techniques and instruments have proliferated rapidly in recent years. High-frequency trading, short selling, share-lending, hedging and other opaque options have helped decouple investors’ title ownership and their true economic interest. Off-market trading, for example, is a recent phenomenon, giving players the chance to buy and sell shares even when exchanges are closed. What looks on paper to be a large owner of a company may only be a renter with a significantly different agenda than that of the true share owner. (CIMA 2014: 2)

The chief executive of the global corporation, Unilever, agrees:

The recent financial crisis and issues such as climate change, food security and poverty mean that business-as-usual is no longer an option. Leading companies are asking themselves what part they can play in ensuring equitable and sustainable growth for generations to come. A critical requirement for this is to shift the organisational focus to the long term. (CIMA 2014: 1)

The chronic low productivity problem in the UK can be directly traced to such features. There is an inherent underlying bias towards short-term contracts, contingent working, outsourcing, and off-shoring. The approach fuels a

¹ Interviewed on BBC2 Newsnight 24 July 2015.
tendency towards boom and bust, quick returns, massive inequality and insecurity, and low investment. Could there be a better way? Might organizations like the John Lewis Partnership which claims and pursues contrary values and which has demonstrated sustained commercial success even in the face of fierce competition, offer a demonstration of the alternative pathway as outlined by Colin Mayer and others? A close examination of the case should, at the very least, surface the nature of the challenges faced by such organizations and how they are managed.

The short-termist, ‘flash boys’, characteristics of the recent period have not always characterized UK capitalism. Things began to change across the economy from the 1970s. Although productivity continued to increase during the period 1973-2011 (by 80 per cent) average wages rose on average by only 4 per cent. During the same period, corporate profits spiked to the highest proportion of national income for sixty years. A new era had dawned and a new philosophy dominated management thinking.

What changed towards the end of the previous century, in the USA and the UK, was the emergence and dominance of a new ideology of the capitalist firm, which carried ideas not only about the firm—what it was for, how it should work, how it should be led, what leaders should be like and how they should behave—but also about the necessary forms of relations between workers and management and the principles which should determine these relations, and about the role of the state in economic life.

This dominant, pervasive conception of the nature and purposes and fundamental logic of the business organization, has played a major role in the current crisis in western economies. And that is why it requires urgent and fundamental critique. But the nature and role of this current pervasive view of the firm in recent events has been insufficiently noted and addressed. This neglect is dangerous: if the problem is not identified and addressed it will recur.

While the first crisis (the Great Depression of the 1930s) was followed by major reforms, it’s not clear that anything comparable will happen after the second. And history tells us what will happen if those reforms don’t take place. There will be a resurgence of folly, which always flourishes given a chance. And the consequences of that folly will be more and quite possibly worse crises in the years to come. (Krugman and Wells 2010)

The underpinning rationale of this book is precisely this task: the analysis of the nature and deficiencies of the prevailing US/UK model of the firm. But our approach to this issue is elliptical. We address it not through a direct analysis of the prevailing conception of the firm but through an analysis of an organization which has become, for many managers, commentators, and politicians, an iconic example of an alternative model: one that is increasingly used in policies and debates to exemplify another and successful way of doing business, one that reverses many of the more extreme and—to many—disquieting elements of the conventional model of the firm.

The John Lewis Partnership differs, in fundamental ways, from the prevailing conception of how firms should be organized, structured, and led, and what purposes they serve and how they serve them. It is distinctive with respect to strategies and ambitions, the nature and distribution of power, the ways in which employees and managers relate, the ways in which and the principles by which salaries are determined, the relationship with suppliers, and crucially with shareholders (its employees). Hence, JLP is important not only in its own right but also because it offers a stark and dramatic contrast with, and alternative to, a model that has been proved seriously defective. To take just one indicator, John Lewis was named the best place to work in Britain in 2015 by the Human Resources firm Randstad, ahead of well-known firms such as BMW and British Airways.

We recognize that the current economic crisis in the West is not usually seen as a failure of the dominant model of organization. The diagnosis has normally been the crisis of sovereign and personal debt, of declining competitiveness, increasing social division, and the loss of legitimacy by political institutions. The causes of the crisis also usually include lazy, over-paid workers; an over-active, profligate, and bloated state; excessive regulation and obstacles to enterprise; or reduced demand.

But this list excludes a key underlying factor and misunderstands the nature of the problem and its solution. It not only confuses symptoms (reduced demand, declining competitiveness, rising debt) with causes, it employs as a model of explanation some of the very ideological assumptions which underpin the source of the crisis and the model of the firm: for example, assumptions about the role of the state in economic life. But, most importantly, such explanations avoid the real problem: the pervasive, flawed, and ideological model of the firm in the US/UK. This is a model which, in a number of key respects differs fundamentally from the organization addressed in this volume.

So there is (or there should be) increasing concern about the failure of the US/UK model of the firm. The model is failing, and it is failing because of a series of inter-connected systemic weaknesses and errors. These include: the definition of the purposes of the firm, strategic objectives, the conception of how relations within business organizations and between business organizations and other stakeholders such as employees and suppliers should be designed and managed, the prevailing definition of the nature and role and contribution of leadership, and prevailing views on governance and on compensation.

It must of course be noted that the model of the firm and patterns of shareholding and governance arrangements vary around the world (Dore 2000; Hall and Soskice 2001). They have also varied over time. In the nineteenth
century, a number of (usually Quaker owned) businesses existed which differed markedly from the market-oriented, contractual model of employment now dominant. In the mid-twentieth century too, there were major corporations such as Unilever and ICI which worked to a different model (see Storey, 1992). However, the current business model based on short-term, contractualized working, has departed markedly from these examples. As Will Hutton has rightly noted ‘It is the great debate about today’s capitalism’ (Hutton 2015a: 34).

This model may spread across other countries. In his analysis of different modes of capitalism, Ronald Dore argues:

Firms’ increased involvement with the foreign financial community will undoubtedly be one further route by which the shift to Anglo-Saxon notions of economic rationality comes to permeate Japanese management. (Dore 2000: 126)

The dominant US/UK model of the firm is not only responsible for performance failures (chronic and acute) but also for the destruction of value. And it is responsible for a range of internal and wider societal problems including increasing disparity between rich and poor, declining national wealth, declining social-political legitimacy and stability, and ineffective and inappropriate governmental strategies and policies as governments address (inadequately) the symptoms but not the root causes of the problems they face.

Shareholder Value

Politicians and business people like to claim that these problems are not caused by their own policies, decisions, or strategies. They prefer to attribute blame to others: arguing, for example, that declining competitiveness is caused by cheap Asian labour or expensive and inefficient local workers. Measuring the precise impact of cheap imports on employment is complex, but authoritative research by economists from the LSE and UCLA reveals that such imports have impacted mainly on low skilled workers (Kemeny et al. 2013). While certainly a factor, low-cost imports are only part of the story. Another major factor is the persistent pattern of low investment and this can be traced to an excessive focus on ‘shareholder value’—that is, a direct consequence of the prevailing model of the firm.

The doctrine of ‘shareholder value’ seemed to solve the historic tension between owners (investors) and controllers (managers). This tension reflects the possibility that those who control the enterprise may misuse or subvert investors’ funds for purposes of their own. ‘Shareholder value’ apparently resolves this potential conflict by arguing that managers should be rewarded for the degree to which they improve the benefits to shareholders through increase in share price or through distributed profits. Under this logic, managers are rewarded by allocating shares to them in the expectation that their primary objective will be to increase their company’s share price.

But, by solving one problem it creates another. In practice, organizations’ experience of the consequences of the dominance of the philosophy of shareholder value has been, at best, mixed and in some cases catastrophic. Essentially, what it created was an overwhelming emphasis on value extraction at the expense of value creation. Profits are maximized through cost cutting; investment is reduced to support the distribution of profits. Shareholder value as an executive priority may apparently resolve the tension between executives and investors but creates a new conflict between investors/executives who emphasize value extraction, and employees and suppliers (and others) who have an interest in the long-term survival, success, and growth of the firm.

According to the Cambridge economist, Ha-Joon Chang, and Massachusetts economist, William Lazonick, firms have tended to under-invest and to distribute instead too high a proportion of their profits to shareholders. Between 2001 and 2010, top UK firms distributed 88 per cent of profits and top US firms distributed 94 per cent in dividends and buy-backs (Chang 2012). Lazonick argues that five years after the financial crisis of 2008, stock markets and profits grew, but the rewards went disproportionately to the top 0.1 per cent and ordinary workers were not benefiting, indeed, good jobs were continuing to disappear. He suggests:

The allocation of corporate profits to stock buybacks deserves much of the blame. Consider the 449 companies in the S&P 500 index that were publicly listed from 2003 through 2012. During that period those companies used 54 per cent of their earnings, a total of $2.4 trillion, to buy back their own stock, almost all through purchases on the open market. Dividends absorbed an additional 37 per cent of their earnings. That left very little for investments in productive capabilities or higher incomes for employees. (Lazonick 2014: 48)

The consequence was insufficient funds remaining to support investment and growth. When Microsoft recently announced a large investment programme to fund research into innovation, the company’s share price fell—because shareholders preferred that they receive these funds as dividends regardless of the implications for the long-term development of the company.

During this post-2000 period, there were a number of catastrophic business failures caused by long decline in investment and competitiveness. Ha-Joon Chang, argued that ‘the weakness of [General Motors] management’s short-term oriented strategy has been apparent at least from the late 1980s, but the strategy continued until its bankruptcy in 2009, because it made both the managers and shareholders happy even while debilitating the company’ (Chang 2011). GM spent $20 billion on share buybacks—money largely spent on boosting share price. This did boost the share price which increased
shareholder value but, as a result, GM was essentially bankrupt to the tune of a deficit of $35 billion. The second ‘thing’ of the 23 Things They Don’t Tell You About Capitalism is that ‘companies should not be run in the interests of their owners’ (Chang 2011).

As Chang notes, ‘There are different ways to organise capitalism. Free-market capitalism is only one of them—and not a very good one at that.’ Chang’s criticism is not of all forms of capitalism but of free market capitalism (2011: 253). In a review of Chang’s book, John Gray notes, ‘This is clearly right, but the types of capitalism that exist today are not just different. They are also competitors, with conflicting needs and goals. Chinese capitalism, Russian capitalism, Indian capitalism and American capitalism are geopolitical rivals as much as they are different ways of organising the marketplace, and they threaten one another in a number of contexts—not least when they are struggling to secure control of scarce natural resources. Many of the world’s conflicts are driven by these geopolitical rivalries’ (Gray 2010).

During the period 2001–10, US investment fell absolutely and proportionally; profits, as a percentage of national income, increased and managers’ rewards increased but companies languished because of reduced investment and reduced (relatively) average wages. So, ironically, the cult of ‘shareholder-value’ led to the decline of the firm because in practice many shareholders are fickle and tend to be more focused on short-term measures (share price, dividends) than on the long-term growth of the business. Ironically, shareholders may indeed be the least committed of a business’ stakeholders. The average shareholding period is approximately just three months.²

The Fetish of the Market

There are different ways of understanding the dynamics of the firm. Fundamental to the prevailing model is the core idea (now broadly held more widely in society and politics—though not without critique) that the market, and market relationships are the best way to achieve efficiency. Market forces, this view argues, represent the only way to ensure that firms improve their products and services in order to compete successfully. Alternative conceptions of purpose (for example, professionals’ concern for their clients) are downplayed or rejected. But, more than this, the emphasis on the market as a purifying force also applies to relations within the enterprise (between managers and employees for example) and between firms and their suppliers. It also has more general applications: for example, for the ‘market orientated’ competences required by the new manager, for the structures, goals, and philosophy of organizations not previously regarded as involved in commercial relations (public sector healthcare, universities, and schools); for the design of structures and dynamics within organizations where conventional competition is difficult through the installation of proxy competition by the imposition of targets and measurement, with ranked ‘scores’ of achievement associated with sanctions or rewards—as in universities, schools, hospitals; and for the role and activities of the state where the emphasis on the market results in pressure to reduce the role of the public sector to regulate, to restrict state intervention, and to enlarge the role of the private sector. And even within the rump of the public sector, the prevailing market model has massively intruded in the shape of what has been termed ‘New Public Management’ (Hood 1991; Pollitt 2014). This model propels private sector principles such as competition, performance measurement, performance related pay, fragmentation, and competitive tendering and contracting-out, to increasingly displace erstwhile public sector principles.

Joseph Stiglitz has described this ideology as ‘market fundamentalism’ (Stiglitz 2003). He draws attention to the absolute conviction with which an unwavering belief is held by many in the ability of markets to achieve economic growth and other benefits. This is so despite the clear evidence that markets are often inefficient, that public provision is often superior, that deregulation can trigger inefficiencies, that markets can fail, that market relations within the firm or between firms and suppliers can create difficulties and problems. These uncomfortable truths are neglected in the face of a fetishized view of the primacy and inviolability of markets. So deeply is this entrenched, along with the related ideology of the modern corporation, that Colin Crouch argues neo-liberalism will survive the challenge of the financial crisis of 2008 and beyond (Crouch 2011).

One component of this view of the primacy of the market and of the dominant model of the corporation requires special attention: this is the view that state activity threatens enterprise, suppresses business activity and ambition through ‘red tape’, and regulation and its role must be reduced. Yet, in fact, markets must be regulated, competition must be (and in effect always is) managed, and the state has a major role to play—not only in devising regulations to control markets, but also actively to encourage economic activity. Evidence suggests that national economic growth (for example, in Germany) is not damaged, but positively supported, by state investment in research,
development, and training. As one commentator noted: ‘German competitiveness is not due only to its lower labour costs (which are not lower when welfare benefits are included) but to its strategic investments in research and development, vocational training, state investment banks that create “patient” finance’ (Mazzucato 2012).

And as a leading economist has noted:

The profit motive is still the most powerful and effective fuel to power our economy and we should exploit it to the full. But we must remember that letting it loose without any restraint is not the best way to make the most of it, as we have learned to our cost. (Chang 2011: 253)

The market, and the profit motive which underpins its use, are thus useful components, but left untrammelled they can be dysfunctional.

Leadership: the God that Failed

In the face of the recent financial crisis, and the collapse or near-collapse of a number of major firms, much opprobrium has been poured on the leaders of these failed businesses. We have seen the catastrophic consequences of these leaders as they destroy businesses through greed, criminality, and recklessness, and many of yesterday’s heroes and their achievements are now seen as hollow and illusory, and their once lauded qualities—limitless confidence, single-mindedness, results-focused attitude—are reassessed as arrogance, inflexibility, self-centredness, incompetence, greed, and indeed dishonesty. But the failure was less one of individual business leaders, however flawed their decisions or outrageous their behaviour, rather more the fault of the model of leadership which they personified and which legitimated their recklessness and egotism.

Charismatic and transformational leadership was the dominant model of the time. Practitioners of such leadership tend to dominate by their overwhelming, magnificent certainty and self-confidence. Such leaders are prey to serious dangers: their strengths can become weaknesses; confidence becomes arrogance; certainty becomes rigidity; purpose becomes obsession; and conviction becomes intransigence.

A very influential model of leadership in the UK and the USA—readily apparent in the adulatory and ghosted autobiographies and in the large number of training events on leadership—stresses the unique, extraordinary almost magical qualities of the individual leader on whom all depends. Leaders—this view holds—are the main factors behind organizational success, making up for the deficiencies of organization, representing an antidote to organization, by stressing the individual rather than the collective, achieving effects through their ‘transformative’ behaviour and by personal traits which are the opposite of the qualities traditionally associated with organization—innovative, iconoclastic, anti-regulation, passionate, emotional, individual, personal. The modern business leader overcomes the burdens and inertia of organization through enterprise and charisma just as the successful firm must overcome the red tape and burden of excessive state interference.

An implication of this argument is that the dramatic organizational failures we have seen recently are not exceptional events, but are normal in the sense that they are not the result of deviation from prevailing norms of organizational purpose and philosophy and leadership but of compliance with these norms.

How Managers Stole their Businesses

The third component of the prevailing business model, and one that is closely tied both to the focus on delivering/improving shareholder value and the cult of the charismatic transformative leader, is the recent emergence of new structures and principles of executive compensation. Executives are now encouraged by payments systems to behave recklessly and to risk their businesses they lead.

Executive pay levels in both the USA and the UK have increased enormously over the past three decades. In the USA, ‘in 1977, an elite chief executive working at one of America’s top 100 companies earned about 50 times the wage of its average worker. Three decades later, the nation’s best-paid CEO’s made about 1,100 times the pay of a worker on the production line’ (New York Times 2010). A series of individual cases drive home the point: Home Depot chief, Robert Nardelli, received a $210m pay-off when he lost his job in January 2007 even though the shares of his company actually fell during his six years in charge. Carly Fiorina, chief executive of Hewlett Packard from 1999 to 2005, laid-off 30,000 employees during her tenure; she was herself eventually forced out but she was $180m better off despite a very lacklustre performance. Eugene Isenberg, former Chief Executive and Chairman of the oil drilling company Nabors, was awarded $100m in October 2011 merely to surrender the CEO title from his duo Chairman/CEO title. The following year he agreed to waive the payment (Wall Street Journal 2012).

In the UK, according to research by the High Pay Centre, an independent think-tank, bosses of the Top FTSE 100 firms in 2014 were earning 130 times the amount of their employees (High Pay Centre 2014). This ratio refers to CEO pay relative to the average employee in the firms in question but, when measured against pay in the UK as a whole, the ratio is even higher at 174 times that of the average employee. The highest ratios were found in the advertising firm WPP where the CEO, Martin Sorrell, earned £29.8m and his average employee earned £38,265—a ratio of 780 to 1, and the retailer
Next, where Lord Wolfson earned £4.6m and the average Next employee earned £10,125—a ratio of 459 to 1. Twenty years ago, a CEO of FTSE 100 company earned 25 times the average wage.

There is rarely a link between directors’ incentives and the way a company performs. In the ten-year period 2001–10, the average annual bonus for FTSE 350 directors went up by 187 per cent while the average year-end share price declined by 71 per cent. Even at the deepest point of the latest recession, when pre-tax profit was at its lowest point, the lowest bonus level was still 134 per cent higher than in 2000. Many companies that did not survive the period paid above the odds to their directors. Directors’ pay in non-surviving companies went up 1,476 per cent compared with 488 per cent for those in companies which did survive (High Pay Commission 2010). And the trend continues. In its review of the 2015 AGM season, the accountancy firm PwC noted: ‘With the median CEO pay out remaining at around 130% of salary for the past three years, and, with almost half of awards showing little change from year to year, can annual bonuses genuinely be described as variable pay?’ (PwC 2015).

A report by Incomes Data Services focusing on the link between top pay and the link with performance, found that directors’ pay, including bonuses and incentives, far outstripped performance as measured by every conventional performance indicator such as return on capital employed. Comparative analysis of pay data and company performance metrics, found that between 2000 and 2013, the median earnings of a FTSE 350 company director increased more than twice as fast as median pre-tax profits in these companies and four times as fast as the increase in market value of these companies (Incomes Data Services 2014).

By way of contrast, since the late 1970s, the workforce share of GDP has shrunk by over 12 per cent. One consequence is that seven million people, despite being in employment, are identified as living in financial stress (Guardian 2012). And while executive benefits soar, for non-management staff, jobs are cut, or outsourced, wages are cut or contained, suppliers squeezed, work intensified; worker insecurity increased, training discouraged, career structures dismantled, psychological contract destroyed; demand reduced, levels of personal debt increased.

These ominous developments—the replacement of shareholder capitalism with shareholder-value capitalism with its direct implications for widening disparities in reward—matters for a number of reasons both practical and moral. Fair pay within companies matters; it affects productivity, employee engagement, and trust in businesses. Employee engagement is a significant factor in business success, and pay equity influences aspects of lower-level employees’ motivation, commitment to management goals, effort, and cooperation. According to research by the Economist Intelligence Unit, some 84 per cent of CEOs said that ‘disengaged employees’ were one of the three biggest threats facing their business (Economist Intelligence Unit 2010). Yet they actively seek to reduce employees’ wages while seeking increased benefits for themselves. The EIU authors note that ‘strong opinions might not translate into visible action. A sizeable discrepancy exists between what companies say about the perils of disengagement and how far they will actually go to confront the problem’ (EIU 2010: 2).

There are also social consequences (apart from increasing personal debt and reduced demand). As famously argued in The Spirit Level, inequality has pernicious consequences for society as a whole, while more equal societies enjoy benefits (Wilkinson and Pickett 2010), more unequal societies have lower levels of social mobility and they foster a whole range of health and social problems. Large gaps between the ‘haves and have nots’ encourages disengagement and social unrest. Inequality can lead to loss of institutional legitimacy and political instability, with poorer groups pursuing their economic objectives outside the mainstream system. Inequality can also damage the institutions necessary to support the achievement and persistence of national prosperity.

Summarizing the Problems and the Solutions

The extent to which these problems can be resolved by changes to the model of the firm is open to question. Creating shareholders with an interest in the long-term future of businesses and not just in quarterly improvements in share value, would require alterations along the lines already noted. These include regulation, tax incentives and disincentives, and systemic changes to patterns of shareholding. The problem of fickle, short-term-focused shareholders is reduced if shareholders with a long-term commitment (for example, employees) are allowed formal rights of consultation or even influence over key decisions. And of course, if employees are also shareholders then their interests in the long-term growth of the firm are more likely to be heard.

Decisions on the objectives of the business are central to any model of the firm and are closely affected by controls which limit the fickleness of shareholders, the nature and style (and compensation logics) of leadership, and by the degree to which employees are involved in decision making, or have some degree of ownership themselves in whatever form. New patterns of employment relations can be seen as centrally relevant to the underlying problem.

Some issues are clear: the purposes of organizations require attention: increasingly, commentators are raising questions about a focus on shareholder value—not, usually, from an ethical point of view but from a practical standpoint. There have been too many corporate leaders whose behaviour, decisions, and team dynamics destroyed their shareholders’ funds. They did this
while proclaiming their commitment to a strategy of maximizing shareholder value by pursuing this goal in a manner that was in direct opposition to their responsibilities as stewards of shareholders' assets. They created and practised a form of leadership which was at odds with duties of governance and stewardship.

It is necessary to ask some fundamental questions about organizations—questions that have not been properly asked for many years. These questions were once the topic of lively debate (and indeed the JLP emerged during a period of such debate). But the dominance of a particular conception of organizational purpose and of the nature and attitudes and priorities of leaders has been so strong and so pervasive that many important questions about how organizations work and should/could work and for whose benefit they should work, were in effect, 'ruled out' by the chorus of support for a model which is now seen as deficient. What are business organizations for? What are their appropriate purposes? Now is the time to bring these kinds of questions back in again: What is the proper function of firms and of their leaders? Why did governance structures, roles, and processes fail? How can boards be held accountable and to whom? What values should underpin the structure, processes, and decisions of organizations? These are big questions. We do not seek in this book to meet them head-on in any macro sense. Rather, we address them by making a detailed critical analysis of one significant organization which has, through radical experimentation, shown a possible alternative way. Indeed, in his influential analysis of the failings of the modern corporation, Colin Mayer (2014) cites JLP as one clear example of the kind of stakeholder capitalism he advocates. In the analysis which follows, we track the advantages, the challenges, and the potential embodied in this alternative form.

The John Lewis Partnership: A Better Way?

The fundamental questions posed in the preceding paragraph are reasons enough to invest time in a close analysis of the John Lewis Partnership because, although no one would claim it offers a universal solution, it has, over an extended period, sought to grapple with many of the tensions identified. Thus, its foremost concerns have been issues of staff engagement, fair reward, a long-term view, an independence from shareholders, and extended debates about ultimate purpose. The lines of critique we have outlined based around stakeholders, leadership, the limits of the market and the role of managers, are all matters of fundamental concern in the wider economy and they also find resonance and reflection in the internal debates within the John Lewis Partnership. The Partnership may have some answers to them, even though these tensions and debates are dynamic and rarely fully settled.

The John Lewis Partnership is important to its employees/partners, to its suppliers (with whom, typically JLP establishes and maintains distinctively supportive and mutually beneficial relations), and it is important to its many loyal customers. But its wider importance lies in its potential role as an alternative model of how to do business.

If JLP was simply a bizarre but unique organization, the result of the generosity of an eccentric owner who handed over the business to a trust on behalf of employees and established a number of democratic and consultative mechanisms to limit the decision making of management, then we may admire it and derive some satisfaction. But that would be all. Our interest in JLP stems from another possibility: that the JLP may be seen as a model for other organizations to follow. This idea was implicit in the many calls from senior government figures and numerous others for a shift towards 'a John Lewis economy'. But while many pundits have made such a call, they have invariably done so in a highly abstracted and generalized manner. It is hard to find a resource which attempts a serious close examination of just what such a development might mean. Through a study of this manifestation of a firm which has sought to depart from conventional practices and priorities, we may aspire to a better understanding of the nature and size of the challenge.

In the face of the failure of core elements of the prevailing models of organization and leadership it becomes important and timely to consider alternative ways.

Views on the link between democracy and commitment—that when people work for themselves or their community they invest extra effort and commitment—contribute to the public interest in the JLP model. But the realities of the ways in which JLP partners are able or willing to exercise influence and control over management decisions, or to hold managers to account requires further analysis. There are dangers if the JLP model and its constituent components are regarded uncritically, dangers if rhetoric is confused with reality, dangers too if the possibilities of limits to or paradoxes around the elements of the JLP model are not recognized.

Indeed, some ten years ago, the JLP Partners Survey revealed disenchantment with the Partnership's democratic processes. This was not only because partners thought the democratic institutions did not work well but perhaps also because they didn't know what they would look like if they did work well. They may have been right. Some of the directors of JLP who had been brought in at high level from other businesses told us that in their career with conventional businesses they had rarely felt under so little scrutiny, and with so little accountability, as when at JLP. These questions about the degree of...
of and a commitment to the historic principles and components of the JLP model, or a diminution or even a rejection of these principles?

What is distinctive about the JLP is that it is ‘owned’ by its employees (always known as ‘partners’ inside the firm). Employee ownership is achieved through a mechanism which means shares are held in trust; partners are unable to sell their assets. The owners secure economic benefits as a significant proportion of profits, in the shape of an annual bonus, which is shared among all partners. Between 2007 and 2014, this averaged 16 per cent of salary per annum (11 per cent in 2015). A bonus is paid on top of salary. The bonus rate is the same for all partners — so if the managing directors get 16 per cent so too does a front-line worker. As there are salary differentials, this means that the bonus is worth more in absolute terms to the higher paid. The Partnership has a number of structures and processes which act to ensure that employees have the capacity to hold management to account for their decisions. The partners are represented in the formal governing authorities and processes via two mechanisms: first, five members of the Partnership Board are elected by the partners (indirectly via Partnership Councillors), and second, through the Partnership Council which has an elected membership of seventy councillors. This latter body has the power, indeed the responsibility, to hold top management to account. Top management in JLP is in effect the Chairman. This is an unusual executive chairmanship role carrying significant power and authority. There is no chief executive, but there are managing directors for each division — most notably, Waitrose and the John Lewis department stores. There are also consultative forums at store and divisional levels (for Waitrose the stores are organized on a regional basis).

The founder was alert to the danger that senior managers would be able to use their knowledge and positions to accrue unwarranted power and privilege at the expense of partners in general. To help mitigate this risk he created a set of roles and institutions which he termed the ‘critical side’. This included a cluster of roles such as inspectors and registrars and Partners’ Counsellor — who collectively could keep a watchful eye over commercial managers and who could report direct to the Chairman.

And finally, a brief note on pay differentials when compared with the figures shown in the section ‘How Managers Stole their Businesses’ for executives at large. The highest paid individual in the Partnership is the Chairman. In 2015 his total remuneration, including the Partnership bonus of £104,000, was £1.53m. This represented a 0.6 per cent increase on the previous year. His total pay is 60 times the average basic pay of a non-management partner with three or more years’ service. This compares with a maximum ratio of 75:1 allowed for in the Constitution (Rule 63).

It will be evident, from this brief overview, that in a number of ways the JLP model differs fundamentally from the model of the firm prevalent in the USA and the UK. The orthodox model is so dominant that it is seen as natural, inevitable and right, an example of how ideas are deemed true because they are powerful rather than vice versa. The JLP differs from this model with respect to strategic objectives, accountability, leadership, and compensation policies.

As noted, conventional firms are increasingly committed to defining all relationships as market relationships — including relations with employees. But within JLP, an organization explicitly committed to the well-being of its staff and other stakeholders, market relations are supposedly less all-prevailing. This raises two issues requiring analysis: by what logic and by what processes is the distinction made between ‘internal relations’, that is with partners and stakeholders, and ‘external relations’ with outsourced and agency staff who are not deemed to be partners and to whom partners’ benefits are not available and who are treated in ways not wholly dissimilar from conventional businesses? This contentious issue is what is and who should be a ‘member’ and ‘partner’ is encountered in many business decisions. And we explore these decisions in detail in later chapters. Asking who should be a partner is tantamount to asking what, ultimately, the Partnership is for, and who is it for?

If the constituent businesses of the Partnership are committed to treating those employees who are within the system — the partners — in non-market based ways, that is, more generously than conventional competitors’ treat their staff, and if the business is also committed to competing for market share with these competitors, then does this mean that these dual commitments may clash? If they do, when does/should one principle hold more sway over the other, and vice versa?

One argument is that the JLP model has a positive impact on the behaviour of partners and suppliers and through this it generates a superior customer experience which in turn drives sustained sales and revenue. On that reading there is no real clash. This is at the heart of the ‘partner—customer—profit cycle’ proposition.

But, if the model is expensive — and it is — then these investments while potentially adding to sales certainly also add to costs. A potential tension is thus created, especially during difficult times. As the MD of John Lewis commented candidly when discussing the drop of profits during 2009, ‘Our operating model is too costly.’ So, in practice is this tension resolved? It is only through a close examination of specific instances where managers were faced with competing real choices in concrete situations that the question can be answered. In other words, it has to be answered empirically.

The prevailing model of leadership in the US/UK firm has been described. It differs in some important ways from the approach of leadership within the JLP. Within JLP, leaders are held accountable, have to deal with elected directors, must respond to criticism and above all, must comply with explicit values.

This initial overview of some of the core elements of the JLP model indicates the kind of issues at stake. For example, democracy and accountability still
strong? Is the critical side still vigorous? Do these institutions still work as they did or as they were intended to do? Further, if there is a link between the model and performance how does this linkage work? And if it works now, has it always done so, and if not, what intervening factors are required to ensure the model generates and supports successful businesses? Is the model as a totality the key, or are certain elements of the model more important than others? How is leadership exercised in the Partnership?

There are other fundamental issues. How should success and performance be measured? What are the objectives and ultimate purpose of the Partnership? The first paragraph of the Constitution is admirably clear:

The Partnership’s ultimate purpose is the happiness of all its members, through their worthwhile and satisfying employment in a successful business. Because the partnership is owned in trust for its members, they share the responsibilities of ownership as well as its rewards—profit, knowledge and power.

There is also an explicit emphasis on the Partnership making ‘sufficient profit to sustain our commercial vitality and distinctive character’.

John Lewis and Waitrose are seen as successful commercially and their success is attributed to customers’ appreciation of the qualities they experience when shopping at the Partnership and these qualities are somehow related to the distinctive features of the JLP model. In that narrative, the ‘distinctive character’ of the Partnership, while valuable and admirable and important in its own right is also seen as a means for the achievement of good commercial performance, whereas, in the founder’s statements, the distinctive character is seen as an end in itself (although one that must be balanced with ‘commercial vitality’).

Our analysis of the JLP is organized around four core themes which run throughout the book and which can be expressed as key research questions:

1) What are the crucial elements of the JLP model, how is leadership exercised and how, within such a model, are managers held to account? This question domain also addresses issues of governance.

2) What are the implications of the model for business performance?

3) How do managers view the nature and importance of partner engagement and democracy?

4) What are the lessons to be drawn from this case example of stakeholder-oriented organization for policy makers and practitioners and can the positive attributes of the model be replicated elsewhere?

The analysis begins in the next chapter with a profile of the John Lewis Partnership. This provides an introduction to each of its main distinctive features. In later chapters the features are subject to more detailed critical scrutiny and assessment.

2

An Introductory Profile of the John Lewis Partnership

This chapter provides an overall profile of the John Lewis Partnership and describes the key features. Each feature is explored and examined in greater depth in the chapters that follow.

This chapter is organised into four sections. The first provides an outline view; the second offers a brief history; the third describes the customer proposition; and the final section discusses the partner proposition including governance, democracy, and benefits.

An Outline View

The John Lewis Partnership (JLP) is a large UK retailer with two major business operations: John Lewis department stores and Waitrose supermarkets. In addition, it has launched additional businesses such as insurance and travel but the department stores business and the supermarkets business remain, by far, the dominant operations. The retail businesses operate through stores and online. They have expanded their offer across a range of formats including large, full-range stores with a wide assortment of goods and smaller cut-down versions.

JLP is owned by its employees (known always as partners). The shares are held in trust. It is not quoted on the stock exchange; it raises investment capital by borrowing and by its own revenues. This independence is seen by senior managers as crucial: they continually emphasize that they can take the long view as they are not subject to quarterly reviews by the City. The partners have a voice in the running of the Partnership which includes a structure of representational democracy culminating in a Partnership Council and partner representatives elected to the main Board. There are three ‘governing authorities’ at the pinnacle of the Partnership: the Chairman, the Partnership