

From the President...

Nothingness - Business as Balance

"To every thing there is a season..."

Ecclesiastes

Rinaldo S. Brutoco

One of the best features of life as a business person is the discipline of balance which it teaches. The myopically Messianic yet still successful individual is the exception. Those who flourish in business are primarily those who develop an astute sense of balance.

In this issue, we encounter the CEO of a dynamic multinational as an environmentalist, a magazine publisher as a poet, and a graduate business school professor as a compassionate monk. What each of these seemingly inconsistent portraits demon-

strates is an acute appreciation for balancing different concepts, interests, feelings and awareness. Most likely this ability to "balance" apparent contradictions or points of view is the principle determinant of business success. And the key to successfully balancing is to be precisely aware of what you are balancing—the elements of greatest moment.

Because the role of business in the modern world is so diverse, we often fail to reflect upon all of the various interests which business people are duty bound to balance. This runs from the mundane

continued on Page 8

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Lessons from an Employee Owned Business

Tamas Makray

The exploration of organizational structures and the benefits and challenges of employee ownership are part of an on-going dialogue between Members of the Academy. Tamas Makray from São Paulo, Brazil writes his response to Rolf Österberg in Stockholm, Sweden.

Dear Rolf,

It was good to agree with you in our discussions on the desirability of employee ownership during the Academy retreat. And it was good to read your thoughts in the March issue of *Perspectives*.

So let me share with you some of the ideas and experiences we have had at Promon.

I. A little history may be useful. Our company was started very conventionally in late 1960 as a 50/50

joint venture between a Brazilian and an American contractor. We offered integrated engineering services for the process industries in Brazil. The company was small, investment irrelevant, with the owners staying at a distance, letting the business be run by its managers.

When the political and economic situation deteriorated in Brazil, the American partner considered getting out of the country. It was expected that the company would be closed down. A group of key

continued on Page 2

continued from Page 1

employees prepared for the worst and registered a partnership to continue the business in the case of liquidation. That was in 1964.

The economy improved, the company was not liquidated but the American stockholder had no interest in staying. After two years of negotiations, the employees' partnership acquired the shares of the American contractor.

Growth and diversification brought conflict of interest with the Brazilian contractor, owner of 50% of the company. Another two years of negotiations resulted in the purchase of their shares also by the employees' partnership.

II. The year is 1970. The company has a staff of 500. The ten years of struggle have taught some lessons:

- It is terrible to be an employee and depend totally on the owners of the business. You may be sold, merged or closed down without your slightest participation in the decision.
- The staff spends most of the day at the workplace, may spend their entire professional lives in the company with colleagues and friends, so what happens there is very important to them—often more important to them than to the owners.
- Privileges are so ugly. We should try to be equal. Ideally all employees should be more or less equal shareholders and participate in at least those decisions that affect them directly.
- Conflict between capital and labor (owners and staff) is mortal. It goes against the very nature of any venture that is based on cooperation, or even better, co-creation, by all stakeholders.

III. The basic structure of the organization today is as follows:

The partnership formed by the key employees in 1964 controls the organization with the prime objective of ensuring that basic principles and policies are complied with. Seventy active senior members of the professional staff own the company. Participation is by invitation, consensus is necessary, and maximum ownership is limited to 6% per person.

The original engineering company's scope was amplified and today it coordinates operations in various areas of technology. It is jointly owned by the partnership (55%) and some 2000 shareholders, all employees of the organization. The total staff is around 3,000, and 41% are university graduates.

IV. Nineteen years of experience as an independent, totally employee-owned organization has resulted in the following rules and operational procedures:

Acquisition: Shares must be purchased by staff members, they are not given.

Value: The price of shares is the audited book value, adjusted for contingencies.

Access: All employees are encouraged and even expected to become shareholders. A gradual build-up or ownership is normal during the career of the professional. Shares are not inheritable in case of death, they cannot be donated and cannot be sold to outside parties.

Purchase back provision: Contracts include a provision whereby the company repurchases shares in the event of death, retirement or termination of employment.

Ceilings: A maximum of 6% in the holding partnership. A maximum of 2% in the operating company. That means that combining indirect and direct ownership nobody can have more than about 5% of the capital.

Transactions: Staff members are free to buy and sell shares from and to the company but it has to be understood that equity ownership is a means of financial engagement in the company and not a form of financial investment.

Phase-out: In the partnership there is an "equity phase-out" provision, whereby staff members who approach company age limits reduce their participation on a steady basis, over up to 10 years.

Profit destination: In principle, 70% of the results are distributed and 30% retained in the company. The distribution is in equal parts as dividends and as profit-sharing, the last according to merit and performance.

Return on investment: Over the years, the shares have afforded their owners levels of profitability reasonably above those of alternative non-speculative investments.

Financing: The private pension fund of the employees extends loans to those who may need financing for the purchase of shares.

V. Election of directors and officers.

Elections are held every three years for Board Members and Officers. Conditions to be eligible are to be a member of the partnership, have a management position and be under company age limit and, of course, to be a willing candidate.

The first selection is made in the holding partnership, a second in the operating company. The vote is secret, collected by independent auditors. A minimum of a 50% vote is required as it is felt that a massive support is essential for a strong management.

VI. Equilibrium of this model of ownership.

This ownership model postulates a minimum rate of return so that the system generates funds that increase employees' revenues by dividends and profit-sharing that in turn enables them to finance capital requirements.

Whenever profitability falls below certain values the model may experience some operational imbalance. This situation may be further compounded when a significant number of shareholders leave the company.

Naturally, Rolf, this model seems to be more compatible with service industries than with capital intensive investments. We pay particular attention to maintain the level of fixed assets as low as possible. Certain activities which would unduly increase the book value of the shares are practically excluded from the options. For example, land and buildings were the object of a spin-off years ago to make equity participation more accessible to new staff members.

And, of course, this model is immune to hostile takeovers and guarantees stability in rendering professional services for long term major programs and projects.

To conclude these incomplete observations, I should like to stress that the essence of this "professional community" model is participation in the life of the organization, not only in its capital. To buy shares is relatively easy, but it does not mean by itself that you are engaged in a creative, living, dynamic community. And as you read in our Charter*, we believe the purpose of Promon is to create conditions for professional and personal fulfillment and realization.

We may continue this informal exchange of ideas possibly in a forthcoming Academy retreat. I am looking forward to that opportunity.

Warmest personal regards,

Tamas

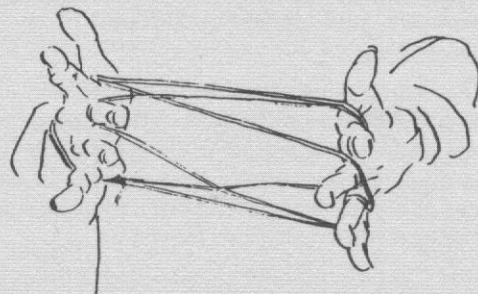
* For the full text, see the January 1989 issue of *WBA Perspectives*.

Tamas Makray was born in Budapest, Hungary, lived in Austria, Switzerland and Canada and settled in Brazil in 1953. He graduated from McGill University, Montreal in 1953 with a degree in Chemical Engineering and attended a Business Administration program at Fundação Getulio Vargas, São Paulo, Brazil. After graduation he worked in the construction of process plants during the early stages of the industrialization of Brazil, and has specialized in engineering design for the past 30 years. Presently he is Chairman of Promon Tecnologia S.A., a major engineering design, employee-owned company, operating in engineering, and electronics in Brazil and several other countries.

"...the bottom line follows everything else. We say in our company that profit is like breathing, it's required. So we don't pay a hell of a lot of attention to it. We pay attention to creating an environment, setting up the circumstances and the goals, so people can do the work that produces the bottom line. I have a little poem called 'Threads,' and it ends like this:

Listen.

*In every office
you hear the threads
of love and joy and fear and guilt,
the cries for celebration and reassurance,
and somehow you know that connecting those threads
is what you are supposed to do
and business takes care of itself.*



I wouldn't for a minute want anyone to think that's management by the wimps, or mushy, without discipline and control. It's not. It's a matter of providing the kind of environment where people exercise their own discipline and control."

Jim Autry of Meredith Corporation in conversation with Marjorie Kelly, editor and publisher of *Business Ethics*.

Sign Posts

Emerging ways of doing business

Environmental Stewardship Key for Du Pont

WBA Board Member Herman Maynard of Du Pont's Wire and Cable Division shared with us the following speech made May 4, 1989 to the American Chamber of Commerce (UK) in London, by Du Pont's Chairman Edgar S. Woolard, Jr. in which he laid down a corporate agenda for environmental leadership for the next decade.

"Environmentalism," Woolard said, "is now a mode of operation for every sector of society - industry included. We in industry have to develop a stronger awareness of ourselves as environmentalists. I am personally aware that as Du Pont's chief executive, I'm also Du Pont's chief environmentalist. In other words, I'm calling for corporate environmentalism which I define as an attitude and a performance commitment that place corporate environmental stewardship fully in line with public desires and expectations."

He stated that historically corporate insensitivity to public opinion and industry's lack of credibility which has "probably never been lower than in the wake of the Valdez accident," were two obstacles to corporate environmentalism becoming a reality.

"The third obstacle that can get in the way of our becoming corporate environmentalists," he said, "is the technocracy of modern industrial corporations. We have been too inclined to act as though public wishes and concerns matter less than the technical opinions of scientists and engineers."

Woolard then outlined a corporate agenda for environmental leadership and some of the goals Du Pont will accomplish by the end of the next decade or before:

- Du Pont manufacturing facilities have had a goal of 35 percent reduction at the source of total hazardous waste by 1990. We expect to make that goal. But we won't stop there... Waste reduction will be one of Du Pont's primary technical objectives during the 1990's.
- Du Pont will manage at least 1,000 square miles of land to enhance the habitat for wildlife, with a special emphasis on wetlands.
- Du Pont will eliminate heavy metal pigments used in the manufacture of some plastics.
- Du Pont will take an increasing responsibility for the efficient and environmentally acceptable disposal of the plastic portion of the global

solid waste stream... Our first plant (to reclaim and recycle high-value polymers from municipal wastes) will start up early next year.

- Du Pont has often included community representatives in discussions of present and planned local plant operations. We will extend this practice to all manufacturing sites and involve community representatives in all major planning activities relevant to public health or the environment.

- Finally, Du Pont has for some time considered environmental performance—both pro and con—in determining compensation of company managers. We will make this procedure more direct and formal for executives from middle management to senior officers of the company."

Explaining why he was delivering this message in Britain he said, "In the environmental arena, the issues are beyond the scope or ability of any one company or any one country to correct. That's no excuse for not embarking on individual or unilateral action. But we have to keep in mind that the economic consequences of environmental action in terms of trade-offs, standards of living, and industrial competitiveness affect the whole world, and thus we need more international mechanisms for addressing environmental issues..."

"The primary point for a manufacturer is that industry needs to maintain the same high environmental performance standards regardless of the country of operation. The actions of any one company will continue to reflect on industry as a whole, and it's fair to say that manufacturers around the world are in this together. Industry has a checkered past of successes and failures in environmental matters, and as a result, manufacturers have been painted many colors in recent years. That will have to change. In the future, we will have to be seen as all one color. And that color had better be green."

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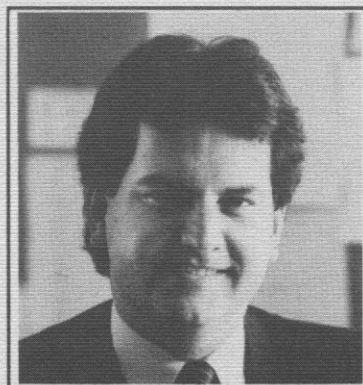
This space highlights Academy Members whose business and personal lives model the emerging new paradigm in action, and exemplify our motto, Beyond Business-Through Business.

One way to insure access to high quality natural foods is to create and support an infrastructure for the natural foods industry that stimulates its growth and professionalism. Doug Greene has done just that since starting New Hope Communications in 1979 to publish *Natural Foods Merchandiser* which pioneered ways to distribute new food products and disseminate nutritional information. The magazine's success led to a trade show in 1981, attended by 3,500 people. The show is now the largest natural food event in the world. Twelve thousand attended the latest convention in April including delegates from Japan, England, Australia, Germany, Singapore, Hong Kong, Venezuela and South Africa.

New Hope, located in Boulder, Colorado, also publishes *Delicious*, which is distributed by natural food store owners to 800,000 customers. Their *Expansion Management*, which focuses on corporate growth issues, is available only by invitation to targeted companies and individuals.

In October New Hope will launch *Organic Times*, a trade magazine for the organic food industry. "Consumer demand is way ahead of the growers, retailers and distributors," Greene says. "With our long-term commitment to a cleaner, more nutritious and cost-effective national food supply, we see this publication as a way to educate the agricultural industry which, to date, has been heavily dependent on the chemical industry for its information." One of their first attempts to reach the agricultural community was a 1988 conference on diversified farming which 3500 farmers attended.

Greene's entrepreneurial efforts also extend to other countries. After the invasion of Grenada, New Hope sponsored a conference on entrepreneurship and free enterprise to help re-establish their economy. The thirty "instructors" called themselves The American Corps of Entrepreneurs. Since 1986 Greene has been part owner of a restaurant in Grenada called Delicious' Landing which is now the number one restaurant in the country on a dollar volume basis. He has been to Grenada twenty-two times since 1984 trying to help the country develop economically. New Hope also sponsored Grenada's team to the 1984 Olympics.



Solving the complicated riddle of South Africa is Greene's other international focus. He is part of a group of Europeans and Americans who have launched a non-profit foundation in South Africa which is establishing a school. "There are tremendous lessons to be learned about hate and prejudice and how to transcend them without a gun," he says. "It's much more than just a white/black issue. I wish it were that simple. Continually, members of the white business community tell me apartheid is dead. The challenge is to dismantle it in a way that does not create a major armed conflict." He cautions that we have to move carefully. "I think economic sanctions against South Africa in this case are misguided. Well-intentioned actions by Americans are actually adding to the problem and I feel a responsibility as an American to do something constructive. I intend to go back once or twice a year."

Greene maintains an active profile in local, state and national politics. Drawn in by the personality or issue more than party, he has worked in Republican, Democratic and nonpartisan politics.

What draws him to the Academy? "Fellowship, pure and simple. With all of the different things we are all doing in the world it's a great chance to share true fellowship, which means hearing each others stories, sharing ideas and getting honest feedback. For me, the Academy is a fellowship organization for those of us who are trying to use the business instrument to its fullest capacity as an agent for positive social change."

Compassion—the Essence of True Creativity

Excerpted from "Creativity at Work" in *The Business Journal* April 1989

Michael Ray

People confuse creativity and intuition—thinking that intuition, or the faculty of knowing or getting ideas without conscious reasoning, is synonymous with creativity. Intuition is an important part of creativity and a key aspect of business, but usually we have too many ideas, not too few. We need to be able to know the right course of action at the right time. And for that we must utilize all the aspects of creativity, including intuition.

In fact, the most essential part of creativity is compassion, because it brings together in a catalytic combination the personal and the organizational aspects of creativity in business.

I'm not talking here about the compassion that is the mushiness of do-gooders. What I'm referring to is a deep inner trait that we all have (but almost never recognize or act upon) that bestows loving kindness first on ourselves and then on others. It is the part of us that acknowledges with certainty that we have unlimited creative potential, even if we seldom bring out or use that potential in the world. And it is also the part of us that acknowledges that potential in others.

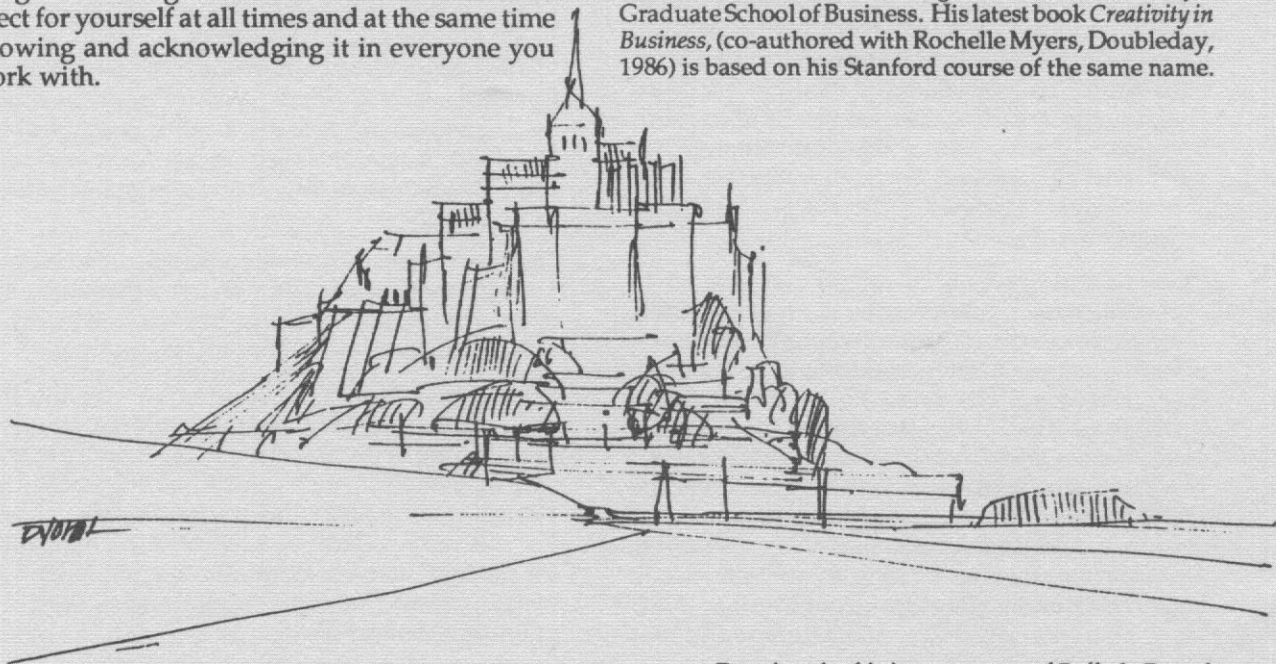
Imagine working with this kind of love and respect for yourself at all times and at the same time knowing and acknowledging it in everyone you work with.

Scott Peck, in his book *The Different Drum*, tells a story called "The Rabbi's Gift." In it, the abbot of a dying Christian order with only five monks all over 70 years old pays a call to an old rabbi visiting in the forest near the order's decaying mother house. They commiserate on the lack of religious fervor left in the world. They embrace and as the abbot is about to leave, the rabbi says, "I have no advice to give. The only thing I can tell you is that the Messiah is one of you."

This was the rabbi's gift. Once the abbot reported this to the other four aged monks, they began to treat themselves and each other as if they each were the Messiah. And people who happened to be hiking near the monastery were attracted by the extraordinary love and respect there. More and more people came to play and pray. Young men who came began to talk to the monks. A steady stream of them asked to join the order. And it began to flourish once again.

Such is the compassion that is the essence of all true creativity at work.

Academy Fellow Michael Ray is professor of Creativity and Innovation and Marketing at Stanford University's Graduate School of Business. His latest book *Creativity in Business*, (co-authored with Rochelle Myers, Doubleday, 1986) is based on his Stanford course of the same name.



Drawings in this issue courtesy of Raffaello Doorak

It's All a Matter of Scale

"Who and what is an entrepreneur?" and "Is entrepreneurship an appropriate vehicle for encouraging development of the kind that will create a viable future?" were questions discussed at WBA's May Forum.

The answers may lie in microenterprise—entrepreneurial ventures which create wealth while building community self-sufficiency and individual self esteem. As an example, a woman in El Salvador who invested a \$50 loan from her village bank in fabric to make children's clothing, at the end of one year had a monthly income of \$246 in a country where the average annual income is \$250. She is a successful entrepreneur just as much as any founder of an electronics firm in Silicon Valley. The same motivators apply. It's all a matter of scale.

These kinds of success stories happen again and again according to Barbara Rodey, executive director of FINCA (Foundation for International Community Assistance), which works with people at the survival level in developing countries. "What we have learned," she says, "is that development comes from the bottom up, because only people develop. Entrepreneurial activity builds a sense of self esteem even for the poorest. It is part of the human spirit—the desire to create, to have control of your own life, to build one's world for oneself and one's family regardless of our economic, social or cultural level."

The village banks funded by FINCA are totally self-managed by the community. Each participant's credit line expands as they repay the loans and bank their savings which are averaging 20% of the loan value. The village banks eventually become self-funding and the money is then available to seed banks in other villages.

FINCA's loan repayment rate is over 96%. When contrasted with the crippling unpaid debt resulting from loans to governments in developing countries, the return on investment for microenterprise is outstanding.

Motivators for many financially sophisticated entrepreneurs in industrialized countries go beyond the rewards of the Wall Street type of "Power and Money Game." George McCown, Managing Partner in McCown De Leeuw & Co., a venture fund which acquires divisions and subsidiaries being divested by major publicly held companies, establishing them as stand-alone enterprises says, "The power and money game is a limiting game because it has only power and money as the reward. I just won't play it—and you don't have to play that game

to be successful. We are interested in creating something that not only creates economic value but societal value as well."

"Before the industrial revolution, everybody was an entrepreneur," says George Zimmer, founder of The Men's Warehouse. Entrepreneurs are "renegades, risk takers, people who want to be in charge of the creative process."

"Entrepreneurs are people who have the ability to translate their dreams into reality and the people who don't are still dreamers," says Rinaldo Brutoco merchant banker and proprietor of the Red Rose Gallerie, a national mail-order company. "Entrepreneurs, by definition, are inner directed."

But what about the poor in this country. "Microenterprise projects in the developing world are giving us intriguing new methods for approaching solutions for people in this country who have been locked out of the economic mainstream," says Academy Fellow Jing Lyman, founder of National Coalition for Women's Enterprise, an advocate and information clearinghouse for women's enterprise issues. "Women entrepreneurs—particularly low-income women and women of color—face barriers beyond those common to any small business start-up," she says. "Start-up capital is particularly difficult for women to get because banks don't understand how to give credit to a largely service economy if it is based on cash flow."

The success of microenterprise in developing countries challenges us to take a closer look at our assumptions of what and who creates wealth and well-being in society.

Pat Barrentine, Editor

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continued from Page 1

balance between "big" and "little" in all manner of forms, to the more interesting balance between "trickle up" and "trickle down" in economic policy. Productivity in the economy must be balanced with the necessity to restore the environment. The dramatic balance between free economic choice versus the social necessity to prevent anyone from starving—even if they choose. Human rights versus political realities. The list is endless.

In our business organizations we must balance the legitimate needs of various stakeholders in the enterprise: employees, management, shareholders, customers, creditors, vendors and the public at large. In enterprises of all sizes, the outstanding leader is he or she who can best perform a Solomonesque balancing of the enterprise.

The challenge for those of us in the business world is to employ the same skill, or perhaps an even greater skill, in the balancing we perform in our personal lives. A great soul is one who can balance actions with thoughts, risk-taking with prudence, masculinity with femininity, justice with compassion, head with heart, anxiety with love, the material world with the spiritual, and those pursuits which are "in the world" with those which are "not of the world."

We must be skilled at balancing to be successful in a business enterprise. That very skill provides business people with the opportunity to develop our fullest human potential. We can use our skill at balancing as a tool to open the successive doorways to our heads, our hearts and our souls to engage the Divine within us. Having done so, we will enjoy a fuller experience of what it is to be human and successful in all ways, beyond belief.

Rinaldo S. Brutoco is Chairman of Dorason Corporation, Proprietor of the Red Rose Gallerie and President of the World Business Academy.

*What makes ethics a
distinctive ally of business
is not so much that it helps
expand the mind,
but that it challenges it
to deepen.
Business needs
courage and roots
even more than it needs
innovation.*

Peter Koestenbaum
The Heart of Business



About Perspectives.

The WORLD BUSINESS ACADEMY is an international network of business executives and entrepreneurs who recognize a personal commitment to utilize their skills and resources in the creation of a positive future for the planet.

WBA Perspectives serves as a forum wherein Academy Members and Fellows may share and compare views on issues. Articles, edited as necessary for space considerations, are presented for discussion and debate. They reflect the views of the author and do not represent a position of the WORLD BUSINESS ACADEMY.

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