Employee Ownership
at
South Mountain Company

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by John Abrams, Founder and President
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Introduction

South Mountain Company is a 33 year old design / build company located on Martha's Vineyard. We began as a partnership in 1975, became a sole proprietorship in 1984, and re-structured as a worker owned cooperative in 1987. This narrative explains our ownership history, philosophy, structure, and operation. It is designed to be read by all new employees and those outside the company who are curious about the system and its meaning. If you have questions feel free to direct inquiries to jabrams@vineyard.net. For further information see my book, *COMPANIES WE KEEP: Employee Ownership and the Business of Community and Place* (2008, Chelsea Green Publishing).

The Path to Employee Ownership

South Mountain Company began as a cabinet making and woodworking shop in New City, New York in 1973. There were three equal partners: Kingsley Van Wagner, Mitchell Posin, and myself. In 1975 Mitchell and I went to Martha's Vineyard to design and build a house. Kingsley elected to remain behind. On the Vineyard other projects came our way, and we stayed. During the years 1976-1978 we hired Steve Sinnett, Heikki Soikkeli, and Pete Ives in quick succession.

In the early 80's Heikki left to go into business for himself and Mitchell's interest gradually waned as his commitment to farming increased. When he withdrew from the partnership I became sole proprietor of South Mountain. By 1985 there were 10 employees. Rumblings about change at South Mountain began to gather momentum in 1986. Our growth in the previous few years, although hardly explosive, was unplanned; it had brought us to an unsettling perch, like leaning against a wobbly railing on a second floor balcony. No longer did the company have the feeling of a small extended family; it had grown too much. No longer could it run solely on intuition and gut; it had become too complex. We needed a system that would allow existing cherished qualities to be maintained in a new and different context. Issues that had not been evident became visible and urgent. When Steve and Pete came to me and said they wanted to stay at South Mountain and make their careers here, but needed a greater stake and more than an hourly wage, I felt it was time to do more than just reinforce the railing.

We put our heads together and decided the situation with Pete and Steve was not likely to be unique; it would come up again and again if the company continued to succeed. How could we remedy the current circumstance but also prepare to welcome others, in the future, to a new status that offered more participation in decision-making, greater responsibility, and opportunities to share profits?

We decided to investigate structures that would distribute both ownership and control. This was surely a hinge point for South Mountain. For a while I was unhinged- both frightened and excited by our deliberations. I had the power, along with the greatest financial and emotional investment; therefore I had the most to lose. Sometimes, during those sessions, it felt like control was slipping away, that I was tugging on the reins of a runaway horse. But it occurred to me that perhaps I had the most to gain: aside from the lure of clearing this new path and seeing where it led, the possibility of shared responsibility and ownership promised new freedoms for me and new achievements for this company (and these people) that I loved. Besides, I never liked to spoil a party.

Expressions from the participants at those early meetings evoke the tone of the discourse.

> "Our structure should guarantee that anyone who makes a career here should be extended the privileges, responsibilities, rewards, and headaches of ownership."
>
> "The underlying premise for any change we make must be mutual respect and trust. To lose what we've created in that regard would be tragic."
>
> "We are a small, successful company with a strong reputation and track record, but an informal, relaxed structure. Very little about our governance and operations is defined except by habit, experience, and our various quirky personalities."
>
> "Pete and Steve have put a lot into SMC; the restructuring should reward them without taking from John, and it should gradually reward others who make the same kind of commitment."

We were beginning to tamper with the fundamental elements of our work lives. Our inquiries led us to the concept of a worker-owned cooperative corporation. It seemed radical but promising, especially if we could make the shift to employee ownership and control in a gradual, carefully measured way. With some trepidation (perhaps only on my part) we hired Peter Pitegoff, an attorney at the Industrial Cooperatives Association, now known as the ICA Group, to advise us. We had learned of ICA's work launching employee owned cooperatives & facilitating worker buy-outs of existing firms, & we thought they may be able to help us chart a course.

Worker Cooperative Corporations

There is a growing, although largely unknown, group of worker cooperatives in the U.S. and worldwide. Worker cooperatives are businesses that are owned and controlled by those who work in it. The democratic workplace creates a real economic alternative to the traditional corporate model of exploitation. It is also becoming a more important entity of choice as millions of baby boomer business owners begin to reach retirement age and contemplate their legacies.

There are many different structures and decision-making systems for cooperative businesses. Each determines its own approach. In many ways, worker co-ops operate just like conventional businesses: they develop a product or service and offer it for sale to the public with the goal of making enough money to support the business and its owners. They incorporate with the state, get a business license, pay state and federal taxes, have payroll and benefits, and do all the things that businesses do. Worker cooperatives usually use the "“C” corporation" or "limited liability company" legal framework. It has a corporate shield against liability, is governed by board of directors, and in most cases is managed by one or more officers. Three characteristics, however, distinguish it.

First, a worker cooperative is a membership organization, and membership is limited to employees who complete a trial period and invest a membership fee. Second, a worker cooperative is governed democratically by its members, who elect the board of directors (at least a majority) and vote on policy matters on a one-person/one-vote basis, rather than on the basis of numbers of shares owned. Third, a portion of corporate earnings is allocated to members on the basis of their work investment rather than on capital investment. These "patronage allocations" are in addition to normal wages, can be in cash or in a portion retained by the company in "internal capital accounts," and are regulated by Subchapter T of the Internal Revenue Code.

In addition, worker cooperatives tend to create long-term stable jobs, have more equitable and environmentally sustainable business practices, and be connected and accountable to their community. In a worker cooperative, workers own their jobs and thus have not only a direct stake in the local environment but the power to decide to do business in ways that benefit the community rather than harming it."

While people working together for their mutual benefit and goals has been common throughout human history, the cooperative as a business organization emerged from the Industrial Revolution in the late 1700's and early 1800's and has been in existence ever since. While they have never been a significant portion of the US economy, cooperatives have had a modest impact in certain industry sectors and regions and in certain historical periods. Over time there have been far more producer co-ops and consumer co-ops than worker co-ops. (Producer cooperatives are owned by producers of farm commodities or crafts, who band together to process or market their products; a few well-known examples are Organic Valley and Land o' Lakes. Consumer cooperatives are owned by the people who buy the goods or use the services of the cooperative. REI - Recreational Equipment Inc. - is the largest consumer cooperative in the country).

Developing the Model

In our case, I worried that hiring ICA would mean there was no turning back. The safety & insularity of sole proprietorship, only recently earned, were about to be cast off.

After we familiarized Peter with the company and our musings-to-date, he suggested we adopt and adapt the democratic structure of the Mondragon Cooperatives, a group of employee owned industries and businesses in the Basque region of Spain with a long and successful history. Peter introduced us to the basic Mondragon principles: all employees can become owners; employee-owners control the enterprise and share the wealth created; the workers make the decisions; and a fixed ratio is maintained between the lowest wage and the highest.

We made adjustments to this model to fit our own idiosyncratic needs, particularly the institution of a lengthy five-year trial period before ownership. This was important on several accounts: to insure a gradual transition, to allow time to measure commitment and suitability before people became owners, and to provide room for training and building understanding before employees were thrust into a decision-making role.

Pitegoff established a method for valuing and buying out my interest, drafted a set of by-laws, and developed a legal agenda for re-organization. His help was invaluable; we were lucky to find him. His non-doctrinaire attitude was particularly reassuring. He'd never heard of such a long waiting period, for example, but he endorsed it because he understood that we were, essentially, designing a house for ourselves that we had to be comfortable living in. We could always remodel later. The structure has stood the test of time. The five year waiting period has turned out to be none too long.

We were fortunate, too, to have a smart and open-minded accountant, Gerry Tulis of Tulis Miller in Boston. He had never worked with employee owned cooperatives, but he took it upon himself to become an expert. These days he is able to advise companies who are seeking to make the transition, and he handles the accounting for five worker owned cooperatives, four of which were originally referred to him by us.

Re-Structuring SMC

On January 1, 1987 I signed SMC over to a new worker cooperative corporation. Steve, Pete, and I were the original three owners. Our jobs didn't change - I remained the general manager and Steve and Pete remained foremen - but in our new roles as employee owners our responsibilities did. My compensation for selling the company was preferred shares based on a valuation done by Pitegoff, which were converted to cash over a period of five years, and a full ownership share. The first meeting of the board of directors of the newly re-organized company convened on January 9, 1987. Attending were Steve, Pete, Peter Rodegast (soon to be the fourth owner), and myself. There were seven other employees at the time of the re-structuring; all were on a track to ownership. This was a critical transformation in the life of the company, but the full implications of what we were doing were not yet clear to us.

Our re-organization awarded qualified employees full and equal ownership that included a share of both the profits and the control of policy. Few worker owned companies are also worker-controlled. Most of the millions of U.S. employee owned companies are what is known as an ESOP (Employee Stock Ownership Plan). In an ESOP the workers own a portion of the stock, and share, to lesser or greater degree, the wealth generated, but they generally (with some exceptions) do not control the operations and destiny of the company. In our case, the worker/owners share both profits and control; there's no separation. The group is vested with both the pleasures and the burdens of distributed power.

The First Generation ~ 1987 - 2008

Within the new structure we successfully expanded both the ownership and the business itself. We began with three owners in 1987; after losing one, we gained seven more, for a total of nine, and then lost another in July 1995. Since then we have gained ten more and lost one – currently we have 17 owners. Most of our 16 other employees are on a track toward ownership, although several have decided to opt out.

Steve's early departure was difficult but amicable and successful. The process worked. We owe a lot to him for his important contributions to the early days of South Mountain - he was an invaluable presence and a prime mover in the drive to re-structure.

Vicki Sperry's departure, in July 1995, was simply a time to celebrate her decade of employment and the contributions she had made. Her 4 1/2 years of ownership allowed her to take a significant nest egg with her when she left to marry a man in Rochester NY. Kane Bennett left in 2004 for similar reasons: he and his family wanted to move to Western Massachusetts and he wanted to go to engineering school.

Incorporating new members has worked well; all take the responsibility seriously and quickly become contributors. But initially there was some lack of clarity about the meaning of ownership and degrees of entitlement. This began to change at the end of 1992 when we finally defined the process, responsibilities, and benefits of ownership and made ownership potential and interest an important condition of our hiring criteria. We assume, when we hire someone new, that they will become an owner in five years; this makes us think differently about who we are hiring and why. The selection of new employees is as important as the structure.

But ownership is not a requirement. Neither is it a right. It is a privilege to be enjoyed by those for whom it is appropriate and desirable. Some have remained here for many years without becoming owners, but this is the exception rather than the rule. Ownership just isn't for them, or so they think; some of us argue differently, and encourage them to join. We have noticed that since employee ownership is an integral part of the SMC culture, those who remain non-owners for a long time are partially isolated from important internal dynamics of the company. They are also missing out on the opportunity to build valuable equity.

Since re-structuring, South Mountain Company has grown (very gradually, and with conscious and cautious intent) and prospered. We now have 33 employees and annual revenues of $8-9 million. Our abilities to serve our employees, our associates, our clients, and our community have grown as well..

Ownership Criteria

There are three principal criteria that prospective owners are expected to meet: an understanding and intent that employment at South Mountain will be their primary work for the foreseeable future; a demonstrated ability, from the evaluation process, to work effectively and co-operatively; and a commitment to understanding and honoring the company's core values: quality work, ethical business conduct, environmental responsibility, and concern for others – in short, we expect that a new owner will be a good representative of the company.

Ownership eligibility begins once an individual has worked a minimum of five years and 7500 hours. The five years is, in effect, a trial period. During that time our personnel committee clarifies, before each individual reaches eligibility, whether the employee wishes to accept the responsibility and whether the current owners wish to accept this person as a partner. Employees are evaluated for ownership suitability and educated about the meaning of ownership. The intention is that it will be clear, when each individual reaches eligibility, whether the individual wishes to accept the responsibility and whether the current owners wish to accept the individual as a new owner. It is not always quite that simple, but the process is generally orderly and consistent. An employee who makes it through five years without extenuating circumstances is likely to become an owner.

Governance and Management

The owner-employees are the board of directors of the company and they make all policy decisions. Only employees may serve on the Board. Ownership is inextricably tied to employment; at termination or retirement an owners' share must be sold back to the corporation (except that employees over the age of 62 may retain ownership, with the approval of the Board, until they have drawn down their equity account to the amount of the then-current membership fee). Although we get plenty of advice from accountants, attorneys, bankers, and consultants – the best ones we can find - and we have the utmost respect for these professionals and listen carefully to their counsel, they do not make decisions about the company; only employee-owners do.

We work by consensus with a back-up voting mechanism. In seventeen years we have had to take only three votes. In the first case a rather minor issue provoked strong feelings. We couldn't reach consensus, and finally someone said, "We're spending way too much time on this meaningless issue - let's take a vote." And we did. And agreed to disagree. Simple enough.

The second and third votes were more substantive. The second was about an important and complex proposal to buy property and re-locate and consolidate the business. There was disagreement about the merits of the proposal. We had three long meetings about the subject in one week. We couldn't come to full agreement, so we took a vote. The proposal passed by a six to one margin. Two others abstained.

The last vote was about a new owner. It was marked by strong disagreement and debate. The vote was affirmative but the experience spurred us to re-visit our ownership criteria and clarify our policies. This exercise proved to be valuable. We wish we could reach consensus in all cases, but we are grateful for the voting mechanism. It's an essential back-up when needed.

The board has responsibility for decisions affecting the future of the company, such as:

- New owners and other significant personnel issues;
- Compensation and benefits policies;
- Profit sharing;
- Direction of future projects and work;
- Major purchases, investments, and expansions;
- New ventures;
- Company growth;
- Involvement in community projects;
- Major donations.

Our Management Committee prepares the board to make these decisions and in most cases recommends direction and courses of action for the board's consideration. There are six board meetings per year; before each, an agenda and a package of supporting material is distributed to prepare the board to discuss and deliberate. There are times when it is not clear whether a decision should go to the board or not. The best test of this is how we all feel and what seems reasonable. Sometimes a board member will say, "Why weren't we consulted about this?" A discussion will follow and we will reach a conclusion together so we know how to treat similar situations in the future. These informal adjustments and new understandings are crafted over time. Everyone understands the importance of balancing participation and efficiency. We understand that there is no map to guide us, that we need to be comfortable with trial and error, and we must be nimble enough to alter the process as needed. We are always a work-in-progress.

We have been blessed with a congenial, respectful, thoughtful group of owners; there are few difficult struggles. As the ownership pool expands there is more diversity, which leads to more disagreements but richer discussions and more thorough investigations. Board meetings tend to be informal, intimate, and humorous. They are carefully facilitated, however, so they don't wander or last too long. The average length of the bi-monthly meeting is two hours. As a friend of mine says, "Anything longer than two hours is a workshop, not a meeting." We understand that facilitation skills are essential to good meetings, even small committee meetings, and we provide training and encourage the development of these skills. We have found that knowledge of meeting facilitation technique produces better meeting participants as well as better meeting leaders.

Our governance is a democracy that has clear divisions of responsibilities and authorities. The group of owners has the ultimate authority but it delegates much of the trust and authority to management. Adjustments and accommodations are made between the two. It is clear where the power lies; it is owned by the group. That power is organized, however, around a single fundamental concept: our job, as owners, is to do what's best for the company and each other at the same time. Setting policy is not about personal interest.

As the company has grown we have developed more collaborative management processes to go along with our shared policy-making. Much of our management work is done by committees. Our committees – management, personnel, production, design, charitable contributions, education, housing, waste, and others - meet on a regular basis to conduct the business of the company and carry out the policies set by the Owners.

What Ownership Means to Owners

The following is a sampling of comments from owners about what ownership means to them:

Peter Rodegast: "It's interesting to see how co-workers of all sorts evolve into business partners; it's different from just working with a few close friends. You end up with a diverse board and a variety of opinions."

Mike Drezner: "My notions of what ownership means have slowly changed as time has passed. Initially, I thought of it as analogous to a shareholder's: to have a voice in policy and business decisions but distance from personal matters within the company. I have come to learn that you do not decide the extent or nature of your involvement in company concerns. In essence, you become a parent to all South Mountain issues and your responsibility to the well being of the company and the process of working with the other owners, demands commitment. That understanding dictates a subtle change of perspective. You need to take what you know as an employee and use it only as a resource. The trick is to respond to South Mountain issues with honesty and objectivity and not allow responses to be influenced by comradeship, personal financial gain or the desire to avoid thorny interpersonal problems."

Peggy MacKenzie: "Since becoming an owner I have a deeper interest in just about everything that happens here. If I don't understand or agree with something I catch wind of, I ask questions so I get it, and I voice my opinion. Ownership is what each individual brings to it. I see it as a commitment as well as an opportunity. And frankly, it's a good investment, but somehow that's beside the point."

Derrill Bazzy: “Even before ownership I felt I was part of the decision making process, because SMC has always been the kind of company where all employees are listened to. Everyone can be involved to whatever degree they choose. What’s different about ownership is the financial aspect. Ownership offers me the opportunity to make a good investment, and to make it in a company I believe in, have a say in, and plan to remain a part of.”

Phil Forest: “Part-ownership of this company has given me a greater sense of community . . . I feel empowered by the chance to help guide the company. I have increased my commitment, discovered more opportunities, assumed more responsibility and acquired more influence . . . I belong here.”

Belonging. Parenting. Diverse views. Empowerment. More opportunity. Deeper connections. Our system seems to encourage these, which are in turn supported by legal and financial covenants which complete the framework of a company where the employee owners share the wealth and control the destiny. This is not about a sense of ownership or a sense of control. Corey Rosen of the National Center for Employee Ownership once said that giving employees a “sense” of ownership is like giving them a “sense” of dinner. This is the whole meal. And a good investment, but to Peg at least, that’s somehow beside the point.

Ownership Responsibilities and Benefits

<u>Responsibilities:</u>

1. Payment of Ownership Fee. See “New Owner Payment Policy” below.
2. Attend and Participate in board meetings. Owners are expected to digest material in board meeting packets and attend all board meetings. This requires an understanding of SMC operations and mission. A new owner must learn what it means to act in the best interests of the company.
3. Understand SMC Governance. An owner should be familiar with SMC by-laws, and should know how governance and internal capital accounts work.
4. Represent SMC. In a way, each owner is a community ambassador for SMC. We expect that each of us will conduct ourselves in ways that are consistent with the values of the company, as expressed in our by-laws, our mission statement, and our guiding principles.

<u>Benefits:</u>

1. One voice (or vote) on policy matters. Ownership is an opportunity, as well as a responsibility, to impact the decisions which chart the direction and destiny of SMC, and which determine the quality of each individual’s work-life.
2. Equity sharing. All owners share equity in the form of internal capital accounts. See “Internal Capital Accounts” discussion below.

3. Ownership position. This recognition is an intangible that may mean more to some than others. Owners don't just work here - we own it!

Internal Capital Accounts

An important part of the SMC system is personal equity building through owners' annual profit sharing. Equity is accounted for in individual Internal Capital Accounts. These are paper accounts backed up by the company's net worth, not cash accounts.

Equity accounts begin with the membership fee that each owner pays; they grow at the end of each profitable year. Roughly fifty percent of net income is distributed among the owners, based on hours worked during that calendar year (this is distinct from the cash profit sharing that is extended to all employees each year in the form of wage bonuses). The board may, however, distribute dividends in any given year. At least 20% of dividends must be cash, and the entire dividend is taxable income to each individual, even the non-cash portion. The board distributes dividends in high-profit years when there is a tax advantage to the company, and the board makes certain that the cash portion is enough to at least cover the increased income tax liability generated from the cash distribution, so as to not cause a financial hardship to the individual owners.

The equity accounts continue to mature until the end of an individual's employment. The funds in these accounts are mostly inaccessible until an individual leaves the employ of the company (although there is a provision that funds can be withdrawn, within limits, at 60% of value). When an employee departs the company begins to pay out the equity amount with payments spread over eight years. A departing owner can elect a shorter payout period; if so, the distribution is at a discounted rate (immediate payout: 60%; two year payout: 72.5%; four year payout 79.5%; and six year payout 86.5%. Equity accounts are non-interest bearing.

At the end of fiscal 2008, the cumulative total of the fourteen capital accounts was $1,445,000. Individual accounts ranged from $35,000 to $220,000. In 1999 we established a reserve fund to back-up the equity and to use to pay off owners as they leave in the future. We build this account aggressively and invest the funds in socially responsible venues. We have made a commitment to always keep an amount of cash equal to at least 50% of total accumulated owners' equity. As of November 2008 the account contained approximately $800,000. If the Owners were to choose to, we could use this fund for other purposes, such as paying employees during a down business cycle, but that would require the consensus of the Owners. These reserves are the foundation of the stake that each of us has been earning.

New Owner Payments

This payment, called the “membership fee”, is for the purchase of a share of SMC ownership. Originally, we decided this needed to be significant but affordable. If it was too steep it would discourage participation, so we set it at the price of a good used car, an expense everyone seems to be able to manage when necessary. At the initial 1987 re-structuring it was set at $3500. It escalates at a rate of 2% per year and, as of September 2008, is approximately $12,500. At this point it’s an uncommonly good investment for new owners. A new owner begins to accumulate equity when the fee is half paid.

When the fee is paid, it is deposited into the SMC cash reserve fund. At the same time, it is used to open the new owners’ individual capital account. The fee may be paid (on May 1st or November 1st) in cash, or payments may be spread, at no interest, over a period of time not to exceed 36 months.

The Rubber and the Road

When we decided to restructure SMC in 1987 I thought that what we were doing was more symbolic than substantive. This couldn’t have been further from the truth. It has been more meaningful and more valuable than I could ever have imagined. It was an experiment that gambled with our livelihood by taking a major psychological leap as well as a legal one. I suspect it has been as rewarding for others as it has for me, and there’s no question in my mind – although I can have no definitive proof – that it has been a critical factor in the long-term success of the company.

I think those who are moved to distribute ownership (and it’s clear that more and more are taking this step) embrace the view that organizational consultant Robert Leaver expresses: “power is infinite; if I take more and you take more, there’s more of it.” That has been my experience: bring more people to the table and you create new potency and ability that did not previously exist.

The fear of losing control often underlies resistance to shared ownership. I’m afraid too. I used to fear that my values would be overruled. I still fear that this entity, which I’ve spent a good part of my life building, may turn into something I don’t even like. At this point there are a number of others, of course, who have spent a good deal of their lives building it too, and they share the same risk. It’s true that if we give up control we may lose some of what makes our creation precious to us, but it’s our job to choose our co-conspirators carefully and to advocate well enough that we don’t. I think we are more likely to achieve that goal once the control is truly at risk and we have to lead rather than command.

I’ve come to believe that making the leap to employee ownership is the single business risk that has the potential to bring the greatest returns. It’s not unlike choosing to have a baby. There can’t be anything we do in life more risky than having a baby, but for most people the perils are apparently outweighed by the potential pleasures and fulfillments. Not only did the loss of control seem to me a worthy gamble, but it felt like offering ownership without control would be like turning over the keys to a car with an empty gas tank. Without distributing the power as well as the wealth our structure would be hollow and the engine would turn over without starting.

If widespread embrace of worker cooperatives is limited by issues of power and control, perhaps it's because the benefits haven't been as well articulated as the risks. In fact, perhaps there are risks associated with conventional ownership and control that cannot be overcome without systemic change. One of the unhappiest parts of my time as benevolent company dictator was the constant carping and unwillingness to fix things that comes with the sense of being, as an employee, a victim of an unfair system. Now I'm wondering if it wasn't unwillingness but rather just a condition of the system. Don't get me wrong; we are not free of whining and unwillingness today, but now we have new avenues. It's easier now to respond, "I hear what you're saying. Why don't you do something about it?" And people have come to know that the way to do something about it is to convince others: if you want to replace the flatbed truck with a pair of oxen, all you've got to do is to convince the others that it makes sense. If you do, it can happen. We use a truck, but it's because we all agree to, not because it has been pre-determined or decided by one that it's better than a team of oxen.

But is it possible for a group of people, especially one that is forever expanding, to assume the full mantle of ownership? Can everyone fully engage? Can people with different occupations, orientations, and backgrounds have similar relations and depth of commitment to the thing they have agreed to share custody of? In our case it hasn't happened quickly. Degrees of involvement vary and the dynamics are constantly changing and evolving. That's okay. I am led to believe, from our experiences, that a group of diverse people in a small company like ours can indeed succeed together. We will continue to find out.

If we consider the two decades between the re-structuring and today as an epoch in the company's history, the structure has withstood its first test of time. It has been easily adjusted as change has been needed. One potential difficulty I see is a kind of cultural hardening of the arteries. There are occasions when it feels that the owners are becoming more concerned with security and less willing and able to take risks. How do we avoid the creeping conservatism that comes with age from overtaking our spirit of adventure? I don't know the answer, but I think that the goal is a healthy balance between stability and risk. The key to keeping vitality may be what business consultant Peter Barnes calls "inter-generational yielding." We, the owners and leaders of this company, must continue to welcome new leaders. We must look to younger people to do more than hold steady and carry on; the business must evolve if it is to continue to thrive. Their task is to lead us in new directions over time. We're hard at work on that one and it will become an essential task of the next decade to sow the seeds for on-going flowering. But we've only been operating this way for only 20 years. What happens over generations? What happens when there are 30 people making policy decisions instead of 15? We don't know; the jury is still out.

Our consensus decision-making process has been able to keep the blood flowing so far. Adaptive change is slow here, but I have rarely felt that things were bogged down in process or heard complaints that too little is getting done. Part of this is the acceptance of hierarchy based solely on expertise, not power. Most hierarchies serve two purposes: efficiency and maintenance of power. "Once the power aspect is gone," says Terry Mollner, founder of Trusteeship Institute, "people love hierarchy because of its efficiency, and they don't find it to be a barrier to healthy relationships with each other." I think that's true in our case. Our decentralization efforts are not intended to reduce reliance on expertise and leadership; rather, they encourage more participation and appropriate hierarchy. We don't want the crew to sit around on the job and draw straws for who cases the windows and who builds the stairway. We want a capable supervisor who knows the people he or she is working with and assigns responsibilities appropriately. Decisions must be made by those who have the expertise to make them.

I don't want to over-freight the ownership aspect. Employee ownership is a vehicle, but it's not the only one that encourages more responsible and more democratic business practices. Nor do I believe that re-structuring to employee ownership will turn a business around. A healthy business and significant mutual trust are prerequisites. We must build businesses that are ready to take such a dramatic step. If you re-structure a dysfunctional business to employee ownership, you are likely to have a dysfunctional worker-owned business when you're done. But the inquiry itself may be an avenue toward solving internal problems, because as things stands most employees are in untenable situations. We can be certain of one thing. If businesses were owned by the people who do the work, the rewards that result would be distributed far more equitably than they are today. That could only be a good thing. In the end, it's not about what we say, but what we do, not about the package but the contents. What's important is whatever it takes to get to fairness, transparency, shared responsibility, and promises kept. As author Jeff Gates says in his book, *Democracy at Risk*, about what a really democratic society would be, "Democracy is not a destination; it's our manner of traveling. It's not so much something we do as the way we are. And the way we are in relation to others. Therein lies its sweetness."

It's an apt description of the sweetness of employee ownership that I sense at South Mountain Company as well; it's the way we have come to be. It has become a part of our identity, as individuals and as a company. The searching-for-democracy journey we've taken has been cathartic. It has stimulated us to articulate and understand our purpose. It has brought a sense of completeness to the company; it's as if the keel was always there but we were missing the rudder. Together we've become, at once, better problem solvers and better dreamers. There's a lot to be said for ownership and the responsibility it encourages. Like Tom Friedman once said, "In the history of mankind, nobody has ever washed a rented car." We continue to be a work-in-progress, a foundation on which we layer our accumulated experience. We sustain the journey, always practicing and adjusting, tearing and mending, folding and unfolding, building the road as we travel, shaping our future.