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Employee Ownership

Toolkit

by John Abrams, Founder , CEO and Co-Owner | February 2020

Employee Ownership Toolkit

South Mountain Company is an integrated architecture and engineering, building and solar firm located on Martha's Vineyard. We began as a partnership in 1975, became a sole proprietorship in 1984, and restructured as a worker-owned cooperative in 1987. This narrative explains our ownership history, philosophy, structure, and operation, as well as how we got here and the resources we utilized along the way. It is designed to be read by those outside the company who are curious about the system and its meaning. If you have questions, feel free to direct inquiries to me at jabrams@southmountain.com.

For further information, see my book:
Companies We Keep: Employee Ownership and the Business of Community and Place
(2008, Chelsea Green Publishing)

And my blog:
southmountain.com/blog

SECTION A

SMCo's Path To Employee Ownership

South Mountain Company (SMCo) 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 eighties, 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 SMCo. By 1985, there were 10 employees. Rumblings about change at SMCo 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 that 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 SMCo. 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 SMCo; 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 and facilitating worker buyouts of existing firms, and we thought they might be able to help us chart a course.

DEVELOPING THE MODEL

In our case, I worried that hiring ICA would mean there was no turning back. All ties to safety and 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 worker/owners make company policy 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 bylaws, and developed a legal agenda for reorganization. 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, Jerry Tulis of Tulis Miller in Boston. He had never worked with employee-owned cooperatives, but he took it upon himself to become an expert.

RESTRUCTURING SOUTH MOUNTAIN – SHARING THE REINS

On January 1, 1987 I signed SMCo 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 Project Leads — 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 reorganized 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 restructuring; 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 reorganization 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 US employee-owned companies are what is known as an ESOP (Employee Stock ownership Plan). In an ESOP, the workers own a portion (or all) 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 employee 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 – 2018

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 25 more and lost 11 —as of 2020, we have 22 owners. Most of our other employees are on a track toward ownership, although a few have opted 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 SMCo — he was an invaluable presence and a prime mover in the drive to restructure.

Vicki Sperry's departure, in July 1995, was simply a time to celebrate her decade of employment and the contributions she had made. Her four and a half years of ownership allowed her to take a significant nest egg with her when she left to marry a contra dancer in Rochester, NY. Kane Bennett left in 2004 to attend engineering school. Others have left for a variety of reasons. Peter Rodegast, our fourth owner, left in 2010 after 27 years for an early retirement/career change. For many years, he was our primary designer and was responsible for many important projects.

Incorporating new members has worked well; all take the responsibility seriously and quickly become contributors. 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.

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 SMCo 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 restructuring, SMCo has grown (very gradually, and with conscious and cautious intent) and prospered. Our abilities to serve our employees, our associates, our clients, and our community have grown as well.

THE RUBBER AND THE ROAD

When we decided to restructure SMCo in 1987, I thought that what we were doing was more symbolic than substantive. Nothing could 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, 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 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 for the values that are precious to us. 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, 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, like a renter in contrast to a homeowner. 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 a 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. At SMCo, we use a truck, but it's because we all agree to, not because it has been predetermined 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, and we will continue to improve our systems for doing so.

If we consider the three decades between the restructuring 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 have seen in the past is a kind of cultural hardening of the arteries. There are occasions when it has felt that the owners were 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? 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. Our plans for a transition to the next generation, in December of 2022, is driven by a strong, well-aligned, younger leadership team.

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 overfreight 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 restructuring 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 restructure 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 stand, most employees are in untenable situations. We can be certain of one thing: If businesses were owned by the people who did the work, the rewards that result would be distributed far more equitably than they are today. That could only be a good thing. 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 SMCo 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 former Treasury Secretary Laurence Summers once said, "In the history of mankind, nobody has ever washed a rented car." We continue to take an active role in our journey, always practicing and adjusting, tearing and mending, folding and unfolding, building the road as we travel, shaping our future.

SECTION B

Worker Cooperative Coorporations

THERE IS A DEVELOPING STORY about worker cooperatives that goes far beyond our own.

There is a growing group of worker cooperatives in the US and worldwide. Worker co-ops are businesses that are owned and controlled by those who work in them. The democratic workplace creates an 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, the so-called "Silver Tsunami."

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 co-ops usually use the "C corporation" or "limited liability company" legal framework. It has a corporate shield against liability, is governed by a board of directors, and in most cases, is managed by one or more officers. Three characteristics, however, distinguish this model:

First, a worker co-op is a membership organization, and membership is limited to employees who complete a trial period and invest a membership fee. Second, a worker co-op 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 co-op, 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 groups of people working together for their mutual benefit and goals have been common throughout human history, the cooperative as a business organization didn't emerge until the Industrial Revolution in the late 1700s and early 1800s. While co-ops have never made up a significant portion of the US economy, they have had a modest impact in certain industries 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 co-ops 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 co-ops are owned by the people who buy the goods or use the services of the cooperative. Recreational Equipment Inc. (REI) is the largest consumer co-op in the country. On Martha's Vineyard, Vineyard Power is a great example of a consumer co-op).

Worker co-ops may be a vital part of the Next Economy. Economist Richard Wolff says: "If our workplaces had been democratized, long ago, the workers would not have stopped raising their own wages, so the whole credit card borrowing frenzy could have been avoided. Would those workers have destroyed their own jobs by moving production overseas? Highly unlikely. Would they have employed technologies that pollute the local environment? I don't think so, because they live there. Would they have used their profits to speculate in risky derivatives? Doubt it. Would they have allowed some to earn astronomical salaries while the rest of the workers didn't get raises? No way. Every part of our economic history over the last thirty years would have been radically improved if we'd had a different way of organizing our enterprises – with a more cooperative, collective community-focused method that is democratic at its core."

SECTION C

Governance & Management

AT SMCO, THE EMPLOYEE OWNERS are the Board of Directors of the company and they make all policy decisions. Ownership is inextricably tied to employment; at termination or retirement, an owners' share must be sold back to the Corporation .

We work by consensus with a backup voting mechanism. In 32 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 relocate 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 revisit 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 backup when needed.

The Board has responsibility for policy decisions that determine the course of the company and its future, such as:

- 1. Electing all Board officers and appointing the CEO (The Bylaws currently specify that whoever is elected as Board President shall also serve as the CEO.)
- 2. Appointing Committees
- 3. Reviewing financial reports
- 4. Acting on proposals regarding:
  - a. Operating policies
  - b. Creating new positions which expand company size
  - c. Expansion of or significant change to facilities
  - d. Adding or significantly changing major revenue streams
  - e. New business ventures
  - f. Real estate purchase and sale
  - g. Significant debt
  - h. Use of equity funds besides their intended use
- 5. Managing ownership and equity matters (approve new owners, determine the ownership fee, determine patronage allocations, determine equity distributions, hear appeals regarding termination of ownership, etc.)
- 6. Determining philanthropy practices and priorities
- 7. Delegating responsibilities as desired

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 four board meetings per year; before each, an agenda and a package of supporting material is distributed to prepare the owners for discussion and deliberation. 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 each 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, Employee Donations, Fun, Environmental Management, Safety and others — meet on a regular basis to conduct the business of the company and carry out the policies set by the owners.

SECTION D

Ownership Criteria, Responsibilities & Benefits

OWNERSHIP CRITERIA

There are three principal criteria that prospective owners are expected to meet: an understanding and intent that employment at SMCo will be their primary work for the foreseeable future; a demonstrated ability to work effectively and cooperatively; 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 6,000 hours. The five years is, in effect, a trial period. During that time, we clarify, 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. The process is generally orderly and consistent. An employee who makes it through five years without extenuating circumstances is likely to become an owner.

OWNERSHIP RESPONSIBILITIES & BENEFITS

Responsibilities

1. Pay the ownership fee.
2. Prepare for, attend, and participate in Board meetings.
3. Understand SMCo governance. An owner should be familiar with SMCo financials, Bylaws and Operating Policies and should know how governance and internal capital accounts work.
4. Represent SMCo as a community ambassador. We expect that each of us will conduct ourselves in ways that are consistent with the values of the company, as expressed in our Mission and Guiding Principles.

Benefits

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 SMCo, 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.

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!

THE MECHANICS OF OWNERSHIP

New Owner Fee

This payment, called the "ownership fee", is for the purchase of a share of SMCo 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 restructuring it was set at $3,500. It escalates at a rate determined by the owners; as of November 2019 it is $16,500. The fee may be paid (on May 1st or November 1st) in full, or payments may be spread, at no interest, over a period of time not to exceed 36 months. A new owner begins to accumulate equity when 50% of the fee is paid.

When the fee is paid, it is deposited into the Equity Fund. Concurently, an individual capital account is established equal to the value of the ownership fee.

At this point and in the past, ownership is an uncommonly good investment for new owners.

Internal Capital Accounts

An important part of the SMCo system is building equity through ownership.

All owners share equity in the form of internal capital accounts, including one individual capital account for each owner. These internal accounts are not cash accounts, but paper accounts that are backed up by the company's net worth, and specifically, by the company's Equity Fund.

Equity Fund

The Equity Fund is an investment fund established to provide funds to meet our equity commitments to owners. The Management Committee evaluates the fund annually to assure that it contains sufficient capital to meet our short-term and long-term obligations. Except for “Distributions while an Owner” and “Payout upon Ownership Termination” as specified below, equity funds cannot be used for any purpose that does not produce revenue to the fund without the unanimous approval of all owners. The Equity Fund is invested in accordance with our Investments policy.

Individual Capital Accounts

These are accountings of each owner’s accumulated equity in SMCo. An owner’s individual capital account begins with the ownership fee that he or she pays. It increases at the end of each profitable year by means of a patronage dividend. (The account similarly decreases at the end of each year in which there is a loss.) The individual capital account continues to mature until termination of ownership and it is non-interest bearing. Following termination of ownership, the account is paid out to the former owner as listed in “Payout upon Ownership Termination”.

Patronage Dividends

At the end of each profitable year, the Board distributes a percentage of the company’s income as dividends to owners, according to the recommendation of our accountant. (This dividend is separate and distinct from the cash profit sharing that is extended to all employees each year in the form of wage bonuses.) Dividends are based on hours worked during that fiscal year and are usually paid in a combination of paper equity and cash. At least 20% of dividends must be paid in cash, according to the IRS, and the entire annual dividend is taxable income to each owner, even the non-cash portion. The Board tries to makes certain that the cash portion is enough to at least cover the increased income tax liability generated by the dividend, so as to not cause a financial hardship to the individual owners.

Distributions while an Owner

Our policy is that individual capital accounts are not accessible until ownership is terminated, but an owner who has passed his or her 62nd birthday may request payment of his or her individual capital account, according to the established redemption schedule. Such owner may, at his or her option, continue as an owner so long as he or she is eligible.

Payout upon Ownership Termination

After the close of the fiscal year in which ownership is terminated, the value of the owner’s individual capital account will be calculated and paid out in equal payments spread over a period of eight years. (An owner who is planning to depart can elect to end ownership as of the end of the fiscal year, April 30th, in the calendar year in which the departure will occur, in order to begin collecting payments at an earlier date.) If a departing owner wishes an accelerated payout of their account, or has any other special request regarding payout, they must make their request in writing to the Management Committee, which will make a proposal to be acted upon by the Board . In the case of accelerated payout, the account will be valued as follows:

8 year payout @ 100% of value
7 year payout @ 95% of value
6 year payout @90% of value
5 year payout @ 85% of value
4 year payout @ 80% of value
3 year payout @ 75% of value
2 year payout @ 70% of value
1 year payout @ 65% of value
Immediate payout @ 60% of value

SECTION E

What Ownership Means to Owners

Belonging. Diversity. Empowerment. Opportunity. Leadership. 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 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 too.

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

PEGGY MACKENZIE

Being an owner here has given me a real connection to whatever goes on around here. I feel so lucky to have been here from when we were small. I have learned so much from so many people over the years, and I feel that being an owner cultivates a spirit of collaboration that is critical to being successful at what we do.

RYAN BUSHEY

Taking ownership, for me, meant a powerful shift in mindset from working for a company to working with a company. It was also kind of like a wedding (without the drinking and dancing – or at least without as much drinking and dancing) in that the relationship before and after didn’t change much, but there was an invaluable significance to the commitment.

MICHAEL 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.

SIOBHÁN MULLIN

Making the decision to accept being an owner came to me after a long process that involved both a commitment to the place of the Vineyard as well as the company of South Mountain, so it was one I did not make lightly.

Ownership to me means teamwork, greater responsibility, continuity and stewardship.

I feel privileged to be learning from the very generous founders of this company and being part of the transition to another generation and seeing its continuing success.

GREGORY SMALL

When I started at SMCo I realized this was a cooperative endeavor, not just a single owner growing his bank account. I kept busy trying to find my niche and contribute as a small part of a bigger operation. I felt the team spirit and support and was grateful. Over time, because of the ownership opportunity at SMCo, I began to feel responsible to give back to the organization that enabled my familiar niche.

I believe ownership is the forum to voice my opinions and ideas, to cast my vote in decision making and the vehicle to give back to the community that sustains us.

BETSY SMITH

I wanted to become an owner because I had never had a ‘say’ in how a company was run. But the longer I am an owner, the more I realize it is also an awesome *responsibility. To think about the path ahead, to support wise leadership and new ideas.....although it's more than I bargained for, it's inspiring to help!*

JIM VERCRUYSSE

What ownership means to me is opportunity, responsibility and fulfillment.

The fulfillment I feel from doing what I love and working together with everyone in the company to achieve our common goals; some of which are building beautiful, well crafted homes and being an integral part of our community.

I feel a responsibility to every one of my coworkers to do my best work every day and to also look to the future and try to ensure that we pass on a strong, vibrant and diverse company.

As an owner, opportunities abound. One of the most significant is participation in running the company. All owners are required to attend Board meetings and to rotate on to the Management committee where together we decide the direction we want our company to move. We don't have to wish things were better or different; we can effect change and make our company what we want it to be.

ABBIE ZELL

For me, ownership signifies both a symbolic and literal commitment.

The symbolic commitment is to the collective, to be a cog in something turning, to a shared mission and collaboration as the means for seeing it through.

The literal commitment is to do my best work everyday so the company can, not only thrive in the present, but be the best version of itself when my generation takes on the responsibility of leadership.

Ownership imbued my work life with intentionality – compelling me to build more meaningful relationships, invite different/challenging perspectives for the purpose of broadening my own, seize opportunities for learning, ask: "Can we do this better? And if so, how?"

In other words, it raised the bar.

ROCCO BELLEBUONO

Being an owner at SMCo defines collaboration. There is nothing more valuable than working towards shared goals in an environment of support, understanding, and intention. If it ended there, it would be good. What makes it extraordinary is that there is a collective soul. An intention that supersedes just building beautiful, functional spaces for people. Being an owner has offered me the insight that South Mountain Company does what we do not just for the benefit of ourselves, or the company, but to the benefit of the community, environment, and world. Big thinking for big times.

DEIRDRE BOHAN

SMCo Ownership means joining my voice with others to craft a shared vision of our work lives - creating meaning that transcends the day to day.

GREG MILNE

Ownership, to me, means I am a contributing part of something much bigger than a company, I'm an invested part of a movement. I don't just want to ride the coattails of what was built up before me, I want to be involved, contribute, and share the responsibility for keeping this incredible group of people moving forward.

SECTION F

The Ownership Transition Process

Organizing a worker-owned business, or restructuring an existing one, is daunting. It brings up endless questions; not all have easy answers. There is no single set of rules to guide the process, and this is a dynamic, growing movement; therefore, new approaches and understandings are being created all the time.

1. First and foremost, you the owner(s), (or a group of people in the case of a new start-up), must have an interest in examining the possibilities, the benefits, the detriments, and the obstacles, and at least a philosophical commitment to a democratic workplace.

2. Given that, identify a few key employees to work with in the exploratory phase. In an existing business, if it is not possible to identify some such people, or at least one or two, this might not be the right thing, or the right time.

3. Remember, there are no right answers, and there is no business exactly like yours. This is an inquiry to discover how your business might transition to a new form, and whether it is an appropriate direction.

4. Read whatever you can (or whatever appeals to you) from the Reading List on page 16 and spend some time on the websites listed on page 17. Distill the nuggets — the ones that seem to apply to your sensibility and your situation. Talk with your key employees about the readings — what have you (all) learned that may be useful?

5. At this point, it is important to hire a consultant with employee ownership knowledge and experience to help you navigate (a few are listed on page 17). The consultant can help you undertake an internal examination and do a preliminary feasibility assessment and risk analysis. Dig deep. When short on knowledge, use common sense to work through as far as you can. These are some of the questions you'll need to answer:

- a. What does the owner(s) want? When?
- b. What do the key employees want?
- c. Where do the needs intersect? Where are there tensions?
- d. What is your initial sense of the value of the company?
- e. What does the future of the company look like?
- f. How committed are the key employees to the future of the company?
- g. How committed is the owner(s) to taking this step?
- h. How will the purchase be financed?
- i. How much can the business afford to pay out to the owner(s)?
- j. Is worker cooperative the best model for your company? There are other possibilities to consider:
    - » Cooperative Corporation?
    - » Employee Stock Option Plan/ Cooperative hybrid?
    - » Limited Employee Stock Option Plan?
    - » Simple expanded partnership (not ready for or inclined to — employee ownership)?
    - » Other?
- k. How will decisions be made?
- l. What will be policy decisions and what will be management decisions?
- m. What kind of ownership training will be needed?
- n. What kind of management training will need to occur to prepare for the owner's departure (if this is part of the plan)?

6. If the results of this inquiry are generally positive and indicate that it may make sense to move forward, summarize all findings and draw conclusions about the following:

- Here's where we think we are right now;
- Here are our remaining questions.

7. It can be very valuable, at this stage (or earlier), to talk with a few other employee-owned companies, of roughly your size, about your findings, and your specific questions, and get their reactions. We often serve in this role.

8. With consultant's assistance, and with the assistance of an accountant and attorney:

- a. Conduct company valuation analysis and prepare financial buyout scheme;
- b. Prepare corporate bylaws;
- c. Prepare formal business plan;
- d. Prepare an offering statement and legal

agenda for reorganization.

9. At this point you should be prepared to initiate the restructuring and birth the new company.

10. Live happily ever after (maybe). Adjust as necessary.

SECTION G

Reading List

Abrams, John. *Companies We Keep: Employee Ownership and the Business of Community and Place.* White River Junction, VT, Chelsea Green Publishing, 2nd Ed., 2008.

Adams, Frank T. and Gary B. Hansen. *Putting Democracy To Work: A Practical Guide for Starting and Managing Worker Owned Businesses.* San Francisco, Berrett-Koehler Publishers, 1992. (Primary focus is Worker Co-operatives.)

Bell, Daniel. *Bringing Your Employees Into The Business: An Employee Ownership Handbook for Small Business.* Kent, Ohio, Kent Popular Press, 1988.

Ellerman, David P. "Notes On The Co-op/ESOP Debate." Somerville, MA, Industrial Cooperative Association, 1983.

Gates, Jeff. *The Ownership Solution: Toward a Shared Capitalism for the 21st Century.* Reading, MA, Addison-Wesley Press, 1998.

Kamoroff, Bernard, and Jim Beatty. *We Own It: Starting & Managing Coops, Collectives, & Employee Owned Ventures.* Laytonville, CA, Bell Springs Publishing, 1982. (A bit outdated, but useful.)

Kelly, Marjorie. *Owning Our Future: the Emerging Ownership Revolution: Journeys to the Generative Economy.* Berrett-Koehler Publishers, 2012.

Industrial Cooperative Association, Inc. "The Internal Capital Account System" 1982.

Logue, John, Richard Glass, Wendy Patton, Alex Teodosio, and Karen Thomas. *Participatory Employee Ownership: How It Works.* The Worker Ownership Institute, 1998. (A well-organized analysis and how-to book.)

Logue, John and Jacquelyn Yates. *The Real World Of Employee Ownership.* Ithaca & London, ILR Press, 2001.

Logue, John. "The 1042 Roll-Over Cooperative in Practice: A Case Study of how Select Machine Became a Co-op." (Excellent article about the nuts and bolts of an employee owned cooperative restructuring using an important IRS tool.)

Pitegoff, Peter. "Worker Ownership in Enron's Wake – Revisiting a Community Development Tactic.". The Journal of Small & Emerging Business Law. Vol 8:239 (An up-to-date analysis of the state of employee ownership.)

Rosen, Cory, John Case and Martin Staubus. *Equity – Why Employee Ownership Is Good For Business.* Boston, Harvard Business School Press, 2005. (The big picture, primarily about ESOPs.)

Rosen, Cory and Karen Young, ed. *Understanding Employee Ownership.* Ithaca, ILR Press 1991.

Whyte, William Foote and Kathleen King Whyte. *Making Mondragon: The Growth and Dynamics of The Worker Cooperative Complex.* Ithaca, ILR Press, 1991. (Good history and background about the world's most successful organization of cooperatives.)

SECTION H

Consultants & Websites

The ICA Group
136 West Street #1
Northampton, MA 01060
(617) 232 8765
www.ica-group.org
contact: David Hammer
dhammer@ica-group.org

Cooperative Development Institute
Northampton, MA 01061
(413) 665 1271
www.cdi.coop
contact: Rob Brown
rbrown@cpi.coop

Ownership Associates
122 Mt Auburn Street
Cambridge MA 02138
(617) 868 4600
www.ownershipassociates.com
contact: Christopher Mackin
oa@ownershipassociates.com

National Center for Employee Ownership
(510) 208 1300
www.nceo.org
nceo@nceo.org

Ohio Employee Ownership Center
113 McGilvery Hall
Kent State University
Kent OH 44242
(330) 672 3028
www.kent.edu/oeoc/
contact: John Logue
jlogue@kent.edu

Vermont Employee Ownership Center
31 Main Street
Burlington VT 05042
(802) 861 6611
www.veoc.org
contact: Jon Crystal
Jon.Crystal@VEOC.org

Southern Appalachian Center for Cooperative Ownership
125 Wall St., Suite D
Asheville NC 28801
(828) 232 0632
contact: Frank Adams
joehill@mindspring.com

Beyster Institute
1241 Cave St.
La Jolla CA 92038
(858) 822 6000
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beysterinstitute@beysterinstitute.ucsd.edu

Shumaker, Loop & Kendrick LLP
1000 Jackson
Toledo OH 43624
(419) 321 1456
www.slk-law.com
contact: Mark Stewart
mstewart@slk-law.com

Dean, Dunn, and Phillips LLC
4155 East Jewell Avenue, Suite 703
Denver CO 80222
(303) 756 6744
www.lawatddp.com
contact: James Dean
jim@lawatddp.com

Tulis Miller and Company
313 Congress Street, Fourth Floor
Boston MA 02210
(617) 946 9118
contact: Jerry Tulis
jerry@tulismiller.com

Canadian Worker Co-op Federation
104, 402 – 30th Avenue
Calgary AB T2E 2E3
(403) 276 8250
www.canadianworker.coop

ESOP Association Canada
www.esop-canada.com/ESOPCanada

Wegner CPAs
(888) 204 7665
www.wegnercpas.com
contact: Bruce Mayer
bruce.mayer@wegnercpas.com

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