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Restructuring for the Long Term

When we think of the best moments of our lives, they are invariably times of intense community and teamwork: that first summer away as a crew member on a schooner, the athletic team with perfect chemistry that went on a great roll, the early heady days of the commune in '68, the frame-raising with 100 of your closest friends. Can work be like that, most of the time? What would it take? Like others, our two companies, South Mountain Company on Martha's Vineyard and Big Timberworks, Inc. in Montana, have doggedly pursued answers to these questions.

In 1987, South Mountain Company had reached a hinge point in its development. I, John Abrams (founder and owner), had parted company with my original partner. Several key employees who had been with the company for many years approached me. They wanted to stay with SMC, to make their careers here, but they felt they needed more than an hourly wage – they needed a stake. I wanted the commitment, the teamwork and the shared responsibility that lead to some of life's great moments.

In 1998, I, Merle Adams, a founder and owner of Big Timberworks, had also been through a parting of the ways with my partner. My company was 16 years old, still growing and profitable, but way too dependent on my energy and investment. I wanted my life back, and I wanted to be a part of my 10-year-old son's life. I wanted to plan for my eventual exit and the succession of the company. And I too wanted the committed group of co-workers that had formed at Big Timberworks to evolve further – to reach for a larger satisfaction. Though at different points in our company histories, and in different circumstances, we both came up with the same answer – restructure as a worker-owned co-operative corporation. We sold our companies to key employees (including ourselves!) and established a structure whereby other employees could buy in over time and the worker-owners would control the businesses. Why was this attractive? Why would we diminish our control and ownership share of businesses we had poured heart and soul into and helped to build into thriving, profitable entities? Good question. This article explores the reasons and makes a case for worker ownership.

South Mountain Company was founded in 1975. From the beginning, it was a design-build firm driven by a passion to create well-crafted buildings and good relationships. We have nearly always done all parts of the process, from conceptual design and site development to finishes, cabinetwork, furniture and (more recently) interiors. We were lucky: we had good work to do and good clients to work with. We remained busy through the early '80s. What had begun as just my partner, myself and a flatbed truck with our name painted (drips and all) on the door became something else. My partner left in the mid-'80s to raise sheep, and SMC gradually grew. By 1985, there were 10 employees. Key employees wanted a stake, and we felt the need to formalize a process to facilitate and insure greater participation in decision-making. Until then the company had been small and familial; with growth came new needs. We have continued to prosper, continued to grow (always slowly and with trepidation) and continued to mature. We currently have 25 full-time employees (eight in the office and design, four in the woodworking shop, the remainder in the field), in addition to a broad network of subcontractors whom we work with consistently, and we do approximately $5 million worth of work each year. Of the 25 employees, 10 are full owners. In the next two years, that number will grow to 15 or 16.

Big Timberworks incorporated in 1983 and worked primarily as a log building company doing start-to-finish projects and log shells with timber roof systems. In 1985 we started doing timber frame jobs in a part of the country where there was no timber framing tradition. Until the '90s, jobs were few and far between and profits nonexistent. Personal sacrifice by owners and workers held it all together. The '90s began a new era of investment and prosperity in the West; Big Timberworks was in the right place at the right time. Maybe we really could make a living at this after all.... We recognized that our workers' good work was the reason we were able to increase our profits and our reputation, and we began to share profits and encourage our workers to share in decision-making. Knowingly or not, we started taking baby steps toward an ownership culture among our workers; this process led to the eventual formation of our co-op in 1999.

Listening to our workers has caused our business to change in ways it may not otherwise have. Our original goal – to be "America's Timber Framer" – has evolved to become "Best Darn Design-Builder in Gallatin County, Montana." Sure, we still timber frame, but we have expanded our building and design skills so we can focus on projects in our backyard and our immediate region. Because we do more of each one, we do fewer projects per year. We currently employ about 45 people (30 in shop and on site, five to mill and remanufacture our wood products, 10 others in design, management, and the office). Of these, a dozen or more will be owners by the time you read this.

What are the common threads that led these two different businesses toward worker ownership? Both owners shared a commitment to community and quality, to good work and good lives for their employees. Both businesses had made it through the difficult start-up years and found profitable niche markets that could be sustained over time. Both businesses were diverse enough that there were opportunities for employees to advance and learn new skills. Both had a strong core group of employees dedicated to their jobs and their co-workers. These conditions led to an optimistic, affirmative and progressive switch to employee ownership. Can a transformation to employee ownership be used to save a sinking ship? Perhaps, but it seems more likely that a healthy business and mutual trust are prerequisites to a successful restructuring. For us, as the original owners, and for all our employees as well, there appeared to be tremendous potential gains.

It's important to recognize why we are in business in the first place and what makes our businesses what they are. We're in business because we believe our businesses do something of value; therefore, we hope our businesses, like the buildings we make, will last. Very few businesses last more than 40 years; many that do are family businesses passed down from parent to child. As family structure changes and breaks down and our society offers broader opportunities, we can expect to see fewer businesses passed down from generation to generation. In craft-based businesses like ours, the employees are the business – they are all we have to offer. The development of the business is the development of the employees. Neither can progress if the employees are constantly moving on. We need to keep them. Can we stabilize our workforce and extend to our craftspeople a greater stake in their careers?

These two critical goals – planning for longevity and keeping our people – give rise to several key needs. If we are creating wealth and prosperity, it should be shared with those who are responsible, not as a handout but as earnings. If we wish to promote teamwork, co-operation and responsibility, we must formalize a democratic process that allows for shared decision-making. If we imagine our workplace as a vital, thriving community, there must be diversity, as in Nature, and we need a structure that can handle and incorporate diverse viewpoints, celebrate them and find resolution among them. And to make a durable, robust and flexible business that outlasts its original owner(s), we must also plan for succession, so that we and others can gracefully depart and take our equity with us without threatening or harming the company.

Strong and durable structures are rarely supported by a single post – we distribute the loads. A tree has both roots and branches to support it and feed it. Our businesses, if they are to succeed and endure, need the same. To accomplish this, some businesses distribute stock to the employees through employee stock ownership plans or by making key employees minor partners. But if these benefits don't come with a full stake in the decision-making, they may only take us partway. Offering ownership without control is like turning over the keys to a car with an empty tank.

The dynamics change when the power is distributed as well as the wealth. Our cultural perception of power is the critical underpinning that makes employee ownership and control possible, or not. We've been taught that power is like pie: if I give you a slice I have less of the pie. But there's another view. As organizational consultant Robert Leaver puts it, "Power is infinite, more can be created. If I offer you some, suddenly there's more of it." If we can create more power, we can accomplish more. As we considered our futures and that of our fellow workers and our businesses, we both came to the conclusion that without this key ingredient, true sharing of power, our efforts would come up short and our structures would be hollow. Sharing both the profits and the power provides incentives for greater employee productivity and effectiveness, thereby increasing the supply of both.

Both companies restructured in the following way: we, the owners, sold the companies to ourselves and several long-term employees. The companies were valued by an accountant, and a long-term buyout strategy that would not strap the company was engineered. (Sympathetic, broadminded accountants and attorneys are important to the success of these restructurings. Big Timberworks' first accountant said, "I can't in my right mind recommend this to Merle." Hmm... wrong accountant.) Bylaws were developed to give all decision-making power for policy matters to the owners (more about this below), to establish a consensus decision-making process with a 75 percent majority backup in case of deadlocks and to allow employees with long service to buy-in (for roughly the price of a good used car) if accepted by the existing owners. The structures are essentially the same. BTI's service time to qualify for ownership is two years, SMC's is five. (Do we have here western time sense versus eastern?)

The separation between management and policy is different in the two companies. The re- structuring came at different times in the company histories. SMC was smaller, less developed, and the driving force toward change was keeping long-term employees. BTI is larger, more mature, and the driving force was long-term planning for succession. There is danger that an organization run by consensus will become bogged down by process and indecision. No business can successfully run that way. This is where the distinction between policy issues and management issues come into play. Policy decisions are broad and must be deliberated. They cover issues like accepting new owners; compensation and profit-sharing; company direction and future planning; major expansions, new ventures, or investments; involvement in community projects and major donations. Management decisions must be more efficient, nimble and un- encumbered, so management people must be vested with the authority to make decisions and carry out projects. Sometimes it's not so clear which decisions are policy and which management; making this distinction is a skill that must be developed. Owners and managers must work together to evolve a comfortable understanding that works for all parties.

Our governance systems are democracies with clear divisions of responsibilities and authorities. The group of owners has ultimate control, but it delegates much of the trust and authority to management. This comes easily, because this was the established mode of operation before the ownership was shared. The difference is that there is now a clear mechanism for discussion, debate and change. This may be one of the advantages of a company converting to worker ownership and control rather than starting that way. The entrepreneurial leap of starting a new business has been achieved without constraints and a viable company has been established. Re- structuring becomes a part of the maturation process.

We should not over-freight the ownership part. Restructuring to employee ownership won't turn a business around. If you take a rotten-to-the-core, dysfunctional business and restructure it, you can be sure you'll have a rotten-to-the-core, dysfunctional worker-owned business when you're done (although the inquiry itself may be an avenue toward solving internal problems). Employee ownership is a vehicle, and it's hardly the only one that encourages more responsible and more democratic business practices. In the end, it's not about what we say, but about what we do, not about the package but about the contents. What's important is whatever it takes to get to fairness, transparency, shared responsibility and promises kept.

Most forms of ownership create distance between owners and employees. In our companies, there is little distance because the owners are spread through all parts of the company, and the non- owners could, and very likely will, become owners in the not-too- distant future. When we hire new people, we are looking for future owners, which changes in subtle ways who it is we hire. 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 who want it.

For both these companies, the process of change has been cathartic. It has given us a keel and a rudder, and it has stimulated us to articulate and understand our mission. In SMC's case, we have found that it has allowed us to take more risks, because we have a better sense of who we are. Together we've become better problem- solvers and better dreamers. At BTI, it has been remarkable to witness the new owners' progress: in six short months they have made important changes that might previously have taken years to accomplish. They have not only taken ownership of the parts that work well, but have grabbed hold of those areas needing improvement. Many BTI workers were skeptical about the change of ownership, but the skeptics are witnessing positive change through collective teamwork. Peter Senge, author of The Fifth Discipline, a wonderful book about how organizations learn, writes about the difference between a company that is seen as a ”machine to make money” and a company that is perceived as a ”living being” with a heart and a mind. ”Seeing a company as a machine,” he says, ”implies that it will run down unless it is rebuilt by management. Seeing a company as a living being means that it is capable of regenerating itself, of continuity as an identifiable entity beyond its present members.”

Worker ownership can help to transform our companies from machines to living entities that support a satisfied and productive work community. It can help to create a powerful group of dedicated decision-makers to support, uplift and extend our efforts. It brings many questions as well. Most we can only answer over time – by clearing out the undergrowth, making a path, stumbling along and seeing where the path leads.

– John Abrams and Merle Adams

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