

OWNING THE WORK · CHAPTER SEVEN

Two Beginnings in 1956

Chapter Seven of Owning the Work

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Chapter Seven of Owning the Work. The whole book, with every chapter, is at business.hautelumiere.life/library/owning-the-work (DOI https://doi.org/10.5281/zenodo.23988988).

A NOTE BEFORE YOU READ

This work is offered for education and leadership development. It is not legal, financial, accounting, investment, medical or psychological advice; take the advice of a qualified professional who knows your circumstances. Companies and events are described from the public record as the author understands it; characterisations are the author's analysis. Examples are illustrative, and no particular outcome is promised to any reader.

ABSTRACT

In 1956 two things began that would shape how much of the world thinks about the people who own their work. They began about nine thousand kilometres apart, in places that had nothing to do with each other, and they began from opposite ends of the same question. In California, a lawyer named Louis Kelso designed a financial device so that the employees of a group of newspapers could buy them from their retiring founders. It was a solution to a problem of succession, and it carried a theory of capital. In the Basque Country of northern Spain, on 14 April 1956, a priest named José María Arizmendiarrieta blessed the first stone of a workshop founded by five young men he had taught. It was called Ulgor, from the names of its founders, and it was a cooperative: owned and governed by the people who worked in it. It was a solution to a problem of livelihood in a poor valley, and it carried a theory of community.

CHAPTER SEVEN

Two Beginnings in 1956

The same year, on two coasts

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This chapter tells both stories, because together they show the two main roads by which ownership reaches the people who do the work, and because each, read honestly, contains both a strength and a failure. Chapter 2 introduced Kelso and Chapter 3 introduced the fall of Fagor. Here they are told at length, with the dates and figures checked against the sources the notes name.

Palo Alto: a device for succession

The owners of Peninsula Newspapers were two founders in their eighties. They wanted to retire. The people best placed to keep the papers running were the people already putting them out, and those people had no capital. A sale to an outside buyer would have paid the founders and placed the papers in hands that did not know them. A sale to the employees was impossible, because the employees could not pay.

Kelso's answer was to let the company's future earnings pay for its present ownership. A trust was formed for the employees. The trust borrowed money and used it to buy the founders' shares. The company then made contributions to the trust, which used them to repay the loan, and as the loan was repaid the shares were allocated to the employees' accounts. Practitioner histories of the plan note a further piece of design: by running the borrowing through a stock bonus plan, the loan could be repaid with contributions that

were deductible for the company, which made the arithmetic work. Sources differ slightly on dates; one newspaper account places the plan's formal tax approval in 1957.

What makes the device important is not the newspapers. It is the shape of the transaction, which has been repeated many thousands of times since. The founder is paid. The employees come to own the firm. Nobody in the building needs savings to make it happen, because the enterprise finances its own transfer. Chapter 6 showed the same shape in London in 1929, when Spedan Lewis was repaid from profits over thirty years as his shares passed into trust. Kelso turned it into a repeatable instrument.

Kelso had a larger ambition than succession. He believed that as machines did more of the work, more of the income of a society would flow to the owners of capital rather than to the owners of labour, and that a society in which few people owned capital would grow more unequal and less free. His remedy was to spread ownership of capital broadly, financed by credit repaid from the earnings of the capital itself. Whatever one makes of the theory, it explains why he did not regard the newspaper plan as a technical trick. He thought he had found a way for working people to become owners without first becoming savers.

The device entered American federal law in 1974, with the Employee Retirement Income Security Act, which gave ESOPs their legal place among retirement plans. That is why the Department of Labor counts them today, and why the National Center for Employee Ownership, working from the Department's filings, could report 6,609 ESOP plans in 2023, covering 15,105,304 participants, as Chapter 2 sets out.

What the device does not do

The Kelso road has a strength and a characteristic weakness, and both follow from its origin.

The strength is that it solves the problem of capital. A workforce without savings can come to own a firm. That is no small thing, and nothing else in this book does it as reliably.

The weakness is that the device was designed for succession, not for governance. An ESOP holds shares in a trust; the trustee votes them, in most matters, on the participants' behalf. A worker in an ESOP company may own a substantial stake in the firm and have no more say in its running than an employee of any other company. Chapter 3's third objection, ownership without voice, is in large part an objection to the ESOP as commonly practised. Kruse and Blasi found in 1995 that perceived participation "is not in itself automatically increased through employee ownership," and much of the variation in how ESOPs perform traces back to whether the firms that adopt them also open their books and their decisions.

There is a second weakness, which E. Han Kim and Paige Ouimet named in their study of large plans in public companies: some were adopted "for nonincentive purposes such as conserving cash by substituting wages with employee shares," or to form "a worker-management alliance to thwart takeover bids." The device that lets employees buy a firm can also be used to keep a management in place. Chapter 3 takes up

both uses. Here the point is historical: the Kelso road is a financial road, and what travels along it depends on who is driving.

Mondragón: a community that built firms

The other beginning in 1956 came from the opposite direction. Arizmendiarrieta had arrived in the town of Mondragón in 1941 as a young priest, in a valley still marked by the Spanish Civil War. He founded a technical school, and among its students were the five men who would found Ulgor: Luis Usatorre, Jesús Larrañaga, Alfonso Gorroñogoitia, José María Ormaetxea and Javier Ortubay. The company's name was built from theirs. Its first bylaws were approved in 1959.

Ulgor was not a device for transferring an existing firm. It was a new firm, founded as a cooperative from the first day. Its members owned it; they governed it on the rule of one member, one vote; and the cooperatives that followed it in the valley built around themselves the institutions a community needs and a single firm cannot supply. Santa Anna's *Ecstatic Economics* describes the result as "a federation of over 80 cooperatives employing more than 80,000 people," with "a university, a bank, a social security system, and numerous industrial enterprises." Those figures are the book's and vary with the year and with how the group's members and employees are counted; the shape they describe is not in dispute.

If the Kelso road begins with capital and hopes that community follows, the Mondragón road begins with community and builds the capital it needs. That difference explains the strength of the Basque model. Ownership there was never a share certificate in a drawer. It came with a vote, an assembly, a bank that would lend to cooperatives, and a set of sister enterprises that could absorb members when one of them struggled. It came, in the language of this book, with voice, information and a structure of mutual care.

Santa Anna's book reads the somatic dimension of this with care. In the passage Chapter 2 quotes, he writes that "the shared ownership structure makes purpose tangible: when you own the enterprise, your contribution matters to a community you can see." The phrase *a community you can see* is the Mondragón road in five words.

The fall of Fagor

Ulgor became Fagor Electrodomésticos, an appliance maker that grew into a multinational with subsidiaries in France and Poland, competing in a global market for washing machines and refrigerators. In November 2013 it filed for bankruptcy.

The failure was a hard morning for a movement that had used Mondragón as its proof for half a century, and Santa Anna's book does not leave it out. "Mondragon is not utopia," it says, and it names the bankruptcy as a failure "that tested the cooperative model severely and produced real suffering for the worker-

owners involved." It also offers a reading of the response: "The crisis was metabolized by the community rather than externalized onto individuals."

The record supports that reading in part and complicates it in part, and both halves deserve to be set down.

What the federation did. Within weeks of the filing, the group began moving Fagor's members into other cooperatives. Press reports of the group's figures give 202 members already relocated by late November 2013 and about 400 by mid-December. By May 2014 the group reported that about 980 members of Fagor and its subsidiary Edesa had found places in other cooperatives, out of roughly two thousand people affected, and that a further 255 had taken early retirement or other settlements. Eurofound's record of the restructuring gives 2,093 people affected, of whom 1,603 were cooperative members. Sources count Fagor, Edesa and the French unit differently, and the totals should be read with that in mind. Even so, a federation that finds work in sister enterprises for something approaching half of those affected by the collapse of its founding firm is doing something that no ordinary labour market does.

What it could not do. Andrés Errasti, Ignacio Bretos and Enekoitz Etxezarreta, studying the same collapse, describe "radical job restructuring processes" before the bankruptcy, in the Basque plants and in the foreign subsidiaries, and they treat the case as a question about whether a cooperative can survive becoming a multinational at all. The workers of the subsidiaries in France and Poland were employees of a cooperative's subsidiaries, not members of a cooperative. They did not share in the protection the federation gave its members. Santa Anna's book names the same tension in general terms: Mondragón's "expansion into international markets has created tensions between cooperative principles and conventional business practices."

The space between the two accounts is where the lesson of the case lies. The cooperative model protected its members unusually well. It did not protect the people it had brought into its orbit without making them members. Fagor grew by acquiring firms whose workers were employees, and in doing so it reproduced, inside a cooperative group, the very line between owner and worker that the cooperative existed to erase.

What the two roads teach together

Read side by side, the two beginnings of 1956 teach four things that neither teaches alone.

Capital and community are both needed, and each road supplies one. The Kelso road solves the problem of capital and leaves governance to chance. The Mondragón road solves the problem of governance and has to build its own capital, through its own bank, slowly. A firm choosing a road today should know which problem it is solving and what the other road would have supplied.

Voice is what distinguishes ownership that changes a workplace from ownership that changes a balance sheet. The cooperative's members voted; the ESOP's participants, in most matters, do not. The research in Chapter 2 suggests that this difference is close to the centre of whether ownership works. An ESOP company can add voice by design, through open books, elected representatives on the trust committee and pass-through voting on major decisions. Many of the best do.

Scale tests both roads at the boundary of membership. An ESOP that grows by acquisition must decide whether the new firms' workers join the plan. A cooperative that grows by acquisition must decide whether the new firms' workers become members. Fagor's answer, in its foreign subsidiaries, was no, and the cost of that answer arrived in 2013. Santa Anna's book offers a way through scale that the case supports: "Perhaps the goal is not one giant cooperative but a network of small ones."

Failure belongs in the record. Santa Anna's book states the principle for the whole lineage: "Honesty requires acknowledging that vitality-centered economic experiments fail — sometimes spectacularly." The fall of Fagor does not refute the cooperative model; Mondragón's federation continued after it. It shows where the model's protection ends, and that is the most useful thing any case can show.

The questions for a firm today

A firm considering either road can take from these two stories a short set of questions, which the Tool below writes out.

If it is considering the Kelso road, the question is how voice will be added to a device that does not supply it. Who will sit on the trust committee? Will participants vote their shares on a sale? Will the books be open?

If it is considering the Mondragón road, or a conversion to a cooperative, the question is where the capital and the mutual support will come from. A single cooperative without a federation, a bank or sister enterprises is more exposed than a Mondragón cooperative ever was.

And whichever road it takes, the question Fagor poses is the boundary. Who is a member, who is not, and what happens to the people outside the line when the firm grows or contracts?

The lineage's volume on the commons (*The Pasture Was Never Empty*) takes up Elinor Ostrom's finding that lasting common-pool institutions have clearly defined boundaries. Fagor is a case of a boundary that was clear and was drawn in the wrong place.

The Tool: The Two Roads Sheet

For a firm choosing a route to employee ownership, or reviewing the one it has. Complete with advisers where the questions require them.

1 · Which problem are we solving?

- Capital (the workforce cannot buy the firm without finance): yes · no
- Governance (the workforce has no say in how the firm is run): yes · no
- Succession (the owners want to stop): yes · no · year: _____
- Livelihood (the firm is being founded to provide work): yes · no

2 · If the Kelso road (ESOP, employee ownership trust or similar)

- How will the purchase be financed, and over how many years? _____ (take advice)
- Who will be the trustees? __ · How many will be employees, elected by employees? ____
- Will participants vote their shares on sale, merger or closure? yes · no
- How often will the books be opened to all participants? _____

3 · If the Mondragón road (cooperative founding or conversion)

- Where will capital come from beyond members' contributions? _____
- Is there a federation, a cooperative bank or a network of sister enterprises we can join? _____
- What will a new member contribute to join, and can a low-paid worker afford it? _____

4 · The boundary

- Who is a member or participant today? __ people · who is not? ____ people
- If we acquire or open another unit, will its workers join? yes · no · on what terms: _____
- If we contract, what happens to the people inside the line, and to those outside it? _____

5 · The failure we would most want to avoid

- In a sentence, the failure from this chapter that most resembles a risk we face: _____
- The design choice that answers it: _____

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