A Coming Revolution in Employee-Owned Companies?

Owning Our Future: The Emerging Ownership Revolution by Marjorie Kelly.
San Francisco: Berrett-Koehler, 2012.

Reviewed by Luke Middleton

Marjorie Kelly, an experienced business writer, has done extensive and unique research on ethical corporate practices and accountability. For two decades, she served as president of Business Ethics magazine, of which she was also one of the founders. Her new book explores alternative forms of business ownership. It is divided into three parts: the first looking at the problems of current ownership patterns and the damage they have caused, the second section shows the readers new ownership models and the values embedded within them, and in the final section she explores the designs necessary to keep these forms of ownership alive and thriving on a large scale.

To set up Kelly's thesis, she essentially contrasts what she sees as the two types of ownership: extractive and generative. "Extractive ownership", which is Kelly's name for the predominant type ownership in the free market world, is simply and solely concerned with the bottom line, the profit. This is juxtaposed with what she calls "generative ownership", which is described as having motives other than profit (dedication to a social mission) and creating conditions (financially, environmentally, etc.) that are sustainable for the long term. Her argument is that this generative form of ownership is not only possible within the paradigm of capitalism, it will be necessary for the survival of the free market. She goes even farther, saying that this new type ownership is already starting to occur all over the United States, in a short of unspoken movement that could become nothing short of a revolution. In this time of economic trouble and uncertainty, her book is sure to resonate with all those who have doubts about whether the way Wall Street financial markets and giant multinational corporations run is truly beneficial to our society.

Marjorie Kelly starts by breaking down extractive ownership and its flaws. She begins this by examining a specific example, a house addressed 56 James Court located in Jamaica Plain, Boston. The family who lived there had lost their home to the mortgage company and no owner could be located. Kelly explains "some entity somewhere in the chain of financing had gone bankrupt, and the company left in charge was in absentia". Digging deeper, we discover that the family had been through an astonishing five mortgages in only five years' time. Each new loan put them in more trouble than the last.
So why would anyone allow this to happen? Kelly sees the root of the issue being a disconnect between the homeowners and companies responsible for refinancing. Because the loans were sold to financiers who then sold the loans to investors, there was virtually no incentive for the mortgage companies not to give the family a bad loan. The losses on the home were not their own and there was no human relationship. From this story we learn just how convoluted and impersonal ownership can become.

Kelly eloquently expresses the problem of extractive design being "[not] so much as the people had broken the rules as that they'd followed them". These rules can be summarized as maximizing financial gain while minimizing financial risk. This is all about the individual and none about anyone else.

This philosophy is compared with those of generative banks. These generative banks, unlike the ones approving the loans for 56 James Court, are interested in helping the people instead of merely taking money from them. These banks, because of the fact that they gave out responsible loans, were the ones able to survive and remain intact during the 2008 financial crisis while the bigger banks begged for bailouts. The reason these banks behave so differently is their ownership design: The banks are member/customer-owned. Therefore, they naturally have a vested interest in not exploiting the customer, but instead helping the people of the community which they serve. It is this outlook that helped these smaller generative banks get through the difficult financial crisis, just as it was the excess of the big profit-maximizing that ultimately led to their demise. On this note, it is important to point out that the generative, community serving banks need not be, nor does Kelly expect them to be, nonprofit; they are, however, concerned with more than just the bottom-line aspect of banking.

Ms. Kelly then delves into the complex problems of the financial sector. She explains that, contrary to neoliberal theory and what most on Wall Street would like us to believe, growth is not infinite. Stockholders and financiers have come to expect indefinite growth, but Kelly explains that this is not necessarily part of a healthy economy. Instead, she posits that this insatiable drive for growth has bred the very instability that led to our recent economic meltdown. She further explains this idea by dividing the economy into two separate parts: the "real" economy responsible for actual production (measured by GDP), and the financial economy (defined as a collection of assets such as stocks, bonds, loans, and mortgages). The financial economy, though not truly representative of any real output, has become significantly larger than the real economy since the deregulation of the 1980's, a process known as financialization. She attributes this imbalance to what is called the money multiplier effect, where, for example, for every $100 in "junk fees" that lenders are able to tack on to a loan, they may be able to get $2,000 in return. It is these enormous payouts that have encouraged risky and irresponsible Wall Street behavior.

Generative ownership, unlike the traditional extractive ownership, is not based on dominance. Instead, it is based on the feeling of belonging to something larger than oneself, such as a company. The key to generative ownership can be summed up as ownership which "generate[s] the conditions for life's flourishing" and puts sustainability ahead of growth. This does not simply mean being socially and economically sustainable, but also being environmentally friendly as well. Kelly explains that people are a part of the ecosystem and we must create an economy that is consistent with living in it.

For an example of generative ownership helping humans live in harmony with the ecosystem, she takes us to a community-owned forest in southern Mexico. Owned by the Zapotec Indians, the forest does not face the problems of illegal deforestation and logging, because of the ownership structure. The people who own the forest are the ones who have the greatest incentive to protect it. This example is not unique in Mexico, in fact, the majority of forests in the country are now communally owned, and the results have been similarly positive.

Kelly divides her concept of generative ownership into four different categories. The first, commons ownership and governance, is what we see in the example of the Mexican forest. In this type of generative ownership, assets (like the forest) are owned and governed by the community. The second type of generative ownership is stakeholder ownership. This is ownership by people who have an actual human stake in the company as their incentive, as opposed to simply owning stock in a company and having merely a financial and speculative interest. Examples include cooperatives, partnerships, credit unions, employee-owned firms, etc. The next type of ownership discussed by Kelly is social enterprise. Here the organization's primary purpose is a social or environmental mission. These groups are of course still run like businesses, but may or may not be nonprofit. Finally she mentions mission-controlled corporations. The companies, like the social enterprises, have strong social mission. They are, however, owned in a conventional way. These businesses remain generative by keeping the governing in control of those who strongly support the company mission.

For a company to be generative, there are three necessary design patterns identified by Marjorie Kelly. First, is "living purpose," which means the business must have a set of values that ultimately center around serving the needs of society: take for example the cooperative banks mentioned earlier, which were interested in helping the community as much as themselves. Second is "rooted membership," which implies a certain degree of employee, customer, and or community ownership. For this, Kelly gives the example of the John Lewis Partnership where anywhere from 40% to 60% of the profits are divided among the employees (instead of just being pocketed by a CEO). The last design pattern discussed by Kelly is called "mission-controlled governance," which means the control and direction of the company must be decided by employees themselves, ideally via democratic channels. In the John Lewis Partnership, the company is in part run by a democratically elected (by the employees) council which even has the power to fire the chairman.

Marjorie Kelly's ideas are in a way revolutionary. She is proposing a major restructuring of the capitalist system. Yet paradoxically and despite how different her notions of ownership are from the mainstream extractive ownership, they are already being implemented in very big ways across the world. It is a sort of quiet, invisible revolution, maybe better labeled an evolution. Those tired of the socialist versus capitalist dichotomy will find *Owning Our Future* and the alternative solutions it proposes very appealing.

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