WORKER-OWNERS AND UNIONS:

WHY CAN'T WE JUST GET ALONG?

BY DAN BELL

You have probably heard the story of the scorpion that convinces a frog to carry it across a river. Halfway across, the scorpion stings the frog, which means both will drown. The frog does not understand; the scorpion explains, "I couldn't help myself. It's my nature."

In the abstract, worker-owned enterprises and labor unions would appear to have much in common. Both share the goal of improving pay and working conditions. Both aim to give workers a say in the workplace. And both belong on any progressive's short list of strategies for building a more just economic system.

But when unions and worker-owned businesses actually interact, they sometimes act more like the fabled arachnid.

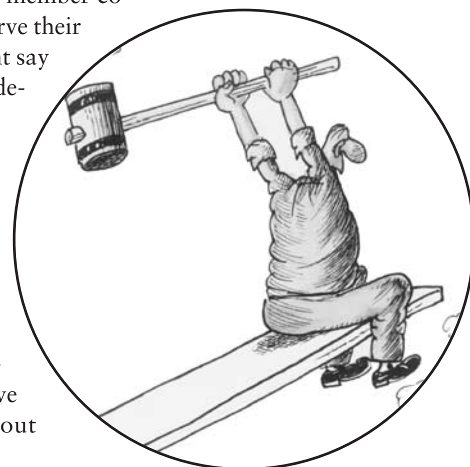
The Ohio Employee Ownership Center at Kent State, where I work, provides preliminary technical assistance on worker buyouts. I once met with a group of employees exploring a worker buyout of a failing paper mill in southwest Ohio. When I asked them why they thought they would do any better, they gave me an example. Pointing to a large machine, they explained that it broke down regularly, resulting in lost production. Any repairs they could make were only temporary, until permanent replacement parts could be installed. They went on to explain that the mill had been bought and sold three times over the past two years. Two owners ago the parts had been purchased, but they were still sitting in a storeroom. When these employees became the owners, they were going to install the parts.

But would the workers really cooperate with management as employee owners, and would management really cooperate with them and empower them to make decisions and act independently? Or, as with the scorpion, were the decades of confrontational labor-management relations so engrained in the nature of both groups that they would sink their own company? In that instance we'll never know, because the buyout effort did not go forward.

COMPETING MODELS?

Worker-owned businesses can take a variety of forms, from full-fledged worker cooperatives to companies whose structure and management practices are indistinguishable from ordinary capitalist firms except for the fact that their employees own some or all of the company's shares (see "The Many Forms of Worker Ownership," p. 34). Because most of the manufacturing companies where worker buyouts have been used to avert plant closures were unionized, unions have had to grapple with reshaping their role in this new context.

While unions and worker-owners share many aims, there are also profound differences. True cooperatives address working conditions through direct democracy at the company level. Members have the right to participate in making decisions on matters such as compensation and business planning. Co-op members do not like being restricted in their decision-making by factors external to the cooperative—even factors like industry-wide collective bargaining agreements. When co-ops interact with other co-ops, they typically form secondary cooperatives controlled by the member co-ops, which run them to serve their common needs. One might say that co-ops tend toward decentralization.



In contrast, unions depend on numbers to build their strength. They need to maintain a degree of discipline among their locals, insisting on relative uniformity around key issues. Unions' most effective strategy for bringing about

changes in the workplace is the collective refusal to work. If the central leadership cannot count on each local to follow its direction, the threat of a strike loses credibility. Thus, unions depend on centralization in order to create enough power to offset that of the owners.

WHY WORKER-OWNERS NEED UNIONS

Moreover, union representation might seem to be superfluous for worker-owners, who after all are supposed to have decision-making authority by virtue of being owners. Most ESOPs are not structured so as to give workers significant decision-making authority. But even in the most democratic ESOP, a union can have an important role to play. One way to look at the role of unions is to observe the balance of power that exists between the three branches of government in the United States. The legislative branch makes the laws, as the board of directors in a company sets policy by which management must manage. The executive branch implements or executes the laws on a daily basis, as management runs the day-to-day operations. Even in those ESOPs where the worker-owners have the right to participate in electing the board of directors, that right does not protect any individual employee from the power that management enjoys to hire and fire, for example. Just as the judicial branch protects individual citizens from the misuse of power by an executive, the union protects individual workers from the arbitrary use of power by management.

Collective bargaining is another role that unions play. A union can help worker-owners to assess their situation in the context of industry-wide working conditions and compensation practices. And via the union, information flows both ways. In a cooperative or an ESOP practicing so-called open book management, the employees have full access to the company's financial information. With such transparency, the union negotiating team does not have to guess about what the company can afford; it has the information required to calculate what is available for compensation. Using this as a frame of reference, the union is also in a better position to bargain for strong agreements throughout the industry.

Access to group rates on benefits like health insurance or multi-employer pensions can be another advantage that unions bring, especially in the case of cooperatives, which tend to be much smaller than ESOP companies.

Unions also bring a ready-made communication structure, which can be helpful in building an ownership culture among workers who are accustomed to having little say in the business.

Some of the positive synergies between union representation and worker ownership were at play in a Toledo textile firm. In 1991, GenCorp was planning to close down an unprofitable division, but instead agreed to sell it to the 200-plus employees as Textileather. The Amalgamated Clothing and Textile Workers Union (ACTWU) supported the buyout and joined with management in building successful employee participation. Training in participatory practices was implemented from the beginning, and an effective jointly led employee involvement structure resulted in a 28% increase in productivity, a 40% drop in scrap, and greatly reduced machine downtime in the first year. The company was immediately profitable. Ultimately, though, Textileather's worker-owners decided that their primary goal was job security, not ownership. In 1996, when the acquisition debt was paid off, management and workers agreed to sell the company. The buyer not only paid 160% of the valuation price, but also agreed to increase wages, bring in additional work creating more jobs, and give the employees the first right of refusal if it decided to sell the plant in the future.

At another worker-owned firm, an initially strong union-ESOP relationship failed to prevent a breakdown of the worker-ownership structure. Republic Engineered Steels' 4,500 em-

THE MANY FORMS OF WORKER OWNERSHIP

The term "worker ownership" can describe a variety of business structures. At one end of the spectrum, the worker-owned cooperative model rejects the very notion that capital should control the business and enjoy an unlimited return. To the contrary, as political economist David Ellerman describes it, in the cooperative model labor hires capital, governance is based on membership in the firm, and the return to capital is limited. As a result, investors are not easily attracted. Workers themselves typically have little capital to invest. So co-ops are rarely found in capital-intensive industries; most of the 400 for-profit co-ops in the United States are in labor-intensive service industries, which do not require expensive tools.

Another model involves direct worker ownership of voting stock. Unlike the cooperative, this model accepts the capitalist system but rejects the capitalist. Here, the workers accept the assumption that control and profits should be allocated according to the number of shares one owns, but reject absentee ownership of shares by those who do not work at the firm. Only a handful of worker- owned companies are structured this way because workers typically lack capital to invest and are averse to risking the little they may have.

By far the most common structure of worker ownership is the Employee Stock Ownership Plan, or ESOP, which has been used in over 11,000 U.S. companies since first being written into legislation in 1974. About 9,225 ESOPs are active today, according to the National Center for Employee Ownership. ESOP participants often share ownership of the company with large investors. Moreover, in most companies

ployees, spread among eight plants in four states and primarily organized by the United Steelworkers (USWA), chose to buy their division from steel giant LTV in 1989 to avoid a shutdown. The new contract defined a structure for employee participation: Work groups would meet regularly to identify opportunities for change. They could implement actions that affected only their area; other proposals would be kicked up to the department level, the plant level, and in some cases to a corporation-wide joint labor-management committee. To get this structure to work, 100 managers and their corresponding 100 union representatives trained jointly for a week to become co-facilitators. Union and management also formed a joint committee to direct the ownership training program.

With a solid foundation of worker-owner participation, the company successfully cut $80 million out of its annual $800 million expenses in only 18 months—not by cutting compensation, but by implementing employees' ideas for improving operations.

Two events changed the picture. First, to provide equity for the buyout, employees had agreed to roll over $20 million from their LTV retirement plan in exchange for preferred stock that paid annual dividends at 16%. In order to retire this expensive debt, management convinced the employees to let the company go public. But management miscalculated the price the shares would obtain, disappointing the workers and shaking their confidence in company leadership. Furthermore, in an attempt to enhance the company's reputation with its new outside shareholders and raise its share price, management became less sensitive to the priorities of its worker-owners.

Then, in the late 1990s the price of steel took a deep plunge. Instead of responding to the crisis by taking advantage of the participatory structures that had so methodically been created, management fell back on its traditional MO, implementing changes with no worker input. When management made plans to open a new plant where it could get the most concessions from the local government—a decision that would have put many of its Massillon, Ohio, worker-owners on the street—the union became so frustrated that it sought out an investor to buy the company, giving up ownership in order to dislodge an entrenched management.

Unions have other ways of getting management's attention, short of selling the company. Some choose the traditional union weapon: the strike. In 1998, the worker-owners at the 100% employee-owned Republic Storage Systems, represented by the Steelworkers, chose to go on strike, ostensibly over a few pennies. In fact, this was their way of expressing a vote of no confidence in the CEO. Soon after, the CEO did resign, and the employees found a new leader they were prepared to follow. In fact, in 2003, when the entire plant was severely damaged by a flood, employees came in on their own time to clean up the plant.

COMMUNICATION AND TRANSPARENCY

Union members are conditioned to be suspicious of management. Worker buyouts are far more likely to be successful if workers and management build trust; the experience of a number of companies shows that the best way for managers to build that trust is to operate with transparency and open up workers' access to information.

The union bargaining committee at Dimco-Gray, a 100% employee-owned company with about 110 worker-owners, was refusing to budge on management's proposed profit sharing formula. Management wanted to reserve an amount equivalent to 5% of the company's assets before paying out 50% of the remainder as profit-shares to the employees. The bargaining committee members decided the trigger for profit sharing should be no more than 3% of assets.

The impasse was broken after an Ohio Employee Ownership Center trainer met with the committee. After reviewing the

with ESOPs the worker-owners not only accept that capital, not labor, has the right to govern the business, but also allow someone else to vote their shares of that capital.

The ESOP itself is a trust that receives tax-deductible retirement contributions from the company. Two characteristics set ESOPs apart from other retirement plans, such as 401(k)s. First, ESOPs are not only allowed, but required, to invest a majority of their assets in the employer company's own stock. Second, an ESOP can borrow money to acquire stock, releasing shares to individual participants as future contributions are made. While employees may not possess credit, cash, or collateral, the ESOP provides a vehicle for the sponsoring employer to fill this gap with the credit, cash, and collateral of the company itself. In other words, ESOPs provide workers with a tax-advantaged structure for financing the acquisition of their company.

The legal owner of the capital is the ESOP trust, overseen by a trustee appointed by the board of directors. In managing the ESOP's assets, under current law the trustee is allowed to consider only the workers' interest in increasing the value of their retirement holdings—not their interests as employees with concerns such as job security.

While worker buyouts to avoid shutdowns account for only about 3% of all ESOPs, a majority of these are companies with union representation prior to the buyout. Without the leadership, structure, and protection afforded by a union, employees generally cannot build common cause quickly enough to present themselves as viable buyers, before machinery has been moved out and customers turned away.

basics of the profit and loss statement and the balance sheet, employees asked, “Where does the company’s share go?” The trainer explained that it went to build up the company’s equity, in the same way that the principal portion of monthly mortgage payments increases a homeowner’s equity. The union team realized that the issue was not how much do *we* get and how much do *they* get. As a 100% employee owned company, the employees get it all. The question is, rather, how much do *we* take out for current consumption, and how much do *we* re-invest for a stronger retirement. Agreement on the contract was reached the very next day.

At Republic Engineered Steels, a group of 50 employee-owners, half blue collar and half white collar, attended an offsite peer-training workshop. Believing the program to be a sham, some of the union members had signed up to be trainers so they could expose it. I recall overhearing some union participants discussing how the company had brought them there to be brainwashed. But when they realized they were getting real information, they became much more supportive of the changes and became the company’s best trainers. Their reversal in attitude got the attention of others, who had known them to be outspoken skeptics.

REASONABLE DOUBT

Although workers and companies can clearly benefit from maintaining union representation following a worker buyout, unions have historically been skeptical about worker ownership. For one thing, they have had to contend with a string of companies that have engaged in deceptive practices in connection with creating ESOPs or selling plants to workers.

For instance, the International Brotherhood of Teamsters has good reason to be suspicious of employee ownership. In the 1980s, when deregulation was exposing trucking companies to lower-cost competition, the Teamsters refused to negotiate any changes to the master contract. At the same time, the union did not object if individual locals chose to exchange specific items in the contract for an equivalent amount of company stock held in an ESOP.

With this hands-off position, neither opposing nor encouraging employee ownership, the union left its locals at the mercy of the companies. Some trucking company owners were able to get away with matching their workers’ concessions with stock in assetless “front” companies that leased their trucks from the owner’s separate asset-holding company. When the front companies failed, the workers had neither revenue nor assets to give their stock any value.

One of the Ohio Employee Ownership Center’s first employee buyout efforts was with Atlantic Foundry in Akron, Ohio. The owners had announced a shutdown because the foundry was unable to turn a profit. A quick analysis showed that the revenues did cover the direct costs, generating a gross profit, and that with sufficient sales volume, the buyout would be able to cover its indirect and debt service costs.

Despite this good news, the Steelworkers showed little initial support for the buyout effort and eventually took a clear position opposing it. Why was the union not willing to help these workers save their jobs?

The reason the foundry was losing money was its pension obligations to past workers; the plant simply did not generate sufficient income to cover this additional non-operating expense. Deeper analysis revealed that the owners had withdrawn a significant amount of non-operating assets and placed them in a separate company, whose balance sheet did not show the obligations to the retirees. The owners had offered to sell the company “for a song” as long as the workers took the retiree obligation with them. The union believed that the new company would fail if saddled with this obligation, and that the retirees would then have a more difficult time going after the original owners.

In the case of a deceptive sale, as with Atlantic Foundry, the union did exactly the right thing. Had the Steelworkers not drawn attention to the deceptive offer, the workers would have taken on more debt—the obligation to the retirees—than the operation could service. This would have left them bankrupt and unemployed—and left the retirees with a more difficult legal battle in any attempt to salvage their pensions. In essence, the active employees and the seller were negotiating a sale based on the risk capital of an absent voice: the retirees. The union brought that voice to the table. With this transparency, a more feasible transaction might have been possible. For example, negotiators could have placed a fair value on the retiree obligation; a trust could have been funded with a note from the new worker-owned company, equal to the fair market value of the operating business, and with cash from the seller to cover the balance. Of course, this was exactly the outcome that the unethical sellers were attempting to avoid. Not surprisingly, the foundry still sits idle today, two decades later.

Unions also have legitimate concerns about worker buyouts leading to decertification of the union. For the most part, if a company does not have a union before becoming worker-owned, it probably will not form a union afterward. Employees reason, “If we didn’t need a union when we were owned by someone else, why would we need one now that we own the place?” Similarly, companies that have a union before the buyout often continue with the union under worker ownership. However, in some instances sellers have forced workers to disband their union as a condition of the buyout deal. In the case of Plymouth Locomotive, the owners refused to sell to a union workforce. The UAW agreed to decertification in order to let the buyout move forward. In the case of the Brainard Rivet Division of Textron, the employees did not decertify; the union local simply ceased to exist when the plant was closed. When Fastener Industries, a successful 100% employee-owned company, offered the Brainard workers the opportunity to reopen as a subsidiary, the workers agreed not to re-establish the union.

On the other hand, organizing drives sometimes do succeed at employee-owned companies where workers view the union as a mechanism for reshaping the ESOP along more democratic lines. At Voto Sales and Manufacturing in Steubenville, Ohio, for example, the management controlled the initial board of directors following the buyout, allowing them to put a hand-

picked trustee in charge of the ESOP. In other words, while owning only a minority of the company stock, management had positioned itself as the controlling shareholder group. The workers brought in a union as a way to establish a balance of power. After establishing a Steelworkers local, the employees were able to get the ESOP modified to pass through voting rights directly to the participants, in effect, bringing management under the control of the owners again.

Finally, unions have a duty to workers across an industry as well as to those in a particular workplace. Recently a worker co-op member contacted me looking for guidance on resolving a difficult conflict between his co-op and the union that organizes a few of its employees. Most of the workers at this site had supported the worker buyout and joined the co-op. A few of the workers, who are represented by a union, chose not to become members. In order to generate the surplus necessary to pay off the acquisition debt, the members agreed to reduce their wages and benefits. However, the union insisted that the terms of the collective bargaining agreement not be altered. The co-op members believed that to stick to the contract would be unfair to the members who were not in the union, because they were making sacrifices to help the co-op survive. And if all of the members were compensated as the union members expected to be, the business would fail. Since one of the principles of a co-op is autonomy from outside organizations, it seemed inappropriate for the union to be insisting on sticking to the contract, when even the members affected were willing to adapt.

But the co-op members had to recognize that the union was not dealing with their company in a vacuum. A union has to bargain with the entire industry and try to get the best possible deal for all of its members. Any time a local agrees to a lower-cost contract with one employer, that undercuts the union's bargaining position with all other employers. Each employer will expect to get the same contract as the competition, so the result is that wages fall. Industry-wide worker solidarity is just as important to union members as autonomy is to co-op members.

As it turns out, in this instance both the need to respect an industry-wide collective bargaining agreement *and* the co-op members' right to compensate everyone fairly and according to cooperative values can probably be satisfied. For the co-op members, their compensation is not wages per se, but rather an advance on their profit share. If the union-member employees are to receive higher pay in accord with their contract, that can be offset by giving them a smaller share of the surplus as owners. The nonunion co-op members, who get a smaller "advance" now, will receive a larger profit-share down the road.

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THE ROAD AHEAD

Can worker-owners and unions get along? Notwithstanding the profound differences between worker ownership and union representation as strategies for improving working conditions and giving workers a voice, and in spite of unions' sometimes valid skepticism, the simple answer is: They must! Globalization has exposed both the labor movement and worker-owned cooperatives to intense competition within a framework of laws and policies that relentlessly favor corporations over workers. To respond effectively, workers need a varied toolkit; they cannot afford to abandon solidarity merely because different groups pursue different strategies.

The collaboration between the Hotel Employees and Restaurant Employees union (HERE) and Cooperative Home Care Associates, a large, Bronx, N.Y.-based co-op, provides a good case study. When HERE sought to organize CHCA's employees, the workers, who already had significantly better pay and working conditions than most home health aides, initially showed little interest. CHCA's management, on the other hand, saw an opportunity: a successful industry-wide organizing campaign would raise the payroll of the competition closer to the co-op's costs.

CMCA's managers believed a union organizing drive would benefit their co-op. Likewise, creating co-ops may benefit a union's organizing work, according to Lisabeth Ryder, an American Federation of State, County, and Municipal Employees (AFSCME) administrator. Ryder believes that when public-sector jobs are contracted out to large corporations, unions such as AFSCME, instead of repeating traditional organizing drives that face growing obstacles and often fail, could help the privatized workers to turn their units into worker-owned cooperatives that could then bid against the corporation for the government contract.

Today, the worker-ownership and labor movements are engaged in an expanding dialogue. This June, several union leaders participated in a symposium in Halifax, Nova Scotia, on cooperatives and their workers. In September, the Canadian Worker Co-op Federation hosted over a dozen regional labor leaders at a two-day workshop in Saskatoon to explore the development of a joint strategy for worker-driven interventions to avert plant closures. Retired Steelworkers President Lynn Williams set the tone for the meeting with a brief review of his union's development of a proactive position on employee buyouts. Participants ended the meeting by forming the Prairie Labour-Worker Co-operative Council; with the Ohio Employee Ownership Center as a model, the council aims to create a regional program and infrastructure to support worker buyouts and foster collaboration between the worker-ownership and labor movements.

The U.S. Federation of Worker Cooperatives hopes that its effort to engage labor leadership at its biannual conference this October in New York will prove just as successful as that of its Canadian counterpart.

As unions and co-ops engage in further discussion and collaboration, they may discover unexpected synergies between the two strategies. Ideally, such collaborations will turn out to strengthen and invigorate both the union staff and members and the worker-owners who are willing to cross over and work together toward a common goal of empowering workers. ■

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