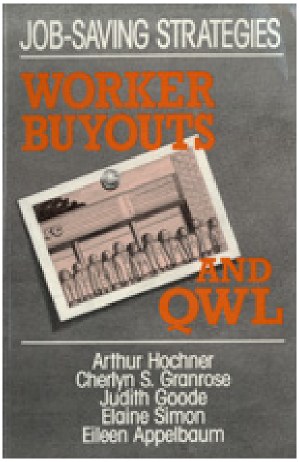
Upjohn Institute Press

Using Worker Participation and Buyouts to Save Jobs



Arthur Hochner
Temple University

Cherlyn S. Granrose
Temple University

Judith Goode
Temple University

Eileen Appelbaum
Temple University

Elaine Simon
University of Pennsylvania

Chapter 1 (pp. 1-12) in:
Job-Saving Strategies: Worker Buyouts and QWL
Arthur Hochner, Cherlyn S. Granrose, Judith Goode, Eileen Appelbaum, and Elaine Simon
Kalamazoo, MI: W.E. Upjohn Institute for Employment Research, 1988

1

Using Worker Participation and Buyouts to Save Jobs

> I had been at Food Fair in 1979 when it closed, then joined as part-time at A&P. I saw the writing on the wall as far as chains were concerned.—a former A&P worker.
>
> It was a tough period . . . you didn't know what the heck was happening before the lay-off, it was a bad time. People were bumping all over the place. Still, it was a big shock. January 31 and all of a sudden you're out of a job. There's nothing. At the time most everyone was gone other than high seniority people—over 14 years. I don't think it really dawned on them that they were going to lose their jobs. We were in a store that was doing well, and didn't think it would close.—a former A&P worker.
>
> I closed three stores, kept bumping around. It was very, very sad, a lot of tears. It had been a very closeknit store, like a family.—a former A&P worker.
>
> It wouldn't make any difference if I never got the $5,000 back. Just the experience was worth it. Here, you have a chance at possibly making some money, but also to have some control over your destiny.—a worker/owner.

In late February 1982, during a national recession, the Great Atlantic & Pacific Tea Company (A&P) announced, as required in its local union contract, that it was closing its 29 remaining Philadelphia supermarkets in 20 days (see table 1.1 for chronology). A&P had been closing Philadelphia area supermarkets gradually over the preceding decade, but closings had accelerated in the last months and the announcement of a complete shutdown of A&P's Philadelphia operations meant that suddenly 2,000 people would be thrown out of work.

One of the affected unions, local 1357 of the United Food and Commercial Workers (UFCW), was primed to respond. Less than a week after A&P announced the final store closings 20 days away, the union made a buyout proposal that eventually led to the establishment of the O&O stores. The union originally proposed that A&P workers-to-be-laid-off purchase 21 of the closed stores. News got around among the A&P workers that there was an alternative to unemployment or looking for another job, and meetings about the buyout plan began at the union hall. About 600 union members showed up for the initial meetings. Each potential worker/owner would have to contribute $5,000 and a $200 downpayment would hold a place. The union's credit union would make arrangements for loans. Newspaper accounts reported that about 600 workers signed pledges worth $3 million within the next three weeks.

New Relationships in the Workplace

During the past decade, a great deal of public attention has been paid to worker buyouts. To save their jobs, workers have contemplated or launched into buyouts of firms threatened with shutdowns. These firms range in size from the large 7,000-worker integrated National Steel Mill in Weirton, West Virginia to the two small A&P supermarkets in the Philadelphia area converted to O&O supermarkets with about 50 workers each. Worker buyouts have occurred in a variety of industries in addition to steel and supermarkets, including furniture, machine tools, frozen foods, mining, shoes, trucking, printing, meat packing, taxicabs, railroads, garments, and wood products. According to the records of the National Center for Employee Ownership (NCEO), about 60 firms threatened with shutdown or massive layoffs have been bought by their employees since 1975. Moreover, it appears that about 90 percent of these bought-out firms have survived thus far.

Employee ownership and worker cooperatives have a tradition stretching back to the mid-nineteenth century. Workers in recent years have rediscovered employee ownership in the midst of crisis and found for themselves a new way to work. Furthermore, the current rediscovery has been occurring not only in the United States, but in most western industrial nations (Jones and Svejnar 1982).

The worker buyout is one path taken in the search for ways to change relationships between workers and their workplaces. Currently, various means of including workers in the ownership and control of work organizations are being explored. The most widespread forms are employee stock ownership plans (ESOPs) and quality of worklife (QWL) programs.

Quality of worklife is a vague term that means many things to many people. The kinds of activities it includes often take many other names too, such as "employee involvement."

> [QWL] is used interchangeably with "humanization of work," "work reform," "work redesign," and "work improvement." It is too frequently used loosely to characterize almost any joint [labor-management] program that requires a committee, but it ought to be confined to joint ventures that in the first instance aim at satisfying workers' desires or needs for restructuring of the workplace. This restructuring should allow greater participation in decisionmaking on the job, constructive interaction with one's fellows, and opportunity for personal development and self-realization.
>
> . . . All things considered, perhaps a sound enough guide to what QWL means is provided in a definition included in a news report of an international conference that ended in Toronto in early September 1981: "many forms of new work organizations . . . involving workers in shop-floor decisions through problem-solving committees" (Siegel and Weinberg 1982, 140-142).

The General Accounting Office estimates that about 4,800 firms have ESOPs with various degrees of ownership in each (USGAO 1986). A New York Stock Exchange study conducted in 1982 found that 14 percent of firms employing 500 or more people had quality circles, 13 percent had employee suggestion systems, 11 percent had employee task forces, 8 percent had profit sharing plans, and 8 percent had labor-management committees. Overall, "one fourth [of corporations with 500 or more employees] have at least made a start toward the less-adversarial environment associated with QWL'' (Freund and Epstein 1984, p. 129).

This trend toward experimentation has emerged for a number of loosely connected reasons. Structural changes in the economy have put pressure on manufacturing industries, on unions, and on the Frost Belt. The process of change has been exacerbated by corporate strategies that promote deindustrialization, by conglomerate mergers, and by intensified foreign competition. Economic stagnation, deep and frequent recessions, and a recovery that left elevated unemployment rates resulted in severe economic dislocation—that is, massive layoffs and worsened structural unemployment.

At the same time, there have been institutional and cultural changes affecting workplaces. The quality of working life has become a concern, not only of white-collar workers, but also of blue-collar employees. Participation by workers in decisionmaking has been lauded as a keystone of the Japanese economic achievement, as well as a necessary element for reversing declining labor productivity. Union-management relations have staggered from management hostility, union concessions, and union membership decline to union-management cooperation. In this confusing context, some workers have sought to take their job security into their own hands.

There are smaller numbers of worker buyouts compared to other forms of employee ownership and worker participation. Despite this, the drama of saving jobs, the mystery of rescuing seemingly failing firms, and the paradox of workers taking managerial responsibilities in worker buyouts have combined to fascinate both the popular and theoretical imagination. Aside from emotional appeal, however, worker buyouts seem to be more full-fledged attempts to implement employee ownership and worker participation. Observers of ESOPs often criticize them for giving workers mere paper ownership without control (Slott, 1985a, 1985b). Meanwhile, critics of QWL programs distrust so-called participation without a genuine redistribution of power (Parker 1985). In theory, worker buyouts possess the potential to release workers' energies and to reforge the organization on a more effective and more egalitarian basis.

Creation of Innovative Structures in Philadelphia Supermarkets

The buyout proposal and other union efforts spurred lengthy union-management negotiations between A&P and local 1357, which continued through the spring of 1982. In May, the UFCW and A&P agreed to a landmark contract which would save many jobs through the creation of two innovative business structures. First of all, two stores would be sold to groups of employees, who would independently own and operate them as employee-owned businesses. The second innovation was Super Fresh, a new subsidiary of A&P, which would reopen many of the remaining stores. Super Fresh would incorporate new methods of management, a quality of worklife program to provide employee participation in decisionmaking, and a revenue-based bonus plan as an incentive for workers. A&P promised to open 20 Super Fresh stores eventually and to give preference to former A&P workers in hiring. In exchange, the UFCW agreed to wage cuts of 20 percent and concessions on some benefits.

Even though announcement of plans for the employee-owned stores preceded the announcement of the Super Fresh plan, Super Fresh stores opened first. The first Super Fresh store opened in July 1982. Super Fresh engaged consultants from the Busch Center at the Wharton School of the University of Pennsylvania to establish the first QWL programs and to conduct the training of "associates" and "store directors" (the new terms for workers and store managers, respectively). Super Fresh stores were set up with a decentralized philosophy, so that the store director would have more autonomy than under A&P.

The information meetings on the worker buyout plan were held for a time, while union-A&P negotiations dragged on. After May, however, most workers dropped out of the buyout scheme, expecting to be recalled at Super Fresh.

The remaining prospective worker/owners met over the summer for planning and research. The first O&O store opened with 24 worker/owners in Roslyn, Pennsylvania, a northwestern suburb of Philadelphia, on October 13, 1982—about seven months after the A&P shutdown announcement. The second O&O store, with 17 (later reduced to 14) worker/owners, opened the following month in the far northeast section of Philadelphia, in a neighborhood called Parkwood Manor. Each O&O store established bylaws calling for substantial worker/owner control over a hired store manager.

This case of worker buyout, in contrast to many that have been reported in the news media, occurred in an urban context where a shutdown did not threaten the sole employment opportunity in town for displaced workers. The A&P workers found themselves out of a job at a time when the economy was slumping and employers all over the country were calling for union concessions. Even though these workers had slim prospects of finding a job with another supermarket chain, former A&P employees did have two options they could take to keep supermarket jobs. Eventually, 38 became worker/owners in the two O&O supermarkets. Over 1,500 of the displaced A&P workers became Super Fresh employees.

As a result of the March 1982 shutdown, 29 A&P stores were actually closed. Twenty-six of these eventually became Super Fresh stores; two became O&O stores; and one was closed permanently because of structural flaws in the foundation.

The Super Fresh chain was later to convert all remaining A&P stores in southeastern Pennsylvania, southern New Jersey, and northern Delaware to the new subsidiary. Many were changed over by the end of 1982, and by mid-1983 there were over 50 Super Fresh stores in the region. These stores had been minimally affected by the shutdown threat in 1982 and were represented by other UFCW union

Table 1.1 Chronology

Feb. 1982	A&P announcement of closings.
March 1982	UFCW proposes employee buyouts and holds meetings to get pledges from workers.
May 1982	A&P/UFCW agreement to sell two stores to workers, reopen most others as Super Fresh.
July 1982	First Super Fresh openings.
October 1982	First O&O store opens.
November 1982	Second O&O store opens.

locals not actively seeking QWL or employee ownership and not enthusiastic about the agreement between local 1357 and A&P, to say the least. QWL training was not instituted as early nor was training conducted as fully as in the stores in Philadelphia, which had been involved in the shutdown. These employees had thus not participated in the discussions about employee ownership and QWL conducted by UFCW 1357 at the time of the shutdown.

The Study

Despite increasing openness by workers to the idea of buyouts and some apparent survivability of bought-out firms, little is actually known about the effectiveness of buyouts. That is, though jobs are saved, how do worker buyouts compare with other job saving methods? Do they generate new jobs or merely slow the onset of unemployment? Do they open up new sources of organizational efficiency or survive through employee subsidies and painful sacrifices? Do they redistribute power in meaningful ways? Do they substitute one set of worries for another, financial risk for job insecurity?

This book looks at how worker buyouts function and how successfully they meet the goals of saving jobs and increasing worker control. It studies the two O&O supermarkets created from former A&P stores in Philadelphia in 1982 and compares the effectiveness of these buyouts to another method of job-saving—labor-management concessions which included productivity bonuses and a QWL program in the Super Fresh stores. Since both of these situations emerged from the same labor negotiations between A&P and locals 56 and 1357 of the UFCW, the setting provides a natural field comparison and contrast. It allows for clear and controlled explorations of employee ownership and worker participation.

The research began when the shutdown was announced and UFCW local 1357 proposed worker buyouts. Members of a study group at Temple University investigating plant closings and job loss contacted UFCW locals 1357 (retail clerks) and 56 (meatcutters), A&P, and the consultants working with them and asked to study this experience. The research group conducting the overall study was multidisciplinary, drawn from the fields of industrial relations, organizational behavior, psychology, sociology, anthropology, urban studies, political science, and economics. The group drew upon many perspectives and methodologies in conducting the study. There were three major data collection phases, as shown in table 1.2.

This book covers results from Phases II and III. It is divided into eight chapters. First, here in chapter 1, we place worker buyouts in the context of employee ownership and worker participation, theoretically, historically, and practically. In chapter 2, we present a theoretical framework of the organizational processes involved in employee-owned firms and the expected outcomes for organizations and individual workers. The framework will attempt to explain in theory how worker buyouts function and how they affect the organizations' operations and the individuals in them. Chapter 3 presents the research design and methods of data collection used, namely semistructured interviews and systematic questionnaire surveys. In chapter 4, the formal structures of the O&O and Super Fresh stores are described. Chapter 5 reports data primarily from interviews concerning the personal experiences of the workers and the informal social structures of the stores. Chapters 6 and 7 present quantitative tests of hypotheses derived from theoretical framework. Worker-level perceptions, attitudes, and economic outcomes are included in Chapter 6. Store-level functioning and outcomes are examined in chapter

Table 1.2 Research Phases

July 1982	Phase I: Worker survey.
Summer 1983	Phase IIa: Interviews with O&O worker owners.
Fall 1983	Phase IIb: Interviews with former A&P workers at two Super Fresh stores in Philadelphia.
Fall 1984	Phase IIc: Interviews with former A&P workers in two Super Fresh stores outside Philadelphia.
Fall 1984	Phase IIIa: Survey of workers interviewed in Phase II.
Winter to Summer 1985	Phase IIIb: Shop steward and store manager surveys.

7. The final chapter, 8, draws conclusions and translates them into policy-relevant recommendations for future research and practice.

Varieties of Participative Firms and Buyouts

To understand the importance of the recent wave of worker buyouts, it is necessary to put them in historical, practical, and theoretical focus. Where do these 60 or so firms fit? In particular, why study the case of the O&O Supermarkets? These buyouts are less well known than larger ones, such as Weirton Steel, South Bend Lathe, or Rath Packing. Moreover, the O&O stores are in a retail industry as contrasted with the more familiar and "typical" manufacturing buyout. However, the O&O case allows for the investigation of concerns of practitioners and theorists accumulated over the past decade which emphasize not only employee ownership but also worker control. Furthermore, the unique setting of the O&O case provides an unusually rich example of employee ownership and worker participation.

There are many types of employee ownership. The generic term, employee ownership, is used to refer to most forms of ownership by jobholders in a company, both workers and managers. Employee ownership is usually associated with the ESOP, only one of the many forms and hybrids that employee-owned firms take. The diversity of types is often highly confusing.

Two researchers have offered typologies of employee-owned firms in attempts to clarify the important similarities and differences among them. One typology depends primarily on the three legal forms in which employee ownership is found: ESOPs, direct employee ownership, and worker cooperatives (Toscano 1983b). The ESOP is defined in the tax code as a type of employee benefit program which invests in its own company's stock and which is eligible for certain tax breaks. There are ESOPs with tiny amounts of stock in the company, such as at AT&T and Mobil, others with substantial stock, such as Eastern Airlines, still others with majority ownership, such as Rath, and a few with 100 percent ownership, such as Weirton Steel. ESOPs are often an indirect form of ownership for workers because stocks are held in trust—through an Employee Stock Ownership Trust (ESOT)—which may or may not be controlled by nonsupervisory employees. Some of these ESOPs resulted from buyouts, but most did not. Worker buyouts number only about 1 percent of the estimated number of ESOPs.

Direct ownership is share ownership by workers without the legal and tax standing of an ESOP and without the indirect ownership device of the ESOT. Worker cooperatives, the oldest form of employee ownership, tend to involve equal share ownership and equal voice in management for all members or owners of the firm. The O&O stores were set up as worker cooperatives, but while all owners are workers, not all workers are owners.

Each of the three forms has legal and operational advantages and disadvantages. Moreover, they each include so many variations that they often may not be operationally distinguishable. For instance, there are so-called democratic or cooperative ESOPs, which resemble worker cooperatives in the distribution of ownership and control.

A second typology of employee-owned firms, developed in England, distinguishes employee-owned firms on the basis of the reasons for their origins (Cornforth 1983): (1) cooperatives "endowed" by the original capitalist owners, (2) worker buyouts, (3) defensive (job-saving) cooperatives, (4) alternatives (i.e., counter-cultural) cooperatives, and (5) job creation cooperatives using government money to combat high unemployment. Because this typology was derived in England, it ignores ESOPs, which form a large group here, but were virtually absent in the U.K. in the early 1980s.

More important, though reasons for establishment may be classifiable, firms in a particular category do not inevitably have similar characteristics or objectives. As Blasi and Whyte (1981) have pointed out, while job-saving worker buyouts in the 1970s and 1980s are similar in origin, they differ in key characteristics and behaviors. In the 1970s buyouts, unions were either hostile or passive and rarely was management structure changed. In contrast, in 1980s buyouts, unions took initiatives to shape the terms, and workers have sought and obtained more say in the firms' day to day operations.

While legal forms and origins are important, they tend to reflect historical and legal trends and do not clarify how different organizations function. A more precise typology is necessary.

For theoretical and practical importance there seem to be two main dimensions. These are (1) the *amount of employee ownership* in the firm and (2) the *degree of worker participation* in decisions about policies and day to day management. These dimensions are complex and not easily reducible to quantitative scales. Amount of employee ownership should take into account not only the percentage of equity owned by employees, but also the distribution of shares among owners, the dispersion of shares among employees, and the percent of equity owned by managers compared to that owned by nonsupervisory employees (Conte, Tannenbaum and McCulloch 1981). Likewise, degree of worker participation is actually multidimensional, involving the degree of worker influence, the range of decisions influenced, the extent of participation among workers, whether participation is direct or representative, and other aspects (Dachler and Wilpert 1978).

Some rough subdivision of these dimensions does allow us to make meaningful distinctions among categories of employee-owned and worker-participative firms. The following table (1.3) splits amount of employee ownership into three segments: no employee ownership, minority employee ownership (employees own less than 50 percent of the shares), and majority employee ownership (more than 50 percent of the workers own more than 50 percent of the shares). The other main dimension is dichotomized into low worker participation and high worker participation. High worker participation involves such things as (a) restructured hierarchy and control systems, changed role of supervisors, worker input to decisions; (b) worker representatives on the board of directors and/or on the ESOT, worker voting rights on shares; and (c) union involvement in collectively bargaining for the ownership and/or participation plans, promoting the plan, and seeking a changed role for workers and/or the union. Low worker participation means workers and unions have not been involved in these issues. Table 1.3 illustrates this typology.

Though some of these categories are self-explanatory, others are not. The first two categories involve garden-variety capitalist firms and are included here for contrast with forms of employee ownership. (1) Conventional firms, probably the largest category, includes those with no employee ownership and minimal worker participation. (2) Firms with QWL or other participatory programs, but with no employee ownership belong to an apparently growing group. Some well-known examples include Ford Motor with its EI (Employee Involvement) programs developed in cooperation with the United Auto Workers (UAW), General Foods with its Topeka pet food plant, and, one of the subjects of this study, Super Fresh Food Markets.

The remaining four categories comprise the forms usually lumped indiscriminately together and called employee ownership. (3) Most ESOPs involve a minority of company equity and minimal worker participation. According to a survey by Marsh and McAllister (1981) of ESOPs of at least three years of age, only 13 percent held greater than 50 percent of company stock, the average ESOP holding being 28 percent. Moreover, the survey found that 69 percent of ESOPs granted no voting rights on the stock plan participants, and that more than one-half of ESOP companies report no effects of the ESOP on worker-management communications, cooperation among employees, or employee suggestions. Furthermore, the chief motives

Table 1.3 Typology of Employee Ownership and Worker Participation

		Amount of employee ownership		
		None	Minority	Majority
Degree of worker participation	High	(2) QWL and participation programs	(4) Concessionary buy-ins	(6) Worker co-ops and worker buyouts
	Low	(1) Conventional firms	(3) Most ESOPs	(5) Employee/ manager buyouts

for adoption of ESOPs were, in rank order, providing an employee benefit, increasing productivity, and taking advantage of available tax breaks. (4) Concessionary buy-ins form a relatively small category, though an important one, and are particularly a product of the 1981-83 recession and its aftermath. Companies in which workers and unions have given wage concessions in return for company stock and, in some cases, seats on the board of directors include Pan American Airways (including the Airline Pilots Association, known as ALPA), Eastern Airlines (including a number of unions, such as International Association of Machinists [IAM], ALPA, and others), Chrysler (with UAW), and Consolidated Rail Corporation (Conrail) (including a number of railway unions). This category, the subject of heated debate in labor circles (e.g., Metzgar 1984; Compa and Baicich 1984a, 1984b; Barber and Banks 1984) has never been identified as a special subtype of employee ownership, though it is neither a typical ESOP nor a full-fledged buyout.

The final two categories, (5) the employee/manager buyout and (6) the worker buyout have also not been distinguished before. In this study, the term employee/manager buyout implies majority employee ownership with conventional management control. Such firms include those turned over by idealistic owners (''endowed cooperatives'' from Cornforth 1983) and those bought by both managers and workers, with stock distribution weighted toward higher-paid management employees. Often these employee/manager buyouts are structured as ESOPs, but almost always control of the stock is in the hands of the manager group and/or the financiers of the deal, and the typically hierarchical authority structure of the firm is unchanged. Employee/manager buyouts tend to conform to what Blasi and Whyte (1981) called ''1970s buyouts.'' They include such firms as South Bend Lathe (with the cooperation of a United Steelworkers local union), Bates Fabrics, and Dan River Textiles.

In contrast is category (6), worker cooperatives and worker buyouts. These firms involve both majority employee ownership and high levels of participation in decisions by management, workers, and/or unions. Older cooperatives include the plywood firms of the Pacific northwest (Berman 1967). Relatively new worker cooperatives include numerous countercultural organizations (Rothschild-Whitt 1979). The buyouts tend to be of the "1980s variety" (Blasi and Whyte 1981) with union involvement and attempts at restructuring the hierarchy. The O&O supermarkets, the main focus of this study, fit into this final category.

In sum, the six categories outline different types of firms with differing qualities based on the amount of employee ownership and worker participation they contain. We expect that the goals they set, the methods they use, the problems they face, the solutions they devise, and the effectiveness which results may differ fundamentally from one category to the next. For instance, the expectations of workers concerning their input to decisions may depend on the degree of employee ownership, such that levels of input adequate in a QWL program may be frustrating to those in worker buyouts. Similarly, motivation and productivity gains in ESOPs may be related more to stock prices than they would be in worker cooperatives where independence from managerial control may be more important.

The focus of this study, worker buyouts, has broad significance, despite its narrow focus on few firms. Worker buyouts are one of the most theoretically interesting forms of participation. Workers and unions seem to have noticed limitations of previous cases which included less ownership and participation, and recent establishment of concessionary buy-ins shows the tendency to mix ownership with participation. Future buyouts and buy-ins may continue these patterns. Along with our focus on worker buyouts, we compare the O&O stores to Super Fresh Stores, some of which have implemented QWL. Thus, we can compare employee ownership with participation to participation alone. This enables us to see more clearly the relative effectiveness of worker buyouts.

Past and Recent History of Employee Ownership

The various forms of employee ownership have had a long history in the United States dating back to the 1790s in the case of worker cooperatives and to the 1920s in the case of ESOPs. Employee ownership did not always enjoy as much notice or as much success as in the last few decades. In fact, this history has often been used to criticize employee ownership. Lessons can be learned from past experience on the importance of cooperatives and ESOPs within past labor-capital wars, on employee ownership's feasibility and viability in the present, and on its likely place in the future. The prevailing wisdom, according to critics, claims that:

(1) worker cooperatives failed as an anticapitalist labor strategy;
(2) worker cooperatives are doomed to sink as socialist islands in the capitalist sea or as anarchic and undisciplined, hence inefficient, businesses;
(3) ESOPs are historic manifestations of management hostility to unions;
(4) employee ownership is a sidetrack from either conventional collective bargaining or from "Theory Z" type corporate human relations policies;
(5) at best, worker buyouts are moderators of structural economic dislocation, and at worst, they are a stick of financial burden attached to a paper carrot of stock ownership.

Without denying the validity of criticisms of many aspects of past performance and practice, it is possible to see recent experience with employee ownership as a break from the past. While some motives for establishing worker cooperatives and ESOPs have remained constant, the ideological, economic, institutional, and legal environments have shifted. Thus, employee ownership need not be heavily tarred with the brush of past failure and past criticism.

Two separate streams (at times, trickles) of development—of worker cooperatives and of ESOPs—have been joined at the contemporary wave of employee ownership. They had quite different origins: worker cooperatives in the early labor movement of the mid-nineteenth century; ESOPs in the antiunion welfare capitalism of the 1920s.

Worker Cooperatives

Since the 1830s, workers have formed cooperatives during strikes, lockouts, and depressions. Some histories trace them back to the 1790s (Jones 1984; Curl 1980). Early cooperatives were also part of "alternative" or socialist movements, including those stimulated by the thoughts of men like Robert Owen and Horace Greeley and by Communitarian settlements like Brook Farm. By the 1860s, they had become an integral part of the platform of the short-lived National Labor Union (NLU) led by William Sylvis. Sylvis and the NLU helped found a number of worker cooperatives, but these soon began to fail or be dominated by a few worker/shareholders or outsiders. Subsequent labor organizations, such as the Knights of Labor (KOL), continued to promote cooperatives as the solution to industrial conflict between labor and capital. In fact, Jones (1984) credits the KOL with establishing about 200 worker cooperatives in the 1880s at the height of that union's influence. The next large wave took place in the 1930s, when unemployed workers formed "self-help" cooperatives during the Great Depression.

As the American Federation of Labor (AFL) gained hegemony over the U.S. labor movement in the late nineteenth century, however, its leaders turned toward collective bargaining through business unionism and disdained worker cooperatives as impractical. Worker cooperatives became dissociated from the labor movement. Furthermore, as observers and theorists of the labor movement emerged in middle-class intellectual circles, critiques of worker cooperatives and defense of collective bargaining buttressed the AFL's case. John Commons in the U.S. (Derber 1970) and Sidney and Beatrice Webb (1920), Fabian Socialists in Great Britain, discredited worker cooperatives as inevitably unstable forms of organization, and as inferior to collective bargaining in promoting equality of power between labor and capital.

Were the labor officials and intellectuals correct in their pessimism? The verdict on worker cooperatives by subsequent observers has frequently been just as negative (Shirom 1972). Generally, worker cooperatives have been found to be difficult to organize, undercapitalized, concentrated in craft industries and/or those threatened by structural and technological changes, handicapped by weak management and weak commitment to cooperative ideals, beset by hostility from business and labor, and short-lived (Aldrich and Stern 1983). However, recent studies by Jones (1984) have shown the record of worker cooperatives not to be "as overwhelmingly bleak as some critics contend" (p. 51). Worker cooperatives with the most cooperative features (i.e., equal share ownership, work requirements for members, and participation in decisionmaking) have had the best success in viability, longevity, and integrity of democratic governance structure, Jones finds.

Nevertheless, worker cooperatives have never been more than a marginal economic force. Currently, some of them are important in a few industries, for example, high grade plywood manufacture in the Pacific northwest or refuse collection in the San Francisco Bay area (Perry 1978). However, for the largest number of currently existing cooperatives, those formed out of the social upheavals of the 1960s and 1970s, economic marginality is a fact. Jackall and Crain (1984) estimate that in 1980 approximately 1,000 small worker cooperatives existed. The origins of these firms seem to be motivated mainly by opposition to corporate America and a desire to create alternative institutions. Most operate in the service sector, food production, distribution, and sales, with very few in manufacturing, primarily in printing and publishing. These cooperatives are small, with about 10 members on average and about $200,000 in sales per year. Their worker/owners are young, educated, white, and low-paid. Indeed, until the recent wave of interest in employee/manager and worker buyouts, even sympathetic observers of worker cooperatives deemed them anachronistic, idealistic, and/or marginal.

Employee Stock Ownership Plans

At about the same time the labor movement cut its ties with the employee ownership movement, capitalists and managers became interested in stock ownership for workers. In the 1870s, Abram

Hewitt, then congressman and later mayor of New York City, advocated worker stock ownership and profit sharing as the solution to industrial evils (Derber 1970). In fact, Patard (1982) traces the roots of the idea back to the 1840s. However, it was not until the post-World War I period that employee stock ownership flourished, through employer-initiated savings plans, stock purchase options, profit sharing, and employee benefit plans. Patard describes the employee stock ownership movement of the 1920s as bigger in proportion to the number of shares outstanding than the contemporary ESOP movement in 1980. Employee stock ownership was often promoted by management in connection with employer-dominated company unions. Unionists and leftists denounced these plans as union-busting, co-optation devices, giving workers big financial risks without any genuine participation in decisions. The stock market crash of 1929 destroyed and discredited this movement. Subsequent stock ownership plans tended to be limited to highly-paid executives.

In the 1950s, a visionary investment banker, Louis Kelso, took up the banner of employee stock ownership in the *Capitalist Manifesto* (Kelso and Adler 1958) and in his *Two Factor Theory* (Kelso and Hetter 1967). Despite sharp critiques of his theories by eminent economists, Kelso was persistent in promoting his views. His efforts and those of his students, associates, and converts to his ideas have created the contemporary ESOP movement. Kelso's pragmatic thrust has been to take advantage of features in the Internal Revenue Code that allow qualified employee benefit trusts to borrow money to buy the employer's stocks or other securities. Kelso hailed ESOPs as an instrument of corporate finance, of hostile takeover prevention, of wealth redistribution, of productivity improvement, and a number of other boons to capitalists, workers and the economy in general.

ESOPs have been enhanced by virtually every federal tax change since the early 1970s.[1] The Employee Retirement Income Security Act of 1974 (ERISA) and the Tax Reduction Act of 1975 drew increased attention to the tax benefits to corporations of establishing ESOPs. Kelso's chief convert in Congress and the most powerful and active proponent of ESOPs has been Senator Russell Long (D., La.), son of Louisiana's late populist governor, Huey Long. Sen. Long was the chairman of the Senate Finance Committee in the 1970s and was the committee's ranking Democrat until his retirement in 1986.

Under ESOPs employers establish ESOTs for their employees to give or sell stock in their own company as a benefit, somewhat similar to a pension fund. Tax breaks to the employer issue from this transaction; for instance, social security tax is not paid on contributions to the trust, employer contributions are tax deductible, and a tax credit might be claimed as well. Employees get a tax-exempt benefit and receive vested stock when they leave the firm. The ESOT can borrow money to purchase stock and use the employer's contribution to pay off the loan. The ESOP particularly attracts employers because of its usefulness to: (a) raise investment capital; (b) pass a company on to employees; and (c) provide a special type of pension plan, exempt from several important ERISA protections. However, for workers the ESOP is generally not seen as a suitable substitute for a fully protected pension plan.

Business journals emphasize the advantage to management of allowing employee ownership: quick capital formation, tax breaks, avoidance of pension fund obligations, union avoidance, improved worker motivation and discipline, etc. Fears of management manipulation of ESOPs and of lack of worker control over stock voting rights have led many unionists to be very wary of employee ownership.

While their primary appeal has been to employers, ESOPs have sometimes been used to effect employee/manager and worker buyouts. The first such employee/manager buyout using an ESOP for job saving occurred at South Bend Lathe in 1975. Despite the predominance of management control, ESOPs have been used by some unions to gain a say in management decisions through concessionary buy-ins. In fact, the rise of the ESOP seems to have revived the idea of spreading stock ownership or making workers into capitalists. Ironically, the rise of the ESOP may have helped to resuscitate labor movement interest in employee ownership. In addition, the worker cooperative movement has been transformed by lessons learned in employee/manager buyouts—those which granted little control to workers or unions.

Current Environment of Employee Ownership

The growth of interest in employee ownership has been stimulated by other factors in addition to legislative benevolence to ESOPs. Societal changes over the last few decades also motivate the study and practice of employee ownership. These changes reflect popular ideology, the economy, legislative approaches to current problems, and institutional rearrangements.

Ideology

Ideological currents in politics, business, and interpersonal relations in the western industrial nations may be said to have contributed to a desire for powersharing. Sandwiched in with movements such as decentralization and accountability in government and self-determination through feminism, since the early 1970s there has been a drive for greater worker participation in decisionmaking. The Lordstown strike and the book *Work in America* (1973) led to calls for job enrichment and the humanization of work. The rising awareness of foreign competition has given long tenures on the best seller list to books advocating forms of corporate powersharing, such as *Theory Z* (Ouchi 1981) and *In Search of Excellence* (Peters and Waterman 1982). Academic interest in powersharing at work has also been stirred by examination of socialist alternatives to Soviet bureaucratic centralism, most notably by the Yugoslav system of self-managed enterprises. The Solidarity union in Poland renewed this interest through placing self-management high on its now-repressed agenda of societal change. Although it has been considered quite radical at times, the concern for powersharing has pushed into many areas of the mainstream and lends legitimacy to forms of worker participation and ownership. Even the wave of conservative ideology resulting in the Reagan presidency stressed self-help and entrepreneurship, which have been used to justify employee ownership.

Economics

Economic changes, particularly structural ones, have given the greatest impetus to both worker participation and employee ownership. Several forces have combined to shut down many workplaces, to force millions to the unemployment lines, and to change the power balance between labor and capital. The conglomerate merger movement from the late 1960s to the present, together with corporate disinvestment policies, and deindustrialization closed factories, offices, and stores that had become unprofitable or not profitable enough for corporate financial analysts (Bluestone and Harrison 1982). Population migration to the Sun Belt, the shift of employment from manufacturing to so-called postindustrial sectors, and a rapid series of recessions compounded the economic dislocation. Business sought solutions for its decline in competitiveness and productivity, taking advantage of unions' political and economic weaknesses. Management initiated QWL and participative programs and bargained for labor concessions.

Many workers faced with these pressures and the loss of job security had to come up with new coping responses. Some accepted concessionary buy-ins, while some others engaged in employee/manager and worker buyouts.

International Developments

Workers in other countries pursued similar paths as well. In Western Europe, interest in employee ownership as an answer to recession and unemployment grew. Employee-owned companies more than doubled in number in both Great Britain and France between 1975 and 1983. In 1983, the Wales Trade Unions Congress (TUC) made employee ownership an integral part of its overall strategy for Welsh economic recovery. In Italy, the number of employee-owned firms topped 18,000 by 1981, ranging in size from tiny firms to those employing thousands of workers. Most of these firms belong to cooperative leagues affiliated with the major trade union federations. Increasing numbers of worker cooperatives have arisen in Holland, Belgium, and Denmark, too. Finally, Spain boasts a rapidly growing employee-owned sector, including the famed Mondragon cooperatives of the Basque country, employing over 18,000 in more than 85 employee-owned firms. The Mondragon cooperatives are extremely well-integrated, featuring their own central bank, a technical university, and the largest manufacturer/exporter of household appliances in Spain (EEC 1981).

Employee ownership took on an entirely new meaning in Sweden and Denmark during the 1970s and 1980s. The Social Democratic parties of those nations proposed a series of plans for ''economic democracy,'' in which ownership of private sector firms would, over a few decades, pass over to union and/or worker control through accumulated employer contributions to ''wage-earner funds.'' Although these proposals were stalled and watered down in the Scandinavian parliaments, this idea of employee ownership is part of a much larger tendency in northern European countries toward worker participation and co-determination.

Legislation

The movement towards expanded employee ownership in the U.S. has also gained momentum from a variety of legislative initiatives. Aside from the various changes in the tax code over the years that favor the formation of ESOPs, attempts to aid communities distressed by unemployment, shutdowns, and poverty have increased awareness of the opportunities for employee ownership. For instance, legislation was introduced in a number of states, several cities (including Philadelphia), and Congress over the past decade to mitigate the impact of plant closings. Though these bills primarily focused on prenotification of layoffs and shutdowns, most also included provisions to encourage employee/manager and worker buyouts. Arguments used by advocates of plant closing legislation often emphasized that a minimum of six months prenotification was necessary if a buyout was even to be contemplated.

On another front, Congress established in 1979 a National Consumer Cooperative Bank, which can reserve up to 10 percent of its funds to aid worker cooperatives, employee/manager and worker buyouts, and even ESOPs. The Economic Development Administration (EDA), the Small Business Administration (SBA), and the Farmers Home Administration (FmHA), among other agencies, have been involved in assisting employee-owned firms, particularly through buyouts. Their involvement stems from either broad interpretations of their legal mandates or explicit mandates to work with employee-owned firms. Innumerable state and local initiatives and agencies have directed attention, money, and other aid to employee ownership. Recently, Massachusetts passed a new worker cooperative statute that aids in the formation of democratically-owned and operated businesses.

In Pennsylvania, an Employee Ownership Assistance Program was established by a state statute in June 1984. The act provided for a fund of $15 million to be used over a three-year period: (a) $1 million per year was set aside for technical assistance and professional services, including the funding of feasibility studies. It was initially set up as a "forgivable" loan program, but this later became a grant program with the requirement that 10 percent of the grant be matched by some other source. (b) $4 million per year was devoted to a revolving loan fund for debt financing (or for "gap" equity loans while worker/owner investors came up with their own personal contributions).[2]

Support Networks

The establishment of a developing network of support organizations to advance, encourage, and aid employee ownership demonstrates an important institutional shift from the past. The legislation passed in Massachusetts was drafted by staffers of the Industrial Cooperative Association (ICA) of Somerville, Massachusetts. The ICA is one of a growing number of institutions that have sprung up in the past decade to support the employee ownership movement. In the past, employee-owned firms often operated in total isolation. Now, organizations such as ICA, the Philadelphia Association for Cooperative Enterprise (PACE),[3] the O&O Investment Fund, and the North

Carolina Center for Community Self-Help give several types of technical and financial assistance to worker cooperatives, buyouts, and new start-ups. Educational and advocacy organizations like the National Center for Employee Ownership (NCEO), the Employee Stock Ownership Association, and the Association for Workplace Democracy (AWD) encourage, conduct, and publish research, disseminate information, and even lobby the government (in the case of the ESOP Association) to promote employee ownership.

Furthermore, in colleges and universities, ongoing research, education, and training have led to established centers of expertise on employee ownership at such places as Cornell University, Boston College, the University of Michigan, Brigham Young University, Stanford University, Guilford College, and Temple University, among others. While the support network is growing, it is still quite loose. Thus far, no superstructure has been able to knit together the diverse, disparate, and dispersed set of employee-owned firms.

Considerations in Establishing Worker Buyouts

Despite a few cases that have achieved major media attention, actual experience with worker buyouts is limited. As stated earlier, about 60 firms have undergone employee/manager or worker buyouts, and most have survived. Yet no one knows in how many cases buyouts were contemplated but never started or were proposed but never consummated. Many potentially interested participants may have been deterred by lack of knowledge, by fears, by lack of leadership, or by discovering that their dreams could not be transformed into workable plans. It may be useful here to briefly outline some issues respecting the forms, feasibility, and union-management relations of worker and employee/manager buyouts in order to understand some of the stumbling blocks.

There are two main legal forms, the worker cooperative and the ESOP. In a traditional worker cooperative, each member invests an equal amount of money, which forms the basis of the firm's capital.

In traditional cooperatives, a major problem can be that as the value of the company rises, the value of individual shares rises, too. After a while, success can be a golden handcuff. If share values rise too high for potential new members to afford, this may lead to hiring of nonowning workers or selling out to a larger, capitalist firm. These problems occurred in the San Francisco Bay scavenger firms and also in the plywood cooperatives of the Pacific northwest. However, recently ICA and PACE developed a new model of worker cooperatives based on the experience of the Mondragon cooperatives in Spain. ICA's model of worker cooperatives gets around this problem by drastically lowering the cost to be a member (to about $100). Members have equal voting rights, and they share in the profits. But the members' profit shares are distributed, not in the form of stock, but to what are called "internal savings accounts," which operate like internal pension funds.

The ESOP form provides a clear model of employee ownership that gives substantial incentives to employers for agreeing to a buyout. Probably the major advantage of the ESOP, especially when compared to the typical cooperative, is its flexibility. This flexibility involves several important issues: who buys stock; the distribution of ownership; the degree of overall employee ownership; financing; and the rights and privileges of ownership. However, the flexibility reflects vagueness and also leaves the ESOP form open to manipulation. The popularity of the ESOP in buyouts, particularly in what we call employee/manager buyouts, leaves unionists skeptical of its advantages.

There has been a trend, as workers and unions gain experience, to combine many of the advantages of the two main forms of employee ownership into a hybrid form. Olson (1982) calls these cooperative ESOPs. These hybrids take the major feature of worker cooperatives, commitment to democratic control, and join it to the major feature of ESOPs, flexibility in financing and taxation. Creatively structured cooperative ESOPs have been initiated at Rath Packing, Hyatt-Clark, and Atlas Chain. These worker buyouts provide for worker control over management through democratically structured, one-member-one-vote ESOPs. The cooperative ESOP owes its genesis to the active involvement of local unions, which fought to protect worker interests and to avoid serious pitfalls of previous efforts, such as South Bend Lathe, which the worker/owners struck in 1980, and Vermont Asbestos Group, where worker/owners, disgruntled over lack of worker input into decisions, sold a controlling interest to a businessman. However, it has proven difficult to convert firms to this new form because of problems in sustaining cooperative involvement by workers and managers in struggling firms.

In general, would we expect employee ownership to be a feasible path to save jobs? Or, as some critics claim, are plant closure buyouts examples of "lemon capitalism" for workers? If the corporate owner cannot make it, why should anyone expect the worker/owners, lacking entrepreneurial experience and expertise, to revive dead firms? Questions about the viability of employee/owned firms worry even those predisposed to favor them.

The "lemon capitalism" argument implies that plant closings are caused by the inescapable, invisible hand of market forces. That is, competition, technological change, population shifts, educational expansion, cultural upheaval, and other such seemingly impersonal forces cause the closure. And if workers buy it out to save jobs, they are just swimming against the tide.

This is the conventional wisdom of yesteryear, which has been overturned by observation of companies closing profitable plants (Bluestone and Harrison 1982; Whyte 1984). Such was the case of the O&O supermarkets in Philadelphia. A&P threatened to shut down all its stores in the region (and many others in other regions) to satisfy its corporate goals, not because each store was unprofitable. Furthermore, there are numerous plants threatened with shutdown that could in theory be profitable if some of their operating procedures were changed instead of closing them.

Not every plant closing is an appropriate target for employee ownership, however. Successful buyouts have several characteristics: good timing, planning, adequate resources, technical assistance, and organization, as well as luck (Stern and Hammer 1978). The key element is an objective feasibility study, or as Woodworth (1982a) puts it, "a cold, hard look at the facts." Virtually all of the successful employee/manager and worker buyouts involved one or more feasibility studies.

In addition to these elements, successful worker and employee/manager buyouts have good sources of finance, a governance structure involving workers, competent management, and increasingly, union support. Adequate financing is crucial, for many failures of employee-owned firms, particularly in the nineteenth century, have been traced to undercapitalization. The governance structure may assume greater operational importance only after the buyout is established.

Managerial expertise can be a problem, but is not an inevitable one. Most researchers agree that managerial expertise is crucial, and sometimes it is hard to recruit or keep. However, as Long (1978a) reported, managers in one employee/manager buyout were more likely to cite advantages than disadvantages for themselves. Advantages included greater worker input in decisions, greater worker interest in doing a good job, and better cooperation between workers and managers. Disadvantages for managers included workers overrating their importance and demanding too much say, loss of managerial authority, and managers needing to work harder and perform better under employee ownership. As Bellas (1972) noted in a study of worker cooperatives: "The manager must be an educator and a motivator, knowing full well that his autonomy will diminish as he increases the capability of his employees."

Unions have been skeptical about employee ownership. Some commentators see no role for unions once workers are owners. However, others believe the role of the union will be preserved and made easier through reduced labor-management conflict. In practice, the impact on collective bargaining is mixed, but there is still a significant and necessary role for the union at employee-owned companies (Sockell 1982; Stern and O'Brien 1977; Hochner 1983a, 1983b). Where unions take leading roles to facilitate the buyout, they often push for participative changes in management and organizational culture. This may require them to take on new roles and question some traditional values, as well as to learn how to run and finance businesses. These new roles require education.

Employee Ownership's Role in Policy

The potential uses of employee ownership are many, according to its advocates. Overall, there is much to be found in employee ownership for those of all political stripes. While the implications of our particular findings for policy will be elaborated in the final chapter, a brief general picture of some potential goals for worker buyouts can be given here.

Three overall sets of goals can be identified in increasing order of scope (or grandiosity). First, worker buyouts can be used to save jobs threatened by structural unemployment and by corporate strategic shifts. As Bradley and Gelb (1983) point out, one of the main thrusts of buyouts has been to moderate the velocity of economic change and decline of certain industries. Buyouts not only help workers avoid the pain of job loss, but also have other ameliorative functions. Communities can be spared sudden ruptures in their social and economic fabric and can encourage buyouts as a way to preserve other local business and the taxbase.

Second, from broader perspective, buyouts and employee ownership may support a strategy of economic decentralization. Employee ownership and ESOPs have been perceived as tools for achieving a number of political and social goals, such as (1) spreading ownership in the face of increased economic concentration of power (e.g., U.S. Joint Economic Committee 1975); (2) shifting responsibility for dealing with economic dislocation to private initiatives; (3) providing alternatives to government welfare policies and nationalization strategies; (4) opening up options for the development and preservation of a strong small business sector; and (5) leading to some type of radical restructuring and democratizing of the economy, i.e., economic democracy.

Finally, buyouts and employee ownership appeal to those interested in expanding the economy and providing it with new engines of growth. As Louis Kelso asserts, opening up ownership may increase the number of sources of capital. Furthermore, if employee ownership indeed is a key motivational tool, it may be useful for elevating general productivity.

So far, we have attempted to introduce the issues relevant to job-saving through worker buyouts and to discuss even more briefly the role of QWL programs. In the following chapters, the story of the particular job-saving attempts, the issues in evaluating the success of the innovations, the methods we used to conduct our research, and our research results are treated much more thoroughly. First, in chapter 2 we present a theoretical framework for evaluating employee ownership and worker participation as job-saving strategies.

NOTES

1. Very recent and up-to-date summaries of this legislative history and references to the actual changes in the tax code, including the Tax Reform Act of 1986, can be found in Rosen (1987) and BNA (1987).

2. In 1987, the funding for technical assistance and professional services was reduced to $1/2 million per year, and the revolving loan fund received no allocation because the larger amounts of funding had not been used much in the previous three years. Some observers believe that the Pennsylvania Employee Ownership Assistance Program was not marketed aggressively by the state government.

3. PACE worked on developing the initial legislation and the guidelines for the Pennsylvania Employee Ownership Assistance Program.