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Abstract

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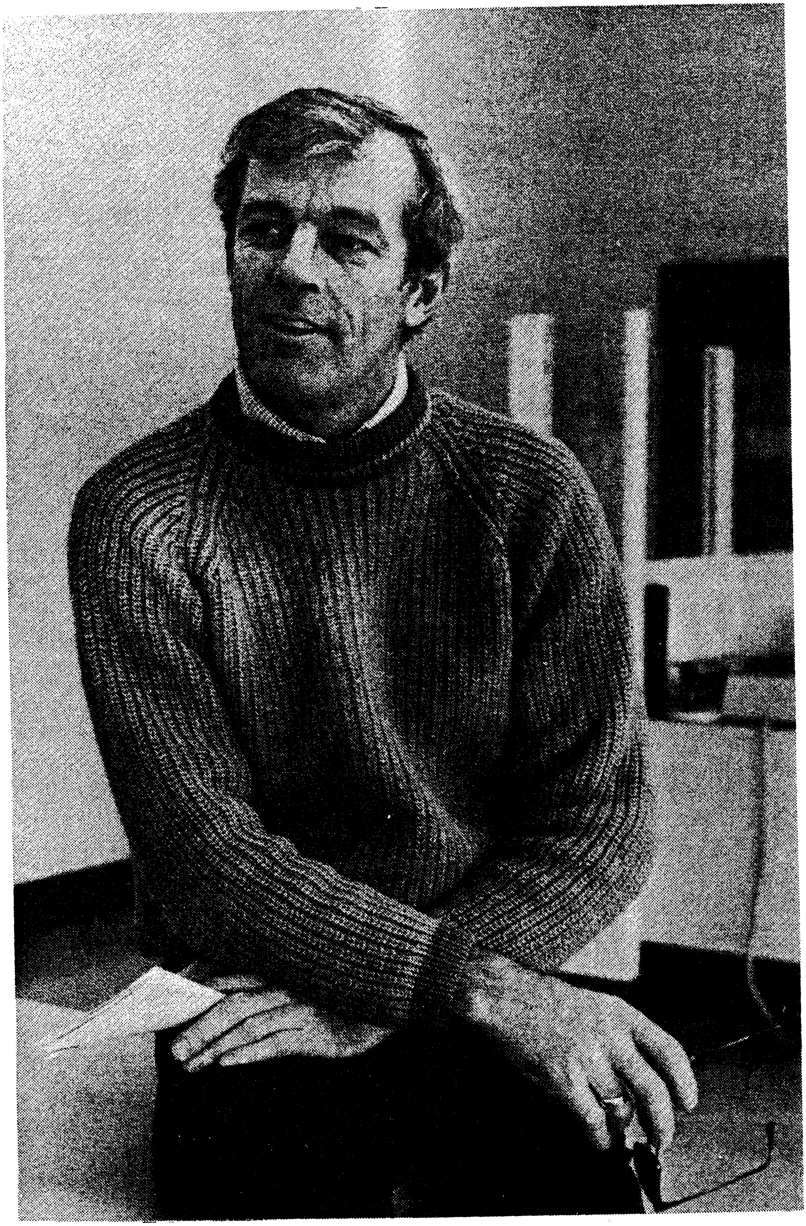
Keywords

Hyatt-Clark, ESOP, UAW, Jim May



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The Hyatt-Clark ESOP:

An Interview with Jim May

UAW Local 736 President

In August 1980 General Motors announced that it was closing its Hyatt Roller Bearing Plant in Clark, New Jersey. The union leadership at United Autoworkers Local 736, which had a history of militancy and a better-than-standard local contract, immediately mobilized to try to talk GM out of its shutdown plan.

First, they offered to negotiate about possible contract concessions and to help GM develop new product lines for the plant. GM wasn't interested. Finally, they presented the union as a potential buyer of the plant through an Employee Stock Ownership Plan (ESOP).

After a feasibility study was done and after more than a year of negotiations with GM, and numerous internal contentions within the local union, the Hyatt-Clark ESOP was formed as an employee-owned firm. The union and plant management raised $53 million to buy the plant, and agreed to pay GM $15 million more over the next 20 years in order to preserve special early retirement benefits guaranteed by plant closing language in the national contract with GM.

More than half of the local's 1,600 members were eligible for the special early retirement package, and the overwhelming majority of them took it. The remaining 800 workers (along with management employees) formed the new company.

The largest part of the money to form the new company was borrowed, and it is being paid back out of a 25% pay cut the workers agreed to. Along with the pay cut (from a plant average of about $12-an-hour to about $9-an-hour), the workers agreed to give up their COLA; to allow job combinations; to allow foremen to work; and to institute an incentive-pay system.

In return for these concessions, the union won a profit-sharing *plan and monthly productivity bonuses (on a plant-wide rather than individual basis). As the ESOP pays off the loans, shares of stock in the company are distributed* equally *to every worker and manager, regardless of their salary level. Voting rights on that stock is one vote per person, and by 1991 the employees will elect half of the company's board of directors.*

The union also worked out a 3-year purchase agreement with GM, which guaranteed the new company a steady stream of orders during its first years. But Hyatt-Clark produces tapered bearings which are not needed on front-wheel-drive cars, and as GM and other automakers switch to front-wheel drive, demand for these bearings declines. It was hoped that the 3-year purchase agreement would allow the new company time to develop a business plan around new product lines compatible with the plant's equipment and the workers' skills.

At the end of 1984, Hyatt-Clark Industries (HCI) employed 1,234 union workers earning a plant average of $10 an hour. There are also 180 salaried employees.

Jim May, UAW 736 president, was—along with Chief Steward Jim Zarello—one of the principal architects of the worker buy-out at HCI. Besides being local union president, May is also on the company's board of directors. Labor Research Review *interviewed May in late December 1984, shortly after his local negotiated a new 3-year contract with the company its members own.*

LRR: Let's start with the company first. It's been in business for about three years now. How has it done? Has it been profitable?

May: Yes. It has been profitable in the sense that we're not into a line of credit and we made a small profit as of the last six months. In the six months prior to that, we made a much larger profit. It's profitable just now and we see the potential of its continuing to be profitable.

LRR: What about its future prospects? Have you found new products to offset the loss of demand for tapered bearings? Will the company still be dependent on GM as its principal customer?

May: Currently 85% of its orders are from General Motors. When we started off, it was maybe 95% dependent on GM. Tapered bearings in the next three years will definitely be our big business. I don't see that changing much. But I do see new customers. I see a gradual swing, maybe from 85% swinging around so that by the end of this contract [1988] it will be maybe 50% of orders will be to other customers besides GM. And the railroad business will bring many, many new customers. . . . We've expanded our product line. We used to make solely 0-to-4-inch tapered bearings. We've expanded our product line now to make 0-to-8-inch tapered bearings. So it lets us be much more diversified.

LRR: How about the union? When you first proposed the idea of a worker buy-out, the majority of your membership rejected it. And even after they later approved the ESOP deal you negotiated, some of your members filed a duty-of-fair-representation case with the NLRB against the union. Is there still a lot of dissension within the local over whether the buy-out was the right thing to do?

May: The members that were dissatisfied, out of a group of 800 that left the company, maybe a group of 20 filed a court case—it wasn't an NLRB case; it was in federal court. The court, two days prior to the buy-out, dismissed that case as having no merit.

As far as there being a lot of dissension within the local union about whether the buy-out was the right thing to do or not, we just had an election this year for officers of the union. And, 80% of our Executive Board ran unopposed. Jim Zarello for shop chairman and bargaining chairman—he's run unopposed for the last two terms. And myself, I ran unopposed for president. So I would think that that speaks for itself, that people think the buy-out was the right thing to do. *And* the fact that if the buy-out had not been done, the plant would have been closed three years ago and there wouldn't be jobs for over 1400 people here today.

LRR: We've been told that there is a lot of anger at the company among your members, and that recently there's been a couple of work slow-downs and even sabotage of several machines. Is this true? If so, is this because of management's day-to-day practice of labor relations or is it because of what they asked for in negotiations?

May: In regards to the sabotage, that is grossly exaggerated. It wasn't in this case. We had a person who was changing his shift, he was finishing his shift, and he did not leave his set-up in line for the next shift operator to come in and pick it up. It was one isolated case. So it was far from being sabotage.

As far as the work slow-downs, I've got to say there was a demoralization of the work force last April when the Board of Directors voted not to pay a profit-sharing to all employees of the company. The contract calls for X percentage from profits to be paid out. It came to over $600,000 to be distributed to the entire work force. In the contract, the Board of Directors has to approve that, and they chose not to approve it. They chose to take the $600,000 and invest it in new equipment, plant modernization and that. This created a great deal of dissension among the workers. And the work effort slowed down. . .yeah.

As to the labor relations practices, I don't think it's the day-to-day labor relations practices. I believe it's just the differences of management and unionism. And mainly Al Lowenstein—he's chairman of the board—trying to give directions and to communicate to workers when he's incapable of doing that. Lowenstein is definitely anti-union and has got no idea of working with people. He's not capable of relating to workers. He's an obstructive force.

LRR: But it was basically a disagreement over how to spend the profits, right?

May: Yes. Jim Zarrello and myself took the position at the board meeting that even if you're not going to distribute the *whole* amount of money that the people are entitled to, give them a percentage of it, show them that you do get rewarded for doing more work. And that appeal fell on deaf ears, I'm afraid, or it certainly did not convince the directors that that was the best way to go.

LRR: What did the company ask for in negotiations, and what did the local union give and get? What role did General Motors play in these negotiations?

May: Oh, GM played a major role in the negotiations. Instead of a labor contract deadline, we were faced with a customer deadline. General Motors said that if we didn't have a contract before the expiration of our old agreement, they would place orders somewhere else. They set a date and we had to meet that date.

As far as what the company asked for in negotiations, the company started out by saying they did not want to pay for any union representation. They did not want the check-off. They were really, really far right in their demands. In contrast to that, the local was seeking what could probably be called to the left of center. We were asking for revolutionary changes in worker participation, "revolutionary" in the sense of corporate America. We were wanting input at all levels of the management of the company.

LRR: Without going into all the details of the contract, basically what was the outcome?

May: Well, we still have the check-off. And we still have management paying for the union representation. As far as our demands are concerned, we have works councils, we have a contract council, and we have participative management groups at all levels. So, we think we've done really, really well in contractual language on participation.

LRR: What about wages? Has there been a wage increase?

May: Yes. 50¢ an hour for all employees for the first year and the second year, and 55¢ in the third year.

LRR: You and two other union members are on the 13-member board of directors. What kind of influence do you all have there? Did the board discuss the company's bargaining demands while the three of you were present? What conflicts-of-interest have you experienced between being an owner-director, on one hand, and the local union president, on the other?

May: Well, the first part there, that it's "myself and two other union members," that's not quite accurate. It's myself and the union shop chairman, Jim Zarrello, and then we selected another outside director and that's Warner Woodwroth, a professor at Brigham Young University.

Did the board discuss the company's bargaining demands? When the board was meeting to discuss the union demands, they requested that we leave the board meeting, and we did that. When they were going to discuss salary increases, we asked that the salary representatives on the board [management] leave, but they didn't think that was necessary, so we lost that. That was a conflict in my mind. If the union representatives have got to leave the board meeting because of discussing hourly contracts, then I think salary representatives should leave when we're discussing salary increases. But the board did not agree with that.

Conflicts between being an owner-director and a local union president? I don't have a conflict. If you're a president of a union, or any union official for that matter, the first thing should be the job security of your membership. And if you're a director of a company, your main interest should be the good and welfare of all the company and all its employees. So, a healthy company is a secure company, and a secure company means security of the work force. So, it's not conflicting to me.

LRR: Have shop-floor relations changed much since the buy-out? Weren't there supposed to be "works councils" to solve shop-floor problems democratically? How have these worked? Have they interferred with your grievance procedure?

May: Okay. They didn't start working the first year the company was in operation. It took a long time to get them going. But we finally did get them going, and they went very successfully at all levels of the company, at the manufacturing end of it.

Each department did their own little groups, did their own little meetings, and any problems they had that they couldn't resolve among themselves, they could refer them to the works council—or it was actually the Thursday morning meeting, where the chairman of the shop committee, Jim Zarrello, and the plant manager, Mike Giordano, alternated the chairing of the meeting. All managers were present, and all union committeemen were present, and it worked really, really well. A lot of things got resolved. Problems that were on the floor that the groups couldn't resolve themselves—health and safety, easier working conditions—all things were discussed and resolved.

It went well. . . up until the salaried people in the company went and hired a lawyer. They started to give this lawyer their complaints. So the union at that point said that we want the salaried people to bring their complaints to us, and they voted not to do that. And we said, well this is not participative management, and stopped going to the meetings. We said if salaried people have a problem, we want to know about it, we want to address the problem. They shouldn't have to retain lawyers and all that. When management voted against doing it that way, we said, well, all you're doing is using union officials, using union members to advance the cause of manufacturing, and it should be dealing with all issues. So we stopped meeting.

LRR: You're not meeting now at all?

May: Well, in the new contract it's now a matter of contractual language. Now we have to meet and they have to meet and we have to discuss all problems. Before, in the contract we just lived under, that wasn't written language. Now there's language that says both parties have to do it.

LRR: And that's language you went after, that the union sought in the contract?

May: Oh, very much so, yes.

LRR: When it was working, did you see any interference with the grievance procedure?

May: No. No, it was totally separate. In fact, in many cases, it turned out you didn't need the grievance. If a committeeman had a problem, or if an individual had a problem, the individual or committeeman could bring it up to any of these participative management groups, and they could resolve it. If you brought it up for the Thursday morning meeting, you had the plant chairman and the plant manager there, and they could just turn around and come to an agreement, mutually agree, with the interests of all management and all union officials. So it was really, really helpful.

LRR: One of the early press stories reported union stewards saying that under the worker-ownership arrangement they no longer feel their old desire to defend every worker against discipline, even if he or she is guilty. Is that the union's attitude now? And if so, do you think that undermines the worker's legal right to representation as part of an adversarial proceeding?

May: I would say that we were a very militant union prior to becoming HCI. We would defend workers and maybe distort the facts to represent the workers. As far as if a person is not guilty today, I think this union would move mountains to prove them innocent if they genuinely believed they were innocent. In other areas where we know the person to be guilty of any infraction, we have counselling. If it's not a violent violation, then there's counselling done and there's a much more amicable agreement. You try to get the worker to stop their practices. I enjoy that.

As for defending the innocent, we'll move mountains to defend innocence. And I really must say that some of the managers are interested in that, too. We have "innocent until proven guilty" in some disciplines—like being late and being absent and all that. And now we've got a much better role in that we use counselling, honest open counselling between the shop steward and the manager. The counselling works very well.

LRR: And in your contract you have "innocent until proven guilty"?

May: Oh yes.

LRR: Is that provision a general feature of auto contracts?

May: No. No, I don't know any labor contract that has it.

LRR: When the ESOP was set up, it was hoped that the profit-sharing plan and productivity bonuses would make up for a good part of the income workers lost with the 25% pay cut. Has that happened? Are those programs working and are they popular with your members?

May: The programs are not working. Profit-sharing, that's where the Board of Directors last April did away with that, they vetoed that. So, then you've got to say that that part was not working.

The productivity bonuses, we're getting some of that. But the language of the contract and the intent of the contract, it would have worked. What happened here was we had been manufacturing bearings under General Motors and borderline quality was being accepted then. When we took over as Hyatt-Clark Industries, all of a sudden the standards changed. And they were demanding top quality from all our pieces. So all of a sudden we find our former employer was demanding that we meet specifications, and we're now doing that. And General Motors is reaping the benefits of having all top quality bearings.

So, we believe the new standards have been restrictive and our productivity has been hurt. But the quality is there and we've overcome all these setbacks and we're looking forward to three years of really good work, and really good productivity, and good sales. Our customers are reaping the benefits of these changes.

LRR: Union critics of the Hyatt-Clark ESOP say that your local's wage concessions, by undercutting wage standards in the auto parts industry, played an important role in establishing a bargaining climate that led to widespread concessions throughout the auto industry. Do you agree, even in part, with that assessment? And, if so, do you feel that your obligation to your local membership overrides your general commitment to union solidarity and maintaining industry-wide standards?

May: I would certainly say, speaking in behalf of all the bargaining committee and the executive board of this union, our local membership's interests override any general commitment to union solidarity.

As far as us setting a climate for concessions, that's far, far, far away from the facts. We were faced with going out of business. We were faced with a company closing the doors. We made concessions, but the concessions we made were to ourselves. We didn't make a concession to any corporation or any other company. We're trying to own this company. So the concessions were to ourselves. . . . We took concessions to own a company. The auto industry unions made concessions, but they don't own anything. We're going to end up owning a company.

LRR: How have the International and other local UAW leaders in the parts industry responded to Hyatt-Clark? There is an impression that your local is pretty much an outcast within your union. Is there anything to that? Conversely, are there elements within the UAW which have been supportive of your efforts?

May: That's very much true that when we were trying to establish this ESOP, the Region 9 of the UAW was not helpful. In fact, they were very obstructive. That has greatly changed, *greatly* changed. There's a new leadership in Region 9 of the UAW, and we find our regional director and his staff are really helping us, working with us.

The International, we haven't had much help at all. After we established it, the International sent one of the regional directors down—from Region 1-E of the UAW—with the shop committee from a Chrysler plant. Both Jim Zarello and I met with them, and made suggestions to them on how they could save their plant. Their plant was being threatend with closure. It was a Chrysler trim plant. They met with us, and then they went back, and they negotiated some agreements with Chrysler Corporation, and that plant today is still open. I like to think that Jim and I had some contribution to that.

There's a UAW plant in West Pittston, Pennsylvania, that Jim and I were asked to go and help. They were closing, and these people bought the plant, with the help of our attorney, Craig Livingston. And these employees now own that company.

In Connecticut, at Bridgeport Brass, another union shop was closing down. UAW Region 9 Director Tom Natchuras asked us to see if we could help them. So again, with our lawyer, Craig Livingston—Jim Zarrello, myself and the entire shop committee met with these people. And we helped them and now I believe their ESOP is going to be started shortly, if it's not already started.

So, the relationship with the International union and the Regional has greatly improved. We've got no complaints at all.

LRR: One final question. Based on your three years of experience with worker-ownership, what would you tell other unionists who might be considering the possibility of a worker buy-out to save their plant?

May: Could I turn your question around? A lot of people have asked me what I'd have done differently. If I had one thing I could wish for, what would I have done differently? And I would say I would have had a bargaining agreement for the salaried employees of the company. Because then both sides know what they're going in with. The salaried people have a contract and union membership has a contract, and that will free both under umbrellas of protection for constructive criticism, and it saves a lot of dissension. I really believe that. . . . That way they are free, and can feel free and can safely criticize constructively, and have honest input into all phases of the operation. ✦