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UNIONS

When workers strike the company they own

For the past five years, employee stock ownership plans (ESOPs) have been touted as a way to save dying companies and to provide them with an infusion of capital. By increasing worker involvement in company affairs, ESOPs have also been regarded as a means of boosting productivity through labor-management cooperation. But a current strike at South Bend Lathe Inc., considered a model ESOP, demonstrates that the concept may promise workers more benefits than they can actually achieve as part owners of a company.

On Aug. 25, some 290 members of United Steelworkers Local 1722 struck the South Bend (Ind.) machine tool plant that they own. To replace a contract that expired July 31, the company proposed a 10% increase in wages for one year, including a Christmas bonus of $525. But it refused to improve a current cost-of-living adjustment provision. The union rejected the offer, saying that without an unrestricted COLA, the workers would not be able to pay their bills. "We need some guarantees," explains Robert B. Newton, a member of the local's bargaining committee.

The conflict over wages concealed deep animosity resulting from the rank and file's disillusionment with the essential make-up of the South Bend Lathe ESOP, the first 100%-owned employee company. "We were promised a piece of the action," says John Deak Sr., president of the local. "What we got was misunderstanding" over implementation of the ESOP. South Bend Lathe President J. Richard Boulis says the dispute is the result of the workers' unwillingness "to think and act like owners."

Rocky beginnings. In 1975, South Bend Lathe was threatened with liquidation by then-owner Amsted Industries Inc. The employees obtained $5 million in private loans, and the Economic Development Administration lent $5 million to the city of South Bend, which in turn lent it to an employee trust. The trust bought the company, which issued 10,000 shares of common stock to the trust as collateral for the loans. The stock is being held for the employees by the trust until they turn 65. Meanwhile, they will receive any dividends paid.

In the beginning the transaction to an ESOP went smoothly. Productivity jumped 25% the first year. By 1977, however, workers were demanding 50-50 representation on the board of directors. In 1979, for the first time, the company withheld annual bonuses because of a profits decline.

Boulis says the workers, as part owners, must accept the bad with the good. Union members counter that while they are eager to "act like owners," their participation so far has been limited to one representative on the eight-member board of directors. "The executives didn't pay one more penny for the company than the workers, yet we're excluded from important decisions," says union member Newton. By virtue of their higher income, the salaried employees have been assigned more stock as individuals than the hourly workers.

The wage issue could be settled without a long strike, but the deeper problems of the ESOP plan were not being formally addressed in negotiations. For this reason, the South Bend conflict could become "a test of the concept of employee-ownership participation," according to Norman G. Kurland, a Washington lawyer and consultant who helped put the South Bend Lathe ESOP package together.

For the rank and file, dismay over the make-up of a pioneering ESOP

4,000 ESOPs. The problem at South Bend is one example of growing concern about ESOPs. There are about 4,000 ESOPs in the U. S., with employee ownership ranging from a minor percentage of the stock to a hefty share. A small fraction of those companies are 100% employee-owned.

In a recent report, the General Accounting Office found that management often failed to price the employee stock at fair market value and did not always pass along voting rights for stock acquired by the ESOP. "Companies have used ESOPs largely for their own advantage," the GAO says. ESOP executives claim, however, that large companies cannot be managed by committee. "You can't consult 480 workers every time you make a decision," Boulis says.

Another important element in the ESOP controversy concerns the role of unions. For the first 2½ years of the ESOP at South Bend, the workers—previously members of the USW—worked without a contract. In 1977 the worker-owners voted the USW back in because they felt they needed union protection. "Otherwise there would be no checks and balances," says Newton. Kurland now admits that the USW should have been consulted in setting up the ESOP. "The local members were just happy to be saving their jobs, but the international would have helped us design the ESOP in a way that would be acceptable to all parties," says Kurland. ■

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Readers report

Worker owners: What went wrong

"When workers strike the company they own" (Sept. 22) was certainly a more balanced and objective article than others recently written on this tragic but potentially hopeful situation. South Bend Lathe still represents a model for the free enterprise system. But industrial democracy, like political democracy in its infancy, is such a revolutionary advance over the feudalistic wage system that shapes our thinking that change will not take place overnight.

Somehow, however, my personal observations on the situation got slightly garbled in your story. It is not true that the United Steelworkers was never consulted to help design the decision-making structure of the Employee Stock Ownership Plan (ESOP) so management and nonmanagement employees could work together effectively. Top USW officials at the regional level and in Pittsburgh were repeatedly contacted, but they have always treated the ESOP like a hot potato. The implications of employee ownership run contrary to traditional wage system bargaining patterns. The local union has never been provided with competent professional help to enable rank-and-file workers to understand and negotiate effectively with management on ESOP issues. Unlike most ESOPs in closely held companies, I designed this one to allow workers to vote their shares as they earned them. Considering that management had continual access to top legal and other professionals, little wonder that the local union was at such a disadvantage from the beginning, leading to misunderstandings and frustrations among workers, much of which could have been avoided or worked out over time.

Where South Bend Lathe went wrong, in my view, was in failing to provide workers with a continuing ownership-sharing education program and a structured two-way dialogue for improving the ESOP after the employee buyout was completed. The workers still have voting power and can easily negotiate to improve the ESOP.

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■ *A USW spokesman acknowledges that the international was not interested in ESOP plans in 1975 but is now willing to consider them on a case-by-case basis.*