WORKER EMPOWERMENT

THE STRUGGLE FOR WORKPLACE DEMOCRACY

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WEIRTON STEEL: AN ESOP CONVERSION

Warner Woodworth

Over the past ten to fifteen years numerous American communities have suffered the ravages of industrial plant closings. Globalization of the economy, hostile takeovers by distant raiders, and corporate restructuring have become primary strategies for many executives as they downsize, hollow out, and idle manufacturing facilities, laying off or "demassing" their workers in the process.

Within this context local groups—towns, workers, unions, and others—have fought back to counter economic dislocation. In many cases, attempts have been made to revitalize troubled firms by creating a new approach to workplace participation. Such tactics as organization development, quality circles, employee involvement, and quality of working life methods have been utilized to increase productivity, reduce costs, and improve quality. If done well, these participative schemes have not only heightened corporate effectiveness and saved jobs, but led to more democratic management as well.

In other cases, troubled U.S. firms have been rescued through conversion to worker buyouts, usually in the form of an Employee Stock Ownership Plan (ESOP). Created in 1974 by Congress as part of the Employee Retirement Income and Security Act, ESOPs began as a worker bonus plan by which workers could obtain shares of their com-
pany. The plan is regulated by the Internal Revenue Service and Department of Labor to ensure that it truly benefits workers so that, as the firm makes contributions, employees will accumulate capital. Beyond the advantages of a second income that accrues to workers, the ESOP company likewise benefits because of tax incentives and the option of using the ESOP to obtain new sources of capital for business needs. Today some 11 million citizens own a piece of the firm in which they have a job, approximately 12,000 companies all told. Most of these are minority ESOPs in which workers own less than half of corporate stock, but a growing number of ESOP firms are buyouts in which workers gained over 50 percent of the stock, usually through some type of leveraged transaction in which workers obtain stock through wage concessions or other sacrifices. If the ESOP is so structured, workers gain a voice in corporate governance, pass-through voting rights, job security, and profit sharing. Many ESOP situations also enhance the company as evidenced by data which suggest worker ownership is correlated with improved labor/management relations, higher profits, greater productivity, and increased sales. The community also experiences social and economic stability. Instead of a factory closing, the local tax base is preserved, unemployment is thwarted, and regional economic development may improve.

Among the more intriguing cases of union buyouts is that of Weirton Steel, a 100 percent worker-owned mill in West Virginia which was rescued through an ESOP in 1983. It has since become a convincing illustration of the fusion between workplace democracy and shared ownership. The process by which all this came about is a fascinating struggle of steelworker survival. In the end, it not only led to saved jobs and a profitable business, but empowered workers as well.

Origins of the Weirton Buyout

To the casual observer while driving along country roads that wind along the banks of the Ohio River Valley, many towns and cities show the ravages of severe economic debilitation. They were once part of a region called Steel Valley. But in the early 1980s, the area began to look more like an eastern version of Death Valley. Signs on property everywhere read like tombstones in a cemetery—"For Sale," "Lease," or simply, "Closed." Shut down factories and rusting equipment were surrounded by abandoned houses, car dealerships, and food stores.

In the late 1970s, steel mill closings and worker layoffs wreaked havoc with many communities. U.S. Steel dumped 13,000 workers;
Bethlehem, 12,000; Phoenix Steel, 5,700; Youngstown Sheet and Tube, 5,400; Cyclops, 1,300; and Alan Wood Steel over 3,000. In some cases, plants were mothballed in the hope of a better future. In others, the mills were either sold off or bulldozed. From an industry high of 726,000 steelworkers employed in the mid-1950s, by 1982 the job market in steel had dropped nearly in half to 394,000. Corporate steel executives might have said, to paraphrase the title of a recent Hollywood film, "Honey, I Shrank the Factory!"

Company towns with blackened but silent smokestacks suffered greatly as the American steel industry lost market share internationally and domestically. Mass layoffs and plant closings were followed by a declining tax base and the elimination of government services. Alcoholism, drug abuse, divorce, and family violence typically increased as joblessness took its toll. Crime and suicide often signaled the deepening effects of steel closures.

It was within this context that the decision by National Steel not to invest further in its Weirton Works was taken in early 1982. The country's fourth largest steel maker, National planned to cut its capacity by 4 million tons annually through divestiture. The Weirton division, with sales of $1 billion a year, had suffered 2,600 layoffs in previous months. The remaining 8,900 workers were witnessing the gradual demise of their firm's heart and soul, and to passively watch further downsizing was not appealing. So worker ownership was proposed by National as a way to revitalize the region.

Howard Love, chairman of National, declared that he hoped, "employee ownership can be worked out before the end of this year for a price that's fair to the corporation and fair to the employees at Weir-ton." Ample advance notice, honest information, and values of reciprocity were perceived as socially responsible, a marked change from the tactics of American executives generally. National's Love was the antithesis to chairman of U.S. Steel at the time, David Roderick, who refused to sell any of his company's mills to workers and their communities, preferring to raze furnaces and invest in hotels and shopping malls instead. His predecessor, Edgar Speer, had accused an earlier ESOP attempt in Ohio as "a Communist takeover."

**Tough Questions**

Not all reactions to the Weirton ESOP idea were positive, however. Throughout 1982 steelworkers debated the pros and cons. Critics questioned how workers in a gritty, obscure West Virginia town of 26,000
could obtain a profit when a huge Fortune 500 corporation with years of a solid track record could no longer make it. Some wondered how Weirton on its own could afford to invest $150 million to refurbish coke ovens and update pollution controls when its 1981 profits were only approximately $10 million, less than 1 percent of sales. What if the future brought only losses? What if the demand for steel were to collapse in the face of alternative materials—plastic, glass, and aluminum?

A small group of disgruntled workers, suspicious of National and the union’s own leadership, formed the Rank and File Committee to block the ESOP. They launched newsletters that were distributed to workers, and filed lawsuits to combat the buyout.

Yet the majority of steelworkers grew in confidence that they could do it, deriving strength from their proud history, which went back to 1909 when Ernest Weir, the son of Irish immigrants, first built the mill. The years of workers’ blood, sweat, and tears had evolved into a long tradition of pride and craftsmanship.

So Weirton employees, long organized as the Independent Steelworkers Union, decided to collaborate with management in exploring the ESOP alternative. They created a Joint Study Committee, consisting of twenty labor and six management representatives. They hired attorneys and McKinsey & Company consultants to carry out a feasibility study. The effort was funded by $500,000 allocated from the union’s strike fund. Subsequently, more monies were raised from town bake sales and sock hops. After months of deliberation and planning, the study team concluded that a buyout was financially doable, but only with a 32 percent cut in pay and benefits.

Although self-doubt reared its ugly head for a few, the majority of Weirton workers pressed forward with their ESOP banner. The local press admonished the dissidents to back off and tone down their rhetoric. Main Street merchants, barbershop owners, and cafe cooks voiced the need to save the mill before the whole town was boarded up. Green pro-ESOP ribbons were hung on town businesses, residential trees, and automobiles, suggesting a new birth. Huge banners were unfurled declaring, "We Can Steel the Market!" (Emphasis on the tin can was intentional.) Management, union, and public officials organized petition drives and planned parades through the downtown with the high school band marching in the lead.

The Buyout Agreement Is Finalized

The community-wide campaign succeeded and negotiations were
eventually concluded in 1983 so that the Weirton mill could be sold to its steelworkers. It had taken over a year to prepare final plans and convince the troops. There were mass briefings held in the local high school auditorium and hundreds of small group meetings at the plant. Union members voted overwhelmingly for the plan by an eight-to-one margin. By now the dissident lawsuits had been thrown out of court. The final agreement reduced labor costs (wages and benefits), which had averaged approximately $25 per hour, by 20 percent rather than the expected 32 percent, amounting to roughly $4.80 an hour in concessions.

White collar and management employees also agreed to cut their own pay by an average of 7 percent. It was anticipated that much of the cuts would be somewhat restored through a new profit-sharing plan for ESOP members. New stock, a changed organizational structure, and high commitment were components of an overall strategy to make Weirton succeed. It immediately became the largest and most significant 100 percent worker-owned company among 5,000 ESOP firms then existing in America.

Media reports of the event were full of intriguing reactions. Time magazine claimed Weirton might be, "The principal U.S. enclave of—yes—a kind of homespun socialism." The Wall Street Journal headlined its editorial page, "Karl Marx in West Virginia."

Expert opinion around the country was equally split. Finance professionals at Paine Webber and Merrill Lynch suggested the sale price was a good deal, and that the reduced labor expenses would put Weirton in a clearly competitive stance relative to other steel companies. On the other hand, worker ownership "expert" Peter Pitegoff and labor attorney Staughton Lynd criticized the deal as an economic disaster, a ripoff of the steelworkers. Consultants of ICA, a workplace democracy group, warned that the ESOP was a shell game. Undaunted by all of this, the steelworkers’ union forged ahead in their courageous, albeit risky, style—condemned by the political right as Communists, ridiculed by the left as victims of capitalism.

Weirton’s workers purchased the operation at very favorable terms—$194 million for plant, inventory and raw materials, and machinery. It was a good discount on the operation’s $386 million book value. The new firm agreed to assume $192 million in current and future liabilities and to issue promissory notes on the balance. The notes were secured by the new mill and its property. The firm would automatically rank 336 among the Fortune 500 largest corporations in the United States, enjoying 1982 revenues of $817 million.

Approximately fifteen years would be the time line for paying off
the full purchase price, and only $75 million in cash was required up front for inventory, the balance being extended over as long as 1998. Citicorp led a group of banks in offering up to $120 million in credit for financing future operations and capital improvements. National also agreed to assume all pension costs if Weirton did not survive during the first five years, a helpful safety net for this risky venture.

The Weirton deal was indeed a win for the parent firm, the ESOP workers, and the surrounding town and state of West Virginia. Reciprocity had become a key value undergirding the entire arrangement. However, a critical remaining question loomed over all: Would the ESOP now survive?

A New Model of Industrial Democracy?

Whether the transformed steel mill would become a step backward into the dark ages of big steel, or a vision of a dramatically new form of labor relations in America, no one in 1983 could foretell. How could an organizational approach be designed that would ensure the firm’s economic vitality, be acceptable to National and major lenders, yet at the same time provide workers with channels of influence? This was not merely a classroom exercise in management change. The plant consisted of 400 acres of expensive, integrated steel facilities. The new firm was immediately ranked as the eighth largest steelmaker, and media from coast to coast were focusing on whether or not the buyout would survive. If Weirton could succeed, it might become a turning point in American industry and worker-management interface.

Ultimately, the Joint Committee chose neither a conventional corporate structure nor a radical system of freewheeling workers’ control. Instead, an acceptable and effective approach to company governance was carved out for the future which juxtaposed ownership rights with responsibilities, power with checks and balances.

The Weirton ESOP was structured by issuing 6.6 million shares of common stock for the new corporation. A worker trust was established which would hold the stock, and as company debts from the buyout were repaid, stock was to be allocated to individual employee accounts. Overall wage cuts served as payment for stock, so no worker would have to put up additional cash for shares. The amount of stock in each person’s account was to be based on one’s compensation as an hourly or salaried employee. ESOP participants enjoyed “pass-through” voting by which they could direct the trustee how to vote their stock in certain corporate decisions.
A new board of directors was created with three seats selected by the steelworkers’ union—the union’s president, Walter Bish, its attorney, and a former vice president of the United Auto Workers union in Detroit. The new firm’s president, Robert Loughhead, was also named to the board, being offered the CEO job as a result of the efforts of a national executive search firm. He had the right to name two other management directors, which would give labor and management three seats each. However, Loughhead, who had been CEO of two other steel companies previously, opted not to designate anyone to the other management slots. Eight independent directors were selected to ensure outside objectivity in serving the corporation. These included a New York investment banker, several attorneys, the president of the American Red Cross in Washington, D.C., two consultants, and executives with other companies. Board members were to serve three-year terms on a staggered basis, at which time they might then be reelected. At least ten but no more than fourteen directors would make up the size of this governing body, which was given the legal mandate to act in the company’s best interest.

The Track Record

From its inception as an ESOP, Weirton has overcome a number of hurdles in the process of becoming an intriguing case of economic revitalization. From a steel mill that previously did not even have a sales force (National had carried out all marketing functions), the new firm hired sales representatives and mounted a creative campaign to generate more business. Customer support became crucial, new philosophy to ensure customer access and was built around personalized, rapid response from those new worker-owners. Within the first year, over 190 new customers were purchasing huge orders in sheet product alone, totaling 2.1 million tons. This niche strategy had as its goal to win 25 percent of the U.S. market.

The plant’s Materials Utilization Department launched innovative research on new technologies, employing 55 skilled workers who carried out sophisticated studies. While most American steelmakers were drastically curtailing capital improvements, Weirton committed $70 million for modernization in the first year of the buyout, including better pollution controls, upgrading of casters, and refurbishing both degassing units.

After one year, the new ESOP held its first annual stockholders’ meeting. Morale of its worker-owners was high as Loughhead reported
that the mill’s operating rate had risen from 60 percent to over 85 percent of capacity. Weirton had increased sales by $28 million during the first three quarters of 1984, with earnings of $48 million—a bright contrast to the rest of the industry. Projections showed that the first year profits would total $60 million. Profits per ton were $41, far greater than the other largest steel companies, most of whom barely broke even. This allowed the company to use only a third of its $120 million revolving credit line. Freedom from having to immediately begin paying off the long-term debt gave Weirton breathing room and the carrying cost was under $10 million a year. In addition, as an ESOP, federal law extended significant tax breaks which meant hardly any money would be required for payment of taxes. This greatly expanded the company’s cash flow.

Weirton’s work culture gradually began to evolve into a more effective system. The new CEO had often remarked that a prime motive in his joining the firm was that the ESOP offered the perfect environment to prove that worker participation could succeed. The historic antagonism between labor and management had developed entrenched, bitter sentiments on the shopfloor. But now Loughhead began a series of face-to-face meetings with small groups of workers one day each week, listening and responding to questions. Training in communication skills was provided to all supervisors and employees. At the top, key union officials and steel executives broke down the walls between them by meeting as a "Labor-Management Council" on a close, regular basis to build a common business framework.

Not only was the company itself progressing, but the ripple effect of success began to positively impact the larger community. Bank loans and retail sales had dropped dramatically in the downtown when National’s announcement to divest was made. But as the ESOP became a reality, public confidence was restored. Loan demand at town banks grew by 15 percent, housing sales rose, retail activity increased, and several new businesses opened their doors.

Blue Collar Entrepreneurship

Specific examples abound which illustrate subtle, yet significant changes in Weirton Steel after the ESOP was created. For example, worker participation groups became an important mechanism for achieving productivity and quality improvements. Creative ideas and initiative also helped the ESOP firm gain legitimacy as a humane organization. In the weld shop, for example, a team which called itself "ARCS" had been formed. Seeking to do more of the work that Nation-
al had historically contracted to outside welding firms, a plan was developed and proposed to the general manager of service and maintenance. He agreed to a trial run, declaring the group's ideas to be "a different attitude" from the past. In the weeks that followed, the team proposed various welding projects and received authorization to carry out a number of them, including repair of two blast furnaces. The jobs were all completed on time and accounted for a 15 percent savings compared to outside contracting. This led to more projects, leading to the return of fourteen laid-off Weirton workers.

Events over intervening years since the buyout suggest a continued pattern of satisfactory performance at Weirton. The company established a position in the marketplace and proved it could operate independently from its past parent corporation. Within the context of growing disaster in the steel industry, Weirton's ESOP became a model of success. By 1985 the company was shipping 2.4 million tons of steel, and all 3,000 laid-off workers had been recalled. It was the first time in nearly a decade that the mill was in a hiring mode. According to the way the ESOP is structured, a new employee must hold the job six months before shares are placed in one's stock account. No cash transaction is required from the individual, but the amount of stock varies according to level of compensation.

Further teamwork grew as Employee Participation Groups (EPG) were formed and given three days' training in interpersonal skills and team problem-solving techniques. By 1986 there were approximately 100 groups formed to make improvements in their departments, involving over a thousand workers. The reports were impressive in many cases. A boiler room EPG designed the process of heat transfer, cutting fuel costs by $200,000 a year. The wire gang EPG salvaged and returned to the maintenance area over $364,000 worth of excess inventory, which in the old days of National Steel would simply have been rusted away. An EPG in the pipe shop created a program to save and recondition work gloves that saved $53,000 annually.

The extent of participation has evolved somewhat over time, accompanied by a few mistakes and attempts to change which did not lead to outstanding success. Union leaders report, nonetheless, a strong sense of voice from the shopfloor to the boardroom, although most participatory efforts have focused on such pragmatic concerns as productivity and quality. Participation is not an ideological matter but a means to enhance corporate competitiveness. Nor is having full workers' control apparently labor's objective at Weirton. According to union officials, they want equal power, yet expect to retain management and
outside board members even after loans are paid off so that competent business expertise continues to be a resource to the ESOP.

In 1987, Loughhead announced his retirement at a regular board meeting. Eventually, a new company chairman was named, Herbert Elish, formerly the Commissioner of Sanitation for New York City. Annual profits at this point were well over $100 million and the company had $90 million in cash. Upgrading old equipment was clearly seen as a necessary pillar in long-term survival. However, significantly more would be needed to compete in the coming decade, and Elish was brought in to raise money.

An important attribute of Weirton's ESOP was to exchange wage concessions for a profit-sharing program back in 1983. It was designed so that employees would receive approximately one-third of all profits after the new firm achieved a net worth of $100 million. Through 1987 workers had paid themselves some $75 million in bonuses, and ESOP stock allocations by that point amounted to approximately $160 million. The company had enjoyed twelve straight quarters of profit, in contrast to previous years of red ink. The formula called for raising profit sharing to 50 percent when Weirton's net worth reached $250 million, and this occurred in mid-1988. Bonus checks for that year averaged some $9,000 per worker, based on record earnings of $150 million. By late 1989 Weirton workers had recouped the bulk of their wage sacrifices through profit sharing and the value of stock holdings. They are still paid above the industry average, with many receiving over $40,000 a year.

The big question in 1989 was how to modernize for the coming decade? Should workers take their money and run? Or plough it back into long-term capital improvements?

For Elish, as new CEO, the challenge became one of exploring ways to generate larger amounts of capital for modernization. The steel industry as a whole had difficulty obtaining loans from American banks. Weirton was no exception and the ESOP system may have exacerbated this difficulty. The idea began to circulate about a possible public stock offering to finance modernization. Such action, although necessary, might dilute the ESOP and reduce the percentage of profit sharing, or even lead to job losses. For some workers this proposal seemed to be the path to economic suicide. They wondered if, rather than staying the company's course, they should cash in their stock and leave for greener pastures.

Eventually, the board initiated a capital improvements plan which would require $600 million to modernize. Approximately $100 million
was spent on the hot mill as Phase One of the overhaul during 1988. While this more than doubled the average investment of previous periods, it was still not perceived as sufficient.

A number of projects slowly came to a halt and half of the engineering department gradually resigned, choosing higher paying jobs elsewhere. So Elish and his management group began to forcefully argue for a public sale of Weirton common stock in order to raise cash. Many workers felt such a move would violate labor’s power and dilute the success of collective employee self-management. When labor leader Bish agreed with others on the corporate board to change the terms of the ESOP, he was voted out as union president. His elected replacement, Virgil Thompson, declared that the blue collar workforce needs to build on the participative system of the past, but become advocates to further strengthen Weirton’s business. Otherwise, the company will not endure.

Finally, in June of 1989, worker-owners voted to sell a minority share of their stock to the company. The buyback was rare for the ESOP sector in America because usually shares in one’s account can only be sold upon retirement. But Weirton is a bit unique in that it allows those who retire or take a job elsewhere to hold onto shares in their account. Some ex-Weirton workers have sold their shares, while others retained their holdings and have enjoyed three dividends paid out thus far. The total is a minimal amount posing no threat to the overall ESOP.

Some 23 percent of Weirton stock was then offered to the public in 1989, valued at $14.50 per share on the New York Stock Exchange. The implications of this action in the short run suggest Weirton will be able to raise sufficient capital to expand its efforts to modernize. Exactly what this ultimately means for the concept of worker ownership is not so clear.

Worker Capitalism

Currently, most of Weirton Steel workers and managers seem to feel fairly positive about their experience so far. They saved their jobs, retained the economic backbone of the community, and succeeded in selling more steel and making better profits than when they were part of National’s conventionally owned corporation. While many steel companies went bankrupt, communities languished, and workers became jobless, Weirton not only has survived but thrived. The business has been revitalized and employees put several hundred million dollars into their pockets through profit sharing, beyond wages. Today they have a strong voice in corporate governance and the average worker
now owns some $45,000 worth of stock, having helped his shares to double in value within the past three years.

The path-breaking actions by Weirton workers since 1983 have laid the groundwork for a nationwide strategy which has moved a number of unionized firms in the American steel industry toward labor ownership. The United Steel Workers of America has extended the Weirton success by using ESOPs to rescue other companies that were on the verge of closing.

The list is impressive: Pittsburgh Forgings, founded in 1871, was bought by union members in 1988; Oremet Titanium in Oregon was acquired from Owens Corning in 1987 for a 20 percent wage cut; steelworkers at Chester Roofing reopened their company after a five-year shutdown by Celotex Corporation; Northwestern Steel and Wire was acquired by the 2,500 workers for $187 million, resulting in five board seats for labor; Ohio’s Bliss-Salem, Inc., was saved from bankruptcy in 1986 and employment has since quadrupled while a union member now serves as chairman of the company; Republic Container in West Virginia was bought by steelworkers from LTV in 1985; in Michigan, the Copper Range mine was purchased through an ESOP after being closed two years, creating 900 jobs and giving each worker $18,000 worth of stock.

After a decade of mismanagement and financial losses, 2,200 union members went on strike against McLouth Steel in 1988 and ended up owning 85 percent of the firm’s stock, afterwards doubling productivity and generating profits for the first time in years. The Cymtemp division of Cyclops Steel was likewise sold to an ESOP of 1,200 steelworkers in 1989. That same year five LTV plants were sold for $220 million to a new bar steel ESOP headquartered in Canton, Ohio.

A number of future worker buyouts are expected during the 1990s, but the precedent for all steel industry ESOPs can be traced to the innovative system of labor ownership first carried out at Weirton. Certainly this West Virginia ESOP has gone beyond a mere social experiment. For worker-owners at Weirton the future may be uncertain, but they feel it is theirs as they move toward the year 2000.

References

While this chapter draws primarily upon the author’s personal observations and interviews, along with Weirton internal documents, there are a few published sources the reader may want to pursue. Several articles have appeared in the business media, including: "National Steel

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