Book Review

The Real World of Employee Ownership
John Logue and Jacquelyn Yates
(Cornell University Press, 2001, $45.00)

Reviewed by Steve Sleigh†

As the Director of Research and Strategy for a large North American union, I have participated in literally dozens of financial restructurings, many of which utilized employee ownership as both a means to save jobs and toward the end of empowering employee's to have a greater voice in the operation of the firm in which they work. While my "real world" and the subject of this book may look different, I found Logue and Yates' treatment of employee ownership fair, balanced, and informative. Now to my real world:

Company "A" is a big, publicly traded, highly visible firm that is majority-owned by its employees. How it came to such an ownership structure is a fascinating story, told by many from both positive (heralding a new era of labor-management relations[1]) and negative points of view ("the inmates are running the asylum"[2] to paraphrase one Wall Street analyst). On a day-to-day basis, as a representative of the largest group of Company A's employees, I hear good and bad stories about employee ownership. The reality is that labor-management relations were not transformed by employee ownership, but remain in a steady state of

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1. Susan Chandler, *United We Own*, BUS. WK., Mar. 18, 1996, at 96 ("'I was cynical about employee ownership to begin with, but I think I was wrong,' says Candace E. Browning, a veteran airline analyst at Merrill Lynch & Co. 'United has hard statistics that show the company is working differently than in the past.'").

2. Edward Wong, *BANKRUPTCY HINT BY UNITED AIRLINES*, N.Y. Times, Aug. 15, 2002, at A1 ("'The inmates are running the asylum, and they have access to the pharmacy,' said Gordon M. Bethune, the chief executive of Continental Airlines.").

ongoing strife. This is due to a number of factors, not the least of which is an industry-wide culture of conflict, and class and gender distinctions among various union-represented groups. In and of itself, employee ownership barely raises its head as an issue except at shareholder meetings. Indeed, while employees collectively own over have of the common stock, the real control of the company is still exerted by a small handful of senior executives, bankers, and other companies who act as both suppliers of capital goods and operating money.

Company "B" is a small, family-owned enterprise, in existence for over one hundred years, with senior employees. When the owner decided to retire, and with no heirs in the family who wanted to run a $20 million a year machine shop, he decided, with the help of local economic development specialists, to sell the company to the employees. Together, labor and management now own the enterprise, and have a highly evolved system of communication and decision-making. When employees retire, workers will share in the growth of the enterprise. For these union members, employee ownership is a nice addition to their benefits and provides a means through which corporate governance can be influenced. On a day to day basis, however, the work remains hard, the competitive environment tough, operating margins are thin, and wages and benefits have generally stagnated through the 1990s.

Company "C" is a mid-sized company experiencing a dramatic decline in sales as the economic bubble of the 1990s burst. The only way to save the enterprise from liquidation is for employees, across the board from the top down, to take a significant pay cut, along with everyone else involved the firm from banks, suppliers, and investors. Working with a local bank willing to lend to an employee stock ownership plan (ESOP), and with the infusion of venture capital, the enterprise is reorganized and lives for another day. Despite that fact, our members are mad at the union for agreeing to, and even suggesting, pay cuts as a way to save the enterprise. After years of mistrust, misinformation, and bad decisions, the workers threaten to decertify the union now that they have an ownership stake and they think that management should answer to them.

John Logue and Jacquelyn Yates' book titled, THE REAL WORLD OF EMPLOYEE OWNERSHIP (2001), is a thorough study of the many varieties of issues that arise in the process of fundamentally transforming corporate ownership structures. The lens for their study is a relatively narrow one, in that virtually all of their data comes Ohio. Given the structure of Ohio's economy, one that has undergone tremendous upheaval since the late 1970s as it moved from an industrial powerhouse to the service economy, it is not surprising that much of the data comes from type "B" and "C" companies. The book could have been called, "Saving Industrial America through Employee Ownership." I have no problem with that, but many readers who are looking for "the real world of employee ownership" outside of manufacturing may not care.

The core of the book revolves around a detailed series of surveys of employee owned companies in Ohio. Matching the survey results with data on firm performance allowed the authors to make a comprehensive study of the impact ownership structure has on firm performance and the attitudes, beliefs, and expectations of employees and managers in employee owned firms. The data comes from two waves, the first a survey conducted in 1992-1993 and the second from IRS Form 5500 filings for 1993-4. *See*, Heather Cross, *Results of the 1992-93 Ohio ESOP Survey, found in*, Logue and Yates, app. 2; Internal Revenue Service, *Form 5500 Filings* (1993-94), *available at*, www.larkspurdata.com. As such, the data provides a snapshot in time—a time that captures the pre-1990s boom. In addition to a wealth of survey and performance data, the authors have over twenty years of experience in working with enterprises that may use employee ownership as a means to gain competitive advantage. This latter fact, the authors' "real" experience, is the main advantage they bring to the reader.

I did not find the survey results or analysis of firm performance as compelling evidence that a new model of corporate governance is upon us. Indeed, in the thirty years since legislation was passed that gave employee stock ownership plans preferential tax treatment, the boom in ESOPs that occurred in the 1980s has slowed dramatically. As the Company "A" example demonstrates, employee ownership did not usher in an age of transformed labor-management relationships.

Why not? Logue and Yates clearly and persuasively advocate for comprehensive application of an approach to corporate and workplace governance that goes beyond merely providing an additional benefit plan that most ESOPs appear to be. Citing both their own research and that of a 1985 General Accounting Office study that ESOPs with active participation, including advanced communications and decision-making, have a clear, positive impact on firm performance. *See*, General Accounting Office, INITIAL RESULTS OF A SURVEY ON EMPLOYEE STOCK OWNERSHIP PLANS AND INFORMATION ON RELATED ECONOMIC TRENDS (1985). For all others, the impact on firm performance is indeterminate.

At the end of the day, as a practical matter, transforming work relations is a lot harder than adding in a new benefit plan, even if that benefit plan involves devolving ownership to employees. If there is a weakness in Logue and Yates' book it is in not focusing attention on the "real" struggles to achieve workplace transformation. I remain skeptical that employee ownership is the means through which such a transformation can take place. As a tool to save jobs, and to improve work performance, employee ownership has a place. Used creatively it can add another lever to help enterprises, particularly small and midsized industrial firms, remain in business.

To their credit, Logue and Yates provide a detailed view of employee ownership and advocate persuasively that government policy, at both the state and federal levels, need to do more to encourage innovation and to look at ESOPs as a way to stabilize declining sectors and strengthen the overall economy. With the ongoing scandals in corporate America that began with Enron in the fall of 2001, *see, e.g.*, Richard A. Oppell Jr. & Andrew Ross, *Enron's Collapse: The Overview; Enron Collapses as Suitor Cancels Plans for Merger*, N.Y. TIMES, Nov. 29, 2001, at A1, through the demise of Global Crossing, World Com, and others in 2002, *see, e.g.*, Simon Romero, *Talks Collapse on $750 Million Takeover Global Crossing*, N.Y. TIMES, May 26, 2002, Sec. 1, at 19; Simon Romero & Riva D. Atlas, *Worldcom's Collapse: The Overview; Worldcom Files for Bankruptcy; Largest U.S. Case*, N.Y. TIMES, Nov. 29, 2001, at A1, the image of CEOs of big companies as icons to that of criminals. Despite the daily headlines and steady drumbeat of new accounting woes, and with it the largest decline in publicly traded equities since the 1930s, very little attention to the structure of ownership and the system of corporate control has entered the public debate.

While Logue and Yates argue that ESOPs would fundamentally transform companies to being more democratic, and as a result more accountable to employees and shareholders alike, that message has not taken root in the public debate. Perhaps the reason for this is the fact that there are not too many high profile employee owned firms that serve as examples for better corporate governance. Without transforming labor relations, from the traditional adversarial, command and control system that prevails in most workplaces, there is little hope that expanding ESOPs will have anything more than a marginal impact on how American companies are run.

Logue and Yates do offer up some helpful ideas for public policy initiatives to address these shortcomings. By mandating democratic controls, employees can exercise more "voice" in shaping the strategic direction of the firm for which they work. I would add the need for enforcing existing labor law to truly allow employees to choose a representative for the purpose of collective bargaining, and expansion of shareholder rights to ensure that employees get to fully vote their shares and to have such votes be binding on management. The current system of proxy voting, and trustee voting of unallocated shares in an ESOP or savings plan, diminishes employee voice and leads to the rise in apathy and cynicism so apparent in many companies today.

As a union representative this dual role of employee representative and protector of shareholder value does lead to conflict from time to time. Indeed, it's fair to ask the question of the union's role in representing employees in a firm that they own: aren't the employees bargaining with themselves in such a situation? While Logue and Yates are sensitive to these issues, and have worked with many union-led employee buyouts, the answers remain engulfed in a system that does not encourage managers to give up control, or for unions to take responsibility for running profitable firms.

This is an excellent book for those interested in employee ownership, both from practical and scholarly points of view. At the end of the day, for me as both a practitioner and someone who tries to keep up with scholarly material, I am unconvinced that employee ownership will transform corporate governance, even with the policy prescriptions laid out by Logue and Yates. Until workplace governance becomes more equal, with management seen as an essential function not a privileged class, and with employees and their organizations demanding a say in how companies are run, we are likely to see more flight from manufacturing and increasing inequality in the service sector between those with essential skills and those who perform routine tasks. Despite their excellent effort in THE REAL WORLD OF EMPLOYEE OWNERSHIP, and in real life, Logue and Yates will have to wait for a true transformation in the way work is organized and companies run.