TIME ARCHIVE
1923 to the Present

Time Bonus Section

We're All the Boss

Giving workers stock helps a firm only if it also gives them a say in how the place is run

By LAIRD HARRISON

Monday, Apr. 8, 2002

When a machine operator left W.L. Gore last year, the human-resources department naturally began looking for a replacement. Then before anyone got as far as posting a want ad, the man's former team members met and figured out how they could make do with one less body. They would have to work harder without more pay, but they wanted to do what was best for the enterprise. "That doesn't happen at other companies," says human-resources associate Sonia Dunbar, 43. "It's the beauty of Gore."

The cooperative spirit at this company--maker of the Gore-Tex waterproof fabric found in all sorts of outdoor clothing--arises from a unique structure with no fixed hierarchy, few titles and no formal job descriptions. Any "associate" (the company doesn't use the word employee) can speak directly to any other without going through a chain of command. And together the 6,000 associates own the company. Sound like pie in the sky? The system has worked superbly for 44 years. Despite the recession last year, sales at Gore, based in Newark, Del., reached $1.4 billion, up from $1.3 billion in 2000.

After extending their reach from only a few thousand Americans 30 years ago to about 20 million today, employee-ownership plans have fallen in public esteem. The allure of stock options has faded along with the dotcoms that made them sexy. Enron's collapse has shown the danger of workers' betting their retirement savings on their employer's stock. And tension between unions and management at struggling United Airlines has called into question what anyone gained when workers bought a majority of shares in the company eight years ago. Worried, Congress is weighing bills that would limit how companies can give their workers stock.

But the people at successful employee-owned companies want the world to know there are many ways to make workers into owners--and knowing which ways work is crucial. "We're very concerned that people understand the whole story," says Bill Roper, 55, chief financial officer of SAIC, a worker-owned engineering company in San Diego that just posted its 33rd consecutive year of growing sales.

The theory behind employee-ownership programs is that they will transform workers from clock punchers to partners who will be motivated to better serve customers and make things run more efficiently. At the most successful worker-owned firms, the theory is pretty close to the reality. "Nobody's afraid to jump in," says Louise Brown, 46, a 25-year Gore veteran who handles customer complaints. "Whatever you need to get the job done, people are always ready to do it."

On average, worker-owned companies survive longer, lose fewer workers, enjoy bigger profits and are more productive than their non-employee-owned competitors, says Rutgers University economist Douglas Kruse, who compiled data from more than 30 studies of worker-owned firms. Employees at these firms earn higher wages and better benefits. And they get a crack at big money if the stock takes off.

What goes up can also crash, of course, but the best worker-owned companies have already taken that into consideration. At W.L. Gore, the 401(k) contains no Gore stock. The workers hold those shares through a separate plan.

What's even more important to the success of employee-owned companies, says Jack Stack, 53, CEO of Springfield Remanufacturing in Springfield, Mo., is openness of information and decision making. Springfield Remanufacturing started in 1983 when 13 supervisors took on heavy debt to buy a division of International Harvester that rebuilt big-vehicle engines. Stack argued that the company's only chance was for every worker to have a stake in its success and understand its finances.

Employees got shares of stock worth a dime apiece. And every week Stack held "huddles" in which everyone from top managers to janitors pored over financial data. Those who couldn't read the data got training. That helped them make day-to-day decisions such as whether a mechanic should repair an engine's connecting rod or install a new one. He could compare his wage, $26 an hour, with the cost of a new rod, $45, and determine that it was worth repairing the old one only if he could do it in 90 minutes or less. "It's about truly understanding the business," says Stack, the author of two management books. Within three years of its founding, Springfield Remanufacturing was turning a profit, and today its stock is worth $13.60 a share--82% of it owned by the workers.

As at Stack's firm, each worker at Gore enjoys broad discretion to make minor decisions. Bigger ones--hiring and firing, setting compensation--are made by committees whose members constantly shift with the demands of the business. Anyone can start a new project simply by persuading enough people to go along with the idea. Even Bob Gore, 64, chairman and son of the founders, has his compensation set by a committee.

The arrangement has its costs. Above all, workers are forced to devote a lot of time to building relationships. Says process technology manager Michael Jones, 45: "At a traditional company, you have one boss to please. Here, you have everyone to please." And few companies go so far; most of the 3,500 or so American firms in which workers own a majority of the stock are organized as conventional hierarchies. But evidence is growing that the most successful firms are those that find some consistent way of empowering workers.

A 1993 survey of 188 companies conducted by the Washington State Office of Trade and Economic Development found that employee-owned firms grew no faster than conventional companies unless they gave workers a voice in management. Likewise, broader sharing of information and authority with workers didn't boost growth unless that was combined with ownership. But firms that put the three together grew about 12% faster than their competitors.

To see the difference between merely giving stock and letting workers shape their destiny, look at the airline industry. In return for lower wages in 1994, United Airlines pilots and mechanics got more than half the company's stock. But life inside the cockpit and at loading ramps barely changed. By contrast, Southwest Airlines employees own only about 11% of the company's stock, but the company works to encourage and implement workers' suggestions, in part through town hall-style forums with top management. While there are other important differences between the carriers, workplace culture is a big reason United posted record losses last year while Southwest made a healthy profit--as it has for 29 years.

Corey Rosen, executive director of the National Center for Employee Ownership, says workers "don't necessarily have to have a vote on the board. What's really important is to have an influence on the way you do your day-to-day job." In exchange for that little bit of power and a stake in using it well, most workers will do whatever they can for their company.