

## The Rise and Fall of Saturn

In the 1980s, some labor leaders and their management counterparts in highly unionized firms could see this picture unfolding and began searching for new directions in labor-management relations. Progressive labor leaders such as UAW vice-president Don Ephlin and his corporate counterpart at GM, Al Warren, fostered a series of innovations that laid the foundation for the spread of new work systems. As we will see, these new ways of working (new for the 1980s) are still source of debate today. In fact we see them as critical to building a successful knowledge based economy and creating and sustaining good jobs for the next generation. In short, what some call “high road” or “high performance work systems” are essential to building a new Social Contract that works for all key parties—employers, employees, and the economy and society.

If this is so, you might ask a very good, hard question: Why don’t all firms simply embrace and put these “high performance work systems” in place?

Perhaps the best way to answer this question and to convey the lessons from these new systems of work that Ephlin, Warren, and other visionary leaders like them championed is to tell the story of the rise and fall of the Saturn Corporation.<sup>1</sup>

If you drive through the hills of middle Tennessee on I-65 about 40 miles south of Nashville you’ll encounter a curious exit for the Saturn Parkway. And if you venture to see where it goes, eventually a large industrial complex will appear at another exit, to the Donald F. Ephlin Parkway. You will have arrived at the old Saturn Corporation location—a historical landmark of what was supposed to be the test site for a new model of labor-management relations for GM and perhaps for the nation. Our research group worked closely with the UAW and the major auto companies before, during, and after Saturn’s creation and years of operation. This story is based on our research and personal experiences with the key players who drove and opposed these innovations.<sup>2</sup>

The Saturn story actually starts with Don Ephlin’s predecessor and mentor in the UAW, Irving Bluestone. Bluestone was among the first of America’s labor leaders to embrace the idea that front line workers should have a voice in improving quality and productivity and the way they do their jobs. He

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<sup>1</sup> If you prefer to see a video summarizing the history of Saturn rather than reading through this text, check out “Whatever Happened to Saturn,” Merrimac Films, 2008. You can the complete video find it on our website, <http://speakupforwork.com>.

<sup>2</sup> For our work on Saturn, see Saul Rubinstein and Thomas Kochan, *Learning from Saturn: A Look at the Boldest Experiment in Corporate Governance and Employee Relations* (Ithaca, N.Y.: Cornell University/ILR Press, 2001). See also Harry C. Katz, *Shifting Gears* (Cambridge, Mass.: MIT Press, 1984). For another study of Saturn, see Barry Bluestone and Irving Bluestone, *Negotiating the Future: A Labor Perspective on American Business* (New York: Basic Books, 1992).

initiated what came to be called Quality of Work Life (QWL) experiments in a number of General Motors plants in the 1970s and negotiated with his GM counterpart to insert language that sanctioned these experiments into the UAW-GM national collective bargaining agreement in 1979. When Ephlin, Bluestone's second in command, shifted over to head up the Ford Motor division of the UAW, he carried this idea with him. That shift came just in time, because in 1982 Ford was having a near-death experience and its UAW contract was up for renegotiation. Ephlin and his Ford management counterparts Peter Pestillo and Ernie Savoy reached a landmark agreement that many believe saved Ford from bankruptcy and put it on a course toward making quality Job 1 and making labor-management collaboration a feature that decades later would keep the company from requiring a government bailout to stay alive.<sup>3</sup>

The agreement called for employee and union engagement in quality and productivity improvements, new investments in a jointly run union-management training program, and guarantees of employment security through a period of restructuring and staff reductions.

In 1983, Don Ephlin lost his bid for the presidency of the UAW by one vote on the union's executive board. The outgoing UAW president, Doug Fraser, later confided to me that the worst mistake he ever made was to not find that one additional vote for Don. If he had, the future of the union and indeed the future of the American auto industry would have been very different. It might just have avoided the downward spiral that ended in bankruptcy and bailouts for GM and Chrysler.

But now back to Saturn. The consolation prize for losing the election bid was that Don would take over the UAW's GM division. No sooner had he done so than another crisis ensued: GM told him it could not produce small cars competitively using UAW workers in the United State and would have to outsource all future small car models to some lower-cost country.

Don's response was to say: Let's see if we can do the job. He and his GM counterpart created a Committee of 99 composed of engineers, accountants, mechanics, assembly-line workers, and other specialists to study the world's best practices in work systems, labor relations, and corporate strategies and structures. The result was a decision to create Saturn as "a new kind of company and a new kind of car."

In the Committee of 99's proposal, Saturn would create a union management partnership from the bottom to the top of the organization. Gone would be the detailed jobs classifications and complex work rules that dominated traditional plants. Instead, the Saturn labor agreement would be only twenty-eight pages long. UAW wages and benefits would be achieved, but in a different way: workers' pay packets would be comprised of a combination of standard wages, production bonuses, and profit sharing. Workers would assemble cars in teams jointly led by UAW and management representatives

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<sup>3</sup> See Joel Cutcher-Gershenfeld, Dan Brooks, and Marty Mulloy, *Valuing Work: Principles Driving the Ford-UAW Transformation*, Cambridge: MIT Press, 2014.

and the UAW would have co-management responsibilities across all management functions from manufacturing to sales to product development and from the shop floor to the CEO's office.

This radical departure from UAW and GM management traditions was hotly debated, both within these organizations and across the country. But its critics were silenced early on when Saturn was well received by its customers. It achieved the highest quality and customer satisfaction ratings of any American-made automobile. Only Lexus and Infiniti, luxury vehicles that cost twice as much as a Saturn, received higher customer ratings.

But the resentment of traditionalists within both the UAW and GM led to Saturn's downfall. First, they cut back on the investment dollars that had been built into the original business plan for scaling Saturn up to the level needed to be sustainable and profitable for the long run. Then they debated for over three years over whether to approve funding for second-generation models as the initial ones approached the end of their product cycle. By this time, the president of the UAW was Steve Yokich, a union traditionalist of the highest order who opposed the ideas of employee participation and collaboration with management his predecessors Bluestone and Ephlin had championed. As a result, Saturn's sales began a long slide downward. (See Box 3-1 for vignettes that further illustrating why Saturn was doomed.) By the time Saturn's product line was finally refreshed with a popular and high-quality SUV and a new but less-well-received sedan, the die was cast. Employee morale at Saturn had plummeted along with productivity. Basic math ruled: If you maintain employment security when demand for your product declines, average cost per product goes up and profits turn to losses.

Internal leadership rivalries erupted and Saturn lingered on life support until GM gave up and closed it down as part of its restructuring during the government bailout process in 2008.

#### **Box 4-1 The Leaders Who Doomed Saturn**

Three vignettes illustrate Saturn's downfall:

1. When my coauthor Saul Rubinstein and I finally got an "audience" with GM CEO Richard Wagoner to get his views on Saturn, we were astounded to learn how little he knew about how Saturn worked. We asked him, for example, "What do you think about having UAW representatives as co-leaders of the work teams at Saturn?" his answer was "Really, is that what they do there?" We were on the one hand amazed and on the other startled to learn how little he knew about the organization he was abandoning.
2. When we briefed several GM executives on the results of our work at Saturn in preparation for sharing the results with a larger group of GM managers, one executive said: "Can you just not tell them these results come from Saturn? They will close their ears to anything that comes from there. The reality is that people at Ford have learned more from Saturn than we have."

3. In 1995, while sharing a car ride to the airport from a meeting in Washington with UAW president Steve Yokich, I got an earful about why he would never allocate another nickel to Saturn: Among his other comments was that “it’s not the f\_\_\_\_\_ kind of union I come from and not the kind we want associated with the UAW.” The rest is history. The membership of the UAW, once a union of 1.5 million, is now down to 390,000.

Saturn was by no means alone in its innovations, nor did it fail to influence other union and management leaders to be similarly innovative. Across almost all industries, from steel to telecommunications to airlines, similar smaller-scale innovations in worker participation and labor-management collaboration played out in the 1980s and 1990s. Crisis did indeed spur innovation. Some endure today. The most notable and largest in scale, impact, and durability is an ambitious labor and management partnership between the health care giant Kaiser Permanente and the coalition of unions representing the majority of Kaiser employees (see Box 3-2).<sup>4</sup>

#### **Box 4-2 The Kaiser Permanente Labor-Management Partnership**

In 1997 the CEO of Kaiser Permanente (KP), the president of the AFL-CIO, and leaders of the coalition of the unions representing employees at KP created what was to become the largest, most long-standing, and most innovative labor-management partnership in the nation’s history.

Over its first decade, the partnership helped turn around Kaiser Permanente’s financial performance, built and sustained a record of labor peace, and demonstrated the value of using interest-based processes to negotiate national labor agreements and to resolve problems on a day-to-day basis. Among its most significant achievements included negotiation of a system-wide employment and income security agreement for managing through organizational restructurings. This agreement provided the framework to support the introduction of electronic medical records technology on a scale that has made Kaiser Permanente a national leader in this area. In 2005 negotiations, the parties committed to bringing partnership principles more fully to bear on the front-lines through use of unit-based teams (UBTs) to support continuous improvement in health care delivery and performance.

In the past five years the parties have achieved significant progress in integrating the partnership into the standard operating model for delivering health care by expanding UBTs throughout the organization and demonstrating that high-performing teams that engage employees contribute significantly to improving health care quality and service, reducing workplace injuries, improving attendance rates, and achieving high levels of employee satisfaction with KP as a place to work and a place to get health care. As a result, Kaiser Permanente is now one of the nation’s leaders in use of front line teams to improve health care delivery.

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<sup>4</sup> Thomas Kochan, Adrienne Eaton, Robert McKersie, and Paul Adler, *Healing Together: The Labor-Management Partnership at Kaiser Permanente* (Ithaca, N.Y.: Cornell University/ILR Press, 2009).

Source: Thomas Kochan, "The Kaiser Permanente Labor Management Partnership: 2009-2013," <http://mitsloan.mit.edu/group/template/docs/iwer/FINAL-KPreport130947.pdf>.

But these innovative examples did not spread across other industries and have had a hard time surviving for two key reasons. First, labor leaders couldn't (and some still haven't) made up their minds on whether to support and champion the new approach or stay committed to the twentieth-century model that has led to their downfall. I participated in two top-level AFL-CIO "Future of Work" study groups and in a Clinton administration Commission on the Future of Labor Management Relations and watched in dismay as advocates for promoting new ideas, including Tom Donahue, secretary-treasurer of the AFL-CIO, and Lynn Williams, president of the United Steelworkers, were unable to convince enough of the traditionalist leaders to chart a new direction. Instead, the labor movement remained ambivalent—not opposed to collaborative methods if a leader wanted to pursue this option but not willing to get out in front and champion a new approach for all workers and their unions.

*This is a lesson for the future: Workers need labor organizations that are unambiguous champions for innovation. Ambivalence or institutional inertia will lead to further union decline and alienation of young workers and the public. Experiments with totally new models like the one that developed at Saturn can demonstrate and test new approaches. The key, however, is to learn from the new model(s) and then devise ways to support and spread them across the work force.*

The same ambivalence and internal divisions are present in management circles. While scores of management tracts encourage executives to support human resources as their most important asset, this has not kept firms from holding down wages, cutting benefits, and resorting to layoffs as ways to boost a company's bottom-line numbers. Not surprisingly, in the absence of a shared consensus on a new approach, traditional cost-control employee relations has continued to dominate. Organizations such as Kaiser Permanente are still the exceptional cases.

But the seeds of an alternative business and labor model were planted through these experiments, just as local and state government experimentation planted the seeds for innovations in the 1980s. Out of Saturn came the Kaiser Permanente Labor Management Partnership. Out of QWL and work teams came the high-performance work systems we will discuss in more detail in the next reading.

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