

*Full Length Research Paper*

# Employee ownership and management: The case of Kardemir iron and steel mill industry

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**The information which was obtained through in-depth interviews with several informants on the general evaluation of the Kardemir privatization indicate that, whether or not Kardemir was introduced as a permanently successful model, its success was realistic at least until the year 2001, notwithstanding the fact that the present state of affairs seems to run counter to the general logic of labor unionism. The article then argues for a research agenda to re-examine and revise the ways that can make the employee ownership process more successful in the light of ongoing changes in employment relations at Kardemir Industry, Turkey.**

**Key words:** Employee ownership, labor union-privatization, industrial democracy.

## INTRODUCTION

The privatization, and/or the closure of unprofitable public enterprises had always been a perennial item on the economic agenda of Turkish governments since the early 1980s. Obviously most employee buyouts occur when a company is in severe economic difficulty or failing. Yet worker ownership is very much in the news as many organizations pursue it as a strategy for ensuring organizational survival. The realization of economic democracy through workers' participation in management has been widely discussed in practice and theory (Toscano, 1981). And in Turkey in the past, there have been participatory practices based either on the employer's initiative or applied under collective agreements. In fact, preparations for the contemplated sale of state assets had already led to far-reaching changes in industrial relations and employment practices in the State Economic Enterprises (SEEs) of Turkey. But, for the first time in Turkey, Karabuk Iron and Steel Factories (now called as Kardemir) were privatized by selling more than half of the corporation shares to employees. Thus, a new kind of privatization in which the employees become the owners was created in Turkey since the labor union Özçelik-İş<sup>1</sup> (Union Steel's Business of Turkey) experienced an active participation in its administration

for the first time, both in the process and after the process.

Naturally, the shift of an enterprise from the public to private sector results in radical changes in its administration and labor and industrial relations practices. Employer-employee relations, union activity and collective bargaining traditions, working conditions, wages and career systems are exposed to radical alterations. Dereli (2006) reported in fact, privatization creates diverse consequences in the enterprises where the employees also become the owners. As a result, employees and their organizations turn out to be the most affected parties in the process (Ersoz et al., 2002; Yeldan, 2002). In Kardemir the union which was active in the privatization of the enterprise had undertaken a significant role in designating representatives to the administration of the enterprise. Labor unions in Turkey are as a matter of principle against privatization; and they had already witnessed a decline in their membership even as a result of preparations for privatization (for example, H. Ersoz, Labor and Social Security Ministry of Turkey, under-secretary assistant, personal communication). Wyatt (2010) remarked as they generally view privatization as a move to weaken and ultimately to destroy the labor

movement. In the Kardemir case worker ownership was used as a tool to decrease the social adverse effects of privatization and pursue a certain strategy to ensure organizational survival, whereas labor unions had favored only the restructuring of the SEEs through delegation of increased autonomy to professional managers. This skepticism has focused on whether employee ownership is feasible and whether it really serves workers' interests.

Employees may directly buy shares in the company as bonus given to them or shares in any profit-sharing method of employee's participation system. Survey of the major studies in the field of employees' participation as shareholders shows that this can occur in several ways. For example, first, in the form of company shares, the subsequent payments have to be made through the provision of the loan closing upon receipt of securities and establishment of hedging transactions (Demirkan, 1999; Bradley, 1986). In the employee-owned company, by contrast, the situation is a different one. Logue et al. (1998) stated that employees are co-owners with management, the owning family or the outside owners or - where the majority or all of the shares are owned by employees - they are the predominant or exclusive owners. Schalk and Rousseau (2001) cited Hammer and Stern (1980) and Pierce et al. (1991) reporting that workers' ownership of the firm does not automatically translate into greater participative decision making in worker cooperatives than in conventionally owned firms. Workers do not participate in firms' decision making process or inevitable to do so, when they are little financial knowledge. Bernstein (1979) denotes importance of financial knowledge but reports that although participation is greater when financial information is shared with investors and workers, how much information is transmitted depends on the intellectual level or level of business literacy workers possess. Thus, union members are both workers and owners; yet the managers manage them as employees and workers work under their supervision, in other words they are both employees and direct owners.

Under the employee ownership system in Karabuk, the enterprise was sold to the employees under special circumstances and the employees bought the enterprise by obtaining shares in return for their severance pay entitlements. Each employee was given the right to purchase shares depending on their wage levels and seniority. Study of Ersoz et al. (2002) pointed out that a 'joint privatization' was used in Kardemir where the shares were bought by the investors and employees in designated ratios (According to the concluded contract the designated ratio assigned 35% of shares to the employees of the company, 40% to local associations of manufacturers and small-scale retailers, 25% to local citizens). The outcome was an appropriate combination of internal buyers where the enterprise was bought by the managers and employees of the enterprise as well as by the external agents from the private sector that obtained the enterprise ownership from the state. In Kardemir, the

employees were the major partners of the enterprise; they owned the sizable part of the shares and consequently employee representatives constituted the dominant number of members in the executive committee (Yildirim, 1999). The most significant aspect of Kardemir process is that the employees hold a dominant position in the Executive Committee, meaning 4 of 7 members of the executive committee are employee representatives; 2 of the remaining 3 members represent industrialists and traders, and the last member represents the public and small-scale retailers as community. The representatives are elected by the shareholders in the general assembly of the enterprise. So far Kardemir is the only enterprise in Turkey which has such an organizational structure in its management (Gazette Cumhuriyet, 1999). And, the new company, Kardemir, has been operating with reasonable efficiency under the unions' control since then. The employees have thus achieved the opportunity to participate in the management at the highest level, thereby having undertaken the responsibility of administering this enterprise. However the workers do not have the proportional voting rights when compared to equity.

But it is interesting to note that a radical change has recently occurred in the management structure of Kardemir. Following the buy-out of the company's shares in March 2010 by three local families active in the steel industry, the four workers' representatives appointed by the union have lost their posts in the executive board (Gazette Vatan, 2010). Disillusioned by this allegedly collusive practice by the new owners of the company, Kardemir workers have begun joining the rival union, Turk Metal, was remarked by Kavlak Turk Metal Union Secretary General. Of the 2830 Kardemir employees, about 2000 have terminated their membership to the certified union, Çelik-İş and joined Turk Metal recently (Gazette İL, 2010). The new Kardemir management, fearing that Çelik-İş might lose its bargaining status, reacted by firing 29 workers and harassing many others. As a result, considerable unrest and even some violence followed while the official Capital Markets Board took the issue under scrutiny from a legal point of view. Turk Metal Secretary General has declared his union's determination to take legal action against the new management on grounds of alleged violation of the principles of freedom of association, which, in view of both the Trade Unions Act of Turkey and the Penal Code<sup>2</sup>, is punishable by heavy sanctions.

In light of these observations, the purpose of this article is to make an in-depth review of the Kardemir process, and to highlight the main questions that follow. It is argued that, since employee ownership is important for industrial democracy, the question of how an implementation based on workers' participation can be improved in order to be more successful in practice. The article briefly reviews why the enterprise had an important mission in the social, cultural and economic life of the region. This is important to understand why for workers employee

ownership may represent the only means by which they can keep their jobs in the face of a plant closure and why employee buyout of the weak, disorganized, and obsolete operations is significant. The relevant information obtained through interviews with informants about Kardemir is summarized next. The informants are namely a representative of metal employers' association signatory to the collective agreement, an academician in a project team who has done research on the privatization of Karabuk steel mill, now called Kardemir; a union leader who was active during the privatization process and an official of the rival union. By examining the current situation, it is hoped that the ways by which employee ownership can lead to success may be determined.

## METHODOLOGY

The methodology used in this study was driven mainly by the objectives of describing the process of privatization of Karabuk Iron and Steel Mill, first, as a successful model warding off the danger of a definitive shutdown, and then, secondly, assessing the changes in the management structure of the privatized company, Kardemir, and, thirdly, addressing the new challenges faced by this unique model following the buyout of the company's shares by three local families active in the community. The main goal was by making interviews to highlight the views of different stakeholders involved in the Kardemir experiment from their perspectives on a comparative basis.

The theme of improved employee relations has been a critical element in the company's survival under a new system where employees became both owners and workers thereby leading to the creation of an active spirit of labor-management cooperation. Notwithstanding this fact, the social cooperation has not prevented a radical change which occurred in the management of Kardemir; nothing could prevent the buyout of workers' shares by private entrepreneurs in a free market economy. But this new state of affairs did not negate the value of the experiment as a result of which Kardemir was saved from annihilation. But at present, the company's management structure and workers' involvement are subject to uncertainties.

The objectives of the study rendered the use of in-depth interviewing method a suitable one since privatization through workers' involvement had already been achieved; the goal now was to capture feedback or experiences of major stakeholders' representatives; but it was not possible to create as large sample of respondents because, as the present environment of legal action concerning the recent changes in ownership made it difficult to find more subjects willing to respond to the interview questions. In a sense of five respondents who were interviewed formed a sort of focus group with the exception that members of the group were not interviewed as a group under the leadership of a moderator. But here as in other focus group studies members were chosen on the basis of their experience and expertise in the topic on which information is sought.

The unstructured and spontaneous responses to open-ended questions are expected to reflect opinions, ideas and attitudes of group members about the process and problems of Kardemir privatization, providing fairly dependable data within a short timeframe. Naturally the data obtained by the interviewer (moderator) of this study provides only qualitative information. Also since the members are not selected scientifically on a sampling method, their opinions can not be considered to be truly representative of the population at large. The exploratory information thus obtained

can be used as a basis for further research.

To reach comparable results, the same methodology was followed with each respondent to the extent possible, (in terms of question formulation, emphasis placed, etc.). For the purpose of this study a sample of five people was considered to be feasible. All being expert participants, it included policy and decision makers, factory staff, board member, researcher and union member, leader. As members from the community did not feel comfortable sharing their opinions, -due to the presence of the three dominant families from the community who were instrumental buying shares recently-, no community representative could be included in the sample. Furthermore, the fact that the case was under judicial review made hard to find more informants willing to talk.

Community members were reluctant to disclose their feelings and attitudes, so were workers due to the fear of losing their jobs as well as to the uneasy situation owing to the rivalry between two contesting unions. Eventually the sample size turned out to be limited, but it included persons well-acquainted with the Kardemir process.

The respondents were actively involved in this study as insiders. They were namely a representative of metal industry employers' association (MESS) which was and is signatory to the collective agreement in force at Kardemir; an academician in a project team who has done research on the privatization of Karabuk steel and iron works, now called Kardemir; a union leader who was active in the privatization process, a member of the Board of Directors of Kardemir and also an official of the rival union; an official of the current authorized (certified) union; and official of the rival union.

In this survey where the goal was to gain detailed information on the processes as well as the outcomes of Kardemir privatization, interview appointments with the respondents were made through telephone contacts and interviews were conducted in their actual offices. Each interview took about one and a half hour. With the exception of same questions on matters unique to the position of the respondent, the same or similar questions were directed to group members in order to catch the whole picture from different perspectives or a comparative basis.

The limited number of respondents in the group made the completion of the interview phase relatively easy, given the limited time frame planned for this phase. Some interview questions sought to receive concrete data while others addressed mostly attitudinal or perceptual insights. An in-depth literature review over a month helped me to prepare the open-ended questions of the survey form. The form used in the survey was composed of 3 parts and centered on basic questions.

On the front of the survey form is a cover letter explaining the study. Part I involved questions aiming to acquire the basic information about the privatization stages of Karabuk Iron and Steel Mill and initial phases of employee ownership process of Kardemir. Part II covered questions on information relating to current stages employee ownership and Part III covered questions on information relating to how the system can go on accurately and the possible course of actions for the future. Interviews with participants took a month, but interpretation data and the preparation the paper also took over a month.

There is no statistical data analysis of study. The data obtained from the sample was reviewed and the article indicated the common points arrived at by doing a content analysis. By examining the situation, it is hoped that the ways by which employee ownership can lead to success may be determined.

## KARABUK IRON AND STEEL MILL

Karabuk steel work was established in 1937 at a strategically selected site, far away from the iron ore source (Sivas Divrigi) as well as from the coal centre of

the country (Zonguldak). The choice of location was politically motivated rather than economic. This enterprise has been the major factor in the development of Karabuk and the local area. While Karabuk was a village populated with less than 100 people, it has now become a complex industrial town with its socio-cultural facilities and a population of 100,000 people. The enterprise has been the most important source of income and employment for the town since its establishment. The economic life of the local area with a population of some 300,000 people depends on the existence of the company. It is still the largest employer in the area with its employees who number around 4000. The enterprise has been the first and fundamental foundation upon which the economic progress of the local area was achieved, covering the basic municipal services ranging from education to health care facilities, to constructing religious, social and cultural buildings and leisure facilities in Karabuk. When compared to the other settled areas which have a very long history, it became an industrial centre from a basically rural place and began providing income and employment to a sizable number of people. The company had before the sale become unprofitable however, having a declining product demand combined with obsolete equipment and plant layout. It also had a history of poor labor relations. Following the changeover the employees took a 20-30% wage cut and a reduction in benefits compared to those for similar work in other firms and accepted new work rules in exchange for ownership. The company was transferred to Kardemir Inc. by the block shares transfer process. The contract concluded on 30 March 1995 assigned 35 percent of shares to the employees of the company, 40% to local associations of manufacturers and small-scale retailers associations (Karabuk Association of Industry and Commerce and Association of Safranbolu Small-scale Retailers), 25% to local citizens and the retired employees of the enterprise, at a symbolic prize of 1 TL and was opened to capital market operations in 1997 (Gazette Hurriyet, 1996). As the company was transferred to employee ownership, an active spirit of cooperation was encouraged by emphasizing that the management and employees was the crew of the same ship. They had to do this to maintain their jobs and the company. Although Yildirim (1999) revealed in his study that some workers believed that "it would perhaps be better if the factory was closed down as people would be forced to look for alternative sources, but now everybody sees the mill as the only workplace." It is very difficult to construct an effective buyout when the viability of the business is in doubt. Unfortunately, for some workers, this is their only option other than unemployment.

### **Initial stages of employee ownership**

Following the transfer of Kardemir to workers' ownership,

the composition of the Board of Directors was as follows: workers' representatives (including some union representatives as well) had the dominant role at the initial stages where 4 board members represented the workers (Group A). 2 board members represented the chambers of commerce and industry (Group B); and one member represented the public (Group C, later abolished). The enterprise manager (CEO) was also part of the Board of Directors although he did not have voting rights in the decision-making process. All decisions concerning the present and future operations of the enterprise were taken by this 7-member Board of Directors. Workers' representation in the Board was at the ratio of 51.8% during that time. The board and A-Group shares in it were structured by the authorized union with the help of an experienced academician. This structure which was thus designed was consistent with the basic agreement of the corporation continued until the year 2001 (Annual Report of Kardemir, 2010). In the general congress of Kardemir in 2001, the union representative was also the chairman of the shareholders' congress. But, as stated by the president of the rival union, upon his resignation in 2001 workers lost their dominance in the management of the enterprise. Under present circumstances two local families have taken over the control of Kardemir's shares. Both families represent B-Group shares (chambers of commerce and industry). In the initial stages of the process, workers' representatives were appointed by the union, but they did not have voting rights. Voting rights are rarely provided to worker-owners, and when they are, the amount of stock owned by anyone employee provides little sense of ownership and consequently little influence. In these situations, employee ownership is valuable primarily as a corporate financing tool and not as a vehicle for union-management cooperation (Rosenthal et al., 1993). Union representatives would sit on the Board of Directors. As pointed out by the official of the rival union, an experienced person elected from amongst the Group A used to take part in the Board of Directors. Later, it was the union that appointed the union representative, as stated by member of the privatization project team.

In the case of workers come to have an ownership stake in the firm may not wish to participate in decisions that were previously the domain of managers. Klein and Hall (1988) report that the reaction arises from concerns over an increased workload, a lack of skills to make a decision and incompatible beliefs regarding in terms of the psychological contract with the employer. The direct interviews with the informants revealed that workers' participation at initial stages was of the advisory-consultative nature. Often in employee buyouts control is divorced from ownership, leaving the company employee-owned but not employee-controlled even though employees own a controlling share of the stock. In Kardemir, A-Group shares empowered the union through their dominant effect in the general congress, meaning

union administrators or representatives would at times be designated as board members. As stated by the rival union leader, Workers' Foundation did also have a role in the election of 4 board members to the board representing A-Group shares. But the academician in the project team mentioned above directed criticisms against the Kardemir model, alleging that the union had started behaving like an employer. But in fact, following the transfer of Kardemir to workers' ownership, management was represented by workers who were also the real decision makers; the union had an effective role in the decision-making process. The union provided a voice for workers in the employee-owned firm. Besides, it continued to perform functions in the traditional areas of collective bargaining-wages, hours and conditions of employment- as well as grievance procedures.

At the initial stages of the process workers' management had taken some effective measures on the operations of the organization according to the statement by the representative of metal employers' association. "Employee-owners often disagreed over how to use the company's financial resources, on such matters as awarding higher wages or greater dividends in the short term versus reinvesting in the company to ensure its long term success. Among these was the dismantling or restructuring of certain unproductive departments." In this process the management abolished the so-called 'non productivity premium' which was foreseen in the collective agreement aiming to distribute revenues also to workers employed in departments which had nothing to do with production. To do away with the existing idle and irrational production systems characterizing the public sector, the so-called 'temporary workers' positions' were abolished (Milli Gazete, 25 December 1998); other positions were reduced to normal levels. During the initial years of privatization, the union emphasized its auditing and supervising role and did not interfere with the management of the enterprise; the employees were represented by professional managers in the Executive Committee. Moreover, for a few years, the leaders of the union were involved as members of the Kardemir Executive. The representative of metal employers' association revealed in his speech that committee and performed both duties simultaneously, meaning that they retained their posts in the union as well, that is, representing employee interests while also administering the enterprise, two different functions apparently opposed to each other. The General Secretary of the certified union during the privatization and employee buyout stated that "there were no drawbacks in working both as a unionist and as a manager of the enterprise, emphasizing that they had even added clauses to the collective agreements that envisaged union officers to be a part of the administration", something that could not be realized in the past because of the attitudes of the employer. Thus Kardemir had become the first example in this endeavor.

Although no change has occurred in the types of

individual rights, one should note that there has been a proportional decrease in the amount of individual benefits. This decrease was due to the fact that in the first year after privatization there was no pay rise; the employees kept on working for the same amount of wages they were getting before privatization; and in the following collective bargains the pay raises achieved remained under the inflation rates for some years. Company shares turned out to be overvalued before long through being purchased in the capital market; when shares seemed to fetch reasonable prices, certain families began buying them out. Yildirim (1999) recalled that after the transition to employee ownership, the new management endeavored to instill a spirit of active cooperation into workers, emphasizing that the relations between management and labor should be behaving like they were all in the same boat. Management expects the workers not to oppose management and to become more cooperative, being attentive to the needs of the company.

In response to the question on the subject matter of participation by workers', the metal employers' association representative remarked: "Kardemir, affiliated with MESS (Metal Employer Association of Turkey) set out to negotiate the collective agreement in the second year after the privatization process; ironically the union representative acted here on behalf of both the labor union and the employer simultaneously. There was a clear conflict of interest and roles in the process. Besides, the financial situation of the company was not good at that time. According to the statement of the union leader who was active during the privatization process as follows, the company distributed profits to workers amounting to one month's wages for the first and last time in 1997. Main motive of Kardemir was to direct revenues first to investment and then to employees. But the company had to repay debts, owing for instance four bonuses to be paid to workers as well as severance payments to retiring employees. The company wanted to grant wage increases to employees while at the same time it was faced with raw material shortages. The result was to finalize collective bargaining with no wage increases; surplus labor had to be displaced and no profit sharing was possible. The representative of employers' association remarked that this was the general state of affairs at the initial stages. As these statements indicate, during the initial stages, the company had no profits. Any increase in share prices was diverted to distribution of profit rather than the payment of wages and salaries, as well as to repayment of certain indemnities and efforts aiming to strengthen the sports team of the company (Karabuk Sports Team). Kardemir had to face many challenges and incur losses. Additionally, the steel sector is quite vulnerable to crisis situations. During the 2001 crisis production cost of steel was 311.000 TL (Turkish Lira) whereas the sale price was only 260.000 TL, which showed the plight of the company. Another factor was the size of unreasonable amounts devoted to social

expenditures. Therefore workers were worried about the future of the enterprise. Thus, they were given almost no wage increases. They possessed company shares whose future values were unknown. And they began selling these shares to anyone who was happy to buy them at low prices. "This process brought the company to its present ailing state", said the as well as representative of the employers' association and the academician. The management could not take necessary measures to become efficient while also representing the union and it was reluctant to dismiss employers.

### Current state of employee ownership

Employees' share in the company was 51.8 per cent by the end of 1994 (Ersoz et al., 2002; Annual Report of Kardemir Inc., 1997). This meant workers had the control of the enterprise which also included other local groups. Presently workers' share has declined; the 7-member board is now controlled by three families although there still is one union representative (the representative of the metal employers' association, MESS, personal communication, 18 May 2010 and the academician, personal communication, 28 May 2010). Workers' ownership is only at a marginal level at present, as reported by the president of the rival union and an ex-union leader who was active during the privatization process. Statements by the president of the rival union, Turk Metal, personal communication, (02 May 2010) and ex-certified union leader personal communication, (05 June 2010) remarked "ironically three families who own 10.96% of the shares according to the company's financial report have taken complete control of management". They have participated in the general congress of the corporation with 27.4% of the shares. Karçel and Kardokmaksan Companies' families have used 79 million TL worth of shares in their election through the general congress, resulting in a loss for the company worth 23 million TL. The share of these two families is only 20% while in the present management they represent 40%. According to the view of the member of the research team during the privatization period, about the composition of the present Board of Directors, there are two persons representing workers or the union. Workers seem to have voting rights at the proportion of their representation but only through their representatives, meaning they cannot exercise voting rights in proportion to their shares.

The ex-union leader remarks that the chairman of the Board of Directors is appointed in essence by election, but one should note that in practice the person nominated by the strongest of the three families becomes the chairman. In view of the Security Exchange Commission legislation the chairman of the board must be a neutral (independent) person co-opted by the parties involved. But in this process dominated by the so-called families without the consent of workers and the public, a person

who does not meet the criterion of neutrality is appointed as the chairman, usually outside the knowledge of the union. The widely shared view also favors the election of an outsider neutral in compliance with the basic agreement of the company. "Managers should be professional experts, as was the case from the very beginning." As stated by the president of the rival union, "the professional manager must also be a person well grounded in capital markets." A different view favors the election of directors who represent capital, that those who own the capital shares must form the Board of Directors (the representative of the metal employers' association, MESS, personal communication, 18 May 2010 and the academician, personal communication, 28 May 2010). In the opinion of the employers' association representative, the present structure reflects this view, meaning the company has begun operating like a real, profit oriented economic entity. The same informant also believes that, though the union has made positive contributions initially, it is now the present management structure which is better able to manage the production processes. "The role of the union in the decision making process has now diminished and the enterprise has become profitable. Implementations by management must be through professional people. It is also useful to include one or two members from the outside to provide transparency." Presently there is no effective participation of workers in management. The union takes participation for granted as it is still active. The certified union Çelik-İş representative has been careful not to identify himself too closely with management for fear of being held responsible for incorrect decisions. He also reported that management required professional expertise; "it is none of our business to direct a company, as a labor union we are representing workers and their rights, not the management. Our place is to negotiate at the bargaining table."

Workers suffered losses following the year 2002 upon the transfer of shares. They lost some of their rights. Wage increases based on the collective agreement were not granted, as 42% of entitlements were frozen or withdrawn or suspended. With the joint action of Çelik-İş Union and company management, the company general manager was granted high rates of salary increase while workers' wages were cut by 42%. Workers were also denied any wage rise despite a declared profit of 256 million TL. In those lean years this was probably the correct decision, given the fact that employment levels would be maintained. In this process one thousand workers became entitled to retirement. Statement by the ex-union leader of currently certified union and the official of the rival union revealed that what the worker suffered most was his/her diminished purchasing power which in turn compelled him to sell his/her shares at the capital markets. The certified union as well as the interested parties were knew the changeover, but the union did not take any action to thwart the process. The process was visible, and the union could take over these shares by

engaging in transactions to buy and sell them. Informant and namely the academician who has done research on the Kardemir privatization stated that the union remained neutral to the process, and "workers who found themselves poorer showed only mild reactions, as they were the sellers in the last analysis." In fact workers were not enthusiastic or interested in taking part in management as they were displeased with the union's taking on the role of an employer. Economic crises were another factor obstructing the union from taking any efficient action to prevent the changeover (the representative of the metal employers' association, MESS, personal communication, 18 May 2010). But the attitudes of the rival union, Turk-Metal, towards this process were noteworthy. The rival union was instrumental in instigating a workers' campaign against the changeover. However, the company management supported Çelik-İş as the authorized union. During the inter-union rivalry the employer dismissed six workers on grounds of economic crisis. Allured by the disgruntled workers, Turk-Metal started an organizing campaign in the year 2010 (the president of the rival union, Turk Metal, personal communication, 02 May 2010).

In response to the question on the reaction of the new management to the inter-union rivalry at the enterprise after the changeover, the president of the rival union and the ex-union leader pointed out: "the employer still supports and favors Çelik-İş, the certified union which was active during the process. In addition to the dismissal of 29 workers, the new management put some employees on paid leave and showed its determination to keep the certified union at Kardemir as the competent labor organization by taking measures such as hiring new workers and organizing them as Çelik-İş members." Freedom of association means that workers should be free in their choice of a union, so employer's practice clearly violates the law. The employer began hiring new workers as 2010 of the 2680 unionizable workers joined the rival union, Turk Metal, by June 2010 (Call Gazette, 2010). But the employment of new workers by the management was somewhat a belated action, so it is not likely to affect the certification process which will confirm the bargaining rights of Turk Metal. In future actions, Turk Metal seems willing to strive to compensate for the lost rights of workers, aiming to prevent the misuses and injustices of the past and correct them in line with the requirements of the basic company agreement.

Concerning the question on possible measures that can be taken to keep the company under workers' control; the academician remarks that "this could be possible if certain conditions were set out at initial stages, like distributing share coupons upon retirement. But unfortunately shares were being traded off from the very beginning". The basic company agreement is like the constitution of the organization, but apparently the presence of such a basic text is not sufficient. There must be basic provisions like "golden shares" which cannot be

transferred in any case. And above all, the principle of honesty and fair dealing must be respected fully, as stated by the ex-union leader. Normally, the Board is established as a trust which is separate from the company that undertakes on behalf of the staff the management of shares allocated to employees (Salkinc et al., 2007). Each year part of the stock ownership fund is transferred to workers' accounts by the company according to shares or cash assistance based on working hours of workers, their wage levels and some other criteria, but the fund must pay attention to equal distribution of annual shares to workers who have the same seniority and engaged in similar work. Normally members of the account will hold these accumulated contributions in their accounts after retirement or after leaving work. Those assets are not within the scope of taxation (Bogetic, 1993).

The ex-union leader remarked on the question of the general evaluation of the Kardemir privatization and on how an implementation based on workers' participation can be successful: "Kardemir was introduced as a successful model to the world under the initiative of European Trade Union Confederation. This view was realistic until the year 2001. Workers had a sense of ownership over the Kardemir steel works. But the present state of affairs seems to run counter to the general logic of labor unionism. The recent change of ownership has materialized unfortunately with the cooperation of the union, Çelik-İş. The alleged violations of the company's basic agreement are likely to result in certain legal sanctions". "The parties involved in this process did not see the experiment as a long-run attempt of accumulating savings in the hands of workers. Ownership of capital underwent changes before it could spread to rank and file. There is not much chance for the success of this model in Turkey, as a few other examples have shown in the past. Fragmentation of unity in decision making is likely to lead to failures in business." pointed out the academician and the representative of the metal employers' association also.

On the question, "Could the system prove to be more successful if the shares were treated as retirement premiums or a severance pay fund?" answered the representative of metal employers' association: "such plans are future oriented; their benefits are protracted to an unknown future, whereas the worker perceives present values as more important than future uncertainties." But in any case Kardemir was a successful model by which the Karabuk steel works was saved from annihilation. The above-stated recent problems do not negate the validity of this experiment, pointed out the ex-union leader also. It can be used in future privatizations, provided that adequate measures are taken by considering the lessons learned from the Kardemir experiment. Employee ownership can be readily implemented in corporations whose capital is not opened to public (the academician, personal communication, 28 May 2010).

Workers' ownership was not new in Turkey since workers' investment plans were launched in the previous decades by Turkish guest workers employed in European countries, but they too had failed for similar reasons (the representative of the metal employers' association, MESS, personal communication, 18 May 2010). The amelioration of the present state of affairs is not very likely since it is not possible to redeem the shares. The technology of the enterprise is somewhat outdated. Informant and namely the academician who has done research on the Kardemir privatization remarked that at present representation of the union in the Board of Directors can be viewed as a success. If correct and rational decisions based on lessons learned from the recent past can be taken, the present, structure of Kardemir can survive into future with a reasonable degree of success, stated by the president of the rival union. "Under the present family-owned management which runs the company profitably according to business principles, all stakeholders must feel contented", was pointed out by the representative of the employers' association.

## DISCUSSION

This article has reviewed the employee ownership process which was put into practice in Kardemir. Survey of the major studies in the field of employees' participation as shareholders in Kardemir was examined. First, Yidirim's (1999) study had been referring to the initial years of privatization of the enterprise. The union had an active role in the managerial organization of Kardemir. Ersoz et al. (2002) stated in their study that as the company was transferred to privatization through employee ownership that had contributed to the protection of jobs and fundamental human and employment rights in Kardemir, strengthening the role of the union in the enterprise and changing the conflictual industrial relations environment to one based on cooperation. Naturally, the data obtained at the current study was not altering the general theme of the above studies but tried to examine the radical change that has occurred in the current structure of Kardemir. Then argued for an agenda to re-examine and revised the ways that can make the employee participation process successful.

The strength of the study was that it could give incredibly detailed review opinions, ideas and attitudes of group members who were all expert participants and were well-acquainted with Kardemir process.

Respondents were also more relaxed in which to collect information; they felt comfortable having a conversation about open ended questions. However there were a few limitations, thus generalizations about the results were not able to be made because of small samples were chosen and random sampling methods could not be used. Some conducted respondents were

reluctant to disclose their feelings and also some community members refused to talk about the case. The unstructured and spontaneous responses to open-ended questions are expected to reflect opinions, ideas and attitudes of group members.

The prevalent feeling was that stakeholders were declared as common point about the Kardemir case, was the dominance freedom of entrepreneurship in the creation of a new employee-owned and managed company. As a result of the combat, the trade union led buy-out of the Kardemir steel mill provides a positive example of how trade union intervention can help to address the adverse effects of privatization or the closure of publicly owned enterprises. Notwithstanding this fact, the social cooperation has not prevented a radical change which occurred in the management of Kardemir; nothing could prevent the buyout of workers' shares by private entrepreneurs in a free market economy, means that shape of partnership and portion of shares change hands time to time in accordance with nature of the process. But this new state of affairs did not negate the value of the experiment as a result of which Kardemir was saved from annihilation. In light of these developments, employee ownership is important for industrial democracy, the question of how an implementation based on employee participation can be improved in order to be more successful in practice for the others. Several participants strongly felt that "though the union has made positive contributions initially, it is now the present management structure which is able to manage the production process". The prevalent feeling one of the respondent was that "workers' ownership plans were launched in the previous decades had also failed for similar reasons; the employee ownership structure of Kardemir could not be survived with a success". But even if this happens, the initial Kardemir model of employee ownership will still qualify as a beneficial form of privatization which has eventually saved the company and the workers' jobs. Most participants agreed that the present structure of Kardemir can survive into future with a reasonable degree of success, if rational decisions based on lessons learned from the past can be taken. With these observations in mind, I would suggest that broader research is required to properly consider the various ways in which employee ownership can be successful, such as voting rights that are separate from equity accumulation, and an effective education and training process. Voting rights are the means by which employees exercise control over their equity. Companies should be strongly committed to employee ownership, treat employees as owners, and bring employees into company decision-making. Education and training should help employees at all levels to obtain the expertise necessary to function actively as employee-owners. The training should build job skills and participative skills while also expanding on the understanding of the business. When voting rights are maximized and separated from



equity accumulation and with continuous education and training, employees and the entity may optimize their chances for success. A positive union-management relationship has to be developed over time by working successfully together on cooperative activities. Employee ownership can provide opportunities and an incentive for the union and management to work together, but for this a structured process must be established. Finally, one should note that those running the company may not have the entrepreneurial capacity and managerial expertise they need. Employee ownership may enhance organizational effectiveness, but it is not a guarantee that a company will be a success in the marketplace. Often outside professionals must be hired to help in critical areas when the needed expertise is not available in the company.

### Conclusion

Employees' participation as shareholders has created diverse results in terms of employees and industrial relations in comparison to other types of privatization. The employees who become shareholders of the enterprise via privatization tend to become more effective in management through their organizations. In light of these developments, it must be recalled that both the organizational structure of management as well as the pioneering role of the union in the privatization process were effective means through which the union became influential on management. The prevalent feeling was that the most important factor in the process of creating Kardemir was the union. Notwithstanding the benefits that workers have gained from the privatisation of the steel works, there are ongoing challenges associated with the management of the steelworks. It was argued, the union was thought to be responsible both for the success and the failure of the enterprise. In particular, the lines between trade union representatives and management are not as clearly drawn as they were previously, as trade union officials may be required to fulfil functions related to both employee representation and management. However, the union continues to negotiate with management in relation to wages, hours and conditions of employment- as well as grievance procedures. If managed correctly, its dual function can provide workers on the shop floor with a stronger voice in relation to business and management issues.

It has been suggested that improved employee relations have been a critical element in the company's survival, helping to increase productivity and profits. Under the initial system after privatization, where employees are both owners and workers, an active spirit of labor-management cooperation has been encouraged, an attitude which positively influences day to day management and collective negotiations.

Kardemir has had some financial problems during 2001

and 2008 crises, but so far the company has proven robust enough to endure these situations. Another challenge is that, as the performance of Kardemir has progressed, there is the likelihood of employee shares to be purchased by outsiders in which case employee representatives may lose the control of company management. Following the buy-out of the company's shares in March 2010 by three community families active in the steel industry, the four workers' representatives appointed by the union have lost their posts in the executive board. According to this allegedly collusive practice of the new owners of the company and the certified union, Kardemir workers have begun joining the rival union, Türk Metal. Today, the whole process shows that it is not just a simple authorization race between rival unions at Kardemir. In the last six months prior to the authorization<sup>4</sup>, 300 workers who are working for a long time in Kardemir were fired. On the other hand, certified union was hired 1,200 new workers. According to press news, the number of workers to be dismissed is likely to equal the number of new recruits. Since those who are extracted from work are chosen from amongst the workers who are members of rival union Turk-Metal and the ones recently recruited are forced to join Çelik-İş even before they are hired, Çelik-İş with a membership of 2568 workers turned out to be the certified union, as opposed to Turk-Metal whose membership dropped to 1394 workers. Capital Markets Board of Turkey (CMB) is the regulatory and supervisory authority in charge of the securities markets in Turkey, took the issue under scrutiny from a legal point of view.

Employee ownership is one approach that union and management partners can take to improve organizational effectiveness, save jobs, and enhance the quality of work life. Financial success flows from organizational success. But organizational success means that stock ownership must also include a sense of job ownership. There is a lot of rhetoric concerning employee ownership; when it is tied to majority control of the stocks, it carries with it great opportunity and great risk. The key, as with other approaches is to pursue employee ownership jointly in a careful and organized fashion. By building on high-quality union-management cooperation at the equity, governance, managerial, and operational levels, significant success is possible.

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## Notes

<sup>1</sup>The union, Çelik-İş, amalgamated with another steel union in 1991 to form a new union with 90.000 members called Özçelik-İş.

<sup>2</sup>The Penal Code of Turkey No 5237 of 26 September 2004 brings penal sanctions which shall apply to those who, by using force or threats, obstruct the exercise of one's trade union rights, with the objective of compelling him to join or not to join a union, to participate or not to participate in union activities or forcing one to leave a post in union administration, ranging from a prison term of six months up to two years. The sanction to apply in the case of obstructing a union's activities shall be a prison term of one year up to three years (Article 118).

<sup>4</sup>Dual criteria for a union's authorization for collective bargaining in Turkey; the requirement that in order for a labor union to obtain authorization for collective bargaining at an establishment or enterprise, it must first represent at least 10 per cent of workers in the industry branch in which it has been established, and second, it must represent more than half of the workers at the establishment or enterprise concerned. The underlying motive was the creation of a neater union structure with fewer unions, so the authorization complications caused by the so-called "union inflation" could be eradicated.