

SAUL A. RUBINSTEIN
THOMAS A. KOCHAN

LEARNING FROM SATURN:

Possibilities for Corporate Governance and Employee Relations

ILR Press
an imprint of
CORNELL UNIVERSITY PRESS
ITHACA AND LONDON

What's at Stake Here?

The last two decades of the twentieth century will be recorded by business and labor historians as a time of tumultuous change and debate over two key issues: What goals should corporations serve, and how should the system of labor-management relations be reformed? Business historians will describe those years as ones in which shareholders and investors sought to reassert control over corporations to increase shareholder returns, while employees and other stakeholders sought a greater voice in the issues that affected their jobs and long-term economic security. At its core, this debate was about whether corporations should focus on and be held accountable solely for maximizing shareholder value or whether they should be conceived as more complex institutions accountable to multiple stakeholders.¹

Labor historians will mark the end of the twentieth century as the time when academics and practitioners debated whether the system of labor relations put in place in the 1930s as part of the New Deal had run its course. Collective bargaining, the cornerstone of that system, was under siege. Three different positions were staked out in this debate. Some believed labor-management relations needed to be transformed by introducing more flexible work systems and giving employees more say over how to do their jobs and in the strategic management decisions that shape the enterprise and long-term job security.² In the absence of these changes, collective bargaining coverage and effectiveness would continue to decline. Managers and union leaders who shared this view introduced a wide range of innovations. Some employers adopted an entirely different position by taking actions to

avoid any form of union representation. They intensified their opposition to unions and effectively kept them from organizing new work sites.³ Finally, some union leaders and researchers argued that collective bargaining would withstand its temporary setbacks and make a comeback, particularly if labor law was changed to neutralize management's opposition.⁴

Historians will also note that these debates over the corporation and labor relations systems were not resolved by the end of the century.⁵ So, as we enter the twenty-first century, the job of deciding the appropriate roles of shareholders and other stakeholders in corporate governance and the future of labor-management relations remains. In the years ahead, American managers, workers and their representatives, public policy makers, and ultimately the American public will need to decide what types of relationships between employees and managers and what forms of corporate governance are best suited to the needs of the economy and work force of this century.

To make effective choices, we need to learn from the experiments and innovations that emerged from the tumultuous environment of the 1980s and 1990s. This book examines the boldest and most far-reaching experiment in organizational form and labor-management relationship created in the last two decades: the Saturn Corporation. Saturn is unique because it embodies both a different model of organizational governance and a very different concept of labor-management relations. It therefore warrants a close look by those involved in both the debate over corporate governance and the debate over labor-management relations. Indeed, if the Saturn case does anything, it demonstrates that these two debates are inseparable and should be treated as one.

"A Different Kind of Company"

In 1983, General Motors Corporation (GM) and the United Auto Workers union (UAW) announced a bold new initiative: They would work together as partners to build a new small car in the United States using American suppliers and employing American workers represented by the UAW. This would truly fulfill the slogan "A Different Kind of Company and A Different Kind of Car." It was also to be a learning laboratory for the rest of GM as the company strived to regain market share and remake its image as the world's biggest and best automaker.

From 1992 to 1998, Saturn produced and marketed cars that achieved world-class quality and customer satisfaction unsurpassed by any other vehicle manufactured in the United States. Worldwide, only the Infiniti and the Lexus, two high-priced luxury cars selling for three to five times as much as the Saturn, received higher customer satisfaction ratings. On the surface, this proved to be a tremendous success for GM and the UAW, which finally demonstrated that the company and union could meet the challenge of international competition with world-class quality automobiles designed, sourced, and assembled domestically.

Yet, big concerns and uncertainties have clouded Saturn's future, and these prompt the questions: Has the Saturn experiment been successful? Is it seen as a failure, or perhaps a good idea for its time but irrelevant in the current industry environment? Was Saturn a "good investment" for GM? Is it profitable, and should it be expected to be profitable on its own? How was the remarkable quality performance achieved? Was Saturn a good idea for the UAW? How does its high level of participation in managerial affairs change the role of the union and its leaders? How should this union model fit into the strategy for the labor movement of the twenty-first century?

These questions are controversial and unresolved within GM's management and the UAW, and they are questions the American public cannot answer on the basis of public accounts and business press reports of Saturn's ups and downs. Still, they need to be answered, not only to set the record straight about Saturn but also to help us avoid reaching overly simplistic conclusions about what we can learn from Saturn.

To achieve world-class quality quickly—and in fact, exceed the levels achieved by its GM parent after only two years of production—Saturn used a new, locally designed manufacturing system that was built on self-directed teams and included the labor union as a full partner in business decisions. Its most unusual and controversial characteristic was the placement of hundreds of union representatives in the operations and staff management structure. Yet, over the years, Saturn's manufacturing organization in Spring Hill, Tennessee became increasingly isolated within the GM organization. Originally this was by design, because Saturn's creators believed it needed to be separated from the habits of its parents. Later, after its original champions had left GM and the UAW, Saturn's isolation continued not so much by conscious intent but because, as Saturn relished its image as "A Different Kind of Company and A Different Kind of Car," GM and the UAW national union turned their attention to their own bat-

tles and problems. Isolation and autonomy then were replaced by centralization, when GM sought to reintegrate Saturn's design and component sourcing decisions within the giant GM North American Operations Division as part of the overall corporate strategy for rationalizing its engineering design and sharing product platforms and components.

In 1996 GM, supported by the UAW's national leaders, decided to build the second-generation, somewhat larger and more upscale, Saturn model in GM's Wilmington, Delaware plant. From GM's and the UAW's viewpoint, this made sense because Wilmington was scheduled to close in a few years unless a new product was placed there. GM and the UAW went on, however, to build what was essentially a fire wall between Wilmington and Spring Hill. Few of the organizational and labor-management features of the original Saturn would be used in Wilmington, the car's design and engine would come from GM's German subsidiary, Opel; and sourcing of components would be done in a traditional GM fashion without union input. The labor-management system in the Wilmington Saturn plant would be covered under the national UAW-GM contract. The unions at Wilmington and Spring Hill were strongly discouraged and at times actively prevented from interacting with each other. Workers and union leaders at Spring Hill felt their future job security slipping away for lack of a product to replace Saturn's first model, lack of influence with GM and UAW decision makers, and lack of understanding and support for the lessons learned from the first generation of their unique partnership.

In the twenty-one months between April 1998 and December 1999, issues affecting the future of Saturn intensified. Saturn became a cauldron of conflict and change. In a series of rapid-fire developments,

- Union and company negotiators modified the risk-and-reward bonus system to try to reflect declining small-car sales and to realign the incentive formula to better reflect factors that workers and local officials could influence.
- The union issued a thirty-day strike notice—the first in its history—to create a deadline to force a decision over whether Spring Hill would get a second-generation product to build and to resolve continuing differences over the risk-and-reward formula.
- As part of the negotiated settlement, GM agreed to consider building a Saturn sport utility vehicle (SUV) in Spring Hill if the parties could make the case to produce it efficiently and profitably.

- GM appointed a new CEO for Saturn, Cynthia Trudell, a highly respected manager with significant experience leading manufacturing operations in Europe and North America, including a tour of duty at the Wilmington plant before it became part of Saturn.
- Rank-and-file union members at Spring Hill voted to replace the entire slate of incumbent union leaders with a team that promised to continue the partnership but to be more responsive to members' concerns.
- Rank-and-file union members at Wilmington voted to replace the shop chairwoman, who had vigorously opposed any form of labor-management partnership, with a leader committed to building an effective joint process.
- Saturn management and union representatives agreed on a plan for building the SUV that gained GM's approval and authorization of the needed capital.
- Saturn management and union leadership embarked on a joint study process to figure out how to renew and carry the partnership and the "Different Kind of Company and Car" spirit into its second generation.
- After the national negotiations between the UAW and GM, negotiations were held between the UAW and Saturn. Among the issues of concern raised were the risk-and-reward bonus system, election versus selection of union representatives, shift rotation, and the relationship to the national GM agreement.
- Although negotiations concluded with some modifications to the risk-and-reward formula and the addition of six elected union representatives, the basic Saturn agreement remained intact and was ratified by 89 percent.

Saturn is struggling to enter its second generation as an innovative organization with a successful track record and renewed determination and spirit. Significant challenges lie ahead, however. Unless all the parties at Saturn, GM, and the UAW learn from their first-generation experience and use these lessons to shape its future, Saturn may fail or, at a minimum, many of its distinctive features may erode and revert back to their traditional form.

We believe that would be a mistake and a sad result not only for GM, its workers and shareholders, and the UAW, but also for the nation. It would ensure that both the private and public returns on the investments made in

Saturn are never realized. As Lynn Williams, former president of the United Steelworkers, said, "It would be a terrible shame if Saturn fails—it would signal an enormous setback for efforts many of us have made to change the course of labor relations in America. We all have a stake in Saturn's success."

It is not too late to learn and act on the lessons to reposition Saturn for the next generation of its contributions to GM and the UAW. Nor is it too late for leaders in labor, business, and government to learn from Saturn and use these lessons to get on with the task of updating labor-management and corporate governance policies to better fit the needs of the economy and society of the twenty-first century.

To this end, our book is essentially an extended memo to everyone with a stake in Saturn. This includes, but goes well beyond, the employees and managers at Saturn and its GM and UAW parents. Saturn's customers and retailers bought the entire package—a different kind of company *and* a different kind of car. The American public, particularly those people concerned about the future of labor-management relations in the United States, has a big stake in learning from Saturn as well. As Williams pointed out, Saturn has been a beacon in an otherwise dark era for labor relations in America. When the company was created, it promised to serve as a learning laboratory for a new partnership model from which labor, management, and government policy makers might learn. The fact that its experience was controversial makes it no less important or valuable to learn the right lessons from this experience. Like most organizational innovations, Saturn's story is neither an unqualified success nor a complete failure. We need to assess its basic strengths and limitations as a model for the future of unions, labor-management relations, work organization, and corporate governance in America. That means looking at it openly, critically, and in depth. That's what we hope to do in this book.

We write as academics who have had the good fortune to work closely with labor and management leaders at Saturn since its inception. Our relationship dates to the early 1980s, when our industrial relations group at the Massachusetts Institute of Technology (MIT) was researching the tumultuous changes occurring in labor-management relations during that decade.⁶ In the process, we came to know Don Ephlin and Al Warren, leaders of the UAW and GM, respectively, who were the original champions and architects of Saturn. We shared their basic view that more participative and flexible approaches to labor relations were needed throughout the entire organization—from the shop floor to the inner workings of strategic decision making—to transform the American labor relations system. After

Saturn was launched, we were encouraged by its management and labor leaders—Saturn President Richard "Skip" LeFauve and Local Union President Mike Bennett—to track the Saturn experiences in order to provide an independent assessment of the successes and failures along the way and to create a record from which interested parties could learn. As our work at Spring Hill unfolded, we continued to serve as outside researchers, but from time to time we also became partners with labor and management in solving problems and designing training based on the results of our work.

Saul Rubinstein, while at MIT, wrote his Ph.D. dissertation on Saturn and spent countless hours on the shop floor and in meetings with key management and labor leaders, gathering data and, when opportunities arose, providing feedback on how to make their structures and processes work more effectively. When Saul took a faculty position at Rutgers University, we continued our collaboration with Saturn and hosted a series of training seminars and workshops for Saturn's leaders. At the invitation of LeFauve, we met with a group that called itself the "Saturn Alumni," GM managers who had worked for a time at Saturn and transferred back to GM, and analyzed what they learned from applying partnership principles back in the parent environment. In 1999 we were invited by the new management and union leaders at Spring Hill and Wilmington to facilitate a process whereby they could accelerate learning from Saturn's past, as well as increase learning from each other across organizational boundaries.

This, then, is the story of the company and the union as we have observed it over its first decade-and-a-half, and it draws out the lessons of this experience for the future of U.S. labor relations and the future of the American corporation. We explore what worked at Saturn, what didn't, and why it is so difficult to spread the real lessons of this unique experiment within its parent organizations and across American industry.

Confusing Debates

A New Labor Relations Model

Saturn represents the most radical experiment with a new labor relations model in the United States and, indeed, perhaps in the world. The traditional American labor relations model grew out of the laws passed as part of the New Deal in the 1930s and the large-scale corporate organizational forms that dominated American industry throughout most of

the twentieth century. By the early 1980s, however, it was becoming clear that this model no longer worked for either employers or workers and their unions. Management needed greater flexibility, more cooperation and involvement from the work force, and higher quality and productivity. Unions needed a new strategy for organizing workers (and especially needed to neutralize employer opposition to organizing), a new role and source of power, and access to the levels of management at which the key strategic decisions influencing worker welfare were being made. Moreover, workers were calling for a greater say in the decisions affecting their jobs and work environment and at the same time demanding more assurances of job security from their unions and their employers.

These pressures sparked a decade of conflict, struggle, and innovation in labor relations. No industry other than automaking and no company other than GM was more at the center of both the conflicts and the innovations.⁷ From 1973, beginning at its Tarrytown, New York assembly plant, GM began experimenting with quality of working life (QWL) off-line (away from the point of production) efforts to involve employees in problem-solving groups. From QWL, GM moved to experimentation with on-line (as part of the regular production process), self-directed work teams in plants such as its Pontiac Fiero facility and then its joint venture with Toyota—the New United Motors Manufacturing Inc. (NUMMI). Saturn followed these efforts and built on their successes and limitations. But Saturn went well beyond these innovations and designed its organizational and labor-management system from scratch. NUMMI and other earlier innovations in labor-management relations focused on changing practices and relations on the shop floor but kept intact the traditional principle that it was management's job to make the strategic and operational decisions. The designers of Saturn challenged this principle. Labor and management would work in partnership at all levels of the organization—from the shop floor to the highest levels of managerial decision making. As a result of this radical departure, Saturn presents a case study of an alternative and highly controversial labor relations model. Given the recognition that the traditional model no longer works, it is important that we draw the right lessons—the strengths and weaknesses—from experiences of the Saturn alternative.

A New Organizational Model

The organizational principles embedded in Saturn challenge fundamental doctrines guiding the legal structure and theory of the American

corporation. Saturn's original purposes, organizational design, governance structures, and internal processes embody the features many envision for a company that seeks to satisfy the goals of multiple stakeholders. In contrast, American companies are charged by law and structure with maximizing the interests of one set of stakeholders—the shareholders—over all others. Saturn, however, was set up with dual objectives—to make small cars profitably (and thus provide a return to GM shareholders) *and* to create (or retain) good jobs for American workers and UAW members. Its definition of good jobs included increased influence over important decisions. Moreover, as is seen in later chapters, Saturn's design reflects many of the principles others have argued are key to responding to the needs of other stakeholders as well, particularly retailers and suppliers. For example, from the beginning, Saturn treated its retailers (dealers) as partners by involving them in decision making and choosing a distribution strategy designed to produce above-average profits per car for the retailers. Similarly, by choosing a single-source supplier strategy rather than one in which multiple suppliers would continuously compete against each other on the basis of price, Saturn sought to build long-term partnerships with these stakeholders.

Today we hear calls from many quarters for firms to respond more directly to their shareholders and to other stakeholders. Indeed, shareholders and their agents became an increasing force in corporate decision making in the late 1980s and 1990s, demanding higher and more immediate returns on their investments.⁸ With respect to employees, there is a growing concern that the basic social contract at work has been broken by the downsizing, outsourcing, and restructuring firms have undergone in response to increased shareholder pressures, global competition, and changing technologies.⁹ We need to look at Saturn with an eye toward learning what might be done to manage the internal processes and external relationships of a firm that seeks to achieve a better balance of the needs and goals of multiple stakeholders. Ultimately, the question is this: Can such a firm survive in the U.S. environment, where maximizing shareholder value enjoys such a privileged status?

Saturn embodies many of the features organizational theorists have in mind when they describe a "networked organization."¹⁰ Networked organizations are expected to depart from traditional bureaucracies and hierarchies by relying more heavily on multiple horizontal communication links for coordination and problem solving. In traditional bureaucratic organizations, hierarchy and formal authority relationships are

expected to serve these coordination and communication functions. Networked organizations are expected to be especially effective in settings in which information is dispersed among multiple parties inside and outside the formal structure or organizational boundaries, and flexibility, adaptability, and problem solving among different groups or stakeholders are important. In these situations, networks add value to the organization by producing "social capital"—that is, the ability to get things done or help individuals solve problems by linking people who have the information and power needed to make things happen.¹¹

Saturn was not consciously designed to be a networked organization. Few organizations are. The ties needed to build informal communications networks tend to evolve when other conditions support them, such as when there are many social, political, or task-related opportunities that bring people together and produce new contacts, friendships, political coalitions, and reputations as good sources of information and expertise. At Saturn the partnership structures and processes that the union and the company put in place had exactly these unanticipated but positive consequences. If networked features are as important to the fast-paced economy of the future as many believe them to be, a close look at how Saturn evolved to become a highly networked organization is indeed warranted.

"A Different Kind of Union"

We make no bones about it. We believe in the need for strong, innovative, democratic unions in America. Yet America has allowed its labor movement to decline to the point at which the capacity of union leaders to be innovative and forward looking is subverted by the need to fight for survival. This must change, and the union at Saturn has lessons for the labor unions of the future. These ideas need to be debated within the labor movement and among policy makers and those in industry who share our view that a viable labor movement is an essential bulwark of a democratic society and an economy that aspires to achieve a broadly shared prosperity.¹² Unions, however, cannot meet their historic obligations to workers and society by clinging to or hoping for a return to what made them successful in the past. At Saturn, the local union has created its own dense social network that builds a broad base of leadership and participation, contributes to the performance of the enterprise, and derives bargaining power from its new role. Leaders and rank-and-file

members in this local union are developing the capacity to share in the problem solving, management, and governance of the enterprise—skills and capabilities we see as essential to securing workers' long-term careers in the new economy and adding value to their enterprises and the national economy. But carrying out these different roles generates a new set of internal tensions and conflicts in relations with the national union. The union at Saturn is a window on the issues that a different kind of union must confront and manage if the labor movement is to be revitalized to fulfill its historic functions for workers and society.

What Follows

In the chapters that follow, we provide the detailed information needed to make informed judgments about what to learn from this experiment in labor relations and organizational design. We start by placing Saturn in its proper historical perspective by tracing its organizing principles back to the vision of the legendary UAW leader Walter Reuther. Then we explore the inner workings of Saturn and the local union over their first generation of experience, focusing on the co-management process and on the unique features introduced by the local union in its attempts to balance its role in the partnership with its role on the shop floor. Then we turn to the challenges associated with managing the external boundaries between Saturn and its UAW and GM parents.

Finally, we draw on this information to suggest what we believe are the right lessons to learn from Saturn's first-generation experience and how these lessons can be applied beyond the organizational boundaries of GM and the UAW. Lessons from Saturn may have had limited success in penetrating the fortress-like walls of GM and the UAW. However, we can learn from Saturn's achievements and failures in our efforts to shape labor-management policy and transform the American corporation to achieve a better social contract among workers, customers, shareholders, and the broader society. Ultimately, these are the most important lessons that Saturn offers.

What Have We Learned?

The popular press loves to idolize successes, if only to set them up to later report their demise. Saturn is a good case in point. It was the darling of the business press in the mid-1990s. More recently, in the wake of its tough negotiations in 1998 and 1999, the turnover of union leaders, and the slumping demand for its products, many in the press have written off Saturn as another example of failed labor-management cooperation. We hope we have debunked this simplistic view of Saturn as an unmitigated success or failure and the popularly expressed reasons for its various ups and downs. If anything, the conflicts resolved in negotiations in the last several years and the turnover in union leadership have strengthened the partnership by demonstrating that the parties can face difficult issues and survive leadership transitions.

This is not to say that Saturn is not at risk. It does face difficult challenges that need to be addressed to successfully navigate the transition into its second generation. Thus, we will outline what leaders at Saturn, General Motors, and the United Auto Workers need to do if Saturn is to be sustained as a stakeholder, partnership-based organization. What we present here are views we have shared with these leaders, and judging from their reactions to date, views on which they are acting with considerable vigor.

We then turn to the broader implications of this case, recognizing that few labor-management relationships or organizations will take on all the features of Saturn as it was originally designed or as it evolved over the first phase of its organizational life. Instead, we focus on the lessons Saturn offers for those who will be shaping the future of labor-management

practices and policies and of organizations that incorporate teams, networks, stakeholder principles, and greater levels of industrial democracy.

Alternative Scenarios

Saturn could conceivably experience any one of three possible scenarios in the years ahead:

1. It could build on its past success and reestablish itself as a highly innovative and successful auto company with new models and a robust labor-management partnership. Perhaps its second-generation models will give it a renewed life in the marketplace, and local labor and management leaders will break down the barriers to learning within GM and the UAW and fulfill Saturn's original mission of being a test track for new practices and relationships.
2. It could fail, especially if it cannot rebound from the declining sales of its base model, if its next-generation models are not well received in the marketplace, or if the new union and management leaders are unable to sustain the partnership.
3. It could sputter along somewhere between these two extremes, by continuing to try to go its own way in Spring Hill, Tennessee, while GM gradually absorbs and centralizes more of Saturn's management functions, the way it manages its other brands and divisions.

If the first scenario plays out, Saturn's success will have a thousand fathers (and at least a few mothers) ready to take credit for its resilience and resurgence. If the second scenario takes place, there will be legions of managers, labor leaders, academics, and others who say, "I told you so." They will claim that Saturn was doomed to fail and simply shows that a company can't be run based on a labor-management partnership or stakeholder model of the firm. And if the third scenario predicts reality, Saturn will fade into the footnotes of organizational and labor relations history—another short-lived experiment that came and went.

Saturn's new leaders are committed to ensuring that the first scenario—resurgence and growth—dictates events and are taking actions to secure these results. GM and national UAW leaders also are beginning to appreciate what's at stake at Saturn and to articulate where it fits into their larger strategies and structures. This provides a basis for optimism and

bodes well for Saturn's future. To be successful, however, Saturn's leaders need to adapt its basic principles in ways that address the key problems.

Second-Generation Challenges and Strategies

Saturn embodies many of the features of what theorists have in mind when they envision a stakeholder firm and a networked organization. Indeed, if our analysis is correct, Saturn's key competitive advantage arises out of the brand image and operational responsiveness it has created through the dense network of communications and coordination among its multiple stakeholders.

Nevertheless, Saturn will need to both continue and reinvigorate its labor-management partnership if the company is to survive and prosper. The partnership is a necessary and critical component to the interconnected network of high-trust relationships with its employees, retailers, suppliers, and customers. If the partnership with its employees and union breaks down or returns to a more traditional adversarial or arm's-length pattern, the rest of the principles and values that underlie Saturn's success in relationships with other stakeholders will likewise erode and eliminate this critical source of competitive advantage.

Stakeholder partnerships are fragile arrangements built on trust. They are especially liable to atrophy or break down in periods of leadership transition such as the one Saturn is experiencing. Thus, the issues discussed here should not be viewed as unique to Saturn but instead as generic issues facing an evolving labor-management partnership and stakeholder firm.

Managing Boundary Relations: Saturn, General Motors, and the United Auto Workers

The other issues facing Saturn pale in comparison to the need to better manage the boundary relationships among Saturn, GM, and UAW national leaders. Indeed, this is a central part of the Saturn story. If relations across the GM-UAW-Saturn boundaries are not managed better by all the parties, internal improvements will fall short of what is needed and, in the end, prove to be short-lived.

Saturn and GM have to find a new way to coexist given the more centralized structure and strategy GM is implementing for its models and

platforms. GM is attempting to lower costs and rationalize its product portfolio by recentralizing operations and outsourcing more work to suppliers. If Saturn is treated just like all other GM brands, it will experience increasingly strong pressure to outsource components and implement the new modular manufacturing-assembly strategy. But this would conflict with the template for making sourcing decisions agreed to in 1998 contract negotiations. A letter of understanding attached to the 1998 agreement commits Saturn and the UAW to continue making sourcing decisions jointly by balancing concerns for job security, quality, brand equity, and cost. Although Saturn must recognize it is a part of the larger GM strategy and find a way to work within the new GM structure, GM must recognize the need for Saturn to remain sufficiently autonomous to be true to its guiding philosophy and principles. The surest way to destroy the partnership and the distinctive brand image of Saturn would be to centralize critical decisions regarding product design, component sourcing, supplier relations, manufacturing strategy, marketing, and other key processes that were heretofore within the control of Saturn leaders and their UAW partners. Without the ability to jointly influence and be held accountable for these issues, the union will cease to be in a true, full partnership, and Saturn will slowly become just another undifferentiated division of GM. In this case, what appears to be good for GM is definitely not good for Saturn. It will destroy the essence of Saturn's competitive advantage and the value Saturn adds to GM. We see this as perhaps the biggest threat facing Saturn as it moves into its second generation. How GM and Saturn address this issue will influence greatly Saturn's success.

Clearly, local and national union leaders need each other to be successful. The local needs the support of national union leaders to get the necessary resources from GM to ensure the steady flow of new products that Saturn needs to stay healthy over time. The UAW also needs Saturn to be successful and show that there is a workable alternative to both traditional adversarial relationships and nonunion outsourcing.

The new local union leaders at Saturn indicate that they are determined to achieve and maintain effective working relationships with national union leaders. The same intent and commitment are evident from national UAW leaders. The isolation of the local appears to be ending—in June 1999 a national GM-UAW plant leadership meeting was moved to Nashville for Saturn. This meeting brought together national union and corporate leaders with their counterparts from the local

unions and plants that make up the GM Small Car Group. The local and national leaders have an opportunity to put this history behind them.

Reinvigorating the Shop Floor Teams and Co-Management Process

Addressing external boundary relations will need to be complemented by a number of efforts to reinvigorate internal operations. Throughout, we have emphasized that the shop floor teams and modules are the key building blocks for the rest of the organization. Unless the teams function well, Saturn cannot achieve the high level of customer satisfaction on which its past and future successes rest.

If our analysis of what drove the quality-improvement process at the module advisor level remains valid (as we believe), leading teams in a co-management structure requires high levels of communications, an alignment of views by the co-management partners, and a balance of focus between production and people issues within the teams. Reinforcing this definition of management by team leaders, module advisors, and other leaders and holding them accountable for reaching the performance targets appropriate for their units should pay significant dividends in the future, as they did in the past.

Yet we have become concerned that Saturn has drifted away from these principles in recent years. The local union's Congress, which we found to be effective in creating a dense social network and enhancing intraorganizational communications, has diminished somewhat in its importance to local union leadership, and the non-represented partners are still not involved in Congress meetings or some functional equivalent. Instead, there has been some movement to make non-represented partners more responsible for production and running the business and to have their represented counterparts focus more on people problems. This creates the kind of imbalance that our research showed leads to lower quality performance. Finally, alignment between partners requires work and time to mature. In the past few years, however, partnerships between represented and non-represented managers seem to be reorganized frequently with regard to factors other than enhancing alignment. Saturn needs to build on its past successes and pay increased attention to the principles of communication, balance, and alignment in co-management, because these have had a strong impact on past performance. This has been and can be again a major strength and key competitive advantage for Saturn.

Focusing on Continuous Improvement and Productivity

Focusing on reinvigorating the partnership at the team level would help to address two specific issues that our research indicated need improvement: off-line problem solving and productivity. The two are obviously interrelated. Off-line problem solving is an important source of continuous improvement and organizational learning. Despite the partnership and on-line team structure, Saturn has consistently experienced problems in developing a sustained off-line problem solving capability. The solution to improving off-line problem solving is relatively clear, and indeed the parties came to this solution in meetings we attended as far back as 1992. Leadership of the Manufacturing Action Council needs to focus off-line problem solving around one or two strategic issues each year, and those issues need to be ones that resonate with the rank and file and are reflected in the risk-and-reward formula. Then, the MAC has to follow up and hold teams and module advisors accountable.

Saturn has demonstrated that it can deliver world-class quality products and services to its customers, but this quality is produced at a relatively high price. Productivity has varied over time. For a while, it was high relative to other GM operations; however, in recent years it declined. When benchmarked against world-class productivity standards, however, Saturn remains far below the top tier of assembly plant operations.

Saturn does not have to be at the top of the industry in the standard productivity metric (hours per car) to be successful. As we noted in Chapter 2, Saturn was not and is not designed to meet all the principles of lean manufacturing. Instead, consistent with its stakeholder principles, its manufacturing strategy is designed to achieve multiple objectives, including productivity and costs, quality and customer satisfaction, brand image, and job security. Short-run efforts to push exclusively toward any one of these objectives might do more harm than good by undermining the trust and support of one or more key stakeholders—in this case, the work force and its union representatives. Still, some improvement in productivity is needed.

To foster continuous improvement, rank-and-file team members need to be convinced that there is a credible prospect for long-term job security at Saturn. The decision to source the SUV should provide this assurance. The second requirement, then, is to build a continuous improvement process that dovetails the on-line team process with bot-

tom-up off-line problem solving focused on key targets chosen by the MAC leadership. Furthermore, engineering and other resources need to support cross-team problem solving as they have done so successfully in the recent launches. Finally, senior management must hold partners accountable for meeting their performance targets.

Leading a Team-Based Organization

The new leadership at Saturn needs to solve the generic paradox of leadership in a team-based culture and multi-stakeholder organization. Empowering teams at lower levels of an organization and sustaining their motivation and high performance requires leaders to provide a clear vision and sense of direction and then hold everyone accountable for meeting the responsibilities entrusted to them. Paradoxically, team-based organizations require stronger, not weaker, leaders at the top than traditional hierarchies, because in traditional hierarchies, rules govern behavior more than discretionary effort and dispersed decision making. As we have seen, finding ways to mix strong leadership and delegation of authority has been a challenge for both management and union leaders at Saturn.

Leadership at Saturn is more than the CEO. For the moment, however, we stress the challenges facing Cynthia Trudell, Saturn's current CEO. She must be a highly visible leader within Saturn and continually rebuild the trust of the union leadership and work force as someone who has a deep commitment to the vision and value of Saturn. At the same time, she must hold everyone in the organization—including herself—accountable for improving economic performance and employee morale and getting the resources needed to sustain Saturn and the careers of its employees. She must also develop a co-leadership model by working with the newly elected UAW leaders and then, by demonstrating this shared leadership style, insist that all other managers recruited to Saturn or currently in place adopt similar leadership styles. Inconsistency must be dealt with sharply and quickly, making it clear that failure to develop a shared leadership style will be fatal to a manager's career both at Saturn and within GM overall. Thus, although leadership is a shared process, leading a team-based organization requires a CEO who sets a clear vision of the future, builds commitment to strategies for achieving the vision, and holds everyone accountable for implementation.

If the stakeholder or partnership model is to survive, the leaders of the other stakeholder groups—in this case, the union leaders—must share responsibility for meeting the key challenges that face the organization. This can be successfully accomplished only through relationships built on mutual trust and aligned visions of organizational goals and the processes to achieve them. This was the lesson learned from our study of the co-management process at the module level. We believe it applies here as well. As Saturn enters its second generation, all its leaders need to work to rekindle the sense of mission and commitment among the managers, union representatives, and employees that contribute to its competitive advantage.

Managing the Effects of Union Politics

Democracy is a critical requirement for any union, but especially one that seeks to represent members in strategic decisions and corporate governance. Leaders must remain accountable to their members. The ability of the members to replace leaders who, they believe, are not representing their interests effectively or have lost touch with rank-and-file priorities must be preserved. Politics can also exert a price on operational efficiency, however. The UAW has a long and rich history of internal caucuses that vie for power. This is the UAW brand of union democracy. But it poses a tough question: Has this organized caucus system become too politicized and polarizing to be effective?

At Saturn this question converges with the question of whether the jointly selected union leaders will be replaced by others loyal to the caucus and leadership in power or whether their ability to perform the duties of these positions determines if individuals stay in these jobs. A partnership that is committed to high performance cannot afford to use key managerial jobs as political patronage positions. To do so will, in the end, reduce the respect and support that team members have for these leaders. Thus, the democratic process of replacing elected union leaders must continue while the local puts qualified and competent leaders in the partnership positions and ensures they can remain in these roles so long as they meet performance expectations.

Information-sharing and social network-building processes are critical to a modern local union. Saturn's local union leaders need to reinvigorate the many forums and means built into their organization for communicating with each other and their membership. Returning to the internal orga-

nizing processes that served the union well in the past may be helpful. This local union has been a pioneer in developing innovative communications mechanisms—the Congress, Town Hall meetings, planning and rap sessions, and member-to-member surveys to elicit rank-and-file input on priorities, intranet, and various newsletters, bulletins, and broadband—all of which helped create a dense social network among its members and leaders that clearly added value to the enterprise and the local. These need to be used to full advantage to avoid developing a leadership-member-ship gulf similar to the one that led to the defeat of earlier leaders. The big challenge for union leaders is to keep from getting too isolated from the membership as they engage in dialogue with management.

Encouraging External and Internal Learning and Diffusion

Saturn has not learned enough from its own successes and failures and from the successes of other benchmark operations in the automobile or other industries. The parties at Saturn allowed themselves to become isolated from the outside resources they need to survive and to adapt. Similarly, Saturn's GM and the UAW parent organizations have not learned much over the first generation of Saturn's history. This must change if the full return on the investment of these parent organizations is to be realized from this experiment.

We see the failure to learn from the experiences at Saturn as the biggest missed opportunity of the company's first generation. A diffusion strategy involving all Saturn's stakeholders—in Spring Hill, in Wilmington, and in Detroit—needs to be created to support learning from Saturn's successes and failures and for Saturn to learn from other parts of GM and the automobile industry, and from outside the automobile industry. Just as the Committee of 99 benchmarked operations inside and outside the global auto industry, so too must Saturn as it moves into its second generation. The learning council we suggested in 1993 is one way to do this. Bringing the Saturn Alumni together and fostering ongoing networks of managers from Saturn and GM is another. Clearly, other options for promoting mutual learning can be conceived and put in place. Whatever steps are taken, the key is to promote *mutual learning* so that lessons travel in both directions across these organizational boundaries.

Saturn faces a number of identifiable challenges common to labor-management partnerships. These need to be addressed as it manages its

transition to its next generation. There is no guarantee that the company will be successful, but the good news is that the leaders at Saturn recognize the issues and their importance and are actively working to address them. This has been a major strength of this organization as we have observed and worked with it over the years. Because multiple stakeholders are involved in most critical management meetings, there is, as Bob McKersie noted as early as 1990, a high level of candor, an ability to face rather than avoid tough problems, and a willingness to work on them jointly. If this spirit and culture prevail, the issues can be addressed successfully, and Saturn can move forward to build its second-generation products, customer base, and partnership.

Broader Lessons

It is time to draw out the lessons of Saturn's experience for those who will shape the future of labor-management relations practices and policies and for those who will be designing and managing the organizations of the future. As social scientists, we recognize the limits of generalizing from a single case, but we see Saturn as what methodologists often refer to as a *critical case*—that is, one that brings into sharp relief a number of generic issues that others will encounter in the future, although the details of these future cases may not mirror those at Saturn.

The key to effective transfer of learning, as much organizational theory tells us, is not to attempt to imitate other's practices, but to engage in an *adaptive learning* process.¹ Adaptive learning begins with a clear understanding of the problem one's own organization is trying to solve. With Saturn's Committee of 99, the problem was defined clearly—figure out how to build a small car profitably with U.S. workers and UAW representation. The second step is to study intensively how someone else's benchmark or potentially useful practice works well in the institutional setting and environment in which it is located. Again, using the Saturn example, one might need to look carefully at what makes Saturn's on-line teams work well and how they have been supported by the role of the union and the broader partnership. With this *deep understanding*, the parties involved can discuss how to adapt the key lessons from the benchmark practice or organization to fit into their home environment and institutional setting. Experimentation and learning can then begin with full recognition that no set of practices can be adopted without

making adjustments to related organizational practices or institutions. Over time, what tends to evolve is not an imitation of the benchmark practice, but yet another innovation that may change the home institutions in an evolutionary and informed fashion. It is with this adaptive learning model in mind that we offer broader implications of this case.

Labor-Management Practices and Policies

Labor-Management Partnerships

It is important to recognize the Saturn model is not the one best alternative to traditional labor-management relations. The world of labor relations is far too varied for any single model to fit all circumstances, now or in the future. Not all labor or management leaders are comfortable with or capable of building and working with the full-scale partnership found at Saturn. Moreover, in settings in which the boundary of a single enterprise is highly uncertain, partnerships built on a single-enterprise model are not likely to be effective or stable. In these settings, cross-firm networks or other institutional arrangements are likely to be better suited.²

Although the partnership structure used at Saturn was well suited to the history and particular circumstances of the UAW and GM in the mid-1980s, this is not the only model for labor-management partnerships in which a single-company partnership does appear to make sense. Indeed, we have come to believe that it is less the formal structures that are the essence of the partnership than the key processes that underlie the structures. The structures help but are the wrong elements to focus on in learning from this experience. What is required is a new set of skills and capabilities on the part of both labor and management representatives. Labor representatives need the knowledge and skills to add value in making and implementing strategic and operational decisions. They need to be willing to be held accountable for decisions reached on a shared basis. At the same time, they must balance their roles as partners with managers with their roles as democratically elected leaders with defined constituencies and independent resources and power. Ultimately, the challenge for union leaders in the future is to achieve and maintain a workable balance across these different roles.

Managers also need to find and maintain a similar balance between representing the interests of the enterprise and the owners or other top

executives to whom they are accountable, working as partners with union leaders, and advocating for the resources and organizational supports needed to sustain the partnership. Labor-management partnerships are, and for the foreseeable future will be, highly controversial within management circles. Sharing power with union leaders is not a well-accepted principle. Managers who have had little exposure to labor relations or human resource management will not take naturally to their roles as partners. They need training to do so, and their rewards and career prospects need to be contingent on their success as partners. As managers come and go, so too will support for partnership principles, unless the organization has a conscious strategy and plan for management succession and placement and that plan includes a requirement that new managers support and get the necessary training to manage as partners.

We cannot overemphasize these last two points. American labor and management have built up a deep and powerful culture of adversarialism in union-management relationships that, if anything, has become more strongly embedded in recent years as fewer managers have direct contact or exposure to labor leaders. In the absence of direct evidence from personal experience, general stereotypes dominate cultural attitudes of management toward labor and labor toward management. Only by confronting this issue directly will these stereotypes be overcome.

Unions and Their Leaders

Saturn demonstrates that there is a new source of power available to local unions today. In knowledge-driven enterprises, unions and their members can gain power not just by their threatening to withhold labor but also by adding value to the work process and to the products and services delivered to customers. Learning how to organize members to ensure they are sources of value added, and then using this source of power and value to achieve mutual gains for the enterprise and the work force, are critical roles for the union leaders of the future. This requires that leaders balance new co-management skills with the political skills required of any democratically elected leader and with a concern for individual representation.

Clearly, centralization of power and decision making in national unions is being challenged by the need for greater flexibility of local unions to adapt practices to fit their members' preferences and the local

employer's needs. This cannot be done in a vacuum, however, because national union leaders need to guard against a slow degradation of industry standards and be ready and able to negotiate for resources controlled by corporate decision makers. Moreover, national union leaders need to be facilitators and catalysts for learning and innovation across locals. Just as the local at Saturn derived considerable power from the expertise its members and leaders built through participation in business decision making, so too can national union leaders add value and derive power by promoting learning from one local to another, within and across firms, and by using the knowledge gained and value added through this experience to hold corporate decision makers accountable. Although this is not a substitute for bargaining power achieved through centralized collective bargaining, it can be a complementary source of power that national unions will need to capture if they are to add value to their members and to American industry and society in the future.

The fact that unions take on broader functions does not mean that collective bargaining becomes less important. Bargaining with a clear deadline sometimes is needed to resolve tough issues, as was the case at Saturn in 1998 and 1999. The art of balancing bargaining and participatory strategies lies in knowing how to use the mix of interest-based and traditional power-based techniques in negotiations.³ With this knowledge at hand, the problem-solving and analytical skills from ongoing participation and the information about how the business operates can be used constructively in negotiations. There is widespread awareness and use of these techniques in collective bargaining today.⁴ Union leaders need to be trained in these techniques and then add them, as appropriate, to their tool kit for representing members. At the same time, unions (and management) need to retain their ability to draw the line in negotiations when differences persist on a key bargaining issue. It is naïve to expect that conflict goes away in a labor-management partnership or stakeholder organization. The key challenge for stakeholder organizations lies in effectively managing and resolving the conflicts that are sure to surface.

Labor Relations Managers and Corporate Executives

The vision and competitive pressures that led GM leaders to create and support Saturn in the mid-1980s diminished as these leaders retired.

Their successors defined GM's competitive threats as coming from other sources—the company's high costs could be reduced better by accelerating and expanding outsourcing; duplication of brands and platforms could be addressed by integrating and centralizing design, engineering, and component sourcing; and labor relations could be changed only by taking on the UAW in traditional, adversarial bargaining. Rather than hold everyone's feet to the fire by driving continuous improvements through innovations in shop floor relations and production systems, GM, like other U.S. automakers, shifted their focus to getting high volume and hot-selling trucks, SUVs, and other bigger models out the door in large numbers. Such is the half-life of the vision and strategy that drive most U.S. companies. The question is whether the centralizing, outsourcing, downsizing, and return to hard-line bargaining have now about run their course at GM and other U.S. firms. At some point, the seesawing of American management with respect to labor-management relations needs to give way to a more consistent, long-term vision and strategy that have a life beyond the tenure of any single CEO or top management team. Indeed, this is a key reason why Ford is often described as having a better and more productive relationship with the UAW than GM. Ford's vision and strategy have been stable and consistent for nearly two decades. This is an important lesson, not only for GM and other auto companies, but also for leaders across American industry.

Disseminating the lessons of Saturn has been difficult for GM. One reason for this is quite simple: no one saw it as his or her responsibility to design and implement a learning process that linked the innovative unit to the rest of the organization. As a result, the inevitable isolation set in. Managers who want to reap the full reward from their investment in innovation need to manage the learning process as well. Although protecting the autonomy of an innovative experiment may be important in the early years, isolation has enormous costs over time, as Saturn's experience illustrates. The advances of modern communications' technologies make it much easier to share information quickly and to build dense communications networks among employees and managers across units and, indeed, between industry and research and educational institutions. The current buzzword for this is "knowledge management." The managers who go beyond the buzzword and figure out how to leverage the knowledge gained from experimentation and innovation by building processes for shared learning through personal and technology-mediated interactions will

be the true knowledge managers and their organizations will be truly learning organizations. The key lesson from Saturn is that going beyond the buzzwords requires a conscious commitment of resources and leadership to make it happen.

Labor Relations Policy Makers

Those of us who are committed to updating our policies, institutions, and practices to fit today's economy and work force should recognize Saturn for what it is: the boldest labor relations experiment in the country, one that is unique. It provides a window on how a radically different model might work. The most interesting and innovative part of the Saturn model we observed was not the formal labor-management committees or joint consultative and decision-making bodies, but the one-on-one partnering we call *co-management*. It is apparent that union leaders carry out functions that traditional labor and employment laws would define as managerial. The ironic twist is that if current labor law were to be applied to these co-managers, they would be reclassified as exempt from wage and hour standards and ruled to be ineligible for union membership! Such is the outmoded nature of America's labor and employment laws—regulations passed and carried over from an image of how work was done and organizational roles were written in the industrial age of the 1930s.

Clearly, although Saturn may be the extreme example of an organization that violates both sets of laws in this manner, it is far from alone. Across America, we continuously see examples of "hourly" workers and union representatives engaging in decisions regarding work force allocation, customer service, product development, process control, product quality, production scheduling, suppliers, and outsourcing. They travel together to learn about new technologies or work practices, visit customers, or gather other information relevant to future decisions. Firms are constantly advised by consultants, the business press, and business school faculty to share more managerial information and bring frontline workers into decisions about how to do their jobs, organize work, and manage their work groups. It is time to bring labor and employment law into better conformance with sensible contemporary work and organizational practices. No worker should lose his or her right to union representation for having taken on these managerial duties and responsibilities.

Saturn was designed from day one as a joint labor-management project. GM therefore agreed to extend recognition to the UAW on a volun-

tary basis. The innovations in work design, employee participation, and union-management relations implemented would not have been possible had the traditional approach to organizing a new facility been followed. If management had set up its own greenfield site and resisted union-organizing efforts, both sides would have devoted resources to the organizing and counter-organizing campaign, and even if the union succeeded in winning a contested election, the seeds of an adversarial relationship would already have taken root.

Our labor law puts on, at best, murky legal footing any joint design and extension of union recognition that takes place before the recruitment of a work force. Instead, it encourages a battle for the loyalty and support of the work force in the name of a union representation election campaign. A number of other companies and unions in the steel, telecommunications, office products, and other industries have recognized the disadvantages of an adversarial battle over union recognition, particularly in settings in which a company expands its operations by opening a new facility or line of business. These are still the exceptions to the general rule, however, and nothing in our national labor policy encourages or supports these efforts. It is clearly in the national interest to promote these more cooperative, nonadversarial approaches to this process.

This last point suggests that the role of the government in employment relations must be to do more than enforce rules. Government leaders must also be champions and catalysts for innovation and learning. The nation has a big stake in learning the right lessons from Saturn and from other innovations and in encouraging labor and management to adapt them in ways that fit their particular needs. As early as the mid-1980s, it was becoming clear that traditional labor-management relations needed to change to support more direct employee participation, workplace flexibility, and information sharing, and a greater worker voice in the higher level decisions that shape the long-term futures of the enterprise and the work force. If anything, that need is greater today than before. The sad fact is that nearly twenty years after the ideas that led to Saturn were first discussed, it remains the most radical and forward-looking labor-management innovation in America. No other contenders for this perhaps unenviable position have emerged since then, and the pace of innovations of less substantial magnitude has likewise slowed. The commitment to innovation in labor-management relations needs to be rekindled. Government leaders can no longer afford to remain passive observers of the slow atrophy of collective bargaining and union

membership in the country. This does not mean, however, that we are urging a return to big government or more centralized direction of the economy or labor relations. Instead, government must become a catalyst for sensible innovations by learning through research and experimentation what works at the local level, using the same communications and network-building tools to disseminate the lessons learned from these innovations, and providing resources to build the institutional capacities (e.g., new union leadership skills) needed for these innovations to spread. This can be done only if the American public insists on putting the future of work on the national agenda, where it belongs.

Organizations of the Future

Saturn is not modeled on lean production. Instead, it was designed to achieve multiple objectives, which include but are not limited to lean principles. Saturn was designed to address both shareholders' interests for a profitable small car and labor's interests in jobs and union representation. Those who shaped the original design and those who adapted it over time and in practice put these broad objectives into operation by focusing on multiple metrics of cost, quality and customer satisfaction, brand image, and job security. Although in the best of all possible worlds these objectives might be mutually reinforcing or complementary, from time to time they are likely to require some tough trade-offs, at least in the short run. This was clearly the case when the market for small cars softened and short-term productivity and costs became trade-off issues with employment continuity.

One need not buy into the full Saturn organizational model to extract useful lessons for organizational design, however. We focus on three issues that organizational designers face today: (1) whether and how to build effective teams or, more specifically, teamwork, (2) how to gain the flexibility and advantages of a highly networked organization, and (3) whether and how to build multiple stakeholder principles into the design and governance processes of future organizations.

Team-Based Organizations

What made Saturn's frontline teams work well, and what lessons might the answer offer those who will be designing and managing future organizations that rely heavily on teams?⁵ Saturn developed out-

standing capabilities to control processes and solve problems within its teams, as well as a dense communication network that resolved problems between units, because both the company and the union were committed to quality and possessed the knowledge and organizational resources needed to make the production process work. Knowledge about what needed to be done to serve the customer was widely diffused through the organization. What is most impressive, and what we believe is generalizable, is the ongoing, on-line self-direction, problem solving, and responsibility of the teams; the co-management and coordination by the module advisors; and the responsibility for quality taken on by the union.

We start with the basics—the workers (team members) themselves. Saturn has indeed made knowledge workers out of its shop floor production workers. They are superbly trained and know how to build cars. The initial work force was selected carefully for its commitment to quality and teamwork. Initial and ongoing training and information sharing emphasized the dignity and pride of the workers on the front lines. Saturn's early advertising showed team members at work, solving problems and going the extra mile to serve customers. The "Different Kind of Company" slogan signaled to the public and the organization that the team members were important. Communicating internally and externally that the work force was a core competency that came with the product worked well for Saturn, particularly in its early years. Creating this excitement and culture, grounded in real knowledge, skills, and information sharing, is, we believe, a necessary starting point for any organization that is serious about making its full work force and teamwork competitive assets.

This initial excitement and level of shared knowledge are difficult to maintain over time. They require constant maintenance and periodic reinvigoration. The key is to keep team members and leaders from losing faith in the competence and commitment of the higher-level managers and union leaders who are expected to attend to the long-term viability of the enterprise and business. A key task of leaders of a team-based organization is to maintain the trust and confidence of the team members. This means providing strategic leadership that safeguards the long-term viability and employment security of the enterprise and work force and providing an internal management system that supports and supplements the work of the teams. Leading a team-based organization is a considerable challenge for management and union leaders. Team

members who are well informed will be more critical of management and have higher expectations for management performance than workers in traditionally structured and managed organizations.

The Saturn case also offers a caution regarding the overuse of teams as a panacea for all the problems of traditional management structures or work organization systems. The key roles that the module advisors (i.e., supervisors) play at Saturn as problem solvers, lateral and vertical communication links, and expert resources drive home two important points. First, there is no such thing as an autonomous work team in highly interdependent production or service organizations, and therefore teams must be linked and coordinated.⁶ Supervisors, team leaders, module advisors—call them what you will, they continue to play critical roles in organizations. Decentralizing more decision making to team members may reduce the number of supervisors needed, but the critical linking, coordinating, and leading functions they serve do not disappear. The key organizational design and management task is to develop and reward supervisors so that they are both effective facilitators and coaches for team members and proactive managers of their external boundaries, a point on which we will elaborate more fully.

Second, *teamwork*, not structures, is what matters. The key contributions that Saturn's teams (and teams in any other organization) make are to enable rapid coordination and enhance problem solving on a continuous and, as needed, periodic basis. Teams can do so if they bring grounded and diverse expertise to bear on a problem and can act quickly to implement ideas that have merit. There is no one best way to achieve these capabilities, and team structures are perhaps only one of a variety of ways to do so. Just as tight job descriptions and specialization worked well in the early days of mass production and then became problematic and overly rigid, so too might specific team structures atrophy over time and need to be shaken up and recharged. Keeping an eye on the processes teams are expected to generate, rather than on their more visible structural elements, is critical to using teams sensibly.

Our network analysis findings suggest that a key to achieving positive performance results from teams lies in managing their external boundaries.⁷ Thus, we see an important role for teams, and particularly for team leaders, in organizations that seek to create strong network ties across individuals and groups. The team leader's critical tasks are to find ways to foster high levels of lateral communication and coordination among teams and to maintain a clear balance between meeting the needs

of the people in their teams and addressing production and quality problems. Moreover, if these tasks are co-managed either by creating formal co-management roles, as at Saturn, or informally as union representatives or workers themselves take on more managerial responsibilities, the views of these co-managers need to be aligned, and they need to balance their responsibilities for addressing people and production issues rather than specialize in one or the other.

An important key implication for team-based organizations in general is that management can no longer be set apart as a separate function assigned to a separate class of employees. Instead, it becomes a function that is shared more widely across all levels of the organization. Accepting this principle requires a cultural and, to some extent, an ideological shift for some managers and some union leaders. Unless the parties are prepared to make this shift, it is probably better not to try making teams a central core competency or source of competitive advantage, because eventually the teams will collapse or lose their effectiveness.

Networked Organizations

The implications of our analysis for organizations that require high levels of lateral communications, coordination, and rapid on-line problem solving are straightforward. Allow multiple opportunities for social and task-related interactions to develop among individuals and groups that would not normally interact if traditional bureaucratic rules or hierarchical reporting structures prevail. Indeed, the development of the dense communications patterns we observed among union-represented and non-represented managers at Saturn is one of the most interesting and positive, but unanticipated, consequences of the labor-management partnership. In traditional labor relations, communications channels are highly formalized and limited. CEOs and other line managers in particular are protected from direct contact with union leaders by their labor relations professionals. If problems cannot be resolved informally, supervisors are expected to refer them to formal grievance procedure representatives, as are their union counterparts. But as the labor-management partnership model took shape in practice, the co-management process and the local union's ongoing efforts to "organize" its members created multiple arenas and forums in which union representatives interacted with line managers and high-level executives. Elected officers and union members with leadership positions in the partnership

met with each other regularly in the various internal union meetings (e.g., Congress) and political events, and information flowed across boundaries based on understanding of who was in the know. Opening up to these more fluid opportunities for interaction for social, political, and task-related functions is what made Saturn—and what could make other organizations—truly networked-based organizations.

Opportunities for interaction are, however, only a necessary and not sufficient condition to build the level of trust needed to foster value-added communications. More frequent interaction among individuals or groups who see their interests as diametrically opposed only creates new venues for battle. At the other extreme, parties need not have totally common goals and interests to benefit from interactions. Trust and personal relationships instead require respect for each other and acceptance of the legitimacy of others' interests, even if they are not shared. Indeed, one of the long-standing lessons of labor-management relations is that effective negotiators build trust with each other by respecting the legitimacy of the other's needs and building the personal relationships needed to talk off the record about options for reaching agreements that both sides can accept. This kind of trust requires some shared values and understanding of the task at hand and the other's point of view. In the network analysis of module advisors at Saturn, we described this as an alignment between the represented and non-represented partners on the tasks, priorities, and jobs they shared. At Saturn, quality and customer satisfaction were the shared values that produced a sufficient sense of common purpose among the different parties. They could disagree on other issues, such as how to structure the risk-and-reward plan or how to rebalance the tasks assigned to different work units on the assembly line, but quality and customer satisfaction remained shared values around which all could coalesce. The best evidence was the black armband incident in 1993 during which union members believed that it was okay to protest publicly what they believed was a weakening of management's commitment to quality. Management, in turn, was deeply hurt that its commitment to this organizational value would be questioned. The result was that both sides cleared the air and refocused their energies around this core value.

Thus, Saturn illustrates how a networked organization can evolve in an environment in which, while the parties recognize the need to address both their common and their conflicting objectives, they build trust and personal relationships that can be drawn on as social capital

in times of crisis or in the daily routine of solving problems. This level of trust must be earned over time; it cannot be forced or required from the top down. Networked organizations evolve out of shared experiences and interactions and can be nurtured, but not commanded, from above.

Organizational Governance and Stakeholder Relations

Long ago, organization theorists came to the conclusion there is no one best way to structure and govern organizations. Yet the business press, management lobbyists, and most policy makers cling to the view that the primary, if not the sole, purpose of American corporations should be to maximize shareholder wealth. Perhaps it is time to confront this issue and challenge this prevailing view by encouraging organizational forms that provide other stakeholders a voice in the critical decisions that affect their "investments."⁸ There is no single best way to do this any more than there is a single best way to manage corporations today. There are, however, few empirical studies or critical examinations of such firms in action. Saturn serves as a critical case of a stakeholder firm in action, one worthy of understanding and further tracking as it moves through its second generation.

We draw three broader theoretical and policy implications from our study of Saturn as one prototype of a stakeholder firm.⁹ First, it became a stakeholder firm designed to serve multiple interests (job creation, learning laboratory, and production and marketing of a small car with high customer enthusiasm) because parties with these multiple interests participated in the design of the organization from its inception. It would not have taken this organizational form or accepted the mission it did if its design had been left to one interested party—that is, management. The Committee of 99 clearly had an effect on the goals and mission of the organization. Too much of the research and policy writing about stakeholder organizations simply pleads with managers to be more responsive to different stakeholders. If our analysis is at all generalizable, it challenges that narrow managerial approach to the design of this type of organization.

Second, two processes were identified in our analysis as critical for the performance of Saturn as a stakeholder firm. The first was its ability to develop effective network relationships across the key stakeholders. To date, most studies of networked organizations and stakeholder orga-

nizations have proceeded on parallel, but separate, tracks. This case suggests that they are interrelated in a complementary way and should be considered together by those who study and those who will be designing the organizations of the future. The second process was the ability to confront and then resolve conflicts. Clearly, conflict resolution is an important function in any organization, but in an organization that by design brings multiple interests into its mission and governance processes, we suggest that conflict resolution becomes *the* critical function. If the different interests at stake cannot be addressed effectively and efficiently, stakeholder firms will suffocate under their own weight. Developing the capacity to resolve conflicts is a critical managerial skill for those who will shape these types of organizations in the future.

Third, for stakeholder firms similar to Saturn to survive over time and grow in number, the ideologies of key groups in society must change significantly. It was not just executives at GM or top leaders of the UAW who were critical of their predecessors' decision to set up Saturn on a stakeholder model. Their criticisms were shared by many other leaders in the management, financial, and public policy communities and by some in the labor movement. Stakeholder models challenge deeply held prevailing notions about the role and power of management, the primacy of financial capital as a resource for the firm, and the role that human capital should play in the organizations of the future. For stakeholder firms to survive and grow in number requires not only must they prove themselves to be successful in carrying out their multiple goals and stated missions, but also they must be able to overcome a great deal of resistance from powerful forces.

Ultimately, public corporations are institutions that must serve society. We have an open mind as to whether shareholder-maximizing models are the best way for corporations to serve society in the future or whether society might be better served if corporations were held directly accountable to other stakeholders as well. Others should also keep an open mind on these issues. Corporate governance theorists and policy makers need to encourage more firms to assume the features of a stakeholder firm and then learn from their experiences. In our opinion, the pendulum has swung too far in the direction of meeting shareholder demands for short-term results at the expense of employees and perhaps other stakeholders. How to find a better balance among these stakeholders is likely to be a major source of public debate in the years ahead.¹⁰

Looking Ahead

We hope that by telling the Saturn story, the lessons from experience with this remarkable organization will help to stimulate and inform debates about the future of labor-management relations and organizational design and governance. In particular, Saturn has much to teach us about the impact that union-organized communication networks can have on performance; the possibilities for co-management; the changing nature of local unions that engage in partnerships; and the difficulties of sustaining innovation and learning within large, complex organizations. Although our data described in detail Saturn's problems as well as achievements, we remain optimistic about its future. We hope that the lessons and actions discussed here ensure that Saturn's story will, in the end, be a positive one.

1. The cla...
ton Friedma...
New York Tim...
view, see M...
Review, 89 (1...
see R.E. Fre...
1984). More...
nal issues: B...
(December 1...
2. Thom...
3. See Fr...
Cliffs, N.J.: ...
Strategy, Tac...
1990).
4. For an...
its labor rel...
South End I...
5. For a...
the sympos...
Future of W...
For an equal...
izen" in so...
D.C.: U.S. D...
6. See K...
7. For t...
1980s see H...