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Union Cab: Democratic Worker Ownership in the Taxi Industry

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This chapter presents the history and organization of the Union Cab of Madison Cooperative, a fully worker-owned cooperative business providing taxi and transportation services to the city of Madison, Wisconsin. The organization is distinctive, even as a worker cooperative, due to its size and its participatory governance structure. Its history offers some insights about the conditions under which such an organization can emerge. The first section lays out the governance and operations of the business. The second section presents the history of the cooperative's growth. In the final section of the chapter, I attempt to identify points of intersection between the Union Cab case and various literatures on worker ownership, suggesting ways that the case might be more broadly relevant.

Data for this chapter was gathered through narrative interviews, archived newsletters, newspaper articles, and company policy manuals. I conducted three in-depth interviews with members of the cooperative, each in different occupations. A fourth interview followed up on themes that emerged in the first round of interviews and was conducted along with two other researchers from my home university. The interviews occurred at the Union Cab facility, and were recorded and transcribed.

Contemporary Structure and Functions

Operations

Union Cab derives revenues from two related areas of business. The first is the cash business for consumer-based taxi services, which garners the majority of the business's earnings. The company accrues nearly 40% of its revenue from contractual business, in which the company agrees to provide transportation services for an organization. Over time, the company has held such contracts with the City of Madison, the University, local health care providers, and the local school system.

The workforce is composed of six general occupational groups: drivers, dispatchers and phone answerers, administrators, information technology workers, maintenance and mechanics, and management. Union Cab was the first cab company in Madison with an IT department. With 187 drivers, or about 85% of the workforce, this occupational category far outweighs the other groups.

After a 3 to 6 month probationary period, which was described as mainly intended to ensure basic professional competencies, workers are required to take a membership share in the company for \$25. Each member gains a single vote in Board elections and the option to serve on various governance bodies. They also become entitled to a share of any annual surplus, allocated according to a combination of their number of hours worked, their income contributed to the coop, their wage level, and their seniority. Seniority also manifests itself in the governance process, where some committees require senior members. Lastly, members have substantial autonomy to choose their schedules, both in when and how much they work. Some members work overtime, others work fewer than 20 hours per week, and others vary their work hours by the season.

Governance

The company has a highly decentralized management and governance structure. An organizational chart, presented in Chart 1, lays out the range of bodies that oversee and implement the management and governance of the organization. Consistent with the company's background in unionist traditions (discussed below), governance mechanisms position worker owners to oversee the management of both administration and operations. On the administration side, the highest level of oversight is the Board of Directors, which is a 9-member body, elected by the membership. In order to avoid the establishment of coalitions, elected members are randomly assigned to 1, 2, or 3 year terms. Board members are all selected from the membership and any member may propose her candidacy to the Board. Historically, they hire the General Manager, whose direct responsibility is to oversee and monitor the general operations of the cooperative and the activities of each division manager.¹ Seven permanent committees handle governance responsibilities ranging from strategic planning to education. Some of these committees have members appointed by the Board and others appointed by the GM.

At Union Cab, efforts have long been made to democratize disciplinary processes. These reforms continue today. Disciplinary processes have progressively shifted towards management by committees, as opposed to a single individual. Since the founding, a Workers' Council has served as an oversight committee for disciplinary decisions from management. In December of 1979, an Accident Review Committee was created to conduct peer-review of driver accidents. Within the past 3 years, the initial review of all internal behavioral misconduct has been taken out of management's hands and transferred to a peer-based committee. The Mediation Council has also been established so that workers can resolve conflicts through non-punitive avenues. This committee is even used by managers seeking to address conflicts with

¹ Recent changes to the governance structure have replaced the General Manager position with a Steering Team, of which the Business Manager is part.

employees. Finally, the Stewards Council helps to shepherd worker owners through the range of governance bodies and committees.

Historically, a divisional manager hired by the General Manager has managed each occupational group. However, in an effort to further democratize management of operations, divisional teams have been established to serve as partners to the divisional managers. Furthermore, the company has recently revised the governance policy such that workers from different occupational categories serve on the different division teams. This means, for example, that both drivers and dispatchers are required to serve on the Operations team.

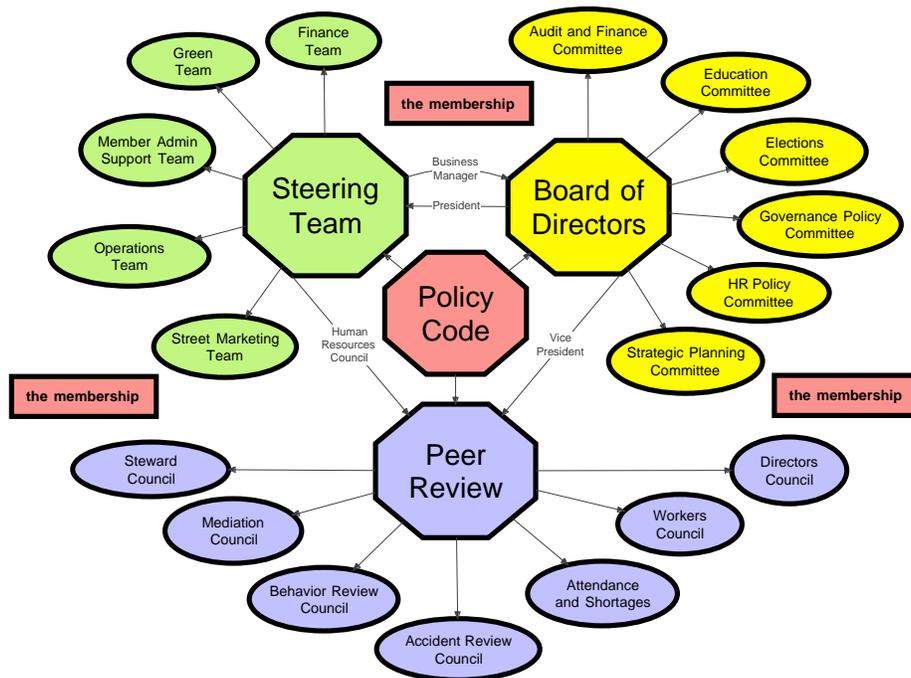


Chart 1: Union Cab Governance Chart (2012)

Ultimately, approximately 1/3rd of the membership participates in governance or management. 84 of the 219 members currently participate in a committee, council, or managerial team. One member estimated that approximately 20% of membership attends annual meetings, where Board elections occur. Responding to members' concerns about the cost efficiency of participatory governance, one worker-owner began conducting an annual internal audit in 2011. According to this report, the company paid \$86,312 for 5,756 hours of governance work from its members.² Considering that this work is equivalent to approximately two and a half full time positions, for a company with \$6 million

² Kemble, Martha. 2012 "Union Cab's Democracy Report and New Peer Review Structure", presentation at North America Conference of Cooperatives Annual Conference, Quebec

annual revenue and over 200 employees, Union Cab pays relatively little for their management.

Historical Evolution of Union Cab³

Union Cab emerged out of a flurry of union organizing activity in Madison during the 1970's. Starting in 1973, workers at various Madison cab companies began successful organizing efforts that led to negotiations and strikes to demand stronger benefits and rights. By 1978, failed negotiations and strikes had already led to the closure of one Madison cab company and threatened another, both of which were dominant in the local market.

Founding

In January 1979, five workers from one of the embattled companies left and resolved to establish their own company and organized it as a worker cooperative. The model was not entirely foreign to the Madison business community. Long-standing Madison-based cooperatives like Community Pharmacy Cooperative, Madison Housing Cooperative, Williamson Street Food Cooperative, and Isthmus Engineering and Manufacturing were all established between 1968 and 1982. Madison also had an existing set of resources to provide legal guidance to the nascent cooperative. The founders enlisted the assistance of a local lawyer who specialized in cooperative business law, named Toby Reynolds, and organized their bylaws around the detailed Wisconsin cooperative statute.

In 1980, the upfront costs to commence operations were estimated at \$150,000, and the company took over 6 months to find financing. The company was able to obtain it from a combination of public and private sources, all of which were locally based. The cooperative negotiated a \$95,000 loan from First Wisconsin National Bank, which was based in Milwaukee. This loan, however, was facilitated by the guarantee of a \$35,000 loan from the Madison Development Corporation. The MDC is a quasi-public economic development organization that has, since its founding by Madison Mayor Paul Soglin in 1977, provided commercial loans at competitive rates to Madison small businesses. MDC also provided startup funding to other local Madison cooperatives, like the Williamson Street Food Cooperative. Union Cab also received \$15,000 in financing from a Madison-based public-private partnership called Wisconsin Horizons and raised the remainder from sale of preferred stock. The purchasers of preferred stock were friends, family, and community members committed to cooperative ideals. Ultimately, the company was able to raise sufficient resources to purchase 11 taxis and start operation. Despite several initial profitless months, the company was quickly profitable, adding 5 cars in the first year. During the first

³ Draws extensively from "History: The First 20 Years" by Richard Chamberlain; <http://www.unioncab.com/History>; accessed May 14, 2012.

decade, Union Cab outgrew its initial location, replaced its taxi fleet, and integrated computer systems into the cabs.

Early Revisions to Cooperative Governance

During the first decade, Union Cab also made substantial revisions to its governance mechanisms, as it sought to find a fit between democratic representation and the centralizing tendencies of organizational growth. In the winter of 1984, traditionally the busiest season due to cold Madison winters, the business had grown substantially due to the bankruptcy of several competitors, but was experiencing high rates of customer complaints. In response, management identified several worker-owners primarily responsible for the poor customer service and disciplined them. The meting of discipline was contentious and a Board member resigned, citing dissatisfaction with relations between owners and management. In response, the BoD voted to work with an outside advisor and establish a Reorganization Committee to reorganize the management structure. The roles of Personnel and Operations manager were split into distinct positions, the committee established a General Manager position, and four permanent committees were established to advise the Board on finance, education, personnel, and planning. Simultaneously, the members created a monthly newsletter and a steward program, to increase worker-owner information about the business. Member interest in board participation also grew. After having failed to garner enough interest to field competitive Board elections in the winter of 1983-84, the Board elections in the spring of 1985 drew eleven candidates for four seats.

Catalysts and Obstacles of Growth

In the first decade of the company's operation, several of the leading taxi companies in Madison closed their business due to labor disputes and the public transit drivers went on strike. Thus, there was high demand for transportation services and an abundance of unemployed drivers fundamentally concerned with workplace rights, who would have been particularly attracted to a cooperative ownership structure. The company, therefore, expanded during this period as a worker cooperative because it met the demands of both consumers and workers. By 1990, they had approximately 100 members.

Union Cab's second decade was characterized by a second generation of owners and a failed effort at diversification into alternative transportation services. Until 1990, every Board member was a worker who had started their careers in the polarized and contentious context of the 1970's Madison labor protests. For the first time, in the 1990's, members who had not been exposed to those influences were taking Board positions. New managers were entering from outside of the company, as opposed to the early management who had risen through the ranks and who were often founding members.

In the early 1990's, the owners decided to expand and diversify the business by taking up contracts for school busing and para-transit services. A range of differences between the human resource and management demands of the new and old areas of business strained the organization. Driving school buses and para-transit vehicles for contracts with the City of Madison attracted workers who were comfortable working with children and disabled individuals, who received an hourly wage as opposed to a commission rate, and who were willing to work in a drug-free workplace. This was a different population from the more senior Union Cab members. The drug testing issue was so contentious that the company had to set up a separate call center so that some worker owners would not have to be regularly tested. Governance conflicts and financial losses resulted. This turmoil culminated in 1999, when Union Cab lost its contract for school transportation services.

After the failure of the previous decade, the membership recommitted to its core business model, core organizational structures, and core members. As a long time employee described it, in the first decade of the 2000's, Union Cab "really focused on being a cab company. No more buses, no more schools. We built back our cash business." The company did provide transportation service to publicly subsidized medical assistance programs during this period. The company grew consistently between 2002 and 2008. Similarly to earlier decades, the Board membership and management continued to change frequently. However, while some previous managers had come from outside, all four General Managers during the 2000's were previous Board presidents.

In the 2000's, in contrast to the negative experience with school busing and para-transit, the company did effectively take on medical assistance transportation. Growth through medical assistance was highly profitable and led to the sustained expansion of the company. These services were paid, in part, through funds for publicly subsidized medical care. However, the patients had autonomy in selecting their transportation provider, these jobs were treated as commissioned jobs, and they more closely resembled Union Cab's traditional line of work.

Ultimately, this business was undermined in 2011 when the state government contracted with a private management company to provide medical transportation. According to several Union Cab workers, they were popular because they provided reliable and timely service. However, when the private management company took over regulation of medical transportation services, they began to select the transportation providers for the patients. Union Cab's percentage of total revenue from this business declined from 40% to 15%.

Since 2011, Union Cab has been characterized by renewed focus on governance reforms and expansion of participatory democratic institutions. The company has shifted responsibility in the peer-review process directly onto worker-owners and is implementing team-based management. The company has

also prioritized environmental sustainability, through the conversion of a fleet of hybrid cars, the installation of solar panels at the headquarters, and incremental changes like encouraging drivers to turn off their engines while waiting to pick up passengers.

Situating Union Cab in the Academic Discourse

While the length constraints for this chapter and the limited data collection preclude a deep critical engagement with academic literature, we can at least identify several points of intersection between the case of Union Cab and some of the ongoing debates about democratic employee ownership.

First, scholars have dedicated substantial energy examining the rarity of worker cooperatives (for review see Dow 2003). Many explore reasons why they shift into conventional ownership structures or why they fail to compete, but fewer have examined the moment of foundation. Some of the only scholarship to address this issue attributes the rarity to a lack of awareness. Scholars have examined economics textbooks and business curricula, and have shown that the cooperative business model is completely absent from tertiary education (Hill 2000, Kalmi 2007). The experience of Union Cab offers a new and compatible dimension to the awareness argument. The cooperative was founded during a period when a number of other cooperatives were being established in Madison. There were both legal and financial institutions with knowledge of the worker cooperative ownership structure, which provided key supporting resources. Levinson (2012) has recently introduced the argument that the foundation of worker cooperatives can be usefully analyzed as an instance of a social movement. Here too, the case of Union Cab resonates. The founders and the early members all emerged out of an environment of contentious labor-management relations, experienced job loss and exploitation, and viewed Union Cab as a mechanism with which to organize their material and human resources. Bringing the awareness and social movement arguments together, many of the institutions that supported Union Cab and other emerging worker cooperatives during this period were locally-grounded institutions like local banks, quasi-public development organizations, and social networks in the labor movement.

Second, the Union Cab case speaks to the issue of member heterogeneity and growth. Hansmann (1996) was one of the most prominent scholars to advance the view that worker owned firms are limited in their growth by the heterogeneity of the workforce. As it gets more diverse, the governance costs increase. As a result, worker cooperatives are thought to remain small organizations, for the most part. Union Cab's experience speaks to this question. In some senses, the case supports Hansmann's claim. The effort to diversify into state contracts for medical and school transport required new and different employees, which created insurmountable governance costs. At the same time, Union Cab has continued to grow, but only in certain areas of production. This case suggests that heterogeneity is not an unmediated variable, as it impacts

growth, but one that is necessarily tied to the organization's area of production. The type of service that Union Cab sought to provide and the character of its membership were intertwined. Some types of member heterogeneity, for example between dispatchers and drivers, was acceptable because it fit the demands of the commercial taxi service process. Other types of heterogeneity, like that between bus drivers and taxi drivers, were insurmountable because of the differences between their occupational routines.

Third, the Union Cab case speaks to the relationship between growth and democratic governance. Nilsson (2001) argues that growth, business diversification, and increased worker heterogeneity may lead to degeneration of democratic participation in worker cooperatives. In this view, governance is a mechanism for worker owners to monitor their ownership stake in the cooperative. As a worker's stake becomes proportionally smaller and the range of interests widens, the costs of advancing individual interests increases and the payout shrinks, leading to high free-riding costs. While the case requires further examination to speak to this issue, growth at Union Cab has resulted in a narrower segment of the membership participating in governance, but it has not resulted in degeneration of the cooperative ownership structure.

Conclusion

This chapter has sought to present the unusual case of broad democratic participation and growth at Union Cab Cooperative of Madison, Wisconsin. A better understanding of the historical contingencies, key actors, and environmental characteristics that shaped the cooperative's evolution may help to understand the likely obstacles and catalysts that broad-based workplace democracy faces in a competitive market context. Not so surprisingly, this case lends evidence that a supportive network of enabling institutions, like banks, universities, government agencies, and other businesses facilitates the establishment and growth of cooperatives. Second, worker cooperatives are much stronger and are also deeply impacted organizationally when they are associated with social movements, like the 60's labor rights movement in Madison. Third, the cooperative ownership structure does not preclude growth, but does shape the type of growth that is possible. In particular, growth is most likely when it does not challenge existing managerial structures. Certain types of innovation are enabled and other types are precluded by the organization's ownership structure, as in the case of Union Cab's effort to entry the school busing program. Union Cab offers a rich case of workplace democracy and its historical evolution merits greater examination.

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