Negotiating Trust in the San Francisco Hotel Industry

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There is a great deal of evidence that changing a company's labor-management culture by empowering the workers can reduce costs and increase quality and profitability. The problem I faced, as a management lawyer for a group of luxury San Francisco hotels, was how to create labor-management cultural change during labor negotiations for twelve different companies[1] which were heavily unionized and had a history of confrontational labor relations.

The Background

The major union for these San Francisco hotels was Culinary Local 2. It had more than 8,000 members. It had over the years negotiated a restrictive labor contract that made it difficult for the hotels to adapt to the rapid changes that were becoming characteristic of the hotel industry in the 1990s. The Culinary's contract covered the vast majority of the hotel jobs. It included narrow work rules and job classifications that restricted the hotels' abilities to meet guests' changing needs and to remain profitable. For example, the work rules required payment for an expensive four-hour bartender shift even if only a single drink is served during lunch; they prevented room attendants from picking up empty food trays in the hallways; they prevented restaurants from using workers interchangeably to bartend, serve, and cashier based on the ebb and flow of business; they precluded doorstaff from carrying bags and bellstaff from opening doors; they prohibited housestaff from cleaning rooms and room attendants from cleaning hallways; and they prevented bartenders from serving food and waitpersons from serving drinks. Such rules were inefficient and unprofitable and made it difficult for hotels to meet the changing needs of their guests.

The hotels also had problems arising from the opening of new non-union hotels in San Francisco in the 1980s.[2] Such hotels did not have to operate under any of the unions' restrictive work rules and labor contracts. Some of these non-union hotels were experimenting with new work arrangements, such as the "guest service employee" who takes the guest from the cab to the room, replacing the traditional door, bell and front desk jobs in the unionized hotels. The arbitrary jurisdictional lines within the unionized hotels made it impossible for workers to go from one logical type of work to another.

Another problem for our the unionized hotels was the fact that the restaurant business had changed dramatically in America by the 1990s.[3] Many hotels found themselves unable to compete with the new, universally non-union restaurant chains that were beginning to dominate the marketplace. These chains, unlike union restaurants, had the same workers performing many different kinds of jobs -- including pouring drinks, serving, hosting, and bussing. Such flexibility did not exist under union contracts. The restaurant chains also paid lower wages and provided little or no pension benefits.

In addition to the work rule restrictions, jurisdictional problems, and non-union competition, the hotels' day-to-day working relationship with Culinary Local 2 and many of its members was not good. For the past fifteen or so years in San Francisco, a destructive cycle of strikes, grievances, and arbitrations had cost both the hotels and the Culinary more money and staff time than either could afford. The poor labor relations and resulting poor morale among many hotel workers had undermined customer satisfaction with the unionized hotels.

The problems became more acute as the economics of the hotel industry deteriorated in the late 1980s and early 1990s. Overbuilding, high mortgages, and the recession took a heavy toll on the industry. Many hotels were sold or changed management and virtually all hotels laid off portions of their workforce and cut back services during these years. This resulted in lower profitability and lower levels of service than in previous eras.

The situation was similarly bleak from the workers' perspective. They saw first-hand the deteriorating competitive position of their unionized hotels vis a vis the new non-union hotels. Thousands of union members lost their jobs when their hotels and restaurants closed, went bankrupt or outsourced their work. The unions knew that fighting with the unionized hotels diverted resources from growth activities, such as organizing the new non-union hotels and restaurants. The union leadership knew that their future depended on being able to focus their efforts on organizing the unorganized rather than fighting those hotels where their members were already working.

These events made some of the leaders of the hotels and the unions in San Francisco realize that their traditional confrontational system of labor relations was not working. As they looked ahead to the expiration of their major labor contracts in 1994, they decided that they had to stop fighting and start addressing the real problems facing the industry if both sides were going to survive. They knew that confrontation and a strike over the upcoming labor contract would only help the non-union hotels in San Francisco gain a further competitive edge.

Preparing For Change

Going into the 1994 negotiations, my original client, the Fairmont, had a new management team whose background and expertise was in operating major hotels for Disney and Marriott which lacked work rules and confrontational labor relations. This new team knew that employee morale was low and that the contract was restrictive and that they had to find ways to change it if they were to deliver the higher quality service and customer satisfaction they wanted to achieve. Since they were new to San Francisco, they took a fresh look at the situation. They did a systematic analysis of the San Francisco Culinary contract and determined that the real problem -- in terms of profitability, quality and competitiveness -- was its restrictive work rules rather than its wage and benefit levels, which the non-union hotels in San Francisco were matching. They looked at long-term food and beverage trends under these restrictive work rules and predicted further closing of bars and restaurants in the years ahead unless we could change the rules. Across town, the ANA Hotel, with a new management team put in place by its Japanese parent, had performed the same type of analysis and reached the same conclusion, as did the management teams at several other luxury unionized hotels. The general managers of these hotels wanted to find ways to change the poor labor-management climate and improve the competitive position of their hotels as we approached the negotiations.

Based on the contract analysis and on my prior experience in San Francisco hotel negotiations, my conclusion was that in the upcoming negotiations we had to focus on obtaining change in the language of the contract and in the relationship between the parties, as opposed to simply focusing on the traditional target of wage rates. You cannot, however, negotiate fundamental changes in the city-wide labor contract on behalf of a single company. Because of the political and historical patterns of bargaining among hotels and unions in the major organized hotel cities (e.g., San Francisco, New York, Chicago, Honolulu), it would be necessary to change the city-wide hotel contract since it is not possible to negotiate fundamental changes in a city-wide labor contract on behalf of a single company. I knew that it would take many hotels acting together as a group to make real change possible. I also believed it could only be accomplished by cooperative labor relations, as opposed to the more typical confrontation labor relations. My experience as a labor lawyer for the past fifteen years, my visits to companies that followed a cooperative approach, and the many studies that I had read all led me to the conclusion that the only real solution to the hotels' problems was for management and the unions to work together as partners to bring about the change.

I believed that the other alternative, attempting to defeat the unions in negotiations in order to impose unilateral changes in the contractual language and economics, would result at best in inconsequential changes. It would also substantially increase, rather than reduce, the distrust and poor morale. This would, in turn, make increases in guest service and productivity all but impossible at the hotels.

Several years earlier, there was a historic fight in San Francisco in which Culinary Local 2 (considered one of the most militant Culinary locals in the country) organized the new Parc 55 Hotel. The long and bitter organizing drive cost the hotel a fortune. During the course of this nearly five-year-long battle, the hotel was cited for numerous labor law violations by the National Labor Relations Board and faced relentless picketing, boycotts and a corporate publicity campaign. Eventually, the hotel lost an NLRB decision, was ordered to bargain with the union without an election, and then agreed to the union's most restrictive contract to date in San Francisco.[4] In short, the Culinary local in San Francisco had a well-deserved reputation for the ability to fight. Many of its leaders came from the United Farmworkers Union and shared the Farmworkers' belief of fighting the "bosses" to protect an immigrant and downtrodden workforce.

I had for many years known the leaders of the Culinary Local 2 as well as those of their International Union and had developed a relationship of trust and friendship with them. I respected their intelligence and their willingness to listen to new ideas. I believed that they would be willing to look at serious efforts to change their relationship with the hotels if they could trust that the hotels were serious as well. I had a similar relationship with the leadership of the other major hotel unions in San Francisco, i.e., the Service Employees (doorpersons and housepersons), the Engineers, and the Teamsters (front desk and office).[5] I also believed in their willing to change. It has been my experience that most labor leaders are willing to work for positive change if they trust your intentions.

Building a Consensus for Change

To achieve the labor-management partnership necessary to change the city-wide labor contract, I first began working to obtain a consensus with other San Francisco hotels. We created an informal group of managers from many different hotels and started meeting once a week in the Spring of 1993. We examined employee relations in the hotel industry and worked towards developing a common vision as to how it should change during the next five years. We brought in experts from various fields to talk to us about new developments and trends in their fields. We discussed how hotels and restaurants were operating in Japan, Europe and elsewhere. We read materials on new developments in hotels. After several months of work, our informal managers committee created a vision statement about changes we would like to see in the hotel industry over the next five years. Our overriding conclusion was a shared belief that fundamental change was necessary for these luxury hotels to remain viable competitors in the years ahead.

Next, I began reaching out to the union leaders. I met with our hotel Culinary and Service Employee leaders and discussed what we were doing with the managers. These union leaders understood the problems in the hotel industry and were interested in finding new solutions. They also knew that confrontation in the 1994 contract negotiations would be destructive to both sides. In addition, the Culinary's International Union indicated a willingness to participate with the local in working for constructive change with the hotels. To support this change, it committed its funds and the time of its most senior executives, which proved to be invaluable as events unfolded.

Next, I asked Assistant Secretary of Labor Martin Manley for his assistance in helping both the hotels and the unions understand that a new approach was needed in San Francisco hotel negotiations. Manley was in charge of fostering labor-management cooperation for the Department of Labor in the Clinton Administration. I was introduced to him by Bob Small, President of the Fairmont Hotel Management Company and a strong advocate of building employee morale and changing the labor-management culture in the hotels. Manley's personal background made him well suited for the task. He had been both a Culinary union official and a management consultant in the hospitality industry in San Francisco prior to his government appointment. He agreed to help us and he met separately with both hotel managers and union leaders to encourage them to try working together. We held several meetings in which he related how other industries had been successful in similar efforts to bring about change and he pledged governmental assistance in our efforts.

Our informal managers' group completed its work by the summer of 1993. I then presented our collective vision for needed changes in hotel operation to a group of about twenty General Managers of the city's unionized hotels. These General Managers had been meeting on their own for several months to see if they could form a new multiemployer bargaining group prior to the 1994 contract negotiations. The last multiemployer group in San Francisco had fallen apart ten years earlier in the aftermath of a massive hotel strike that had turned out of badly for the hotels.

In our meetings, I found many of these General Managers to be responsive to changing their hotels' relationships with the unions. They knew that the status quo was a formula for further deterioration of their competitive position and that they could not continue to agree to higher wages and more restrictive work rules without solving the real problems facing the hotels. They knew that employee morale and union relationships needed to improve if the hotels were to satisfy increasingly demanding guests. Some of them also knew that no real solutions to these problems would be likely to result from an all-out war with the unions. Over the course of the next year, some of these General Managers would play pivotal roles in leading the changes in labor-management relations in San Francisco. Some would put their credibility, and even their jobs, on the line to champion a new approach to labor relations in the city.

Multiemployer Group Adopts Theme of Cooperation

By early October 1993, about fifteen of the twenty General Managers decided to go forward to try to change the labor-management relationship in their hotels and agreed to form a new multiemployer group. This group hired me to help them bring about such change. As our first official act, we decided that the new group's initial goal should be to join with the Culinary and Service Employee unions and the workers in a joint study project to develop a mutual vision statement that would replace the unilateral one the hotels had developed earlier, as shared vision was essential to achieving real change. This joint study was to be non-binding and neither the hotels nor the unions would have to commit bargaining using the cooperative approach until after they saw the outcome of the study.

We did all of this more than nine months before we were scheduled to begin bargaining in the summer of 1994 because we knew that if we waited until bargaining began, the supercharged atmosphere of bargaining would not be conducive to finding solutions or to trust building. By that time, the pressure of the expiration date and strike deadlines would inevitably compel both sides to resort to "power bargaining," which is a test of wills and does not produce positive change or create trust. We also knew that the unions and the workers would be more likely to consider new ideas in the bargaining if they were involved in the development of those ideas from the very beginning. Nobody knows the work better than those who perform it, and attempting to find better ways to perform work and transform the hotels without the workers' input would result in half truths and missed opportunities. When there is a high level of distrust between the parties, bargaining proposals developed unilaterally by either side are doomed to fail (as the baseball strike was about to prove in the fall of 1994). We had to reverse decades of labor-management distrust in the San Francisco hotel industry and develop a new, mutual vision of the future. If we were to succeed, we needed to do this jointly with our unions. From this point forward, most of our decisions about the bargaining process and changes in the labor-management culture would be made jointly with the major unions.

Joint Study Begins

The joint study began in February of 1994. We decided how to conduct it by discussing it with the Culinary and the Service Employees leadership and various experts. We set up five study teams, one for each major trade in the hotels (kitchen, room attendants, bell/door/PBX, banquets, and food and beverage). The two unions selected the worker team members and the hotels selected the management team members. It was critical to allow the workers (through their union) to select their own team members because it made the process far more credible than if management selected the workers who would sit on these teams. We agreed that each team would meet for half a day for twelve consecutive weeks on paid time to study how work was currently performed in their craft and how it should be changed to make it more productive for the hotels, more satisfying for the workers, and better for the guest. We retained professionals to train the team members in non-confrontational teamwork problem solving techniques. We hired interpreters to deal with our diverse workforce, which includes many different ethnic groups.[6] We interviewed and hired the best possible facilitators from local colleges and universities (several of whom had been recommended by Assistant Labor Secretary Manley) to lead the study teams. We hired a lead facilitator to coordinate the effort of the five study teams. We agreed to use experts to advise the study teams as needed during their work. The high level of skill of the trainers, facilitators, coordinator and experts we selected proved absolutely crucial to making the study successful.

Assistant Labor Secretary Manley put us in touch with a number of experts he felt could help us, including the staff at the UC Berkeley National Center for the Workplace (and, in particular, Mary Ruth Gross who was also a facilitator) and the University of Massachusetts' Barry Bluestone, author of Negotiating the Future,[7] and a leading expert on union management cooperation in American industry. On our own, we contacted other experts, including: San Francisco union economist Harry Polland, who had been involved for many years in innovative labor-management projects in San Francisco, including in Teamsters-Cannery agreements, and had many creative suggestions; USC industrial psychologist Andy Imada, who I had worked with at other companies attempting to change their labor-management culture and who did a superb job as our first facilitator coordinator; James Jandl, another industrial psychologist skilled in corporate cultural change who previously worked in hotels in San Francisco and throughout the Sheraton organization; J.R. Schuster and Pat Zingheim, authors of The New Pay[8] and leading national experts on incentive pay; and J.D. Power and Associates, the leading national experts in measuring customer satisfaction. We believed that Schuster, Zingheim and Powers could help us some day link compensation to guest satisfaction. A few of these experts we paid, sharing the cost among our fifteen hotels and sometimes the unions. Still others donated their time. All were excited about the scope and breadth of this project and its implications for the hotel industry nationally, and they were eager to help make it a success. In addition, Culinary International President Edward Hanley provided Culinary Local 2 with the expertise of his most senior executives, including Jack Cullerton, John Wilhelm and Sherri Chiesa, who were instrumental throughout the process. The Culinary International also helped fund the study phase itself.

We studied other industries that had moved from confrontational to cooperative labor relations. We held an all-day education forum for the managers, union leaders, and workers where we had panelists including Barry Bluestone, Magma Copper and NUMMI executives and union leaders, and Assistant Secretary of Labor Manley talk to us about their own experiences. The Magma Cooper managers and union leaders told us how they had turned the company around by working together.[9] Both Barry Bluestone and Assistant Secretary of Labor Manley explained how numerous other companies experienced increases in productivity through real union-management cooperation and employee involvement teams. Bill Childs of NUMMI told us how labor-management cooperation turned a dead auto plant into a tremendously successful one. He explained how NUMMI had survived as an automobile manufacturer on the West Coast when all other plants were failing. He indicated that a major reason for this was the fact that it transformed its labor relations from a traditional adversarial model to a cooperative partnership with its union.

We held three such sessions, one for managers, one for union leaders, and one for line workers and managers in the study teams, so that each group would not be reluctant to ask questions. We videotaped all the sessions so that future workers and managers could benefit from it as well.

We also observed cooperative labor-management programs in action by making two benchmarking trips to the NUMMI plant, which is located about an hour from San Francisco. We took over one hundred hotel General Managers, Human Resources Directors, supervisors, workers, business agents, and union leaders for two days of intensive meetings with their counterparts at NUMMI. Bill Childs and his counterparts from the UAW, Charles Curry and Tony de Jesus, showed us how the NUMMI labor-management model rests on recognition of a legitimate role for the union as the workers' representatives. The model involves minimal job classifications that provide for flexibility in job duties; a massive and effective employee suggestion program; joint problem-solving groups; extensive worker training; self-directed work teams that inspect the quality of their own work and require less supervision than the traditional system; and job rotation and incentive pay based on customer satisfaction. While NUMMI makes cars and hotels service guests, the same labor-management concepts are equally applicable to both industries. We produced a video and a "white paper" (translated into several languages) of our NUMMI trips and showed it to four thousand plus employees at our fifteen hotels to educate them about the purpose of our joint study.

Finding a Model

With the help of the federal government, we also located a group of employers embarked on similar efforts in the hospital industry. This group, the Metropolitan Hospitals Labor-Management Council of Minneapolis, consists of numerous hospitals with separate ownership. Hospitals, like hotels, are in the "guest satisfaction business" and they also deal with multiple unions and hundreds of workers in a single location. They have narrow job classifications and many different union jurisdictions. They are beset by economic pressures that are squeezing the profitability of the industry. They have new non-union competition. In all these ways, they are like hotels. Finding a similar group engaged in changing its labor-management model from adversarial to cooperative was critical to us. They, like us, had to change many different corporate cultures and union relationships simultaneously, rather than the typical situation of a single company deciding to change its labor-management culture with its own unions. It was also important because it was a service industry and most of the models of corporate cultural changes are in the manufacturing sector. It is a multiemployer, multi-union group that had spent years working together to forge a real partnership to improve quality and profitability, customer satisfaction and worker morale. They had started years before us and were the only model of its kind we could locate. In their joint efforts, the Minneapolis hospitals and unions had been successful in streamlining some work by combining five job classifications into one new redesigned job. They had begun discussions about crossing jurisdictional lines to perform work. Our hotels were also interested in combining various jobs within the hotels and the Minneapolis hospitals shared the lessons that they had learned with us. Most important, they cautioned that the process of building trust takes time and that you had to be patient.

From meeting with these experts and studying these companies and unions, we were jointly able to observe the way management and labor worked together in successful labor-management partnerships in other industries. We learned that each successful example of change involved recognizing the legitimate role of all of the stakeholders in the process of change, including the workers and their unions. By contrast, hotels, like most American industries, had historically relied on authoritarian, top-down management control systems where there was little real communication between management and the workers and their unions, and where there was no serious attempt at worker and union involvement in improving the company. The day-to-day labor relationship in San Francisco hotels (and those in other major cities) more closely resembled a demilitarized zone, where hotel human resources directors and union business agents spent too much of their time policing a contractual truce line rather than attempting to really improve the workers' jobs and the companies' viability. It was clear that in order to change this confrontational routine and move to the cooperative approach we had observed in other industries, we would have to redesign the basic labor-management model between the hotels and the unions in the upcoming collective bargaining. We came to realize through our joint study and benchmarking visits and meetings that we had to first build trust and engage in massive training, and that this all would take time.

In the Spring of 1994, we applied for a labor-management cooperation grant from the Federal Mediation and Conciliation Service (FMCS) to help underwrite our efforts towards creating a cooperative model that would last long after the summer contract negotiations had come and gone. The FMCS gives out $1,000,000 a year in such grants to promote greater productivity in American industry and the Minneapolis hospitals had received one. The Minneapolis hospital leaders and other grant recipients helped us write the grant application and the FMCS itself became interested in our project and helped guide us through the application process. Months later, we were awarded a $100,000 labor-management grant by the agency. It was one of the largest ever awarded to a service sector company.

Our joint study took three months, from February to May of 1994. By its end, we had agreed on a number of key concepts that would end up providing the foundation for the contract negotiations. For example, there was a consensus among team members that cross-classification work would eventually help solve some of the food and beverage problems that had caused one hotel restaurant after another to close in recent years. However, there was also consensus that a much higher degree of training was needed in order to make cross-classification work a reality. It became clear to both sides that the hotels' sick pay system was badly broken and needed to be overhauled. There was consensus that the contractual grievance system was not working and was actually undermining trust between the parties. Most important, both sides agreed that the very process of employee involvement teams engaging in a joint search for solutions to workplace problems was itself a powerful tool for building trust and creating meaningful change in the labor-management relations.

Group Grows Smaller As Negotiations Begin

The next step after the conclusion of the study was the actual contract negotiations. Our hotel multiemployer group had begun in the fall of 1993 with a meeting of twenty of San Francisco's major unionized hotels. Fifteen of them signed up for the study phase in October of 1993. As bargaining approached in the summer of 1994, the number of hotels actually willing to commit to enter negotiations on a new platform of labor-management cooperation had shrunk to twelve[10]. The general managers of these twelve properties (and, in many cases, their corporate management companies) committed to entering formal negotiations together for a new and more cooperative relationship with their unions. They agreed to devote the time and resources required to make it happen. The balance of the hotels, including the Hilton, Sheraton Wharf, and Miyako, withdrew prior to bargaining to either follow a traditional confrontational approach or to just sit back and see which approach yielded the best results. They did this for various reasons. Some were controlled by other labor lawyers and consultants who were not willing to lose control of their clients to the multiemployer group. Some didn't want to spend the time and money and thought they could obtain the same results on their own. Another was pulled out of the group by its management company for corporal political reasons. In one case, both the General Manager and Human Resources Director of a hotel that had been an active participant in our group were transferred at the time of the hotel's withdrawal from the group, leaving most of us with the impression that these individuals lost their jobs because they had wanted to pursue this cooperative approach to labor relations.

Going into the actual negotiations in June of 1994, the economics in the unionized hotels continued to deteriorate to the point that most of the hotels in San Francisco were marginally profitable, if at all. The believed they could not continue with the historical pattern of higher costs and more restrictive rules. The workers and their unions, however, were looking for a real wage increase from these negotiations. Many of them had received low or no wage increases five years earlier in the previous contract and their wages had consequently not kept pace with inflation over the last five years.[11] As a result, the hotels knew that this year's bargaining was going to be difficult. The twelve hotels who committed to enter the bargaining on a cooperative platform knew they were taking a chance by doing so. Yet, they felt this approach was more likely to succeed than confrontation, which had failed in San Francisco hotels for the last fifteen years.

Bargaining Begins

The bargaining in the city began in June of 1994 with our new multiemployer group going first. The rest of the hotels stayed on the sidelines and watched. In order to close the gap in each side's perception of economic reality as our group began bargaining, we had several of our hotels openly discuss their financial condition and profitability with the union leadership as the initial step. We showed them in graphic detail the anticipated decline in hotel food and beverage operations if the current trends continued. We showed them the real, and abysmal, economics of hotels in the 1990s. We had our controllers make these presentations and we told them to be totally candid. This was an unprecedented move in the hotel industry in San Francisco.

Following that, both sides agreed to create formal joint bargaining subcommittees or fact-finding teams to take the results of the study phase and turn them into real proposals and contractual programs. The first joint subcommittee was asked to arrive at a common factual understanding of the state of the health and welfare trust fund and the unique situation that its surplus of tens of millions of dollars presented. The second joint fact-finding committee was asked to develop proposals for the training programs that the study phase had identified as absolutely necessary if cross-classification work and improved quality were to be achieved. A third team was formed to develop a new grievance system. Still others were formed to develop a new sick leave system and to develop pilot projects using cross-classification work and other work redesign concepts. We focused our efforts on these joint fact-finding subcommittees during the first few months of the formal bargaining. Using this strategy, we were able to develop joint proposals in all of these critical areas that the study phase had identified as problems. Instead of unilateral proposals that are dead on arrival, these were joint proposals that both sides understood and took ownership of from the very beginning. As a result, all of them were eventually incorporated into the new labor contract. It was, in effect, interest-based bargaining and it worked.

We then headed into the last phase of bargaining where we had to finally agree upon these new programs, decide who would pay for them, and divide up the economic pie. This is always a difficult process. We spent the next two months hammering out a new five-year labor contract. The trust and goodwill established between the two sides in the preceding year helped us make it through this difficult period of hard bargaining. Such trust was critical in allowing us to achieve a mutually satisfactory new contract without a strike. The bargaining was difficult because the wage, benefit, and language issues were huge and complicated. Also, the other hotels outside our group were by this time bargaining in a confrontational manner and forcing the unions to simultaneously get their membership ready for a fight, while also trying to establish a different kind of peace. During this phase, both the hotel group and the unions experienced the normal swing from more dovish to more hawkish positions, but the trust and momentum we had established earlier kept both sides moving on a cooperative course overall. That trust allowed us to develop some truly new programs to replace those which no longer worked and to reach agreement peaceably on a good new contract. Unlike the baseball negotiations which were occurring at the same time and resulted in a devastating strike, both sides in our negotiations worked together to arrive at mutually satisfactory solutions precisely because we continued to trust each other throughout the process. Unlike the Caterpillar strike (also occurring at the same time), our hotels were not faced with a global competitor that was paying half the wages and benefits that we were paying.[12] Our problems were local and could be solved by working together locally, as NUMMI and others had done before us.

The New "Living Contract"

The new contract we arrived at in September of 1994 is undeniably a different kind of labor agreement and a new model of labor relations for hotels. Among its main features:

- Living contract mechanism to allow the parties to continue building trust and making changes after the negotiations, as discussed below.

- Pilot programs in kitchens and restaurants aimed at finding new ways to make this portion of the business profitable again. It also included pilot programs for room attendants aimed at using incentive pay to increase room attendant productivity.[13]
- New social programs to enhance workers' security through elder care and childcare.
- Funding for domestic partners insurance coverage.
- A huge new training fund thirty-one times larger than the one it replaced.
- A new cooperative grievance mediation system which is less cumbersome and less costly for both sides. This new system promotes cooperative problem solving by workers and managers without the presence of lawyers or consultants, whose presence often served to perpetuate bickering in the past.
- A totally new personal time off system to replace the old sick leave system. In the old system, employees were treated as children and had to call in sick in order to attend school functions for their kids, doctor visits for their families, or other events which were important in their personal lives. By contrast, our new personal time off system treats the employees as adults and encourages then to act responsibly by allowing them to bank personal days or cash them out and to provide reasonable notice to the hotels of their need to take time off. It is expected over time to save the hotels money on replacement workers, increase their flexibility in scheduling, improve employee morale, and raise the levels of service to the guest.

Wage and benefit increases for the workers that total approximately three percent (3%) per year and that meet the workers' need for a real wage increase. However, in consideration of the hotels' economic plight, the unions agreed to reduce the employers' health insurance contributions by an unprecedented $80 per month per employee the first year and $70 per month the second year because of the large trust fund surpluses discussed earlier (noted earlier, see reference 7). The unions also allowed some of the surplus to be used to pay for the new training program and certain of the health and welfare and pension benefit increases we agreed upon. These health insurance reductions cut the real costs of the new contract to approximately two percent (2%) per year - lower than any contracts in several decades in San Francisco - while allowing us to simultaneously create or increase the other benefits.

The single most important change in the new labor contract is the establishment both of the joint problem solving/employee involvement teams within each hotel and of a permanent Joint Steering Committee between our hotel multiemployer group and the unions. These employee involvement teams and Joint Steering Committee create, in effect, a living contract in which management, the unions and the workers have agreed to continue working together for change throughout the term of the new agreements. I had learned from years of collective bargaining negotiations that real change will not occur if you stop working for change upon the ratification of a new contract. Most of the same problems will still be there when you sit down to negotiate the next contract three or five years later. The most frustrating aspect of being a labor negotiator is talking about change in negotiations with well-intentioned people, and then realizing years later in the next round of contract talks that nothing had changed. Good intentions are not enough. The basic labor-management systems must themselves be restructured if companies are to change for the better. We knew from our hotel study teams and our benchmarking visits that real change in the work rules and the relationship would take time and had to be preceded by years of trust building and training. We also knew that such change could best be accomplished on a hotel-by-hotel basis, i.e., each hotel would progress at its own pace in building trust with its workers and unions and changing the status quo.

The Joint Steering Committee consists of the General Managers of each Hotel and the union leaders, and it is facilitated by our Project Coordinator (financed by the FMCS grant). Its functions include decision making on major contractual issues and oversight of the twelve hotels' problem solving teams. It creates subcommittees to oversee the specific new programs in the contract, such as PTO, grievance mediation, and training. It meets at least monthly and works to sustain the momentum and the trust building between the union leaders and General Managers that has been developing over the past year.

The employee involvement teams in each hotel meet every few weeks. They will have the legal power under this contract to use interest-based bargaining to change contractual rules on a hotel-by-hotel basis, providing they obtain the approval of management and the unions before implementing such changes. Just as had occurred during the study phase and the initial bargaining phase, we agreed that the problem solving teams will be professionally trained, jointly selected, professionally facilitated, and overseen by a project coordinator. They will meet on paid time and would become a permanent part of the governance of each hotel. We hope they will result over time in true worker empowerment and a partnership between the hotels and the unions. They might be viewed as joint total quality management teams with the union as a legitimate partner in the process.

The speed and depth of change at each hotel will depend on the level of trust and understanding developed between each hotel, its workers, and their unions. We expect that positive models will lead the group by their example. The better the relationship an individual hotel creates with its workers and their union, the more competitive and productive that hotel will become.

The new contract was solidly ratified by the workers at our twelve hotels in the early fall of 1994. Many of the workers voting on it had participated in the study phase and the bargaining and had an in-depth understanding of the new programs we had jointly developed.

Most of the major luxury hotels that withdrew from our multiemployer group prior to bargaining quickly signed on to the same agreement after we finished, and it set the pattern for the entire city. One hotel, the Mark Hopkins, chose to fight, however. It had a seventy-four day strike with Culinary Local 2. The union was supported by other major unions and much of the political leadership of this strongly democratic city during this strike. The strike received local and national publicity, partly because it was in such sharp contrast to the way our negotiations were conducted.[14] Tensions ran high during the strike. Some of the multiemployer group hotels took in tour groups and individual guests who canceled their reservations at the Mark. The Fairmont Hotel, across the street from the Mark, and one of the hotels in our multiemployer group, offered free meals to the striking workers, who were often picketing through the night in the damp, cold San Francisco winter. Eventually, the Mark settled in what most observers considered a victory for the union. It was another clear demonstration that the Culinary in San Francisco was capable of cooperating and fighting at the same time - and doing both well.

Shortly after reaching agreement with the Culinary and the Service Employees, our multiemployer group reached a similar cooperative agreement with its Engineers Union and its long-time leader, Art Viat, who is one of the pioneers of worker training programs among American unions. Our new contract with the Engineers also focused on training and working together cooperatively with the union.

Implementing the Contract

If Phase 1 was the study of how to change and Phase 2 was the negotiations phase of incorporating procedures for change into the contract, Phase 3 would be the phase of turning theory into practice. Some of the new contract's programs had worked in other industries, but others were completely new and untested.

Immediately after the contracts were ratified, we convened the Joint Steering Committee and implemented the first new program, grievance mediation. We asked both the state and federal governments to provide us with public mediators to staff it. We first held some test mediations first at a few of our hotels, then convened all the players on both sides and shared opinions about making this process successful. It is this type of sharing within the multiemployer group, and between it and the unions, that is critical to making these new programs work. We then began using it at every hotel. It is working well, solving grievances successfully in a shorter period of time and without the expense and bitterness of the previous grievance procedure, and has clearly been a success.

We then went through a similar procedure in implementing personal time off. We first discussed it first at the Joint Steering Committee level and at the human resources director level among all of our hotels. We then had a few of our hotels pioneer the effort by developing the forms and procedures. We then shared these throughout the group, held explanatory sessions at each hotel, and then implemented the program.

Next, we turned to the problem solving teams. Here, we knew from our experience in the study phase that four things would be critical for success: training, careful selection of team members, skilled facilitators, and a good project coordinator to oversee and coordinate the twelve teams.

- For training, we again approached the federal agency that had given us the grant, the FMCS. While the traditional role of that agency was to help settle strikes, increasingly it has been focusing on working proactively with companies and unions to improve their relationships and the functioning of the business. The FMCS was very interested in making our program work. We spoke to its new Director, John Wells, and his assistant, Floyd Woods, and asked them to help us train our twelve problem solving teams. They agreed and provided us with one of their most skilled and effective conciliators, LaVonne Ritter. LaVonne had extensive experience in both labor and management and was a critical addition to our team as we thought through how to implement this program. First, she spent several days meeting with the union and hotel leadership deciding how to train and implement the problem solving teams and creating a mission statement.[15] An important part of this training would be to teach each team how to engage in interest-based bargaining, since they each had the legal power under the living contract to change the contract at their hotel. We then scheduled four full days of training at each of our twelve hotels to begin in March of 1995 and end in August. LaVonne Ritter agreed to prepare all the materials and to provide this training herself for our Group's twelve (12) hotels. We estimated that our group would have to spend about $240,000 if we sought to obtain this training in the private sector.

- For team member selection, we agreed that it was the unions' legitimate right as the workers' representatives to select the workers who would sit on each team and that it was management's right to select the management team members.
- The third component of implementing our teams successfully was to retain a Project Coordinator to oversee all twelve teams and to facilitate the Joint Steering Committee's bi-weekly meetings. The FMCS grant was to be used to pay for this position for eighteen months. We jointly interviewed a number of candidates and then selected Debbie Moy for the position. She had been one of our best facilitators during the study phase, enjoyed the complete trust of both sides, and had a superb background in the academic community in San Francisco.
- Finally, we believed we already had some of the best facilitators available who had worked with us during the study phase. We quickly got them to agree to continue working for us during the implementation of the contract. We then began to use our now fairly considerable network of contacts to expand that group of facilitators so that they could handle twelve teams. After a few months of searching and interviewing, we had secured a large group of excellent facilitators. With those four components in place, we began to train and roll out the problem solving teams hotel by hotel beginning in March of 1995.

The next element of the living contract that needed to be implemented was the training program itself. The study phase taught us that everyone, workers and managers alike, needed more training if the quality of hotels' service and workers' jobs were to improve. During the negotiation phase, we dedicated $1.8 million from the twelve hotels to training. As soon as the contract was ratified, our Joint Steering Committee applied for an additional multi-million state training grant. We then set out to design the new training program. We discussed at length at the Joint Steering Committee and its subcommittees how to create the right kind of training program for the hotels. We wanted one that would help our overall effort at changing the labor management culture of the hotels and with it, their productivity and the workers' job security. We also knew that while the workers wanted training, they also feared it. Many thought it was a way to force them to do other people's jobs so that hotels could fire workers and increase the workload of those remaining. Others thought training would be followed by impossibly difficult skills tests and that they would be fired for not passing those tests. Still others feared management would use training to learn the workers' secrets and then get rid of them. Apparently, some of these fears had been realized in the Caterpillar strike (see note 8).

Such fears led our Joint Steering Committee to agree to work together to find ways to make training a positive force in our equation instead of a negative. We decided that we needed to get the workers and line managers to tell us what types of training they wanted. Such employee involvement in creating the training program, we believed, would create "buy in." We already had a perfect vehicle to accomplish this, namely, the facilitator-led employee involvement teams in each hotel. We agreed that each team would focus on training as one of its initial agenda items. The facilitators of the twelve teams could, by virtue of their regular facilitator meetings, then cross-pollinate ideas from one hotel to another and collate the results of the various teams for Project Coordinator Moy to present to the Joint Steering Committee's Training Subcommittee. The Training Subcommittee would then produce a proposed joint training program and submit it to the Joint Steering Committee for approval.

The Future

One final issue should be addressed. How does a multiemployer group of hotels and restaurants work for labor-management cultural change with its unions in a city where other luxury union hotels are outside the group[16] and some luxury hotels don't even have a union contract.[17] How does our group compare in size to the total luxury hotel population in San Francisco?[18] How do the unions deal with all these different groups? How do our hotels feel about spending the money to keep the effort towards changing the culture alive when the other hotels benefit from the contract programs we created but have not contributed to the costs? Will we train good people only to lose them to other hotels? How does our group stay together?

So far, we have stayed together because we have created a belief that what we are doing will make a difference to the hotels in our group in the long run. We have had a number of successes so far in keeping our momentum going. Reaching a successful conclusion to the summer's negotiations was, of course, a major accomplishment and a morale booster for our group. A number of articles were written about this accomplishment.[19] Our momentum from reaching a successful agreement was reinforced when most the other union hotels quickly agreed to the same contract and those who did not, fought and lost. Our momentum was also reinforced by other hotels outside the group taking steps to parallel our activities and, in some cases, making inquiries about rejoining. We believe that they were finding out that it was difficult to implement the programs in the new contract without the resources and good relations with the union leaders that our group had created.

From an economic standpoint, while membership in the group cost each hotel two to three thousand a month (to pay our fees and those of the group bookkeeper, corporate counsel, trust fund trustee, experts, and related costs), most of our members realized that the costs of attempting to accomplish similar changes individually would be far higher, as would the cost of fighting the unions. Companies attempting to re-engineer their relationships with their union workers often spend far more than our members were spending. Companies fighting unions almost inevitably spend more. Most of our members believe that the hotels that pulled out of the group to fight the unions failed to achieve anything of significance and spent far more than the group hotels in the process. Also, the economic benefits thus far from being within the group, including hundreds of thousands of dollars in federal grants and services, less expensive contracts, no losses from strikes, and possibly several million dollars more in state training money, greatly exceeded the costs of group membership.

Finally, we have not witnessed any measurable loss of good workers or managers to other hotels and we believe this is due to our wage and benefit levels, opportunities for training and advancement, and our commitment to worker dignity and respect. If the employee empowerment environment and training produce a better working relationship in our hotels in the future, we may even be able to attract good workers seeking to leave more hostile workplaces.

As to the future, our group believes that it is better off remaining a small group of like-minded companies if we want to achieve real changes. Recreating a city-wide multiemployer group including hotels whose owners, managers, and lawyers don't share our vision of labor relations would make it more difficult to accomplish our goal of creating a better relationship with our workers and unions. We also believe that our group needs to avoid creating a bureaucracy that will turn our movement for cultural change into an entity seeking only to perpetuate itself and the status quo. While we have a added a part-time bookkeeper and corporate counsel, and hired an independent trustee to represent us in the trust funds, we have avoided creating any full-time paid staff or other trappings of a bureaucracy. Rather, the General Managers of the hotels and the union leaders are staying directly involved in the process themselves and attending Joint Steering Committee and subcommittee meetings monthly to oversee the implementation of the contract. We continue to look for guidance from the same people that have guided us so well over the last year or so, our own workers, our Project Coordinator and facilitators, the FMCS team that is assisting us, our benchmarking partners, our experts, and our own observations about other companies and unions across America that are working together for change.

References:

1. The ANA, Four Seasons Clift, Fairmont, Grand Hyatt, Hyatt Regency, Holiday Inn Union Square, Holiday Inn Financial District, Holiday Inn Civic Center, Holiday Inn Fisherman's Wharf, Handlery, Westin St. Francis and Sheraton Palace.

2. There was an explosion of hotel building in San Francisco and the United States in the 1970s and 1980s; and while San Francisco's Local 2 did organize the Parc 55, there were too many new hotels too fast during these years for the Culinary in San Francisco or other unionized cities to catch up. No major union hotel had decertified (i.e., rejected the union) in San Francisco because of the strength of Local 2 and the other unions, but many new ones had been built there and had not yet been organized. By 1994, San Francisco had about 20 luxury union hotels and about 7 new luxury non-union hotels.

3. This is a national trend. See "Union Soldiers," Restaurant Business, November 20, 1994.

4. The Parc 55's contract contained the first successorship agreement in San Francisco in which the owners agreed that if they sold the hotel, they would retain the existing unionized workforce -- which, as a practical matter, ensures that the hotel stays union. Most owners feel that this creates an impediment to sale, particularly if the other hotels in town do not have similar restrictions. The new Parc 55 contract also contained richer vacation, holiday, meals, and work load provision than in the other contracts in the city.

5. The Culinary leader in San Francisco was Sherri Chiesa. She had been the union president for ten years, was a strong and intelligent leader, knew the labor contract and the hotel industry well, and was well-respected by many of General Managers in town. A few months later, she decided not to run for re-election at the local and to move on to working for the International Union. She was succeeded by Mike Casey, a charismatic young leader who also had worked for the

Farmworkers Union (as had much of the Local 2 staff at some point in their careers). A strong new leader, Casey also was willing to work constructively with the hotels for change, as long as the union played its proper role as the workers' representative and spokesman so that it could assure that the process served the workers' needs. He viewed the change as a way to redirect the union's resources towards organizing. The SEIU leader was Gerry Hipps, another constructive leader who would soon retire. He was succeeded by Greg Lim, an intelligent young leader who was interested in change and creative about ways of accomplishing it. The Engineers were headed by their long-time leader Art Viat, who had built one of the strongest unions in the country by focusing on training and education of its membership.

6. Our workforce is predominately immigrant, with English being a second language for most. To further complicate communications, our employees speak some 26 different languages, including Spanish, Cantonese, Vietnamese, Laotian, Cambodian, Tagalog and Russian. The language and cultural differences make concepts such as teamwork, employee participation, advanced skills training and promotion to higher-paying jobs extremely challenging, and massive amounts of training are needed to begin to address these issues.

7. Barry Bluestone and Irving Bluestone, Negotiating the Future (New York, NY: BasicBooks 1992).

8. Jay R. Schuster and Patricia K. Zingheim, The New Pay (New York, NY: Lexington Books 1992).

9. Magma Copper implemented a cooperative program with its unions in its Arizona facility in 1989 following a history of recurrent and militant strikes. From 1989 on, Magma and its unions co-determined every aspect of its operations, including budgets, financing and market strategy. Management and the unions stressed productivity by implementing gainsharing programs in which approximately 16 percent, or one to two dollars per hour of each employee's pay, was at risk based on their performance, and then began more than 40 joint labor- management projects plant-wide to focus on work redesign, improved processes, and problem solving. By 1992, Magma had reduced its operating costs by $40 million and paid $19 million of it to the employees in gainsharing pay. Production was up 56 percent from 1988, and the Arizona facility's underground mine operations had progressed from being the highest cost producer in Magma's operations worldwide in 1988 to its lowest cost producer, surpassing even its underground mine operations in Chile. The company's net debt went from $400 million in 1988 to $66 million in 1994, and investors' initial investments appreciated 400 percent in the period 1988 to 1994.

10. The ANA, Four Seasons Clift, Fairmont, Holiday Inn Union Square, Holiday Inn Fisherman's Wharf, Holiday Inn Financial District, Holiday Inn Civic Center, Grand Hyatt, Hyatt Regency, Westin St. Francis, Sheraton Palace, and the Handlery.

11. The low wage increases five years earlier were because most of the money the hotels paid under that previous contract in 1989 was dedicated to anticipated large health insurance increases. However, those increases had not materialized because of a responsible approach by the union trustees who refrained from trying to increase benefits in light of the hotel industry's deteriorating plight, and because the insurance carriers had held costs down in anticipation of

national health insurance. These two factors had produced a very large surplus in the trust funds by 1994 of over twenty million dollars, which was to prove significant in the upcoming negotiations.

12. See the Los Angeles Times's five-part series on the Caterpillar strike beginning May 14, 1995.

13. One pilot project will reduce the number of job classifications in the kitchen and train employees there to perform several job functions. Such training would reduce monotony and make the employees less vulnerable to layoff in the event a dishwasher, for instance, who performs heavy physical labor, is injured and can no longer do heavy work. If he has also been trained to carve ice, or make sauces, he may be able to continue to work in this other capacity. In the Spring of 1995, a national restaurant chain, Elephant and Castle, joined the multiemployer group. This chain, HERE Local 2 and the Holiday Inn Union Square are presently working to make the restaurant pilot project a reality and shows that unionized restaurants in unionized hotels can compete against the non-union restaurant chains.

14. See Hotel Workers Striking Mark Hopkins While Cooperation Marks Other Talks, BNA Daily Labor Report No. 201, October 20, 1994.

15. That mission statement we created reads as follows:

It shall be the mission of the SF Hotels Multiemployer Group and the unions to create a new partnership in labor relations.

We are committed to jointly creating world class models in the hotel industry demonstrating that union-employer partnerships can achieve a truly successful competitive edge.

We share a commitment to superior guest satisfaction, economic prosperity, and real job security. We will achieve a competitive advantage and assure employment security by having a better trained workforce with lower turnover and higher morale. The hotels and the unions both recognize the inherent value of a unionized, highly productive, and truly participatory workforce.

Acknowledging that joint ownership of the process is necessary to ensure success of the parties, we will share all relevant information to foster better communication.

To accomplish this mission, we commit ourselves to openness, human dignity, courtesy, mutual respect, and an ever increasing level of trust.

16. Hilton, Stanford Court, Mark, Sheraton Wharf, Huntington, Miyako, Parc 55, Cathedral Hill and (after it changed management companies) the Clift.

17. Ritz Carlton, Nikko, Pan Pacific, Marriott, Mandarin, Park Hyatt and Hyatt Fisherman's Wharf.

18. Our hotels employed approximately 3500 hotel workers. The Hilton Hotel is outside our group for personality reasons but follows our programs with its 1000 employees, so 4500 of the Culinary and SEIU's combined membership of about 9000 workers follow our programs exactly, i.e., about 50% of the unions' membership. Our group set the pattern for the major labor contracts, i.e., the Culinary, SEIU and Engineers negotiated deals with us and then made the other hotels adopt them. The other eight unionized hotels outside our group may have

approximately 3000 additional workers. The five major luxury non-union hotels may have approximately another 2000 workers. As discussed above, these new hotels had opened in a spurt of hotel growth in the 1970s and 1980s after years of non-growth and the unions had not yet been able to organize most of the new players, except the Parc 55.

19. See Labor Management Committees Contained in HERE Contract with San Francisco Hotels, BNA Daily Labor Report Number 178, September 16, 1994; Hotel Workers Striking Mark Hopkins While Cooperation Marks Other Talks, BNA Daily Labor Report Number 201, October 20, 1994; San Francisco Hotel, Union Accord Cutting Grievance Costs, Forum Told, BNA Daily Labor Report, March 17, 1994; San Francisco Hotels, Unions Reach Agreement, Hotel Business, Volume 3, Number 22 (November 21-December 6, 1994); Union Soldiers, Restaurant Business, November 20, 1994.