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Social Consequences of Employee/Management Buyouts: Two Canadian Examples From the Forest Sector*

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ABSTRACT Local control of natural resource processing facilities in small rural communities is often viewed as beneficial to community development. This paper employs social impact assessment tools to examine the social and economic effects of change in the ownership of forest products mills in two communities. Our analysis documents (1) the degree to which local ownership of the new, locally owned corporations led to local reinvestment of profits, and (2) whether the goals of the architects of these buyouts were realized: the maintenance of jobs, income, population, and a way of life. Overall, both communities were able to maintain jobs, population, and real estate values, and profits were reinvested in mill upgrades. After the buyouts, however, both communities experienced a rise and then a decline in community cohesion, and changes in local social and power relations, in which local ownership was short-lived; benefits to relationships within the community were mixed.

A central issue in the growing field of environmental sociology is the social impact of local versus absentee ownership and control over natural resources. Inherent in this theme is the assumption that people are more likely to invest themselves in projects in which they have more say and in which the rewards of their work and decisions are returned directly to the workers (Freeman 1992).

Although this compelling argument is made frequently, empirical evidence is scant. This is especially true in North America, where natural resource management has increased in scale and has come increasingly under the control of large, transnational corporations or large governmental bureaucracies.

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In this paper we examine the social and economic impacts related to change in ownership of forest products mills in two communities in Canada. The communities—Pine Falls, Manitoba and Kapuskasing, Ontario—are notable because in the early 1990s coalitions of workers, managers, and minority shareholding outside investors purchased the pulp mills located in each of these communities from large "parent" corporations. These worker and management buyouts countered a century-long trend of consolidation in the pulp and paper industry; virtually overnight these mills became Davids in an economic sector dominated by pulp and paper Goliaths. Like David, the companies faced long odds. The parent corporations unloaded the Pine Falls and Kapuskasing mills because they did not regard them as central to their operations; nor did they wish to make significant reinvestment in these aging mills, which would bring them into compliance with 1990s environmental standards. These cases offer an opportunity to examine the short-term effects of local communities' gaining a considerable measure of control over their local natural resources,[1] as well as over the processing facilities that dominate the local economies of both communities.

Most social impact assessments focus on new projects and developments (Interorganizational Committee 1994). The purpose of social impact assessment (SIA) research is to anticipate how major changes, such as building highways, opening mines, and damming rivers, affect community life. Many of the tools employed by SIA researchers also can be used after the fact in a study of corporate ownership transfers to local ownership to examine whether and how these communities changed after local control was achieved.

We will describe some changes in the communities through objective indicators such as population, employment, investment in community infrastructure, and financial returns to worker and management investors. More important, we will examine changes in subjective aspects of community well-being such as community cohesion, workplace democracy, and social relations and community power. This comparative case study allows us to understand the social consequences of forest product mill buyouts and raises fur-

[1] Certain rights and responsibilities to manage large tracts of public land accompanied acquisition of these processing facilities through the transfer of forest management licenses of Crown land to the new, local owners. In Canada, timber rights on large tracts of Crown land or public land are leased to private corporations, which undertake management responsibility according to provincial guidelines in exchange for long-term security.

ther questions about the conditions under which local communities benefit from local control over a mill and land base.

Both cases are remarkable in that the local investors achieved outstanding financial returns, which were largely unanticipated. When the buyouts were orchestrated, the communities were facing economic collapse. The alternatives to local ownership were outright closure of the mill or drastic reductions in employment. Most workers felt that they were buying their jobs by investing in the local company. Nonworker community investors in Kapuskasing viewed their contributions to the new, local company more as a "donation" than as an "investment"; yet they made a 1,000 percent profit. On the other hand, the community cohesion and the common sense of purpose that characterized these communities during the period leading up to the buyouts were short-lived. We will examine some of the factors that led to the dissolution of this cohesion, as well as factors that disrupted the "old order" of decision making and exercise of power, both within the company and in the community.

We must point out the limitations of this comparative case study in regard to the uniqueness of these communities: they bought the mills at a time when pulp prices were favorable, and both mills were bought out by a "friendly" corporation—an unusual outcome. Finally, our analysis is limited to short-term effects of local control: in Pine Falls, employees and managers owned the mill for four years, and in Kapuskasing local employee ownership lasted for six years.

Natural Resource Dependency, Absentee Ownership, and Group Dynamics

In this research we address a fundamental question in natural resource sociology: What are the social and economic effects of change in ownership from corporate to local control? A number of rural sociologists have tested Goldschmidt's (1978) hypothesis, which asserts that the quality of rural community life differs according to the social organization of key industries and their occupational structure (for overviews see Buttel 1982; Heffernen 1982). Similarly, various versions of dependency theory suggest that local ownership is more likely to result in community well-being because the profits are captured locally and recirculated into the local economy. For example, world systems theory, metropolitan dominance theories, and dependency theory all describe unequal relationships between core (urban) and periphery (rural) communities. They suggest that communities in the extractive resource peripheries are at a structural disadvantage in relation to core metropolitan communities because of the core regions' larger population, their dominance over state and provincial political institutions and their access to those institutions, and the weakness of their commitment to rural areas beyond those areas' utility for providing raw materials (Lovejoy and Krannich 1982; Wallerstein 1987).

Several authors have described how these core/periphery relations play out in the timber sector, usually to the detriment of timber-dependent communities (Brunelle 1990; Drushka 1993; Humphrey 1990; Marchak 1983). These authors frequently mention that the timber industry is cyclical; this quality results in periodic downturns characterized by mill closures. Although many mill towns are stable in the short and medium term, they are vulnerable to long-term shifts in capital investment. Communities dependent on pulp and paper mills tend to be much more stable (in terms of employment) than other timber-dependent communities (Overdevest and Green 1995). Mills also pass through cycles of technological obsolescence in which they must invest significant capital to upgrade the mill, or risk losing their place in the competitive pulp or paper sector. This is precisely what happened to our two case study communities: after more than a half-century of relatively continuous prosperity, the parent companies of the mills in question decided that these facilities did not fit into their future plans. They were prepared to walk away from them for higher profits in a different corporate investment.

The converse of dependency theory is that local control would foster a stronger commitment to equitable relationships and community well-being (Gunderson et al. 1995; Smith 1994). If companies are owned locally, profits accrue locally and therefore can contribute to economic development and spin-off effects in the peripheral region (Guest and Lee 1983; Krannich and Luloff 1991; Meek, Woodworth, and Dyer 1988). Several studies report that employee/community firms are run more effectively than large, affluent corporations (Sterns and Hammer 1978; Zwerdling 1980), that employee-owned firms tend to be superior in job satisfaction and financial performance (Conte and Tannenbaum 1977), and that professionals involved in local rather than absentee ownership of a business are more likely to become involved with community development efforts and to attend to community needs (Gieseke and Korsching 1998). The empirical case studies examined here allow us to determine whether profits from local ownership indeed are reinvested locally, and whether the negative cycle of resource dependence is mitigated (given that the companies still rely on international markets) when dividends are paid to local, as opposed to distant, shareholders.

Social impact assessment is an area of research and practice that attempts to anticipate the effects of some major change in communities. SIAs usually are conducted in anticipation of a change. These studies document both potential positive and negative social change, though they often emphasize anticipated negative consequences so that policies aimed at mitigation may be implemented early in the process. Variables identified in SIA range from highly objective indicators, such as population change, change in income, demographic composition, and employment, to more subjective indicators such as change in community conflict, class stratification, disruptions in social networks, perceptions of public health, and changes in leisure opportunities (Burdge 1995).

The cases that we examine here are somewhat different from normal SIA case studies. As stated above, SIAs usually are made in anticipation of a change: a mine, a mill, a cement plant, an incinerator, or a processing facility. In the typical case, some sort of new infrastructure and new residents bring about institutional and social change in the community. In our communities, however, these types of scenario are reversed: the residents of Kapuskasing and Pine Falls created new institutions (locally owned companies established to purchase existing industrial infrastructure) with the explicit aim of *maintaining* the community's population and way of life. The desired change was radical, but institutional innovation, collective action, and local entrepreneurship were deployed with the express purpose of retaining jobs. From a community development perspective, in this era of rapid capital flows, the best smokestack to "chase" may be the one that is already in the center of town. In our analysis of objective variables assessing social impact, we focus on whether things stayed the same (the implicit goal of the local buyouts). Our subjective variables assess the short-term social changes associated with the buyout in terms of community cohesion, workplace democracy, and social relations and community power.

Methods

In this study we employed semistructured interviews with key informants involved in the buyouts in Pine Falls, Manitoba and Kapuskasing, Ontario. Between November 1997 and April 1998 we interviewed 20 individuals in the two communities and one additional informant who was central to the buyout in Pine Falls. One author has four years of research history in Pine Falls (Beckley and Sprenger 1995); thus interviewees in Pine Falls were selected on the basis of previous research contacts and familiarity with the key figures in the buyout. Additional participants in Pine Falls were selected through snowball sampling. Interviewees in Kapuskasing initially were chosen from secondary sources, and then were selected through snowball sampling. Most of the interviews were held during two site visits to the communities, in which both authors participated.

Respondents were chosen carefully to represent a variety of perspectives and social positions in the communities. Although our sample is small, it was constructed carefully and thoughtfully. We sought and achieved representation from mill management, the major unions, and board members of the new, local companies. We also interviewed representatives of the local media, politicians, social service agency workers, and other knowledgeable "outsiders" (local residents who did not work in the mill). Our original intent also was to interview representatives of the former parent corporations: we were particularly curious to learn why they wished to sell the mills in these communities. The local respondents' unanimity regarding the parent corporations' motivations, however, convinced us that we did not need to travel to Wisconsin or Toronto to interview paper company executives.

Our interviews ran from 40 minutes to two hours. Both of us were present at 90 percent of the interviews; thus one author could focus on the questioning while the other took detailed notes. The interviews also were taped and subsequently transcribed. Questions varied depending on the respondent's perspective, though core perceptual questions about community change were asked of everyone. We coded data using the constant comparative method outlined by Glaser and Strauss (1967) and by Strauss and Corbin (1990), and coded the information under the headings specified below in the "Findings" section.

Secondary material from newspapers, trade magazines, government documents, and annual reports of the corporations helped us to quantify some of the changes that occurred in the communities, and allowed us to triangulate data. Census data from Statistics Canada are also instrumental to our assessment of success or failure of the buyouts for objective indicators such as population levels and real estate values. In Canada, census data are collected in census divisions, which are broken down further into census subdivisions. In rural areas, these subdivisions usually take one of two forms: a distinct, usually incorporated rural municipality or the unorganized "open country" surrounding rural municipalities.

Case Description: Kapuskasing

Kapuskasing is an extremely isolated timber community located some 850 kilometers north of Toronto, on a main highway that slices through the northern Ontario boreal forest. Kapuskasing is a regional service center for a number of smaller communities that exist to the east and west. Slightly smaller regional service centers exist roughly 75 kilometers in either direction. Some mill workers commute from the nearby communities, but most live in Kapuskasing proper.

Kimberly Clark of Canada Ltd. and *The New York Times* built the mill in Kapuskasing in the late 1920s. The town was a planned community constructed explicitly to support the mill population. In its early years it received a considerable amount of press as a model resource town (Robson 1996), where a majority of community members had higher than average incomes and where there were many amenities not found in other small towns. The bulk of the Kapuskasing mill's wood comes from the 1.4 million-hectare Gordon Cosens Forest, provincial Crown land under long-term lease to the company. In the late 1980s, Kimberly Clark decided that it wished to focus on its core products, value-added goods such as diapers, paper towels, and toilet tissue. The company's desire to divest itself of the Kapuskasing mill was part of an overall strategy to exit the pulp and newsprint business.

For two years corporate managers searched for an interested buyer, but without success. Then in 1990, during contract negotiations with the local timber workers' union, union members suggested the idea of a local buyout. After nearly a year of negotiations, local residents purchased the mill and associated private woodlands from Kimberly Clark, and assumed the contract with the provincial government for Crown timber.

The final agreement involved a consortium of local interests. The provincial government became involved by helping to facilitate bank loans and deal with public utility issues. An outside minority investor (Tembec Inc.) also was recruited at the behest of the provincial government and to satisfy creditors. The initial distribution of shares, valued at $1 per share at that time, was 52 percent to employees (both workers and managers), 41 percent to Tembec Inc., and 7 percent to community investors. The community shares were nonvoting[2] shares; to qualify for purchase, one had to live between the communities of Hearst and Smooth Rock Falls.[3]

After the transfer of ownership, Tembec Inc. signed a management contract with the owner of Kapuskasing's mill, Spruce Falls Inc., to manage the Kapuskasing mill and the associated Crown land lease. According to newspaper reports at the time, Tembec had a very positive relationship with local buyers of the mill: the company had started in a local buyout of a mill in Temascaming, Quebec in 1973, was Canadian-owned, focused on forest product mills, and had been financially successful for over 20 years (Book Committee 1996; "Profits Triple" 2000). As indicated in the interviews, Tembec's leader was known for his approachable style, his willingness to listen to employees at all levels, and his strong record in business leadership.

Between 1991 and 1996 the mill rationalized production processes, and some jobs were lost. Additional jobs were created through reinvestment and new construction. Tembec began to slowly acquire shares, and by 1997 had amassed 51 percent of the voting shares. The corporate charter stated that if Tembec received commitment from two-thirds of the remaining shareholders to sell their shares, all remaining shareholders would be required by law to sell to Tembec. The company's offer to buy the remainder of existing shares was fairly generous: $10 per share (or $7 cash and $3 worth of Tembec Class A shares) for shares that originally were purchased or gifted for $1 in 1991. In the end, more than 90 percent of the workers voted to sell their shares; in March 1997, Tembec became the sole owner of the Kapuskasing mill, formerly owned by Spruce Falls Inc.

Case Description: Pine Falls

Pine Falls, Manitoba is located in the southeastern portion of the province, about 90 miles from Winnipeg. The development of company towns often fosters the growth of adjacent "sister" communities just outside the town border. Powerview is such a town; the de-

[2] Kang and Sorensen (1999) argue that the right to vote, on a "one share, one vote" basis, is an important legal rule of modern corporate governance, because the shareholders' property rights are created and defined by federal securities regulations and case law. Thus community members could not vote on certain major corporate changes such as liquidations and mergers with other companies; as a result, the actual rights associated with these shares were limited considerably.

[3] The distance between Hearst and Smooth Rock Falls is 156 kilometers; Kapuskasing lies between. The great majority of employees at the Kapuskasing mill live in Kapuskasing.

velopment of Pine Falls and the growth of Powerview are linked inseparably. Together these two communities constitute the mill "village." The surrounding rural census subdivision (Alexander) also houses a significant proportion of the mill's labor force. (For further discussion of social interaction between these communities, see Beckley and Sprenger 1995.)

The Pine Falls mill dates back to the 1920s; like Kapuskasing, the town of Pine Falls was built by a private company, expressly to house mill workers. The community has been operated as a company town for the past 70 years. The mill manufactures newsprint, much of which is shipped to the United States. It obtains its wood from both private and public land, but most of its fiber comes from a long-term lease of Crown land. The forest management license covers nearly 500,000 hectares of productive forest land that extends north from the town of Pine Falls.

In 1989 Abitibi-Price, the company that owned the mill, began seek potential buyers. The company, based in Toronto, had decided to focus its Canadian operations more locally (in central Canada) while simultaneously making new international investments. Abitibi looked for buyers for over two years. In 1991, with no outside buyers forthcoming, the company entered negotiations with local management for a management buyout of the mill.

Three more years were needed to hammer out a final deal, which included the forest management license; during that time the community suffered considerable stress. The local mill manager was the chief negotiator with Abitibi-Price. In the end, he was credited almost universally with successfully negotiating an agreement and, by extension, saving the community.

In September 1994, the Pine Falls Paper Company came into existence. Abitibi-Price, the banks, and the provincial government required (as in Kapuskasing) that a minority, nonlocal investor be recruited. That individual, a retired paper company executive from Montreal, put up several million dollars of his own money and received 24 percent of the shares of the new corporation.[4] Managers at the mill received 28 percent of the shares. Other workers held 30 percent of the shares directly; an additional 15 percent were held in an employee trust that covered both salaried and unionized mill employees. The remaining shares were held by local Aboriginal in-

[4] Employees and managers reported that they would have preferred to wholly own the company, but the bank would not provide the loan without this sizable investment by an outside investor.

terests and by the financial services corporation that helped broker the deal. No share offerings were made to community residents in Pine Falls or surrounding communities, although some members of the local business community were interested in investing in the mill.

In the very month of the transfer, newsprint prices skyrocketed. Within a year, construction began on a de-inking plant for recycled material and a wastewater treatment plant. Workers had taken a wage cut and freeze, but after the first full year of operations, profit-sharing provisions in the deal more than made up for lost salary.

In 1998, after a year of negotiation and speculation, a majority of shareholders voted to sell the mill to an outside, corporate buyer. Ironically, it was Tembec, the same firm that purchased the Kapuskasing mill, which made the offer to Pine Falls. In February 1998, after 90 percent of the shareholders approved the sale, the deal was made. Once again, the shareholders in the local company made a handsome profit. Shares that originally were purchased or given (as part of the wage rollbacks) with a value of $5 eventually sold for roughly $84.

Findings

The communities of Kapuskasing and Pine Falls both took a great risk in the early 1990s by purchasing aging pulp mills. They opposed the trend of consolidation in the pulp and paper industry and decided to operate alone, as small specialized companies competing with large corporations. The communities did not take these actions because they felt that they were necessarily good investments that would yield significant returns; they acted because they had too much to lose if they did not. If the mills closed, the residents' homes would be virtually worthless, they would have no jobs, and probably they would have to relocate in order to find work. One resident described the bargaining with corporate owners as "negotiating with a gun to your head." People were willing to invest substantial portions of their life savings in these aging mills and to take significant wage reductions, largely because they believed in themselves, in their unions, and in local management leaders. From our observations, the social capital that existed in these towns was high in view of the degree of organization, time commitment, financial sacrifice, and trust required to carry out a legal buyout of a multimillion-dollar enterprise (Flora et al. 1997).

Because so much emphasis in the buyout process was placed on maintaining the residents' way of life, this analysis of SIA objective variables focuses on how much things *stayed the same.* The intent of these buyouts' architects was to maintain jobs, population, and real estate values; our subjective indicators address how the new form of ownership changed. We also sought to understand how local ownership changed community cohesion, workplace democracy, and social relations and community power. Here we discuss the degree to which these buyouts achieved these desired results, and the extent to which they achieved unanticipated results.

Objective Indicators

Population and employment. The variables of population and employment tend to be highly correlated in single-sector resource-dependent communities; thus we treat them together in this analysis. In 1991, around the time of the buyout, Kapuskasing underwent a significant loss in jobs and an associated loss in population. Roughly 500 jobs, or 34 percent of the positions, were eliminated at the mill. Recall, however, that job losses without the local buyout were projected at about 1,200 ("Time Running Out" 1991). Some considered the loss of only one-third of the employment base, as opposed to over 80 percent, a victory.

The population of Kapuskasing decreased nearly in lockstep with employment reductions after 1990. According to journalistic accounts (Whitehouse 1997), the community's population declined by about 33 percent between 1990 and 1992, from around 12,000 residents to just over 8,000. Statistics Canada data suggest a much less dramatic decline of 1,350 residents between 1986 and 1996; most of that decrease occurred in the unsettled period from 1986 to 1991.

Shortly after the deal at Kapuskasing was struck, managers at the Pine Falls mill began negotiations with Abitibi-Price; a final agreement did not emerge until three years later. The delay gave an advantage to the local owners of the Pine Falls mill because newsprint prices were down from 1991 to 1994. The prices revived in the very month when Pine Falls Paper Company came into existence. Retooling of the mill began almost immediately because the mill was making money and had profits to reinvest. Accordingly, managers and mill employees reported that few mill employees, if any, were let go.

Before 1996, Statistics Canada did not categorize Pine Falls as a distinct census subdivision: it was enumerated as part of a territory

Table 1. Summary of Objective Indicators

	Kapuska-sing	Cochrane North [a]	Moon-beam	Val Rita Harley	Opasa-tika	Ontario	Pine Falls [b]	Power-view	Alexander LGD	Manitoba
Total population										
1986	11,380	5,165	1,426	1,317	647	9,101,694	No data	725	2,165	1,063,016
1991	10,344	4,025	1,330	1,178	388	10,088,85	800	736	2,399	1,091,942
1996	10,036	4,187	1,322	1,112	349	10,753,573	794	759	2,555	1,113,898
Dwelling average value (1996 Dollars)										
1986	82,713	65,030	65,912	61,084	52,284	140,650	No data	76503	73,757	68,573
1991	90,272	74,687	70,344	62,106	36,796	212,221	68,890	70,126	75,960	85,742
1996	79,774	88,256	67,319	50,976	41,308	177,410	64,203	102,822	79,201	89,540
Unemployment rate										
1986	9.9	16.2	13.4	9.8	18.8	6.8	3.2	16.4	8.9	7.6
1991	11.8	17.6	17	11.5	26.5	8.5	7.4	18.2	10.5	8.1
1996	12.1	16.2	14.6	14.6	18.8	9.1	1.3	4.9	6.8	7.9

[a] These columns represent adjacent census subdivisions; other columns represent the core communities where the mills are located. Provincial data are provided for comparison to illustrate how strongly local trends reflect broader regional trends.

[b] The Pine Falls census subdivision was created from a larger rural census subdivision in 1991; thus there are no comparable data for the same unit in years before 1991.

labeled Division 1 Unorganized. This jurisdiction maintained a population of around 1,500 between 1986 and 1991. Nor did the population change greatly when the Pine Falls census subdivision was combined with Division 1 Unorganized territory in 1991. The population also changed very little in two adjacent communities that are home to many mill workers, Powerview and the rural municipality of Alexander (see Table 1).

Real estate. Real estate prices can be excellent indicators of booms and busts in local economies. Anecdotal data from Kapuskasing suggest that real estate values declined sharply during the uncertain years of the buyout. Whitehouse (1997) reports that prices dropped by 30 to 50 percent in some instances; census data for the period reveal that Kapuskasing had not yet recovered from the downturn in home prices by 1996. Census data collected in 1991 did not reflect the sharp downturn in prices suggested by Whitehouse (1997) in the uncertain years of the buyout. A majority of the people who left town did so after 1991, after the buyout. By 1997, however, prices had recovered almost to levels prevailing in 1990 (before the threat of mill closure).

According to Statistics Canada data, real estate values in Powerview, the service community adjacent to Pine Falls, declined significantly in 1991 (the point at which Abitibi-Price found no other buyers and the management buyout appeared to be a last-ditch effort). The communities of Pine Falls and the surrounding rural region showed stable real estate prices for that period. Anecdotal accounts from local residents and from real estate agents suggest that the uncertainty before, during, and just after the buyout (a five-year period) did not affect prices but translated into a very sluggish market for homes and other major capital expenses.

Corporate and individual financial well-being. A remarkable aspect of both of these case studies is the financial turnaround achieved by these "at-risk" forest products firms. Residents of both communities anticipated that the "austerity programs" represented by wage rollbacks and vacation forfeiture would be long-standing reforms; yet long-term austerity was not necessary in either case. Both cases represent success stories from the perspective of corporate finances and the shareholders' personal finances.

In Kapuskasing, the newly formed Spruce Falls Inc. (SFI) earned profits increasingly after the buyout and after the new infrastructure was in place and operating. Profits of $83.1 million were recorded for 1996; data for the last year were recorded separately for SFI.[5] Pine Falls Paper Company also began to make money immediately after the buyout. Managers reported that they were not only able to pay off their bank loan within a few years; they also could increase employment and perform several new mill upgrades.

Another measure of corporate success, and one that translated directly into personal wealth for shareholders in these two companies, is share price. We met several blue-collar workers who admitted that they had never paid much attention to the financial pages in the newspaper before the buyouts. After the buyouts, however, and particularly after Tembec expressed interest in acquiring the companies, these people took an active interest in the financial pages. Many workers that we interviewed could quote stock prices, could explain the differences between different types of shares, and knew the asset balances, outstanding debentures, and other details of Tembec's corporate finances.

In Kapuskasing, three types of shares were issued under the initial buyout. In exchange for the wage freeze and the forfeiture of vacation time, Class A shares were issued or "gifted" to all employees. A second type, Class B shares, were available for purchase by employees, so employees who wished to do so could also invest savings in the company. Some even borrowed money to buy additional shares. Both Class A and Class B shares were available only to employees. In the final buyout arrangement, Class B shares were oversubscribed: that is, more employees signed up to purchase shares than there were shares to go around. This in itself is a measure of local people's commitment to the buyout and their personal willingness to take a risk with their savings. These savings, invested in the value of their homes and in their financial savings, were tied up in the mill purchase and in financial success. Class C shares were nonvoting shares that were made available to community members. All three types were valued at $1 per share at the time of issue. In 1997, at the time of the sale to Tembec, shares were purchased for $10 each; alternatively, one could take $7 per share in cash and the remaining $3 in Tembec shares. Estimates of the average returns to worker shareholders resulting from the sale to Tembec ranged from $40,000 to $100,000.[6]

[5] Corporate data in subsequent years were reported for all of Tembec, the company that purchased the Spruce Falls Inc. mill in Kapuskasing.

[6] Two respondents (one a salaried worker and the other a Spruce Falls Inc. board member) estimated that workers, on average, made a profit of $80,000 to $100,000 if they held on to their gifted and purchased shares. One unionized worker estimated that the average worker made between $40,000 to $50,000.

In Pine Falls, similarly dramatic financial returns were realized. We were unable to obtain data on corporate profits; by all accounts, however, the company began to make money from its inception. Several managers whom we interviewed either brought out or drew a chart documenting the dramatic spike in the newsprint prices that happily coincided with the creation of Pine Falls Paper Company. Workers' salaries were leaner in the first year because of the 10 percent wage rollback; by 1995, however, year-end profit-sharing checks arrived. In 1995 these checks amounted to 35 percent of the average worker's salary.

Share prices in the Pine Falls Paper Company also climbed dramatically after the buyout. Initially, workers each were "gifted" with 146 shares worth $5 each in exchange for the wage concessions. Additional shares were available for purchase by workers who wanted to sell; younger workers generally sold and older workers bought. In contrast to Kapuskasing, there was quite an active market in shares. In general, Pine Falls respondents told us that many considered the shares worthless, as in Kapuskasing. Several respondents told us the story of the man who traded his shares to a friend for a case of beer. One unionized worker, who was an active buyer, estimated that about 25 percent of the workers sold their shares before the 1998 sale of Pine Falls Paper Company to Tembec. Tembec ultimately bought shares at around $84 each, representing a 1600 percent increase for those who had received or purchased initial offering shares at $5.

Community investment. Shareholders ultimately benefited from the dramatic rise in share values in these two locally owned companies. In Pine Falls, share ownership was limited to employees and the few outside investors who were part of the initial buyout. In Kapuskasing, only 7 percent of the shares were available to the community. One of the primary criticisms of absentee ownership in the dependency theory literature is that absentee owners are remiss in investing in the long-term viability of remote processing facilities and the communities where they are located. We wished to learn whether the new corporations invested in mill upgrades and circulated mill profits within their regions, and whether shareholder profits that accrued to the new local owners were spent locally.

In both Pine Falls and Kapuskasing, the new local corporations made significant local investments. Both mills needed significant upgrades if they were to meet provincial environmental regulations and remain competitive in the industry. After the 1991 buyout, Kapuskasing constructed a $6.8 million de-inking plant. Its next major investment was a $115 million thermomechanical pulp-processing facility (Johnston 1993). By 1997, about $300 million had been spent on mill modernization and upgrades (CBC-TV 1997). Although all of this money was reinvested in the mill itself and not in the community, the commitment to maintaining the facility had far-reaching implications for the community's continued economic viability.

In addition, Tembec (as the contracted management company since 1991, and as outright owner since 1997) has maintained a policy of donating 1 percent of its profits to the community. Net earnings were small in the early years: less than $20 million per year up to 1994. In 1995, however, net earnings were $51 million; in 1996 Spruce Falls Inc. enjoyed profits of $83 million. These figures translated into a sum of $1,340,000 that was available to the community for various projects during a two-year period. The mill convenes a local committee, composed of both union and salaried employees, that oversees the distribution of these funds. The committee receives proposals from various community groups and decides how much of the fund should go to civic organizations, how much to scholarships for local children, and the like.

This practice of community giving is a Tembec corporate policy. It was not initiated by the architects of the Kapuskasing mill buyout; rather, it was a long-standing practice.[7] Two other Tembec initiatives resulted in greater local benefits when Spruce Falls Inc. was formed: an environment fund and a local purchasing policy. Whenever possible, Tembec purchases goods and services from local suppliers in an effort to support the local economy. Tembec managers stated that if local businesses try to take advantage of this policy, the company purchases outside the region.

In Pine Falls, similar reinvestments in the mill infrastructure were undertaken. Around $29 million was spent on the wastewater treatment plant, and $38 million on the de-inking facility. One union leader claimed that $50 to $60 million was spent "on improvements that you don't even see." He referred to maintenance and upgrades that Abitibi began to neglect as soon as they knew they were going to sell the mill. With respect to other community investments, none of the informants reported greater investments in the community itself.

[7] Tembec's origins date back to the 1970s. This company began as a local buyout as well, which may explain its interest in directly supporting community interests.

Ultimately the costliness of mill upgrades was a significant factor in shareholders' decisions to sell these profitable locally owned firms to Tembec; the most significant factor, however, was the handsome return to employees and managers who held shares in the company while still holding their jobs. Tembec had additional financial resources (and borrowing power), which were far beyond the capacity of these small companies and which would allow Tembec to continue modernizing and expanding the mills. These two case studies suggest that greater financial investments in the mill and in the community were made both by the new local owners and subsequently by another corporate owner. Both the local and corporate owners made it part of their management philosophy to invest modestly in the community and, most intensively, in the mills themselves.

Subjective Indicators

Community cohesion. In addition to unanticipated financial returns, we observed unforeseen consequences regarding subjective indicators of success and failure in evaluating the buyouts. In both communities, the process of mill buyouts and subsequent sales to Tembec led to dramatic changes in community collective action and cohesion. In Kapuskasing, the people we interviewed largely agreed that the buyout fostered an unprecedented level of community activism, sense of purpose, and cohesion. They cited several examples to illustrate this point, including the $12 million that was raised in 30 days for the purchase of community shares and a blockade that union members and local business people staged in protest of foot dragging by the province. In the past, mill workers had felt some resentment toward local business people, and they had practiced a certain amount of "outshopping" in protest of perceived price gouging.[8] Mill workers, however, reported that much of that animosity diminished or disappeared when the local business community began to put up its money to subscribe to community shares and save the mill.

We make two important points with respect to community cohesion in Kapuskasing. First, there was no past history of community activism. In fact, many respondents complained about previous

[8] One respondent suggested that there was a high correlation between wage increases and major price hikes in the local retail sector. Workers would receive higher wages through contract negotiations, and local business owners would try to siphon off as much as they could by increasing their prices.

crises and issues in the community and the absolute failure in motivating people to participate: for example, previous closures of regionals and of a military base met with no resistance from the community. Second, the cohesion that occurred because of the buyout seemed to last beyond the initial year or two after the buyout itself. Many people said that the community now has more confidence and more independence; also, some of the traditional barriers, whether ethnic or between business and organized labor, have been mitigated, although not eliminated.

In Pine Falls, most of our interview respondents agreed that the period preceding the buyout was characterized by a strong sense of community solidarity and perseverance. People spoke about the teamwork involved; most were very proud of the collaborative efforts and the success of the buyout.

A closer look reveals a different story, however. Some groups traditionally have been excluded from the local economic benefits of the Pine Falls mill, most notably the residents of the adjacent First Nations community of Fort Alexander. Except for a few reserve leaders, the buyout brought few benefits, financial or otherwise, to the reserve. In addition, the cohesion that was described by some was refuted by others. Some of the unionized workers supported a different form of buyout, with more control for the union as opposed to management. In the end, the mill manager was the negotiator; the upper echelons of salaried employees were the heaviest investors in the Pine Falls Paper Company, and ultimately made the greatest profits.

When it was clear that the mill buyout would be a success, the cohesion that reputedly had emerged in order to complete the buyout evaporated quickly. Some people expressed resentment that the benefits of the buyout were not distributed more evenly among the employees, and even across the community. Although average workers received greater returns than they expected, envy towards mill management, whose financial gains were greater, surfaced repeatedly in our interviews with mill employees.

Workplace democracy. In Kapuskasing, management efforts to instill a new work culture and to involve employees meaningfully in management decision making met with many challenges. Structurally, managers suggested that they attempted to improve workers' representation and control of decision making by allowing union representatives to sit on the board of directors of the new company, Spruce Falls Inc. Not much changed for the rank-and-file workers, however, in part because the local managers signed a management contract with the consortium of interests that orchestrated the buyout. The most important of these was Tembec, which agreed to invest in the mill only if they held the management responsibilities for the mill. Tembec brought in some new people and retained many of the existing managers; as a result, the transfer from corporate to local control was much like a traditional corporation-to-corporation purchase. The only change for the workers after the buyout was that they held some company shares. The fact that the mill buyout was technically a buyout by employees did not translate into the type of attitude change that occurred in Pine Falls management buyout, where workers liked to remind managers that "they were their bosses."

Of the informants we interviewed, union leaders in Kapuskasing were the most insistent that workplace democracy failed with the Kapuskasing mill buyout. They were quite candid, however, in placing at least half of the blame for that situation on the workers themselves. Management provided numerous opportunities for employees to participate in mill investment and management decisions, but workers rarely became involved. Interviews with mill workers suggested that a deeply ingrained working-class culture is present in the community, as well as a "punch-the-clock" attitude that was not conducive to greater involvement by workers in management.

In Pine Falls, we found that community cohesion around the buyout eventually eroded because of unmet expectations regarding workplace democracy during the Pine Falls Paper Company's tenure. Before the buyout, local managers could pass the blame for unfavorable policies to corporate headquarters in Toronto, because most of the corporate policies that affected workers, contract negotiations, and the like were coordinated by Abitibi Price executives from headquarters in that city. After the buyout, however, the buffer between local managers and the unions, as provided by absentee ownership and management, no longer existed. The mill's immediate supervisors were now responsible for management decisions, and tensions mounted.

Another factor that caused some friction in Pine Falls was the expectation, created by the buyout, that relationships between management and unionized employees would fundamentally change: the new "part owners" expected to have more say in company policy. One manager reported to us that disgruntled workers would walk into his office and demand a change in the handling of some issue, adding "After all, I am your boss." This manager suggested that the greatest challenge facing the company was "getting the employees back as employees. I think that a lot of people can't differentiate [between] being a shareholder and an employee."

Social relations and community power. Kapuskasing apparently experienced less disruption to the social fabric than Pine Falls over the long run, though the former community endured a longer period of uncertainty leading up to the buyout. One social service worker we interviewed said that child abuse cases doubled during a two-year period around the time of the buyout. Politically, little changed in Kapuskasing. The town had had an elected municipal government for decades, though for one 25-year period the mayor was the mill manager. The mill and mill issues are still dominant in local politics; even so, mill managers are not necessarily active in town politics, especially because the management of the mill was maintained by a corporation with headquarters in Montreal.

The discrepancy between the line workers' and the managers' financial gains was less dramatic in Kapuskasing than in Pine Falls; as a result, there appears to be less animosity and envy between managers and unionized workers in Kapuskasing. In addition, because Tembec took over the practical management of Spruce Falls from its inception, the culture of work and the nature of work roles and relationships were not disrupted as severely as in Pine Falls. Finally, Kapuskasing is a much larger community than Pine Falls; this factor also may be important because the effects of the change in mill ownership and management would be more be spread more thinly across a larger community.

In Pine Falls the social relations within and between communities, relations on the shop floor, relations between management and unions, and community governance changed irrevocably in the process of the buyout and in the subsequent sale of the mill to Tembec in 1998. The "old order" was severely disrupted in Pine Falls in several ways, including an erosion of the respect afforded to local managers under the old regime, and the camaraderie and cohesion among the line workers in the mill after the management buyout. In part, this disruption occurred because the union was divided over the initial buyout proposal as well as the subsequent sale to Tembec. Certainly, relations on the shop floor also were affected by the fact that the net worth of those who bought shares was increasing far faster than that of the workers who decided to sell shares. (For a summary of the subjective indicators, see Table 2.)

Table 2. Summary of Subjective Indicators

	Kapuskasing	Pine Falls
Community Cohesion	Little cohesion or activism before buyout: consensus that the buyout heightened cohesion. Evidence includes blockade in town, rally in Queen's Park in Toronto, oversubscription of community shares, reduction in "outshopping."	Considerable cohesion (within Pine Falls) before the buyout; very little between communities: community very proud of accomplishment; aftermath of the collective push to save the mill caused unexpected renewed internal strife.
Workplace Democracy	Some early progress, then return to "old ways": management plays up teamwork, worker input; unions say no change occurred, but blame "blue-collar mentality" as much as anything else.	Workers demanded more input, but management did not know how to deal constructively with these demands. Workers'expectations were raised but not met. Workers were not content to be employees and shareholders; they wanted a say in management and decisionmaking.
Social Relations	Minor disruption to social relations due to Tembec's management contract from day 1 of the buyout.	Social relations were disrupted significantly by real or imagined inequities in the distribution of shares and by trading in shares among workers.
Community Power and Governance	Recent significant turnover in local politics. Some politicians tried to use the mill ownership issue to further political fortunes. No major overhaul to local governance.	Goal of maintaining Pine Falls as a company town not achieved in the long run because sell-off to Tembec led to the amalgamation of Pine Falls and Powerview. This represents a major overhaul to local governance.

Conclusions

We have used a social impact assessment framework to examine both the quantitative and the qualitative dimensions of change in two communities in Canada that experienced local buyouts of pulp and paper mills. The communities in question orchestrated the buyouts of their local mills in efforts to maintain a level of income, a tax base, and a way of life in their communities and to stave off the severe economic and social distress that local residents believed would follow from the closure or large-scale downsizing of the mills in question. Thus our purpose in using social impact assessment variables was to determine the degree to which desirable aspects of these communities stayed the same, and how changes in the ownership structure were associated with qualitative effects on mill workers and other community members. Sociological literature generally suggests that local ownership, as opposed to absentee ownership, is likely to be associated with greater community investment, workplace democracy, and community cohesion.

Overall, both communities were able to maintain jobs, population, and real estate values, and the profits were reinvested in mill upgrades. Yet although some of the objective facts of these two cases are very similar, the outcomes of subjective elements related to social relations, workplace democracy, and community cohesion are quite different. It is even more surprising that Kapuskasing, where job loss, out-migration, and financial stress were much greater in the transition period from corporate to local ownership, appeared in the end to fare better with respect to community cohesion and social relations. Pine Falls, on the other hand, was financially successful and profitable as soon as local interests took over the mill, but it still suffers from social discord, internal bickering, and confusion because the old social order was severely disrupted by the buyout process.

We attribute this contrast to a difference in expectations. In the Kapuskasing employee buyout, employees and managers knew from the beginning that Tembec would be managing the mill; there were fewer expectations about changes to workplace democracy and a communitywide flow of benefits from the new composition of ownership. Greater disappointment and discord occurred in Pine Falls because employees' expectations changed when familiar faces became the chief executive officers of the company, and when it became clear that managers were profiting more from the mill's financial success than were employees.

Both communities benefited from considerable reinvestment in their mills. Some regard the buyout experiences as failures because the companies were locally owned for only half a decade and now are subject, once again, to external corporate control. From the perspective of conferring benefits and sharing wealth with local communities, however, not all corporations are the same. Tembec, itself born of a local buyout and the new corporate owner in both places, practices reinvestment in the community, both in mill infrastructure and in the local social and institutional infrastructures. Tembec purchased Canadian forest product mills specifically, and has enjoyed particular financial success ("Profits Triple" 2000). Most workers remain owners of Tembec shares, and thus will profit as Tembec profits. This underscores the point that communities benefit differently under different corporate owners (Centre for Social Management 1993; Shuman 1999) and that local ownership, particularly if it constrains the retrofitting of production processes and investments to improve competitiveness, may not always be the key to greater local benefits. Perhaps by looking to the Tembec model for community relations, other mill towns may be able to strike better deals with the forest companies to which they are hosts.

Both Pine Falls and Kapuskasing weathered stormy periods and saved their mills for the foreseeable future. In the process, several local people made fortunes, while others benefited from merely holding on to their generally well-paid jobs. Yet regardless of how much local individuals benefited, the buyouts were quite financially successful in achieving the overall goal of maintaining the industrial forest sector as a strong presence in the communities. Real estate values, the viability of retail outlets, tax bases, and the like were preserved. People expected that their purchase of shares would yield no dividends and stood only a moderate chance of saving the mills; thus, at one level, local people are pleased with the results of the past few years. The disappointments expressed by our interviewees were associated with rapid social change and changes in relationships, and with the rise and fall of community cohesion. The widespread economic gains and the tensions during the period after the buyouts were unanticipated consequences.

Future studies should examine levels of community well-being where buyouts are ultimately unsuccessful, and where there are publicly tradable shares in which a locally owned mill is subject to a hostile takeover. We suspect that the act of organizing and consequently of "saving the town" would also improve community well-being, even with a lack of short-term success, because such social learning could be applied to new business ventures. This comparative case study indicates that future studies must test empirically the benefits and effects of various ownership arrangements of large-scale industries in rural areas, and of success versus failure in local buyouts.

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