THE ARBITRATION OF EMPLOYEE DISLOYALTY CASES

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ABSTRACT
Employee acts of disloyalty toward employers have often been met by stern discipline. Generally, these acts have taken the form of starting or participating in a business which is perceived as directly competitive to that of the primary employer. Employees may also be considered "disloyal" when they request a medical leave in order to work at outside employment instead of using the time off for recuperation and/or healing. Employers have sometimes viewed moonlighting as an act of disloyalty, particularly when the outside employment is with a competitor or when it negatively impacts the employee's performance on his/her primary job. Moreover, employers have frowned upon disparaging statements leveled at the company and made public by employees. This article reviews fifty arbitration cases dealing with alleged acts of employee disloyalty in order to establish arbitral standards for dealing with such cases.

Can you bite the hand that feeds you, and insist on staying for future banquets? [1, at 783].

In these days of corporate downsizing, multinational competition, corporate takeovers, and unprecedented technological change, employee loyalty toward American business may be at an all time low [2]. At the same time, one recent national survey revealed that 57 percent of American corporations feel less loyalty to their employees than they did five years ago [3, p. 14]. These apparent declines in loyalty by employees toward business and by business toward employees have led some to question whether the unwritten "contract" of loyalty between companies and employees is becoming obsolete.
Nevertheless, employers contend that employees owe them a “duty of loyalty” to further the interests of the business. On the other hand, employees argue their activities outside of work hours are beyond the bounds of managerial proscription. When an employee in a unionized setting is disciplined or dismissed for an alleged act of disloyalty, an arbitrator may be required to determine whether specific employee conduct is a breach of the duty of loyalty or simply an exercise of freedom of off-duty conduct. These conflicts of interest between employer and employee may be divided into three categories:

- where an employee’s economic activity is detrimental to the employer;
- where the employee’s performance or commitment for the regular employer has deteriorated as a result of work for another employer; or
- where there is a conflict of conscience between employee and employer [4, p. 200].

To determine arbitral views regarding employee disloyalty, all published arbitration awards dealing with this issue for the past ten years were reviewed in both the Bureau of National Affairs’ Labor Arbitration Reports (from 1981 to 1991) and the Commerce Clearing House’s Labor Arbitration Awards (from 1982 to 1993). Several earlier cases were also added to provide historical perspective. A total of fifty published arbitration awards were utilized in this article.

**EMPLOYEE WORK IN DIRECT COMPETITION TO PRIMARY EMPLOYER**

Perhaps nowhere are the issues of employee disloyalty so hotly contested as when an employee appears to be involved in a business venture directly competitive to that of the regular employer. Most arbitrators agree an employer has a unilateral right to forbid such activity. Arbitrator R. E. Light observed in this regard:

... it is crystal clear to me that an employer has the right to unilaterally establish an outside employment policy and to discharge an employee who refuses to comply with a legitimate order to cease such competitive employment [5, at 1077; see also 6].

However, even in the absence of a published rule, company policy, or a contract provision forbidding competitive employment, arbitrators have generally held the employer has the authority to discipline or discharge employees for maintaining a business or employment in direct competition to it. For example, arbitrator E. H. Goldstein noted:

As a general matter, it is well-established that an employee engaging in a business competitive with that of his employer does so at the risk of discharge.
Even labor agreements lacking in express prohibitions or constraints will be read to implicitly contain such clauses, for it is recognized that within the employment relationship, the *quid pro quo* for employment and subsequent wages is the duty of loyalty and an agreement not to compete with the Employer's business. These obligations are fundamental to the employment relationship [cites omitted; 7, at 4325; see also [8] and [9] for similar views].

Only a distinct minority of arbitrators require established rules prohibiting competitive outside employment before discipline can be properly invoked [see 10, at 279].

However, it is not the existence or absence of a rule that is the major decisional issue confronting arbitrators in such cases, but rather the establishment of standards that may be used to assess whether the involved employee's business or outside employment is in competition with that of the regular employer. The standards used by arbitrators are:

there should be a measurable negative impact on the regular employer's business on the basis of:

a) sales volume;

b) type of operation;

c) geographical location of the businesses in question; and/or

d) job performance [9-12].

In *Great Atlantic & Pacific Tea Company*, a meat department manager was discharged for an alleged conflict of interest based on his instructions to his son for cutting beef at a meat retail shop that his son, his wife, and aunt operated ten miles from the location of the chain store [12]. The meat shop had weekly sales of $600 to $800. Arbitrator Calhoon found the sales volume of the meat retail store was "minuscule" in comparison to the meat sales volume at the chain store for which the grievant worked. Moreover, the fact that the retail meat shop was located ten miles distant from the chain also militated against a conclusion that the two stores were directly competitive. In addition, there was no claim that the grievant had missed time at his regular job [12].

Similarly, arbitrator Goldstein found an employee who worked at a retail food chain (Kroger) did not have a conflict of interest with his regular employer when he also worked at an Appollo Mart. The latter is a gas station, and the food products purchased there comprised only a small part of the primary business of selling gas [7, at 4326; see also [11] and [13] for similar cases].

On the other hand, arbitrator Bognanno upheld the indefinite suspensions of two meat department employees after they opened a meat store of their own. For businesses to be competitive, they do not have to have exactly the same products, Bognanno argued, but rather must only be of the same type of operation and have a similar sales volume [9, at 5050].
Employees may also be disciplined or discharged when their work for a competitor employer adversely affects their work performance with their regular employer [14].

**USING A COMPANY POSITION TO FURTHER OUTSIDE INTERESTS**

Employees may also be found to be in a conflict of interest situation when they use their regular employment to further an outside business. For example, an administrative assistant who was responsible for procurement of supplies and services was discharged when it was discovered she was using a firm in which her husband had a business interest, to perform certain work [8]. It was the university's policy that employees disclose a conflict of interest when it arises. While the grievant claimed no knowledge of the policy, arbitrator Ross maintained her conduct was *malum in se*.

Common sense dictates knowledge there is "something improper about an employee participating in an action that makes it possible for an outside concern to do business with an employer and for an employee to obtain personal gain from that transaction without the employer's knowledge" [8, at 1037; see also [15-17].

A discharge was converted to a suspension in the case of a bakery counter employee who offered to make a birthday cake for a family friend [18]. The friend had ordered a cake costing $10.50 but then cancelled the order. Arbitrator Cohen found mitigation in the fact that she did not receive compensation for the cake, that it was an isolated event dealing with a cake costing a small amount, and that the employee was not really in competition with the employer.

However, when an employer has knowledge that an employee has been for some time engaging in practices considered directly competitive, it must first warn the employee before terminating him or her, should the practice continue after the warning [19].

**RULES PROHIBITING WORK FOR A COMPETITOR**

Several cases involved situations where there existed an employer rule, policy, or contract provision forbidding work performed for a competitor employer. In *Capitol Building Maintenance Company*, discharge was upheld for a window cleaner who knowingly violated a rule against holding dual employment by working for a competitor company on Saturdays. Although the grievant was only helping a friend in need, it did not excuse violation of the moonlighting rule [20; see also 5, 21].
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WORKING FOR ANOTHER EMPLOYER WHILE
ON A LEAVE OF ABSENCE

Employers may also consider an employee who works at another job while on a medical leave of absence from his/her regular job to be engaging in an act of disloyalty. This is particularly true if an employee uses the leave to "try out" a new job [22]. Such behavior may prompt a strong disciplinary response from the regular employer when the employee's action is discovered. Normally, prohibitions against working while on leave should be spelled out in the company rules or in the parties' collective agreement. Arbitrator Williams provided a rationale for an adverse employer response to such employee behavior:

The purpose of a leave of absence for health reasons is to allow the employee to recuperate from his illness. His convalescence and recovery are likely to be hindered and delayed by his working at another job, and for this reason labor-management contracts frequently prohibit such activity. These prohibitions are reasonable and serve to speed an employee's return to full-time duty, a goal which is desired both by employee and employer [23, at 1268].

Arbitrator Kossoff suggested an additional reason for prohibiting an employee from working for another employer during a leave of absence: "to prevent employees from taking off work for unacceptable reasons . . ." [24, at 4841].

For example, Dynair Services Inc. has a rule that reads:

An employee covered by this Agreement who engages in gainful employment for someone other than the Company while on leave of absence, without prior written permission from the Company and Union, except employees on special assignments in the interest of the Company, shall be discharged [25, at 1262].

The employee had signed an emergency leave of absence request, falsely claiming a family illness. In reality he wanted to try a new job. However, when the second job did not work out, he wished to return to his former position. After the company discovered the employee's deception, it would not allow him to come back to work, and the company's action was upheld by arbitrator D'Spain [25, see also 23].

Nevertheless, in other cases, arbitrators have reversed or modified disciplinary action imposed on employees working while on leave in three situations: 1) when the employee has worked for the second employer for a period of time prior to requesting a leave of absence and the regular employer is aware of such employee activity; 2) when the employee's work at the second job does not affect (or aggravate) the medical condition necessitating the leave; and 3) when leaves are granted as a legal right.
In *Mosler Inc.*, an employee was discharged while on disability leave for working a second job as chief of police. The employer was aware of his second job and the employee had performed it for many years. He did not take the second job while on leave, and the medical evidence failed to show that he could not perform the police work without aggravating his condition. On the other hand, his regular job involved heavy work as a hydraulic press operator and no light work existed at the time. The discharge was ruled to be improper, as the arbitrator pointed out the company had failed to consider that the leave was not requested for the purpose of taking (or trying) new employment [26, see also 24, 27-29].\(^1\) Arbitrator Volz also stressed that if an employee’s second job was legitimate before a leave was taken it is also proper during a leave, provided it does not prolong the leave or delay the employee’s return to work.

In another case, discharge was set aside for an employee who worked a second job while on disability leave and who was receiving workers’ compensation. The parties’ collective agreement provided for loss of seniority when an employee worked for another employer while on a leave of absence. However, arbitrator Riker noted that leaves of absence are granted as a matter of right under the California Labor Code for occupational injuries and the code prohibited the interruption of the seniority rights of employees. It was concluded by the arbitrator that the protection afforded by the code superseded the parties’ contract provisions [30].

**SEEKING ALTERNATIVE EMPLOYMENT WHILE ON WORKING TIME**

Naturally, when employees use working time to seek alternative employment, discipline or discharge will almost always follow discovery.\(^2\) For example, when an employee deviated from his prescribed route during an emergency run to visit a competitor employer for the purpose of seeking employment, just cause was found to uphold the discharge [32]. Arbitrator Seidman admonished the employee that he lacked a “sense of loyalty or understanding of the American economic system” [32, at 1261].

\(^1\) On the other hand, arbitrator R. R. Williams upheld a discharge for working while on leave of absence despite the fact that the employee had held the second job for four years prior to his dismissal. Arbitrator Williams noted the contract language mandated loss of seniority for working at another job while on leave of absence and the grievant worked at his moonlight job in violation of doctor’s orders to rest in bed [29].

\(^2\) Nevertheless, in one case, the discharge of two employees who took employment tests with another company without informing their regular employer was set aside. Both employees had permission to be absent from work. Arbitrator Hilgert stated there was no duty to notify the employer that they were using their time off to take employment tests. However, the employees were not using work time to take the tests [31].
MOONLIGHTING

While employers may properly expect employees to devote themselves to their jobs during work time, employees contend that time before or after regular hours may be used for recreation or work as they deem fit. In general, arbitrators do not find fault with maintaining two jobs ("moonlighting") provided that the second job does not interfere with the responsibilities or work performance at the primary place of employment [33, at 1064] [34]. For example, an employee escaped discharge only on the basis of her long (14 years) service after she was frequently tardy and absent, and performed her inspection duties carelessly [33]. Her termination was prompted by a scheduled meeting that she missed because she left to go to her second job. The arbitrator reduced the discharge to a suspension, provided the employee resign from her second job (which the arbitrator found was interfering with her regular job) within two weeks.

Nevertheless, an employer has the right to implement and enforce a rule prohibiting moonlighting provided the rule is reasonable in scope and application and serves some legitimate business interest of the employer [35, at 4749]. One arbitrator found improper a moonlighting rule that restricted the right of Border Patrol pilots to outside employment by imposing a mandatory ten-hour rest period between the time of outside employment and the time of flying for the Immigration and Naturalization Service (INS) [36]. Arbitrator Fox noted a provision in the collective agreement required the employer to present any rule changes to the union for its views. The INS failed to take that step. Moreover, the arbitrator considered the rule discriminatory because a pilot could engage in any physically exciting activity, or even fly his or her own plane ten hours before flying for the INS, but could not fly someone for money during this same time period [36].

EMPLOYEE ACTS OF DISLOYALTY

The duty of loyalty, according to arbitrator Jones, is the obligation to do one’s best to act or refrain from acting so as to enhance rather than endanger the best interests of the employer [37, at 464]. Acts of disloyalty may result in discipline up to discharge for the offending employee. Arbitrator Jones outlined the following list of factors that may be germane in a disloyalty case:

- type of business;
- the nature of the employment;
- the degree of public visibility;
- the extent of the responsibility for the offensive acts of the person allegedly disloyal;
- the significance of any public policy affected by the conduct;
- the foreseeability of an adverse economic impact on the employer;
• actual impact;
• whether, and to what degree, malice or carelessness motivated the conduct;
• the privilege of the employee to engage in self-expression or in the pursuit of economic or psychological self-interest;
• the confidentiality of the material disclosed;
• the relevance of the disclosure to the expected job functions of the employee; and
• the extent of authority or confidence reposed in the employee by the employer [37, at 464].

**DEROGATORY STATEMENTS BY EMPLOYEES REPORTED IN PUBLICATIONS**

In *Forest City Publishing Company*, the publisher of the *Cleveland Plain Dealer* was justified in discharging a newspaper reporter who wrote an article in a magazine of general interest in which he castigated his employer and who indicated no change in attitude following his discharge. Arbitrator McCoy concluded there had been a “serious breach” between employer and grievant suggesting an “impossible relationship” [1, at 784].

Discharge was also upheld for a journalist who wrote and published a book concerning his employer’s (United Press International) financial difficulties, management, and ownership [38]. A company rule prohibited outside activities that create “a clear conflict of interest for the employee or the Employer . . . .” The employee went beyond analyzing and reporting events to commenting on them in a derogatory fashion. Arbitrator Abies noted when an employee “. . . effectively declares war against his employer about how the employer is conducting his business, he must do it from outside his job” [38, at 845].

In a related case, a written reprimand was upheld for an engineer who published an article in the newspaper attributing an alleged atrocious safety record to a unit existing within the employer’s business [39]. The grievant believed she was exercising a constitutional right to freedom of speech. Nevertheless, the arbitrator stated that the right of free speech does not extend to a private company [39].

**PUBLISHED DEROGATORY STATEMENTS MADE WITHIN THE WORKPLACE**

Not all employees with complaints against an employer vent them publicly. Instead, such complaints are confined to the four walls of the plant. For example, one employee posted a notice in the company charging the employer with poor sanitation practices [40]. The company had not responded to the employee’s notification of problems through proper channels, and the employee’s intentions were sincere. There was also no showing that the allegations were inaccurate, nor
was there proof that the company's reputation was harmed. Arbitrator Alutto observed:

In summary, normally it is essential for employees to follow channels of authority in noting on-the-job problems. But there are occasions when such a requirement must be viewed as waived. When an employee has reason to believe that management actions are injurious to himself or others and that the company will not take necessary corrective actions he must as a matter of conscience seek recourse outside normal channels. Of course, by doing so he must demonstrate (a) the reasonableness of his intent, (b) clear attempts unsuccessfully to proceed through normal channels, and (c) the validity of his concerns [40, at 3073].

The employee was reinstated and made whole [40; see also 41].

On the other hand, when an employee fails to raise legitimate concerns regarding employer practices without bringing them to management's attention first, discipline will almost always be upheld. For example, a twenty-day suspension was properly issued to an employee who wrote at the bottom of a posted newspaper clipping in the plant: "America Builds Junk (Monarch)" [42, 43]. The arbitrator noted that the employee admitted writing the comments, and that the act was malicious.3

EMPLOYEE LAWSUITS AGAINST THEIR EMPLOYER

Occasionally, employees will file suit against an employer for actions that have arisen in the course of employment. No easy answers are available as to whether or not such suits are automatically considered acts of disloyalty. Normally, a lawsuit should not be filed with malicious intent, however. Arbitrator Taylor found just cause to exist to sustain the discharge of a troubleman4 who filed a lawsuit against his employer and five company officers. The employee claimed $1,500,000 for injuries sustained when the aerial bucket he was using to replace street lights in an isolated area malfunctioned, causing him to be suspended in midair. Widespread media attention was attracted to the suit. According to the arbitrator, the employee was attempting to try the suit in the media when he claimed he could not work for supervisors who condone poor safety practices. His

3 However, an employee may have the affirmative obligation to report dishonest acts of coworkers [44].

4 The job title used in the case was "Troubleman," and was described as "being dispatched to locations where outages or troubles have occurred, correcting the problem when possible, assessing it and requesting appropriate assistance when required working hot and damaged lines and facilities, contact with the public and fellow employees, and a high degree of responsibility and adherence to good safety practices" (84LA743 at 744) [45].
actions were a direct affront to management authority in a manner that adversely affected the employment relationship [45].

On the other hand, discharge was reduced to a suspension for an employee who solicited a coworker during working hours to call an attorney who was handling the employee’s lawsuit against the employer [46]. The lawsuit concerned a lung disease caused by smoke, fumes, and silica dust, and the legal action was well-known among the workforce. Arbitrator Duda stated the solicitation was more akin to a discussion among employees as to whether or not to file a grievance than a genuine act of disloyalty. He concluded:

There is no duty to refrain from suing or for suggesting that another employee pursue legal remedies for violations if the suggestion is made to the person directly involved, provided the conduct may not take place during working hours and is without malice [45, at 1136].

DISCUSSION

Arbitrators appear to be in substantial agreement that even in the absence of a rule or contract provision proscribing the conduct, employers have the prerogative to discipline employees for establishing or participating in a business directly in competition with it. Tangible proof has been required to show the business in question is actually competitive with that of the regular employer. Arbitrators assess the negative impact on the regular employer’s business on the basis of the sales volume, type of operation, and respective geographical locations of the involved (competitive) businesses. They may also look at the quality of the employee’s job performance at his/her regular employment while working for a secondary employer. Naturally, arbitrators have not permitted employees to use their position with their regular employer to further outside interests. However, when an employer is aware an employee is performing competitive work or has a competing business and takes no action to warn the employee, it may not be able to precipitously discharge him/her.

Moreover, employees may be considered engaging in acts of disloyalty when they request a medical leave of absence and then proceed to work at outside employment. Such a leave is normally provided to allow recuperation from an illness or injury and facilitate a prompt return to work. An employer should restrict employees from working while on leave through a rule or contract prohibition. Nevertheless, arbitrators have not sustained disciplinary action when an employee has worked for another employer before the leave was taken and the regular employer is aware of his/her second job; when the work at the secondary job does not aggravate the medical condition forcing the leave; or when medical leaves are granted as statutory right.
Employers also have the right to impose and enforce rules prohibiting or restricting moonlighting, provided such rules are reasonable and serve some legitimate business interest.

Sample arbitration awards also showed that employers may be justified in disciplining or discharging employees who make public derogatory statements regarding the company in newspapers, magazines, etc. In addition, employees are expected to follow the chain of command when protesting an employer action. Employees are not permitted to post negative statements in the plant airing their grievances. However, when employees have raised a legitimate complaint through proper channels and when their intentions are sincere, arbitrators have been more lenient in dealing with the discipline imposed.

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ENDNOTES

2. The Chicago-based National Safe Workplace Institute reported 111,000 incidents of workplace violence, including assaults, threats, and sabotage in 1992, and also including sixty incidents of workplace homicides. In the 1980s, the annual average was about twenty such homicides.
22. The second job may be with another employer or involve self-employment.
34. When a second job is directly competitive to the primary or regular employer, it may be prohibited (see e.g., [13, 907-908]). This situation is treated in another section of this article.
43. Monarch Machine Tool Company was the grievant’s employer.

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