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Disinvestment and Concessions*

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Interview With Janet Saglio

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Interview With Janet Saglio

Abstract

[Excerpt] Janet Saglio is head of the Business Department at the Industrial Cooperative Association (ICA) based in Somerville, Mass. The ICA works with union locals that are: a) considering an employee buy-out, or b) seeking an independent study of a corporation's business strategy.

The primary purpose of the ICA is to assist worker-owned businesses, helping them become worker controlled through democratic systems of ownership, decision making and accountability. The ICA is therefore often called upon by union locals to assess the feasibility of employees buying a factory threatened by a shut-down...and always recommends against a buy-out if the business has been badly run down.

Keywords

Industrial Cooperative Association, ICA, Janet Saglio

Interview with Janet Saglio

INTERVIEW:

Janet Saglio is head of the Business Department at the Industrial Cooperative Association (ICA) based in Somerville, Mass. The ICA works with union locals that are: a) considering an employee buy-out, or b) seeking an independent study of a corporation's business strategy.

The primary purpose of the ICA is to assist worker-owned businesses, helping them become worker controlled through democratic systems of ownership, decision making and accountability. The ICA is therefore often called upon by union locals to assess the feasibility of employees buying a factory threatened by a shut-down...and always recommends against a buy-out if the business has been badly run down.

Work in assessing employee buy-outs with several unions (UFCW, United Paper Workers, IAM, and ACTWU, among others) has underscored the ICA's rare combination of labor-based politics with business/financial expertise. This in turn led the UE, when faced with concessionary demands at two New England plants, to ask the ICA's help in analyzing investment and other corporate actions that weighed heavily in their contract negotiations.

The ICA is expanding its capacity to perform "corporate strategy" analyses, like the study of Morse Cutting Tool, in order to help unions fight demands for givebacks. To contact the ICA about their services, write to them at 249 Elm Street, Somerville, MA 02144 or call (617) 628-7330.

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MCLR: How did you confirm your suspicions that Gulf and Western was disinvesting in Morse Tool?

JS: We developed estimates of their spending and compared these with other companies in the industry. The most important information we had came from the union. We asked the union to collect information about all the equipment and facilities, expansions and improvements that had taken place over the last five years. We asked people at other shops to do the same. And then we priced the equipment by calling equipment manufacturers and sales people. From this we estimated what the expenditures on production equipment had been over a period of several years. Now, it's difficult for union people to remember exactly when some machine was installed, whether it was four or five years ago. So you have to understand that those estimates are pretty rough. But we tried to make our estimates of the competing companies very conservative, while we were liberal with the Morse figures, so that we could be sure whether or not there was significant disinvestment by Gulf and Western.

MCLR: What other sources of information did you find about G&W's disinvestment?

JS: We tried to use every available source of information on Gulf and Western and on the cutting tool industry. And we looked for industry trends and statistics, read all the industry magazines, and talked to industry analysts to find out what kinds of things firms in the industry were doing, what kind of competition they faced.

MCLR: What kinds of records are there?

JS: There are government statistics on investment, given on a per capita basis: how much investment in different years per production worker. Then there's information which relates investment to sales. Then industry associations publish information about where their members

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 are located, how much they're growing, what their wages scales are. Sometimes they will share it with you, sometimes they won't. In this case, we got some information from the industry association.

On the company, you can talk to people on Wall Street who follow particular companies, and most Wall Street firms have a conglomerate watcher, someone who follows a number of conglomerates. That person can tell you what they're telling Wall Street about corporate strategies, what they're up to and what kind of pressure they're getting from Wall Street to do different things.

The annual report and fact book that companies like Gulf and Western put out are very useful. And they talk about what they're doing pretty openly. Gulf and Western is very open about its "asset reallocation" program and how they're getting out of capital intensive businesses. You can also look at trends over periods of up to ten years in their reports, and see where their money is moving, whether it's going overseas or not, whether it's going into different industries and sectors of the economy.

And lastly, the business press covers big companies and occasionally they will do a story about what they're doing. And these journals have access to the presidents of the companies.

MCLR: Did Gulf and Western ever respond directly to the ICA study?

JS: Yes, after several weeks, the company made a slick presentation to the City Council and the negotiating team. They also circulated copies of the slides and narrative to the press and others. They tried to refute our findings and focus the debate on labor costs. Fortunately, the information they presented *confirmed our findings*, and the union was able to cut through their misrepresentations and use Morse's own data to prove disinvestment.

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MCLR: Can you give us some examples of the kinds of claims made in Morse's presentation?

JS: They tried three approaches. First, they tried to refute our central finding that Gulf and Western is milking Morse, by showing that their expenditures on manufacturing were higher than our estimates, that they are not capital intensive and that they have not taken profits out of the company.

The union was able to show that many of the purchases G&W listed did not go for new production machinery. Instead, the majority of the claimed investment was in OSHA mandated improvements, repairs and non-production equipment (like a computer for bookkeeping). None of these kinds of expenditures were included in our comparative production equipment figures. Furthermore, the *total* capital expenditures they presented were far below the average for the industry.

By quickly refuting this key part of their response, the UE local forced the company to back down, admitting to *Business Week* that less than half of the listed investments were in the relevant category. This undercut the credibility of the company's whole presentation. However, if necessary, each of the company's other claims could also have been contested effectively using their own figures.

Morse's other two approaches consisted of setting up straw men by misrepresenting our findings and then refuting the analyses we did not make, and showing figures they claimed proved that their problems came from high labor costs. They did not succeed. By providing its own analysis and figures on labor costs, and continuing to focus on investment, the union kept the debate centered on G&W's milking strategy.

I would also like to note that when the company responded with a criticism of our report, we were glad that we had been *very* careful

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 about testing and confirming our figures and conclusions. Thanks to the accuracy of the report, we were really not vulnerable to the company's attack.

MCLR: In this case, the local union had a hunch that Gulf and Western was milking Morse. Do you think that workers often have a good idea about what their employer is doing? Or do you think that often workers don't know that kind of thing?

JS: Well, we've found that unions usually have a good general idea of what the employer is up to. But that often they don't have the information necessary to make finer distinctions about what exactly the corporate strategy is. At Morse, for example, Local 277 knew exactly what was going on, and they caught it soon enough to be able to do something about it.

MCLR: Before the plant was too far behind?

JS: Right. It's not completely milked yet, so there's a good chance to put pressure on G&W to save Morse or sell it. In a lot of our work, we've seen unions trying to save plants that are completely obsolete, or which are in markets that have dried up. In those cases, it's too late to save the plant, and yet the union doesn't know enough about the industry to know that. In a case like that, the union would do better if it knew more about the state of the industry and what the corporate strategy was.

MCLR: What other research is ICA doing?

JS: Right now we're working on a study that is not going to focus on disinvestment because the company seems to be investing adequately. The union believed it was a case of disinvestment but we've found it wasn't. What's interesting in this case is that the company is pursuing a strategy that will allow it to shut down plants easily, whenever anything goes wrong. They do that by dedicating each plant to a single product line, so

they can cut that product line without affecting any of their other, similar products. The factories don't share overhead, they don't share sales staff, so each one is very vulnerable. It's not disinvestment, but each union is being set up if they cause problems.

MCLR: In light of the economic climate, what kinds of information would you suggest that locals collect and store?

JS: Whether or not they are thinking of doing a community campaign like the one at Morse, locals should understand the strategies of the companies that own their plants and monitor the effects of those strategies on the workers they represent. This knowledge will help both the normal negotiations—the more you know about the objectives of the people across the table, the more effective you can be in getting the most for your members—and in identifying threatening patterns soon enough to do something about them. Furthermore, if a study becomes necessary, having this information available can decrease the time and cost involved in a study.

The basic information to collect is:

- investment data — Keep careful track of all company expenditures on new plant and equipment.

- industry trends — Read industry magazines and the business press to keep up with technological and market changes. Develop relationships with industry experts.

- financial data — Collect anything you can from the company, the press, and other employees about profits, sales, inventories, etc.

- research and development — Monitor both expenditures and the success of the results. How big is the R&D effort at the plant, or company-wide? What new products are brought to market? Are they any good (ask customers)?

- employment data — Look for patterns in number of employees, ratios of salaried to production workers, numbers and types of grievances, increases or decreases in number of early retirements, etc.

- corporate strategy — Gather information from annual reports, public statements, internal documents and the press about changes in the parent company's or division's strategies.

- comparative data — Comparative data makes the information about a plant or company meaningful. Find out who the competition is and research them. Use government or other statistics about the industry. Look for changes over time in your own company.

- management changes — Keep track of changes in management practices and managers at the plant or in the company. Analyze the impact of the management changes on the company's ability to produce a good product competitively.

As you develop a hypothesis (or several) about the strategy pursued at your plant, you will identify the need for specific information needed to confirm or disconfirm your theories.

MCLR: What kind of situation does a union have to be in to be able to make use of a study like yours?

JS: It seems that an ability to get publicity and to do community organizing is really important for putting pressure on the company. I think having a lot of strength within the union helps. A study can be used to increase the unity in a local around issues like these, but it's good to have a lot of solidarity to begin with.

MCLR: Would a local union be able to do the sort of study that ICA did of Morse Tool or would it need to rely on people who are trained to do that kind of analysis? If a union looked at what you've done, could it do a preliminary study?

JS: My feeling is that a local could certainly do a good deal of the work involved in the study. And then they may want to bring in somebody who has a business background to be objective about looking at the data, to make sure that the union's theory is correct and that there isn't some other way of looking at the data. You don't want the company to come in and undermine the results. So I think it's a good idea for a local to work with somebody who has done a study like this before. What we're hoping to do at ICA is to advise unions on what they can do on their own and help them set up the process so that they can do most of the work, and so that they will only have to bring in somebody who's a specialist to do the last step—preparing the final analysis. ■