Corporate Strategy by Leif Johnson

International Harvester's saboteur

Archie McCardell's profit drive has cost the company, and the Midwest, plenty. He meant it to.

In 1977, Archie McCardell became chairman and chief executive officer of International Harvester, the giant manufacturer of farm equipment, construction machinery, components, trucks (and now solar turbines). He declared a new high-profit regime.

This month, Harvester declared a loss of nearly half a billion dollars for the two quarters ending April 30.

Did Archie McCardell miscalculate? He had come to Harvester from Xerox, which is secondarily a manufacturer and primarily a center for funding and directing programs to brainwash American businessmen away from corporate strategies of industrial growth. We doubt if he miscalculated.

Within two years, McCardell has jeopardized the viability of one of America's most important capital goods producers.

- He forced a strike that ended last month after idling 35,000 UAW workers for 172 days.
- He put hundreds of Midwest suppliers on the edge.
- He bankrupted Chicago's Wisconsin Steel.
- He has also supported Federal Reserve Chairman Volcker's credit strangulation, which is wiping out his farm and construction customers.

Is this a high-profit strategy? Or a strategy for putting Harvester in Chrysler's position, at the mercy of its creditors and the "industrial restructuring" crew.

McCardell has forced Harvester to turn to large infusions of expensive, short-term credit, ballooning its debt-equity ratio. And it has reduced its capital expenditure program by one-third. This situation was achieved by McCardell's "cost-cutting spree."

Archie came to Harvester from Xerox in 1977, where he was known as "a tiger on costs." His arrival coincided with pressure on Harvester, John Deere, and Caterpillar to stop seeking expansion of sales volume, and concentrate on returns on sales and paper profits. McCardell began an "efficiency and discipline" campaign that primed the United Auto Workers for the strike, while launching a purge and bringing in executives from Xerox and Ford (where he had earlier trained as a Robert McNamara-style finance man).

He began contract negotiations last August by announcing that there would be a strike. Then he managed to draw the strike out for five and a half months, refusing to "get practical" with the union on the relatively secondary work rule issues involved, while making well-timed provocations on the main issue, his threats to increase the company's non-union employment.

By April, as Fortune reported, he was widely considered to have gone off the deep end.

But, as a director of the Chicago Council on Foreign Relations, of Amex and Amex International Bank, and a Xerox operative, McCardell was simply carrying out an industrial sabotage operation.

The bankruptcy of IH subsidiary Wisconsin Steel exemplifies the point.

In 1977, Harvester decided to sell the decrepit plant instead of investing in the $100 million needed to modernize the facility or covering $30 million in pension obligations.

The only buyer it found was a little consultant firm called Envirodyne, which got Federal Economic Development Agency guarantees on 90 percent of the Chase Manhattan loans that funded the purchase, while Harvester guaranteed 10 percent and retained liens on Wisconsin Steel coal and iron holdings.

The deal wasn't clinched until November 1979, when Harvester had known for months there would be a strike. The strike collapsed Wisconsin Steel, 40 percent of whose business depended on Harvester.

Harvester proceeded to line up other steel suppliers and foreclosed on Wisconsin Steel's coal and iron, goading Chase in turn to force the steel firm to declare bankruptcy March 31. Harvester has written off $27.7 million on the deal to date, while Chicago area labor and politicians scramble to retrieve 3,500 steel jobs— and may even fall for a "workers ownership" scheme, according to union sources.