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## **Early Warning Systems: A Proactive Tool for Labor in the Regional Economy**

### **Developed in Response to the 1980s Crisis in Manufacturing**

In the volatile economy of the 1980s and 1990s in the United States, companies have been sold and resold, restructured, downsized and often closed in an effort to maximize profits. Sometimes, these jobs are relocated states or countries where labor and other costs are cheaper. Sometimes companies shut down because of poor planning or lack of access to necessary resources. Some companies should close, but many can be saved through proactive research and investigation that identifies real problems that have real solutions.

These developments have devastated the nation's manufacturing base. Since 1978, the U.S. has lost more than 43 million manufacturing jobs. Cities such as Chicago have been particularly hard-hit, as these jobs are often the mainstays of working class families, particularly in minority communities. In the 1980s, more than 3,000 of 7,000 Chicago factories closed resulting in a loss of more than 150,000 manufacturing jobs and more than 50,000 manufacturing jobs were lost in the 1990s. Moreover, the loss of these jobs ripples throughout the economy and results in an average loss of 2.5 to 3 jobs in other sectors, as well as a loss of disposable income that would have been spent in retail sectors, a loss of needed tax revenues and an increase in social spending such as unemployment and welfare.

The prevailing view among most leaders as well as the general public is that this chain of events and its consequences are inevitable. The logic is that we live in a new global economy witnessing a fundamental change in the international division of labor. The new role for the United States and other sections of the developed world is to serve as a source of intelligence, marketing, information, and finance. The Developing World with its low-cost labor will be the center for production.

Manufacturing Renaissance (MR) was formed in 1982 in reaction to the wave of plant closings in Chicago by local leaders of the Steelworkers Union, community leaders, and other concerned with the crisis in manufacturing. We focused on the problems of particular companies and particular communities, typically being called in to try to help prevent a company from closing. During the 1980s, we had the opportunity to look at hundreds of companies that had either closed or were at risk of closing.

Of course, we found a few companies that really needed to close--like slide-rule producers. Their products or technology were completely out of date and there was no way they could compete in the marketplace. On the other hand, the overwhelming majority of companies that we examined were not obsolete. They were at risk because of problems that could be solved in the context of our economy under our current system. Some of the problems were simple and require straightforward solutions; others were complex.

In the early 1980s, we found many larger companies closing not because of some objective requirement of the market, but because of a particular business strategy that was based on securing the highest possible return in the shortest period, and a refusal or failure to make adequate investment in the company that would ensure long-term survival. A local company, Taylor Forge, was purchased by the conglomerate Gulf & Western (G+W) that had a business strategy described as "milking the cash cow" that focused on pulling cash out of the company and using it in other investments. There was no long-term commitment to the company, and Taylor Forge closed in 1983. Another Chicago company was purchased by the British conglomerate, BTR, and production shifted to Mexico to lower wage rates, yet the company could have operated profitably in Chicago. These kinds of strategies are what we call Low Road strategies. These strategies seek a return on investment in ways that are destructive to the productive capacity of the company, the workforce, the sector, and/or the broader community. Yet no one challenged the management strategy until it was too late and the damage had been done. Unions would react to efforts to cut wages and benefits or to fight the actual closing, but not challenge in a timely way, the investment and management decisions that would inevitably lead to a closing of the company.

When they did, success was possible as was the case with Morse Cutting Tool in New Bedford, Massachusetts in the early 1980s. Morse was a company also owned by G+W, and G+W was pursuing the same destructive strategy they used at Taylor Forge. But at Morse, United Electrical Workers Local 277 recognized the early warning signs of G+W's corporate strategy. Two years before the anticipated crisis, the union, with the assistance of a consulting firm like MR, did a detailed analysis of the company, its markets, management, and the positive economic impact of this large factory on this small town. They documented how G+W's business plan was destroying a perfectly healthy company that had long-term potential. With this information, they patiently organized in the community and created a broad-based coalition to save the jobs at Morse Cutting Tool. With this base of support they went to the local mayor with their analysis and the demand that G+W be stopped from destroying the company. The mayor told the company, "Either invest in Morse Cutting Tool, or sell it to someone who will, or I will take it away from you with my powers of eminent domain." The press howled that this stand would wreck the business climate of New Bedford as well as the company. But it didn't. G+W reversed its plans and sold the company to a local investor who developed an effective partnership with the union.

And success was possible with hundreds of small companies that were falling through the cracks in the economy. In 1986, Gladys Scott, a resident Chicago's South Side, called MR with alarming information about a printing company--Bankers Print--that had handled her printing

needs for more than 16 years. The owner, Carl Wilson, had cancer and no heir to take over the business. After meeting with Mr. Wilson and talking with the employees, MR able to arrange an employee purchase of the company--a successful conclusion that no one had seen as an alternative.

The experience focused our attention on small companies. After all, despite public perception to the contrary, 90% of all manufacturing companies are not big, complex, fully integrated firms, but small companies with less than 100 workers. Individually they are insignificant, but in their aggregate they are the bedrock of the manufacturing economy. They typically have local markets, adequate technology, and a skilled work force. They are frequently linked to the larger companies, providing services and materials for production. The health of these small companies is a major variable in the success or failure of the larger companies and the community.

MR studied 800 of these small companies with an owner 55 or older, and found that almost 40% were at risk of closing because of the issue of succession of ownership.<sup>1</sup> A typically successful white entrepreneur would move to the suburbs as his wealth made it possible, and often encouraged by the shift of the community from white to African American or Hispanic. Facing sickness, death, or retirement, he would be unable to find a successor in his family or in management to take over the company, which would be difficult to sell because of its size and location. Typically, the father turns to the son. The son typically would not want to go back into the “ghetto” to run the company. Even if the son had gone to business school, he would want to make money in the “casino economy” by moving stocks and bonds or working as an MBA for a large Fortune 500 corporation rather than manufacture a product.

Yet this problem can be solved with conventional resources and a little creativity and extra effort by those concerned with community development. Small companies with aging owners and no successors can be identified in a number of different ways. They are often good opportunities for employee buyouts, as was the case of Bankers Print. Or they may be an excellent opportunity for aspiring local entrepreneurs who are typically African American and Hispanic, heretofore excluded from this kind of opportunity. MR arranged a number of buy-outs of this kind preserving jobs, union membership, and stabilizing--rather than losing--critical assets of the local economy.

## **Creating an Early Warning Business Development System**

After a decade of evaluating these companies in crisis and engaging in scores of efforts to save viable companies, we concluded that the crisis in the manufacturing economy wasn't inevitable, but due to a combination of:

- New corporate strategies that were destroying productive capacity

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<sup>1</sup> *Intervening with Aging Owners to Save Industrial Jobs: A Report to the Economic Development Commission Foundation of Chicago*, Center for Labor and Community Research, August 1989.

- An anarchy in the economy that traditional market-based approaches didn't address; and
- A passivity in labor, community development, business, and government in adjusting to the conditions of a changing economy.

Traditional economic development approaches--which tend to offer piecemeal assistance to businesses well after the development of a crisis--clearly proved ineffective in stemming the decline of manufacturing jobs.

MR estimates that 75% of the jobs and companies lost in the 1980s and 1990s in Chicago and other major cities could have been saved with some creativity and determination by labor, community, government, and business combined with access to timely and accurate information—Early Warning.

The Early Warning approach to economic development isn't new. Gathering timely and accurate information, particularly of undervalued assets and business opportunities is the life-blood of any investment or acquisition company. It is a time-tested tool of the capitalist community. It simply hasn't historically been developed or effectively used by the social side of the economy. It was pioneered and developed by MR as well as some other "plant closing" organizations in the early 1980s in the US context. MR had been introduced to the concept by some of the experience and writings of the Greater London Enterprise Board—a labor-based social democratic structure that experimented with new approaches to economic development in London, England in the 1970s and 1980s.

MR had the opportunity to develop a programmatic expression of this approach in partnership with the Mayor Harold Washington Administration in Chicago in the 1983-1987 period. In facing the wave of plant-closings in the Chicago-area, we sought to retain jobs by mobilizing the information and assistance capacities of a wide variety of stakeholders in the local economy. These stakeholders help to gather information on area companies early enough to permit effective efforts to avert a crisis that could place the business and jobs at risk. This information is combined with more traditional business data on area companies from such sources as commercial databases and state and federal employment and establishment data as a foundation for targeted assistance. Specifically, the key components that differentiate the Early Warning approach from more traditional economic development strategies include an emphasis on:

- Identifying and assisting at-risk businesses well in advance of a crisis, thereby dramatically improving the opportunities for success;
- Taking a coalition approach to economic development that seeks to include a broad range of traditional and non-traditional participants in the job retention process;
- Capitalizing on the participation of those groups -- such as labor unions and community organizations -- that have valuable information on local businesses and unique assistance capabilities, but have traditionally been excluded from the development process;

- Promoting market-driven responses that attract private capital, rather than using government subsidies and incentives, to enhance the long-term viability of local manufacturing firms;
- Being willing to build campaigns in the fight to block and discourage Low Road business practices as well as advance High Road business options;
- Using succession planning as a powerful tool to retain viable businesses that are at-risk merely because an aging owner has no successor;
- Promoting local, employee and/or minority ownership as a means of anchoring businesses in the community; and
- Engaging professionals as necessary to complement the capacity of government and non-profit development organizations.

Success of the Early Warning approach is reflected in more effective intervention strategies that result in retaining and strengthening local manufacturing firms and jobs. Key indicators of progress toward this objective include timely and accurate information about businesses in the area; an expanded base of resources and capacity to assist local companies in their efforts to survive and grow; increased cooperation from business owners; and new partnerships, perspectives, and resources that will allow the retention of existing companies as a foundation for new economic development in communities whose economies have been dramatically deteriorating over the last 15-20 years.

## **How an Early Warning/Business Development System Works**

There are several key and interrelated parts of building an Early Warning Business Development System including:

- Building a coalition of the key stakeholders committed to building the Early Warning Business Development System;
- Gathering published and unpublished information about area companies;
- Identifying problems as well as opportunities, and a plan of action; and
- Using the experience, information, and action as a springboard for further development of the community and regional economy.

### **1. Building a local coalition of community, labor, the religious community, government, and local business committed to developing an Early Warning Business Development**

## System

One of the most creative aspects of the early-warning approach to economic development is to reach out to unions, local development corporations, government agencies, financial firms, professionals, and community-based organizations for information on firms at-risk of closing or leaving the community. Ultimately this outreach process can lead to the establishment of a formal network, where participants share information about, and solutions for, at-risk businesses. Our own experience demonstrates that these local sources of knowledge and information often are far superior to public and private sector data. They can accomplish all the tasks, have the skills, the commitment, and the responsibility to protect and develop the local economy. None by itself can do a job as effectively if all work together. A key for the success of the system is creating this coalition, in one form or another.

The first stage in building this coalition is systematic outreach, education, and recruitment of key organizations from the various stakeholder communities including labor, local business and community development organizations, appropriate local government departments, local churches and religious leadership. In this outreach to organizations, we explain the reasons why companies close, the kinds of approaches that can be used to prevent job and company loss, and the general purpose and value of an Early Warning Network. The objective of the outreach is to secure a commitment from the organization to participate in the coalition, to receive a deeper level of training on the Early Warning approach, and to participate in gathering information on companies as well as participating in providing assistance to these companies, or engaging in an appropriate form of intervention.

Having enlisted the participation of a variety of public and private stakeholders and unions, the next step is a deeper level of training and education for representatives from these constituencies in the principles of the Early-Warning approach. Specifically, MR has developed a training manual<sup>2</sup> that presents in detail the various components of this approach in a format that serves as a good structure and resource for bringing diverse organizations into common effective activity. The Manual provides a framework for discussion and debate on all the practical as well as strategic issues associated with Early Warning Business Development Systems. An ideal training includes a review of the Manual, a discussion on the specific features of the local economy, case studies on efforts to avert closings or to assist companies, and review of practical assignments given to participants including gathering information on a local company and developing an appropriate plan for assistance. Participants are also introduced to the specific plans and features of the local Network.

The Manual reflects the more than 20 years of experience that MR has had in industrial retention and building similar networks. It contains information on key indicators and action steps in industrial retention. It describes the various components of a Network. It can be organized in a flexible format and binder that allows supplementary materials to be added as the organizations and Network accumulated experience. The local Network will be able to enhance the quality of the Manual with their local experience as well as with the experience of others developing

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<sup>2</sup> *Early Warning Business Development System Manual*, Center for Labor and Community Research, 72 pages, 1996.

similar networks around the country.

A major topic in training members of the network is an understanding of the “protocols” and requirements of gathering and using Early Warning information. Identifying businesses at risk of moving or closing is only half the battle for key stakeholders or development officials. Getting a “foot in the door” is often the most challenging aspect of a retention effort. Development officials, for example, sometimes hear rumors that a plant is closing months before the information becomes public, but are stymied in their assistance efforts by their inability to meet with company officials to verify the information or offer assistance. There are also situations where a key stakeholder could identify an at-risk situation, but would compromise his or her position by approaching the company directly. For example, a union official who recognizes that an employer’s business is declining may risk opening the door to demands for employee wage concessions by confronting the employer directly, whether or not labor costs are a contributing factor to the firm’s problems.

It’s critical for the local project to know how to overcome these “barriers to entry” by developing an intervention protocol. This protocol forms the second role of the Early Warning Network: to facilitate introductions to at-risk firms by identifying network members with existing relationships to these firms. Thus, the Network serves as both an identification and intervention mechanism.

Often it is the same person or organization that refers information to the network about an at-risk business and introduces appropriate network resources to the firm. Because this allows referring organizations to maintain an active role in the process, this is the preferred approach and was the case in almost all of the referrals.

If the source of the information is unwilling or unable to provide the introduction, however, then the network coordinator seeks to work through other network members to gather additional information and, if appropriate, approach the company. (In many cases, however, direct intervention is not necessary.) By recruiting a broad group of local stakeholders to join the Network, ranging from unions, government officials and local development corporations to the Chamber of Commerce, commercial banks and business professionals, a key objective is to maximize the number of such relationships.

## **2. Gathering published and unpublished information about area businesses**

Published information on companies can be found in annual reports, data-bases, trade journals, the business press, and public records. Unpublished information comes from people with first-hand knowledge of the company, including employees, customers, residents, service providers, local development officials, and local government. Often, these people are seeing signs of trouble without knowing how to recognize or interpret them. Employees, particularly, are often in the company 40 or more hours a week for many years. They know about all aspects of the company. They frequently know the customers, they feel the impact of management decisions, and they know the key information that is essential for any effort to improve productivity and

efficiency. We include management as employees. They often are one of the best sources for critical information. Educating the workers, their unions, community residents and others to read the signs can provide critical information that allows for effective intervention and assistance.

We have identified a series of variables to help distinguish those businesses that are potentially at risk of moving or closing. The presence of some or many of these factors serve as red flags to stakeholders, signaling that a given facility may be at risk and deserving of further investigation. These variables include:

- Deteriorating business prospects/financial condition
  - Bankruptcy;
  - Declining sales;
  - Declining profitability;
  - Declining employment;
  - High and/or increasing leverage (debt/equity);
  - Major new investments required;
  - Delinquent bill payments to utilities and/or suppliers; and/or
  - Aging property, plant and equipment.
  
- Rapid expansion is also a potential indicator of a firm at risk of moving
  - Strong growth in employment and/or sales;
  - Increasing power and other utility usage; and/or
  - Very high capacity utilization.
  
- Ownership-related risks including
  - Recent change in ownership;
  - Absentee owner;
  - Aging owner with no apparent successor;
  - Change in parent company strategy toward selling assets;
  - Branch plant of multi-plant company; and/or
  - Sister plants with duplicate capacity
  
- Other risk indicators include
  - Legal/regulatory actions against company;
  - Poor labor-management relations; and/or
  - A sudden change in labor relations policy.

A key component of gathering information on area companies is exhausting what is available from published sources and various data sources that can be purchased. There are a variety of sources that we have found in our projects.

In 1996, MR was hired by the State of New York to do a pilot project in Brooklyn, NY utilizing our Early Warning approach. The project was successful and led to the creation of the New York Industrial Retention Network ([www.nyirn.org](http://www.nyirn.org)) that now operates in all five boroughs of New York City. Our partner in this project was a New York firm, Locker Associates<sup>3</sup>, which developed and implemented the research plan to gather information from published sources. Following is the section from the final report of this project that illustrates the details and thoroughness of our research methodology in the context of Brooklyn.<sup>4</sup>

### **Excerpts from the New York Report:**

**A. Early Research:** The project team began this economic development and industrial retention effort by analyzing state and federal data employment and establishment data and interviewing local economic development professionals and industry experts. Our early research helped identify industries to target for assistance as well as organizations that might be potential network participants. We also applied this initial top-down research to the design and construction of a database of Brooklyn's manufacturing firms.

To better understand the characteristics of Brooklyn's specific industry sectors, including firm size and overall employment levels and trends, Locker Associates collected and analyzed employment trend data (1980-1995) from the New York State Department of Labor and the most recent establishment survey (1992) from County Business Patterns.

Interviews with local economic development professionals and industry experts complemented the data analysis and contributed to a richer view of the local economy. Specifically, they provided invaluable insights into the dynamics of particular industries, including geographic concentrations, and the unique advantages or disadvantages to a Brooklyn location. This analysis informed the (1) selection of key industries on which to focus early warning data collection and research, as discussed below, and (2) targeting of potential network members connected to particular industries and/or neighborhoods.

**B. Identifying and Evaluating Data Sources:** Locker Associates conducted a comprehensive review to identify and evaluate sources of data on Brooklyn manufacturing firms. These sources included commercial databases, government data sources and other less common sources of systematic data.

Of the six commercial data sources reviewed, the Dun's Enhanced Modifiers Plus database provided the broadest coverage of variables tracked and number of establishments included. The Dun's database reported 1,035 Brooklyn manufacturing establishments with 10 or more employees as of 1995, which represents 85% of the 1,215 such establishments reported in the 1992 County Business Patterns, the most recent

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<sup>3</sup> Locker Associates, 225 Broadway, New York, NY, 212 962 2980.

<sup>4</sup> *Alternatives to Industrial Decline: Results from the New York City Early Warning Pilot Project*, March 1998; Mike Locker and Mike Granger, Locker Associates; Dan Swinney, Center for Labor and Community Research; available from CLCR, 3411 W. Diversey, Chicago, IL 60647.

government data publicly available. (Note that an establishment refers to a particular location, and can be a branch or headquarters facility of a multi-plant company or single-location firm.) Accordingly, we acquired the Dun's data for all manufacturing establishments (SIC 20-39) in Brooklyn with 10 or more employees and \$1 million or more in annual sales. Because the Dun's data provide good background information on a large number of establishments, but offer little in the way of early warning predictive capacity, they represent the "skeleton" of the Early Warning database.

Additional sources of data selected for the project include Dun & Bradstreet credit reports, company documents, and establishment-specific employment data collected monthly by the New York State Department of Labor (DOL). The DOL data are powerful in terms of early warning predictive capacity, and are probably the most timely, accurate and comprehensive available in terms of employment and number of establishments included.

**C. Selecting a Subset Of Brooklyn Establishments To Test Methodology:** To focus research and analysis on a manageable number of establishments, a subset of 115 establishments was identified from the Dun's dataset using two independent methods:

Brooklyn's Largest Establishments: The 75 largest establishments in the Dun's dataset were selected because: (a) concentrating on Brooklyn's largest establishments maximizes the number of employees included within the pilot project; (b) more information is available on the larger establishments; (c) research with local experts revealed that Brooklyn's largest establishments are most at-risk; and (d) successful interventions at large establishments have the greatest economic impact.

Mid-Size Establishments in Four Target Industries: A subset of 40 establishments with 40 to 80 employees in the food products, textiles, printing and publishing, and fabricated metals industries was selected at random to test whether the Early Warning methodology is viable for smaller firms given the extremely limited availability of public information. In addition, since most Brooklyn establishments with 40 to 80 employees are family-owned businesses (typically with limited management depth), including a sample of such firms increase the likelihood of identifying a retiring owner without a successor, a high priority target for Ownership Transition Services.

The four industries included in this mid-size sample were selected because, after apparel, they are the most important in Brooklyn based on total employment and our research suggests that there are opportunities for firms in these industries to thrive in Brooklyn. We excluded apparel because establishments with 40 to 80 employees are generally contracting shops that are problematic targets for assistance or ownership transition.

Six establishments from the above two populations were subsequently eliminated due to business closure, duplication or other factors which made them inappropriate targets for the pilot project, resulting in an initial target population of 109 establishments. See Appendix B for a complete listing of these establishments.

**D. Conducting Establishment-Specific Surveys And Research:** Locker Associates conducted a telephone survey of the 109 establishments to: 1) confirm that they are still in business and manufacture on-premises, 2) determine current employment, 3) ascertain unionization status and name of union if relevant, and 4) test the overall accuracy and timeliness of the Dun's data. Surveys were faxed or mailed to those companies that refused to provide the information on the telephone. We ultimately received complete or partially completed surveys from 86 of the 109 establishments for a 79% response rate. The survey results constitute an independent dataset within the early warning database, as discussed below.

**E. Developing Methodology To Integrate Traditional And Non-Traditional Data:** A primary objective of the Early Warning project was to develop methodologies to collect information on Brooklyn manufacturing firms from a wide variety of sources, systematize that information, and integrate it into the computer database on an ongoing basis. To best achieve this objective, Locker Associates sought to design the database and related methodologies to meet the following four criteria:

- The database must be capable of storing quantitative and qualitative data;
- The database must be simple to access and update;
- The database must be capable of accommodating new data while preserving the integrity of prior datasets, and
- The database design must be flexible in order to allow for modifications and improvements.

We developed a database to meet these criteria.

To permit the integration of company information from non-systematic and non-traditional sources, such as Network members, newspaper articles, and telephone surveys, a "status" pod was set up that contains both alphanumeric, text and mixed fields. Unlike the datasets described above, which are not updated but merely complemented with newer versions, the status database is designed to be updated with new information on companies as received. Full-text comments can be incorporated and new fields can be added as appropriate. Currently, this dataset includes (a) information on operating status from the telephone surveys; (b) the names and ages of the owner and key executives from the D&B credit reports; (c) a code signifying that a company has been contacted by consultants; and (d) other miscellaneous information culled from the press or the Network.

The process of constructing the database highlighted the limitations of the "top-down" approach. Traditional sources failed to produce meaningful information on Brooklyn firms. Most Brooklyn manufacturers are privately-held with little information publicly

available, and the few that are publicly-owned are branch plants of larger corporations that report little or no establishment-specific information in their public documents. While the information in the Dun's dataset provide good background on local companies, it is too limited and the quality too inconsistent to offer predictive capacity. The Department of Labor employment dataset holds more potential, especially when used in conjunction with the Dun's dataset, but was received too late to be fully integrated or systematically analyzed. For these reasons, information obtained from the Network--the "bottom-up" component of the early-warning approach to economic development--proved far more useful.

### **3. Identifying a problem or opportunity and developing a plan of action**

With both published and unpublished information, members of a Network can identify potential problems or opportunities at a company, develop an analysis of the particular problem and opportunity, verify the information, and develop a course of action to encourage and assist a company to keep its doors open or expand. (The Network can also identify companies that are really beyond repair and assistance, and candidly inform the stakeholders to prevent misinformed public investment and misplaced expectations.) This kind of systematic approach to local companies can result in as much as two years' notice of a potential problem, that if unrecognized, could result in a crisis at the company and a potential closure. This approach also identifies opportunities frequently overlooked by local management that can lead to expansion of an otherwise healthy company such as:

- Identify a qualified, community friendly entrepreneur or group of employees who can buy the business if it is faced with a succession problem;
- Provide access to new and improved management personnel or access to capital;
- Offer business planning assistance or technical assistance to improve productivity;
- Offer turn-around assistance;
- Train and develop the local workforce; and
- Facilitate an effective working relationship with city and state agencies.

This information can also lead to creative and significant mass campaigns against a Low Road company or Low Road business practices. In Chicago, early warning information from local community organizations regarding lay-offs at Brach Candy Company in 1989 led to a campaign<sup>5</sup> that still continues 13 years later. Brach Candy used to employ some 3,700 workers on the West Side of Chicago. It was purchased by a Swiss billionaire, Klaus Jacobs who has now cut 3,000 jobs from the company, threatened to close it on several occasions, tried to break the union and

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<sup>5</sup> See "*Misadventures in Candyland*" Numbers 1 & 2. These are two pamphlets summarizing the Brach Campaign published by and available from CLCR, 3411 W. Diversey, Chicago, IL 60647.

cut the salaries of new employees in half, and still is trying to move production to Mexico and Argentina. The highlights of this campaign included:

- An effort by employees and managers to buy the company—an offer rejected by the owner;
- A successful organizing campaign involving a coalition of 80 organizations in Chicago in support of the union's effort to win a strong contract and sustain the wages and benefits of the employees;
- A legal suit by the owner against MR Executive Director and MR that was defeated;
- The creation of the Candy Institute—a program of MR--to develop a competitive candy industry based on High Road practices. The Candy Institute works with all the key stakeholders in the industry around programs such as training and education, joint purchasing and networking, and policy support for High Road practices; and
- A delegation of labor and community leaders meeting with union and company leaders in Argentina in an effort to block a merger between Brach and an Argentinean company.

#### **4. Using the System to build the community vision and capacity**

The Early Warning Business Development System is an excellent entry point for the social side of the economy—labor, community-based organizations, civic associations, local government and others to playing a dynamic and effective role in the local economy whether it is with an individual company, a sector, or all the other factors that make companies and communities successful. The experience at the micro level leads to a deeper understanding of the issues that need to be addressed at the macro, policy, or legislative level. The process builds a network of individuals and institutions that has value beyond the immediate task at hand. In Chicago, the early warning network has given rise to a broader development in the food sector. An early warning network in Brooklyn led to a citywide network and a number of other projects related to developing the health of the regional economy.

### **Strategic Implications of the Early Warning Business Development System**

In today's economy, the emerging and, perhaps, most powerful trends in the private sector are those along the Low Road. Their search for a high short term return on investment for their shareholders, and extraordinary compensation for their executives, lead companies to short-term strategies that, in the end, are destructive to the productive capacity of companies, people, and communities—both in the developed, as well as in the developing world. There certainly are High Road companies that genuinely are part of an approach to development that is economically, socially, and environmentally sustainable. They recognize “stakeholders” as well as “shareholders” and are committed to both at appropriate levels. These companies are

competitive in their markets and profitable—and typically high-performance. They compete by being smarter. But they aren't the emerging trend.

In the United States, as well as other countries, the public side of the economy, as well as labor, has expected the private sector to be the steward of productive capacity. The focus of the social movement has typically been on the issues of redistribution of wealth (such as number of jobs, wages, benefits, and conditions of work); and not on the issues related to creation of wealth (such as finance, marketing, discrimination, technology, product development, ownership, management, and production techniques. George Meany, President of the AFL-CIO said in 1955,

“Where management decisions affect a worker directly, a union will intervene.... (But) those matters that do not touch a worker directly, a union cannot and will not challenge. These may include investment policy, a decision to make a new product, a desire to erect a new plant so as to be closer to expanding markets, etc...”

The social movement, including the activist 1960s era movement, typically stayed within these general guidelines. There has been no fundamental difference between the left and the right wings of these movements except in approach. Where there was recognition of the need for intervention, government was seen as the instrument through regulation, tax and trade policy, and subsidy.

MR with others in the US and international labor and development movement recognize the absolute necessity for active involvement and leadership by labor and the social side of the economy in the issues of creation of wealth as well as redistribution of wealth at the firm or micro-level of the economy.<sup>6</sup> Early Warning Business Development Systems are a key programmatic expression of this strategic approach in a number of ways.

- This activity is a key opportunity to engage the obstacles and solutions of the wealth creation process in the specific firm and sector;
- It is the beginning of a key component in creating wealth—the development of an independent view of how to run and develop the company in a way consistent with the values and interests of labor and the broader community;
- Labor and the participants in Early Warning have the potential to develop an understanding of the local economy that is superior to any other source over time. Through this network, they simply have access to more information than the investment community, or even the owners and managers of the particular company. This information, then becomes the foundation for a broad range of activities;

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<sup>6</sup> See *Building the Bridge to the High Road*, by Dan Swinney, 80 pages, available from CLCR, 3411 W. Diversey, Chicago, IL 60647 or on their web site: [www.clcr.org](http://www.clcr.org)

- There is the profound shift in individual and group consciousness that can take place through participation in gathering and analyzing this kind of information. For a worker who has only been focused on having a job, wages, and benefits to begin to think of having influence in management, or even ownership can result in a very significant leap in thinking, philosophy, and expectations;
- This experience is the dynamic foundation of economic democracy. It takes place in the arena that is where most people spend most of their life. This is truly radical democracy taking place at the roots of the economy—the individual firm, and at the foundation of human learning and experience—work; and
- Early Warning Systems are the foundation for a broader coalition of business, civic, religious, political, and community organizations around a strategy for High Road business development. These coalitions have new and interesting features. The coalition is greater than the sum of its parts giving each participating organization resources and options that they normally don't have in traditional economic, political, and social networks.

## **Conclusion**

Early Warning Business Development Systems have been developed as an effective approach that involve a broad range of public and private organizations in common work to retain and develop local companies in the regional economy. Rather than passively observing the decline of companies or sectors with devastating consequences on the regional economy, Early Warning identifies problems when they can still be solved. This work is also an important tool in extending democracy into the base of the economy and community.

This approach is still experimental. It has been used in a number of US cities and regions including Chicago and smaller Illinois cities, New York, and Pennsylvania; in Montreal; and by U.S. unions such as the International Brotherhood of Machinists who have developed their “Alert” system. Where it has been used, it has been successful in saving companies, saving jobs, and building stronger unions and development coalitions. It’s an approach that should be tested and refined on a larger scale by those committed to building the productive capacity of our international economy as we extend democracy in greater and more meaningful ways.

## **Attachments:**

Early Warning Survey

## Early Warning Survey

### What's Happening to your Job? What's Happening at your Company?

This survey is an effort by Manufacturing Renaissance to help keep our jobs and companies healthy and here. Please answer the questions and send or fax the form to us. We will contact you. All information will be kept confidential.

Name: \_\_\_\_\_ Date: \_\_\_\_\_

Address: \_\_\_\_\_

Company Name: \_\_\_\_\_ Your Job \_\_\_\_\_

Company Address: \_\_\_\_\_

Do You Have a Union? \_\_\_\_\_ If Yes, Which One? \_\_\_\_\_

Please answer YES or NO to the following questions. A "yes" to any of these may mean that your job is not secure, and probably requires some more attention.

1. Have there been rumors that the plant will close? \_\_\_\_\_
2. Have there been major layoffs in the past 2 years? \_\_\_\_\_
3. Is the owner getting old and/or sick without training anyone to take over the business? \_\_\_\_\_
4. Has work and/or major equipment been moved from the company? \_\_\_\_\_
5. Are they bringing people through the plant that you don't know? Are they cleaning up the plant? Have they increased security with no explanation? \_\_\_\_\_
6. Do the owners live out of town? Has the company recently been sold? \_\_\_\_\_
7. Is the company taking unusual positions in contract negotiations? \_\_\_\_\_
8. Is management being extra nice or unusually difficult to deal with? \_\_\_\_\_

Please send to: Dan Swinney, Manufacturing Renaissance, 3411 W. Diversey, Chicago, IL 60647; or call Dan Swinney at 773 278 5418, ext. 13., [www.mfgren.org](http://www.mfgren.org), <dswinney@mfgren.org>

**Thanks for your help!**