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In 1986, when Frank Lorenzo took over Eastern Airlines, the country's third largest carrier was in decline: its route structure was inherently weak, its costs were sky high, and its stiff-necked labor unions fought with each other almost as much as they fought management. To many in corporate America, Lorenzo seemed just the man to whip Eastern back into shape. Lorenzo, with the help of Michael Milken and Drexel Burnham Lambert's junk bond machine, built his tiny Texas Air Corporation into an empire. Indeed, with the addition of Eastern to Continental, Frontier, and People Express airlines, Lorenzo controlled the largest airline in the country, flying more than a fifth of the nation's air passengers on his planes. Lorenzo has been characterized as a ruthless empire builder, who uses a seemingly simple formula of slashing costs and offering lower fares. The problem, however, is that he had failed to parlay his formula into profitability. New York Air failed; Continental was consistently losing money; and Eastern was on the brink of extinction (Gessell, 167).

Moreover, Lorenzo represented the get-tough approach to management that Ronald Reagan had revived when the President fired striking air traffic controllers in 1981. While some U.S. companies had started to experiment with the Japanese-inspired labor-management cooperation techniques as a way of restoring America to global competitiveness, Lorenzo went in the opposite direction (Bernstein, 7). In 1983, his uncompromising style had brought about an apparently miraculous turnaround at Continental and set him up as a shining example of a business leader willing to fight labor to create a lean and successful company. Wall Street celebrated the renewal of a dying breed of tough managers (Bernstein, 8).

But, like Drexel Burnham and the junk-bond takeover binge of the 1980s, Lorenzo's effort blew up in his face. Although his brilliant financial manipulations enabled him to build an empire out of nothing, Lorenzo was unable to run an airline on a daily basis. Instead of fixing the operational problems of the airlines he bought, Lorenzo let them flounder as he focused on making new deals.

Lorenzo also failed because he alienated the people who worked for him. Lorenzo's giant debt load led him to turn to labor as a way of reducing overhead. His efforts to get more for less by intimidating employees into working harder and taking unprecedented wage and benefit cuts proved to be disaster, particularly in a highly service-oriented business like air travel. At Continental, once known for its quality service, Lorenzo created an airline with embittered workers who disliked their jobs almost as much as passengers disliked flying on their planes.

When Lorenzo applied similar tactics at Eastern, he soon found that he had stepped into a hornets' nest. Instead of trying to make peace with the carrier's employees, who had feuded for years with each other and with Frank Borman, Eastern's previous chairman, Lorenzo struck out harder and harder, until finally Eastern's workers were willing to sacrifice their jobs to get rid of him.

Frank Lorenzo exemplifies the failure of the traditional antagonistic methods of dealing with employees (Bernstein, 8). He never understood that an airline's success depends on motivated workers providing quality service. The story of Lorenzo's struggle to bend Eastern employees to his will is a case study in why the confrontational approach is destined to fail (Bernstein, 8) . It is also a tale that explores the darker effects of the junk bond takeover era of the past decade. Lorenzo brought a corporate raider's ruthlessness to bear on the running of a company. His determination to get his way with employees led him to dismember the very company he wanted to build. Lorenzo fought a no-holds-barred war against labor that ended with the destruction of both sides: tens of thousands of employees lost their jobs, and the United States lost one of its oldest major carriers.

Contrary to popular belief, Eastern's numerous problems did not begin with the arrival of Frank Lorenzo (Robinson, 5). The company's economic woes set the stage for endless civil wars with employees (Bernstein, 23). It was during one of these endless wars that Frank Borman courted Frank Lorenzo as a means of bludgeoning the unions to take concessions. The situation got out of control quickly, with Lorenzo purchasing Eastern.

Lorenzo barreled into Eastern with the attitude that the fastest way to turn the company around was to reduce labor costs. Given Eastern's fractious interunion relations, the old divide-and-conquer strategy seemed the best way to do this. Texas Air officials were counting on the fact that the machinists would react quickly and call a strike, in which case, Texas Air would hire non-union workers and break the strike (Bernstein, 55).

The campaign against the employees didn't come only from high-level management. Lorenzo had put Eastern's managers and supervisors on a war footing. The managers used strict absentee policies, alleged drug abuse, and charges of phony medical claims and theft to fire a record 262 machinists union members in one year alone (Bernstein, 64). Managers became adept at psychological warfare. Flight attendants were forced to pick up trash on the planes, in violation of their contract. If they refused, they could be fired for subordination.

However, after two years of owning and operating Eastern, Frank Lorenzo had become desperate. He had mustered all his resources around the expectation that a showdown with labor would occur by April 1988 at the latest. However, the unions refused to be goaded into a strike (Bernstein, 71). By early 1989, it looked as if things might once go Frank Lorenzo's way.

With labor negotiations going nowhere fast, the National Mediation Board nearly declared an impasse, in which case a 30-day cooling off period would be started, at the end of which management could either enforce a contract, or labor could strike. On January 6, 1989, Lorenzo got his wish, the clock had started, ending at 12:01 A.M. on March 4.

Finally, Lorenzo had a definitive date for his showdown with labor. According to Lorenzo's plan, when March 4th came and the machinists struck, the pilots union would cross the picket line (Robinson, 36). At that point, Lorenzo would hire new workers, and a newly rebuilt Eastern would have rock-bottom costs.

As one last-ditch effort to keep the airline flying, Lorenzo offered the pilots union a new labor contract in which they were guaranteed jobs and pay raises. However this deal included provisions that if Eastern were declared bankrupt or merged into Continental, its sister airline, the contract would be void. Lorenzo had found just the thing to push the pilots over the edge (Bernstein 159). On the morning of Saturday, March 4, 1989, the machinists struck Eastern and both the flight attendants and pilots unions called sympathy strikes. Eastern had been virtually grounded (Robinson 38).

With no cash flowing in from Eastern, Lorenzo was forced to lay-off the remaining Eastern employees. With an entire airline sitting on the ground, Eastern was placed into bankruptcy. With so much debt and the refusal of professionals to work for Lorenzo, there was virtually no hope that Eastern would ever return to the skies. In fact, it never did.

CONCLUSION

Would Eastern's fate have been any different if Lorenzo had taken a softer approach? It is true that Eastern had serious, perhaps even insurmountable, problems--but when Lorenzo showed up, labor was not foremost among them. The pilots and flight attendants had just cut Eastern's labor costs to reasonable levels by industry standards. For equity's sake, perhaps the machinists should have kicked in, too; but their cuts were not sufficient to make or break the company, which actually managed to make a modest profit until Lorenzo started cutting it to pieces.

Lorenzo was so obsessed with beating labor over the head that he never faced Eastern's real dilemmas: the airline's inherently unstable route structure and its high debt load. Instead of devising practical solutions, such as merging with a carrier that flew complementary routes, Lorenzo stripped Eastern and made off with net proceeds of up to $750 million in assets.

Reducing labor costs could have been one way of dealing with the routes and debt. But doing this in an adversarial fashion made no sense. Eastern's fractious unions were difficult to get along with, and, like most airline employees, they tended to blame the difficulties of deregulation on management. But even conservative, instinctively pro-business outsiders thought Lorenzo's tough-guy approach was all wrong.

Lorenzo never played by the rules. He knew what he wanted and he stuck to it, even though his demands were not based on careful financial calculations. As a result, he won the battle, but lost the war.

It is possible that even the most cooperative of managers may not have been able to bring Eastern's divided unions together. Still, the company's employees had shown a willingness to do almost anything to keep their jobs and their company going, provided they were included in the process.

Lorenzo never saw that. Like many American managers, all he knew was force. To be sure, Lorenzo was an extreme example, but he shares with other managers the attitude that employees, union or nonunion, will resist unless beated into submission.

Perhaps employees will submit, if given no other choice. But as other companies are coming to realize, confrontation is not the path to success. If Lorenzo had come into Eastern making the kinds of proposals that other potential saviors of Eastern did, a strong and viable airline might still be flying. Instead, little remains but ashes.□

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