

Job slashing at Heinz Foods and the role of private equity firms in corporate restructuring

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Recently announced job cuts by Heinz Foods highlight an important feature of contemporary capitalism: the role of private equity firms in the shaping of corporate policy and the intensification of already brutal attacks on workers' living standards.

Private equity firms are organizations made up of wealthy shareholders who band together to seek to influence, and in some cases take over, the boards of publicly traded companies. These groups are, in contrast to the stated focus of a corporate board, uninterested in the long-term viability of a company, instead focusing on the short-term gains to be made by increasing efficiency and shedding less profitable divisions. Once these gains are realized, these large investors often sell their shares and move on to a new target.

One private equity firm to make news in the last year is Trian Group, controlled by billionaire Nelson Peltz. In mid-2005, Trian used a threat to take over the board of Wendy's International, Inc., to force the closure of many stores of its Baja Fresh chain, which had lost money the two previous years. This retreat resulted in strong gains in revenue and market share for competitor chains, such as McDonald's-owned Chipotle Grill and Jack in the Box, Inc.-owned Qdoba Mexican Grill, but the short term cost-reduction to Wendy's brought with it a more than 25 percent increase in share price.

In 2006, Peltz and the Trian Group have set their sites on Heinz Foods. With nearly 6 percent of the stock under their control, Trian is the second-largest shareholder, and is making a bid to replace five of the eleven board members with Trian employees, owners or family members. The Group is fighting to force Heinz to sell off some of its less profitable operations

and lay off several thousand employees. Since this fight began in the early part of the year, Heinz stock price has increased more than 25 percent.

Although elections to the board do not occur until August, the pressure exerted by Trian has led Heinz CEO William Johnson to promise to close 15 plants and eliminate at least 2,700 jobs, or 8 percent of its workforce, in the next year. These figures are far short of the cuts demanded by Peltz and Co., but are clearly in response to pressure from Trian.

Another cut promised by Heinz is in promotional allowances given to distributors and retailers. Producers of consumer goods pay retailers for the right to prime shelf and display space in stores. This cut could lead to a long-term decline in Heinz brands' market share, but this is hardly a concern to private equity funds, who seek to cash in on short-term cost savings.

In the media, spokesman for private equity funds and corporate executives regularly justify job cuts and plant closures by claiming these measures will "raise shareholder value." And, because many Heinz employees are themselves now shareholders—their defined-benefit pensions long since replaced (for most nonunion and salaried employees in the US) by 401(k) plans tied to the stock market value of the company—wealthy investors often claim they are concerned with increasing "shareholder democracy." This, however, is nothing but a euphemism for increasing their control over corporate decision-making and focusing on the most short-term profit goals to the detriment of both workers and the long-term viability of a company.

This concept of "shareholder democracy" has also been seized on by middle class reformists, such as

Ralph Nader and former Green Party candidate Peter Camejo, who promote the idea of “socially responsible” investing, which portrays the stock market as a place where small investors can wield power to promote such causes as worker protection and environmental responsibility. The democratic content of the two-party system has been so diminished that we are now asked to believe that the small investor—if he puts his savings in the right mix of socially responsible mutual funds—can generate progressive change and create a nice nest egg in the process!

In reality, the stock markets of the world are dominated by the biggest and wealthiest investors whose fortunes depend on the ever-greater impoverishment of the mass of working people. Moreover, the growth of private equity funds and other mechanisms such as short-term hedge funds are an expression of the decay of the capitalist system and the increasing replacement of manufacturing with various forms of financial parasitism, which creates no real value at all.

Heinz is but one example of this process. Billionaire casino mogul Kirk Kerkorian and his Tracinda investment firm are carrying out a similar effort at General Motors, where Kerkorian has accumulated an equity share in the world’s largest automaker and is pushing through an unprecedented assault on autoworkers’ jobs, wages, medical benefits and pensions. Kerkorian too has pushed GM to sell off its profitable assets, even as analysts predict the Detroit-based auto company could soon face bankruptcy. Another example is Wilbur Ross, the New York financier, who has become a strategic player in the steel and coal mining industry by buying up bankrupt companies, imposing massive wage and benefit concessions on their workforces and stripping the companies of their most profitable assets.

A recent article on the online version of *BusinessWeek* magazine entitled, “The Merchants of Red Ink,” described the parasitical character of private equity funds and hedge funds that cash in by purchasing “distressed debt” from companies that have filed for bankruptcy or are headed in that direction. “The hedge fund and private-equity investors are looking for fundamentally sound companies that have taken on too much debt, so they can restructure them and sell them to another buyer for a profit.... Over the

last few years, private-equity firms have acquired countless firms and loaded them up with debt, which increases the return on the private-equity firm’s investment.”

The article noted that the increase in interest rates and rising commodity prices could send dozens of more debt-ridden companies into bankruptcy, following the path of Delphi Automotive, Northwest Airlines and others. Although private equity firms face increasing competition from hedge funds, this prospect, which spells disaster for workers, would providing ever more lucrative opportunities for private equity firms.



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