“Slash and burn” CEO takes helm at CSX Railroad

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Hunter Harrison, a railroad executive notorious for implementing cuts to boost short-term profits, has been appointed the CEO of CSX Railroad, one of the largest American railroads. For months, activist investor Paul Hilal’s Mantle Ridge investment firm fund worked to gain sway with the CSX Board of Directors. On March 7, it was announced that Harrison had been appointed CEO and that Mantle Ridge had gained five seats on the CSX Board of Directors.

Harrison is expected to get more than $200 million in pay and stock benefits, but claims he also missed out on $84 million by leaving early from his position as CEO at Canadian Pacific Railroad. He is demanding that $84 million from CSX, which depends on a shareholder vote, and has threatened to resign if it is not approved. With stock prices up 30 percent since talks of the Mantle Ridge takeover of CSX began, they will likely approve his lavish pay as they expect him to boost share prices even higher through cuts. This is despite strange clauses during negotiations that indicate the 72-year-old would not disclose his medical condition, and would be paid in full regardless of whether he could fulfill a four-year term.

CSX operates in 23 states across the US East Coast, South and Midwest, as well as Quebec and Ontario in Canada, and has 21,000 miles of track. It is one of four giant US railroads. CSX and Norfolk Southern are the eastern duopoly; BNSF and Union Pacific form the western duopoly. Harrison previously was CEO of Canadian National Railroad. Then, in 2012, corporate raider Bill Ackman and his Pershing Square Capital Management hedge fund waged a battle to gain control of Canadian Pacific Railroad and installed Harrison as CEO there.

Harrison has effectively served as the point man for financial interests to gut the railroad industry. At Canadian Pacific, he doubled the share price, laid off 34 percent of the workforce, and tripled the amount of profit per worker. Harrison and Bill Ackman’s Pershing Square also made several failed attempts to merge with CSX and Norfolk Southern over the last two years, waging campaigns that claimed to shareholders that the railroads were bloated and inefficient, prompting them to enact a range of cuts. After those efforts failed, Ackman’s protege Paul Hilal and his Mantle Ridge hedge fund moved directly to appoint Harrison to CSX.

A remarkable aspect of the takeover is that CSX has already enacted substantial cuts in the last two years and earned billions in profits, yet Wall Street salivates at cutting deeper. Just before Harrison was appointed, CSX laid off 1,000 management employees, over 20 percent of its management staff. In the first quarter of 2016, 2,500 union and nonunion employees were laid off. Several repair facilities have been closed, a main route was shut down, and train lengths have been greatly increased to reduce the amount of train crews needed.

The financial press talks endlessly of Harrison’s “precision railroading” bringing “efficiencies,” using only financial performance metrics as a guide. The legacy of Harrison at Canadian Pacific, and before that, Canadian National, shows a process of cutbacks, a boosted stock price, and then leaving the mess for the next CEO. At Canadian Pacific, “efficiency” meant deferred maintenance of infrastructure, shutting yards and facilities, and fewer employees to do the work. Even major customers had complaints, as they received less regular service and their transit times went up.

Canadian Pacific is a smaller railroad than CSX, yet from 2012 to 2017, more than 7,000 people lost jobs through layoffs and attrition, amounting to 34 percent

of the workforce. Management was pushed to aggressively discipline and fire employees for even the most minor infractions, prompting dozens of legal cases against the company. In one case, an employee was fired for not wearing his safety glasses, and the majority of firings that went through legal proceedings were deemed excessive and unjustified. A look at hundreds of low Glassdoor ratings for Canadian Pacific shows the common hatred toward Harrison from operating employees.

Additionally, operating employees were forced to accept even more flexibility with their already on-call schedules, leading to longer times away from home and rest. At both Canadian Pacific and Canadian National, Harrison has cross-trained management and administrative employees to operate trains and serve as strikebreakers.

While union engineers and conductors may take months to become "qualified" on a route through daily work, as they learn its unique and challenging features, office employees were pulled from their desks, thrown into the operating world and "qualified" after minimal amounts of time. In British Columbia, one derailment happened when a nonunion crew unfamiliar with a route failed to stop and caused a collision. Supposedly, nonunion employees are only trained to be ready in the event of a strike (there were two under Harrison), but exposés have shown that Canadian Pacific now uses nonunion employees regularly to fill in the short staffing that has resulted from the layoffs, an obvious violation of the Teamsters contract.

Railroaders have little doubt what is to come at CSX, as analysts speak of "labor costs" being the item to reduce at CSX. Harrison is expected to cut thousands of operating employees, close down yards and maintenance facilities, and possibly even sell off certain routes. Since the 1980s, under the greater pressure of Wall Street investors who want quick profits, large railroads have reduced a portion of their overall mileage by selling lower-traffic routes to "short line" operators. Those operators can be nonunion. To the extent that they are sold or leased a route with clauses asserting they can only exchange traffic with the larger railroad, they effectively serve as cheap subcontractors.

Railroad workers are also in union contract negotiations that have dragged on into their third year. Railroads have reportedly taken a hard line, pushing low wage increases, a further loosening of work rules, and increases in health care costs. The appointment of Harrison to one of the four largest American railroads suggests a further level of assault, as Wall Street will want to see the severity of cuts Harrison imposes replicated at every "underperforming" railroad.