

**A study to determine whether the 2005 Boeing Machinist
(IAM) Strike was justified, in light of world economic realities
as perceived by the members of Boeing's Product Acceptance
Planning (PAP) Group.**

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ABSTRACT

The purpose of this study was to determine whether the 2005 Boeing Machinist (IAM) Strike was justified, in light of world economic realities as perceived by the member of the Boeing Product Acceptance Planning (PAP) Group.

A review of the Literature was conducted and a questionnaire was designed and distributed among the members of the Boeing Product Acceptance planning department.

Data was obtained by tabulating the responses of 95% of the completed questionnaires.

A majority of the PAP members felt that the strike was financially Justified, and benefits and wages lost during the one month strike were compensated by the three years contract they received at the end. However, a majority of the population also thought the union demands for high wages and benefits will eventually push the company to move toward outsourcing and off shoring.

This study was conducted among the SPEEA Union members about the 2005 IAM Union contract. Further study was recommended about the 2005 SPEEA contract, but surveyed among the IAM union members.

INTRODUCTION AND THE STATEMENT OF THE PROBLEM

Introduction

During the past 50 years, The Boeing Company and its employees have witnessed some tense moments when the IAM (International Association of Machinist and Aerospace Workers) and SPEEA (Society of Professional Engineering Employees in Aerospace) union contracts come up for re-negotiation. Usually, these moments are associated with concern, anxiety and uncertainty for employees, company management, community, suppliers and airlines. On several occasions, negotiations have been successful in the resolution of issues and differences while on other occasions, they have led to an actual strike - e.g. the 1995 IAM and the 2000 SPEEA strike.

One who is in the midst of a labor dispute or a strike should ask him/herself the following questions:

Is the strike financially justified?

Do the long term benefits outweigh the short term losses for the union members or the company?

If there was no union, would the Boeing Company compensated employees fairly?

Do the Union's push the Boeing Company toward Outsourcing/Offshoring by demanding higher wages and benefits?

On September 2, 2005, contract negotiations between the International Association of Machinists and Aerospace Workers (IAM) and the Boeing Company resulted in a strike that lasted for 23 days. About 86 percent of the Machinists voted to walk off the job for the first time since 1995.

Statement of the Problem

A study to determine whether the 2005 Boeing Machinist (IAM) Strike was justified, in light of world economic realities as perceived by the members of Boeing's Product Acceptance Planning (PAP) Group.

REVIEW OF LITERATURE

History of Labor Movement

The history of organized labor in the 20th century is one of short periods of sharp growth followed by long periods of gradual decline. When Workforce was launched in 1922, union power was declining, in part because of the successes of personnel officers in improving management practices. (The Labor Movement 2002)

The Great Depression, however, ushered in a new wave of union activity. In 1935, John Lewis created the CIO, the Congress of Industrial Organizations and union activity swiftly spread to large sectors of American industry. Its counterpart, the American Federation of Labor (AFL), was equally successful in unionizing large segments of the workforce. These triumphs continued well past World War II. Following World War II, unions fell into a long period of declining membership until 1968; Memphis Sanitation Strike, when another marginalized group - African-American garbage men - refused to work until they were granted minimum wage. Their success led to a burst of union organizing among public sector employees. As a result of the momentum generated by the strike, 30 percent of public employees are in unions today, versus the 5 percent in the 1950s.

In the early 1980s, the Reagan administration initiated a political offensive that resulted in the breakup of the Professional Air Traffic Controllers Association. This event, combined with the strengthening

of anti-union political and management forces, launched the current period of union decline. Today, only 9.5 percent of private-sector employees are unionized, versus 33 percent in the 1950s.

(The Labor Movement – 2002)

Union membership has dried-up along with the manufacturing sector, to the extent that labor is now shifting its focus to white-collar workers. But the unions could end up changing themselves in the process, because professionals prefer a conciliatory approach to labor-management relations.

Almost one out of every five professionals in America is a union member, but that percentage has not grown in recent years. Still, a survey cited by a AFL-CIO study found that many professional and technical workers are open to joining a union because they want more of a voice in the workplace. But apparently, they don't want that voice to speak very loudly. The same survey found that many professionals shy away from unions because they might create conflict at work. The hard-line approach may still find support among white-collar workers in public-sector unions. But private-sector professionals prefer their union representatives to be cooperative and constructive. (Lewis – Forbs 200)

History of Boeing Unions

Beside the management group, three other major groups make the Boeing Company work force. Two of these three groups are presented

by the union and one does not have any union presentation. The two unionized groups are International Association of Machinist & Aerospace Workers (IAM) and Society of Professional Engineering Employees in Aerospace (SPEEA).

IAM union covers all the Boeing hourly workers such as mechanics and assemblers SPEEA union represents Engineers and Technical workers. Historically the negotiated contracts of these two unions set the precedents for the wages and benefits of the non-union group. Part of this study and survey will examine the claim – that the unions in Boeing set the precedents for wages and benefits for non-union employees.

IAM – International Association of Machinists & Aerospace Workers
Union – District Lodge 751

Boeing Machinists Union has come a long way since it's foundation in 1935. Although the union has lost a significant number of their members to layoffs, it has had a considerable amount of achievement working with the Boeing Company in protecting the wages and benefits of its members. Part of this study and survey will examine if the layoff of the union members have been the result of outsourcing by Boeing, due to the high wages and benefits demanded by the unions. McCann (1998) describes like other workers in emerging mass-production industries of the late 1920's and early

1930's, Boeing workers were unorganized, working under poor conditions in small plants with informal labor relations.

The great depression had the country in its grip. Because work was scarce, workers took only what they could get. Boeing had no regular paydays. Wage rates and hiring rates were erratic. As late as 1935, men lined up outside the plant, and foremen selected those needed for the day's work – even the so called steady employees were hired on by the day. Overtime was compulsory at regular hourly rates. The lack of systematic labor relations bred discontent and favoritism. Problems like low and erratic wage levels, lack of seniority protection, compulsory overtime at regular hourly rates and favoritism arose because workers routinely dealt on a one-on-one basis with supervisory personnel. This type of situation has been an unequal one. By the nature of the corporation, management was organized. A foreman made his decisions with the authority of the company behind him. The non-unionized worker dealing alone with a representative of the company had no power except the power to withhold his labor. If wages were low; he had to take low wages. If overtime was compulsory, he had to work at regular rates if he desired to work at all. And if the worker felt his treatment was unjust, he had a choice; He could either put up with the injustice, or look for another job. During the depression, jobs were hard to get. Working conditions resulted in formation of the IAM Union. McCann (1998) adds the

year of the "revolt from below", 1934, saw the first effort to unionize by workers at Boeing. Like mass- production workers, they originally organized in an AFL (American Federation of Labor) federal local. AFL granted a federal charter to the Aeronautical Worker's National Industrial Union Local No. 18886, in Buffalo New York. When Seattle Aircraft workers requested an AFL charter, the AFL Assigned them to the Buffalo Local. The Seattle chapter was chartered as Aeronautical Worker's Union NO. 18886 of the Seattle Trade Area on March 2, 1934. In 1935 Executive Council of the AFL assigned the jurisdiction of union to International Association of Machinist. Local IAM 751 (existing IAM chapter) was chartered September 23, 1935 with 35 charter members.

IAM started its activities with a very minimum and simple facility and equipment. McCann (1998) explains the Union did not have an office. Its business was done on pocket notebooks or blank envelopes. Tom Mcnett used a second hand filling cabinet and a used Olivetti typewriter which he installed in his home. Lloyed Poensnecker likewise obtained a tin box in which he kept the Union money also in his home. This was the way Lodge IAM 751 functioned in its early days" (Tippett).

Local 751 signed its first working agreement with the Boeing Aircraft Company less than a year later in June of 1936. In 1937 local 751 had a membership of over one thousand. In two years the membership

grew to 2100. In four years the Local 751 was recognized by company and National Labor Relation Board (NLRB).

McCann (1998) explained that the first working agreement between Aeronautical Mechanics Lodge 751 and the Boeing Aircraft Company in June of 1936 set the following pay rates:

Special Rating Journeyman Aircraft Mechanics Helpers Junior Helper

		<u>Class</u> <u>Class</u> <u>Class</u>				<u>Women</u>
		1	2	3		
<u>A</u>	<u>B</u>	<u>C</u>	<u>D</u>	<u>E</u>	<u>F</u>	<u>G</u>
1.00	.86	.75	.65	.55	.45	.40

The Structure of Pay rates has changed through out the years.

Presently IAM has 12 grades starting from A to 11. Grade

A is the lowest group it covers non-production workers such as

Janitors. The following table shows the IAM Local 751 members pay

rate, effective as June 3, 2005 before the recent strike:

Labor Grade	Minimum Rate	Maximum Rate	<p style="text-align: center;"><i>Negotiated by</i> DISTRICT LODGE 751 IAM & AW WAGE RATES EFFECTIVE June 3, 2005 INCLUDES .97 cent COLA generated under the current contract.</p> <p style="text-align: center;">Buy Union-Made and American-Made Products</p> <p style="text-align: center;">Rates Shown Are First Shift Second Shift: Add \$.75 Third Shift: Add \$.10</p> <p style="text-align: center;">Seniority Progression Increases of \$.50 Will Occur at 6 Month Intervals Up To The Maximum Rate</p>
11	19.72	33.71	
10	18.72	32.70	
9	17.72	31.82	
8	16.72	30.85	
7	15.72	29.86	
6	14.72	28.92	
5	13.72	27.94	
4	12.72	27.01	
3	11.72	26.08	
2	10.72	25.10	
1	9.72	24.16	
A	8.72	16.62	

(IAM Website).

After the recent 2005 strike settlement, .12 cents was added to the maximum rate of each grade. Although the wage increase, due to recent strike is not significant, but a review of the wage increase since inception of IAM Local 751 shows substantial increase in dollar amounts.

The maximum hourly wage of a Boeing mechanic which was called "Special Rate" was \$1 in 1936. However, the maximum hourly wage of a Boeing mechanic (grade 11) today - based on the 2005 IAM contract - is \$33.83.

Following table shows the negotiated rates effective September 7, 2005:

<u>LABOR GRADE</u>	<u>MINIMUM</u>	<u>MAXIMUM</u>
11	\$19.72	\$33.83
10	\$18.72	\$32.82
9	\$17.72	\$31.94
8	\$16.72	\$30.97
7	\$15.72	\$29.98
6	\$14.72	\$29.04
5	\$13.72	\$28.06
4	\$12.72	\$27.13
3	\$11.72	\$26.20
2	\$10.72	\$25.22
1	\$ 9.72	\$24.28

(IAM Website 2005)

History of Society of Professional Engineering Employees in
Aerospace – SPEEA

The Society of Professional Engineering Employees in Aerospace (SPEEA) is one of the largest professional labor unions in the United States. SPEEA represents over 24,000 engineers, scientists, technical and professional employees at The Boeing Company in the Puget Sound area and nationwide - including members in California, Florida, Kansas, Oregon, Texas and Utah. SPEEA was formed in Early 1944. The existing three Years SPEEA contract will expire December 5, 2005. SPEEA and the Boeing Company are currently negotiating a new contract which if is approved will set wages and benefits of SPEEA

members for the next three Years. In 1944 some 50 engineers in the Seattle area, mostly from Boeing, formed SPEEA. An organizing drive achieved a membership in SPEEA of 1,600 by the fall of 1945. In 1946 an election was held where the engineers at Boeing voted 81% in favor of SPEEA as their collective bargaining agent. Full- time leadership began in 1953 when a member moved into a job equivalent to today's Executive Director Position. (SPEEA Website 2005).

SPEEA extended it's coverage to Boeing technical workers in 1971. In 1971, an overwhelming majority of the 4000 Boeing technical workers in the Seattle area chose SPEEA as their collective bargaining agent, enlarging SPEEA's representation to cover a majority of Boeing's salaried employees. In 1995, the Wichita Engineering Association, which represented 1100 engineers working at Boeing-Wichita, voted to become represented by SPEEA. In July 1999, 300 Facilities engineers in the Seattle area chose SPEEA, and in June of 2000, another 4100 white-collar salaried professional & technical employees at Boeing-Wichita chose SPEEA representation. (SPEEA Website 2005).

In October 1999, SPEEA affiliated with the International Federation of Professional and Technical Engineers, becoming IFPTE Local 2001, AFL-CIO. On February 9, 2000, some 17,000 SPEEA members launched a strike that ended 40 days later with some company

concessions. The range of wages among SPEEA population compares with IAM members are twice as much.

The salary distribution histogram shows the population within the job grouping by \$2,500 salary increment from \$52,500,000 to \$130,000 for engineers and \$30,000 to \$90,000 for the Technical Unit. The overall distribution is broken down by grade. (Rieder, Seattle Times 1999).

As the Machinists strike at Boeing entered its third week , SPEEA delivered its initial contract proposal to Boeing September 16 , 2005 and many of its requests closely mirror those made by the Machinists. The existing three years SPEEA contract will expire December 5th 2005. (SPEEA Website).

"Our issues are very similar, with the addition of salary for us," said Bill Dugovich, a spokesman for the Society of Professional Engineering Employees in Aerospace. In response to member surveys, SPEEA's top priorities this year are health care, wage increases, job security and retirement. SPEEA was not going to vote on their contract till Machinists settle their contract in order not to let the Boeing management uses one union against another. (Gate, D and Bowermaster – Seattle Times 2005).

On health care, SPEEA wants medical premiums, deductibles and co-

payments frozen at current the level. The Machinists made similar demands; although initially Boeing did not accept saying the status quo is untenable in the face of soaring health-care costs nationwide, but finally gave in and the health plans were left unchanged in the final settlement. (Gates, D and Bowermaster 2005).

SPEEA wants higher salaries for its members because it says they now earn significantly less than their peers. "Boeing is the world leader in aerospace," Dugovich said. "The employees that design and engineer those products deserve industry- leading salaries." (Gate, D and Bowermaster – Seattle Times, 2005).

Retirement is a concern for SPEEA, but it's not the top priority that it is for Machinists. That may be because the average age of SPEEA members are 46, versus Machinists' average age of 50.

SPEEA members now receive a pension of \$60 per month for each year of service at the company.

The union wants to shift to Boeing's Pension Value Plan (PVP), where the monthly benefit is calculated based on factors such as each employee's salary, years of service and prevailing interest rates. Both sides hope to avoid another damaging production halt. SPEEA members, like the hourly workers, have endured years of layoffs,

outsourcing and cost-cutting. "The engineers know that the future of their profession depends on keeping themselves competitive," said Richard Aboulafia an industry analyst. "Engineering is not immune from outsourcing." Boeing has sent significant work to company engineering centers in Russia and Spain. It also is asking major suppliers to do more engineering. A SPEEA win that exacerbated the outsourcing trend would be a hollow victory. (Gates, D. Seattle Times, October 2005) This is the first contract negotiation since the global aviation business began to rebound, creating a shortage of ace technical talent. Experts are optimistic another damaging labor clash, such as SPEEA strike in 2000 won't happen. (Gate, D and Bowermaster – Seattle Times – 2005).

The biggest difference between 2005 and 2000 is that Boeing looks less like a cash-extraction outfit. For the first time in a decade, Boeing is investing in the future. In 2000, research spending was down and the next airliner program was uncertain. Now, the 787 has made clear that Boeing wants again to be No. 1 in world aviation. When Airbus announced the launch of its A350 to rival the 787, Chief Executive Gustav Humbert said the company plans to recruit 1,200 engineers in the next 18 months to boost the program. Boeing has been hiring

engineers for two years now, as it prepares for 787 development and two large defense contracts — the Army's Future Combat Systems program and the Navy's Multi-Mission Maritime Aircraft, a military derivative of the 737. With shortages in key areas such as structural-stress engineers, it has held hiring events in Canada and Europe to woo experienced workers from regional jet maker Bombardier and from Airbus. Locally, Boeing has raided talent from smaller companies too. SPEEA 2005 labor negotiation with Boeing will take place in the middle of a scramble for talent. The signals coming from Boeing suggest things may tip SPEEA's way. (Aboulafia, R. 2005)

IAM 2005 Strike

Contract negotiations between the International Association of Machinists and Aerospace Workers (IAM) and the Boeing Company have resulted in a strike that began at 12:01 a.m. on Friday, September 2, 2005. 86 percent of Machinists voted to walk off the job for the first time since 1995.

Boeing negotiators may have thought they'd crafted an appealing offer with something for everyone. But to Machinists, the various bonuses and incentives did not outweigh what a huge chunk of the membership evidently saw as shortcomings and take-aways. "They are trying to buy you with cash, while dividing and hurting you in other ways," the

union wrote in a fact sheet outlining reasons to reject the contract. Machinist's leaders said Boeing didn't deliver on the union's top two issues, by failing to raise pensions high enough and keep health-care costs low enough. Union leaders were able to cast the vote as a test of Machinists' unity and resolve. The union also tapped into a latent but widespread anger among many Machinists toward Boeing's top executives, and particularly the well-publicized pay package awarded in July to new Chief Executive James McNerney. (Bowermaster, Seattle Time - 2005)

IAM announcement about the strike

In response to Boeing's proposed massive economic cuts and meager pension benefit increases, the nearly 18,500 workers in Portland, Oregon, Wichita, Kansas and Washington State rejected the company's final offer and voted to take strike action. IAM International President, Tom Buffenbarger pointed out that "Boeing's profits have tripled in the past three years and the company has a large backlog of new aircraft orders." Buffenbarger also noted that Boeing's final offer amounted to "little more than an invitation to strike." Describing Boeing's proposals as "insulting" and "substandard offers that refuse to address workers' top issues - pensions, health care and job security," IAM negotiators called on the workers to remain strong on the picket line. (ITWF Website 2005-IAM Announcement).

On the other hand the Boeing Company announced that its offer was

fair and competitive with the industry. Alan Mulally, chief executive of Boeing Commercial Airplanes, said last week that "there's nobody higher" when it comes to monthly pension payments. Indeed, the \$66 per month would exactly match the pension payments of Lockheed Martin. Mulally added that Boeing workers received a broad retirement package that includes a company-matched Voluntary Investment Plan that the contract would enhance. "Between that and Social Security and the pensions, you can just about replace your salary when you retire," he said in a press conference outlining the company's "best and final offer."

Long before the Union and Boeing negotiators began round-the-clock negotiations, Boeing posted a fact sheet on its Web site that showed how well its current pension plan matched up against those of manufacturers such as Lockheed Martin and General Motors.

Mark Blodin the president of IAM dismissed Alan Mulally's comment in The IAM rally by shouting "I do not care what other people in the Industries make. I care about the people in this master contract, because we set the bar". (Bowermaster-Seattle Times)

The points of contention between Boeing Company offer and IAM union were on Pension, Health Care, Job Security, Team Leader, simultaneous operation of multiple machines, and Retiree health care. Machinists thought because of recent robust financial performance, They deserve a greater share of the wealth.

Roman Szuper, a credit analyst with the Standard & Poor's credit rating agency, said Boeing's impressive recent financial results became a mixed blessing during negotiations. "Boeing had about \$8 billion on hand in the middle of the year," said Szuper. "I don't think they've ever had a cash cushion like that. Obviously, the union was aware of all those facts, so they were obviously pushing for a greater share of the wealth".

Boeing's ability to sell its pension offer to the union members was further undermined by the compensation package awarded to McNerney when he left 3M to take over as Boeing CEO in July. McNerney could receive up to \$72 million if he stays at Boeing until 2011. Most galling to Machinists is the \$22 million in retirement benefits due to McNerney. Boeing's argument that it simply matched the benefits McNerney would have received if he had stayed at 3M did little to assuage workers. Union members subsequently cited the \$22 million for McNerney almost anytime the pension issue arose. Signs with slogans such as "We want McNerney's pension" and "Give us what McNerney gets" were ubiquitous at union rallies. McNerney "put five minutes on the payroll, got \$22 million," Blondin said two weeks ago. "Brother over here's got 30 years. How much does he get? Pensions are important to the corporate people, they better believe they're important to us." (Bowermaster-Seattle Times 2005).

The Growth of Boeing Stock in the last two years was another sign of

company success that the union was paying attention in rejecting the Boeing offer. Boeing stock has gone up over 80 percent in last two years.

BOEING CO (NYSE)

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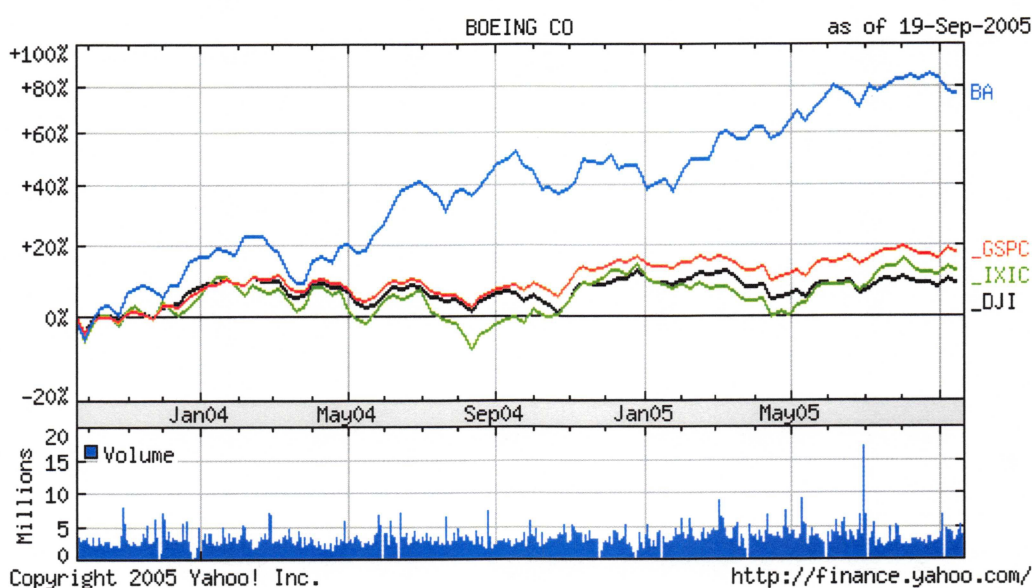


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The Machinist strike started September 2, 2005 and ended September 29. Boeing reached agreement on September 25, 2005. Machinist got much of they wanted and the union recommended to its member to accept the new Boeing offer. Rank-and-file members voted a week later and endorsed the new contract with an 80 percent vote.

The following were the points of contention between the Boeing

Company and IAM's first offer and the final settlement offer:

Pensions

Machinists: Dismissed the proposed 10 percent increase in monthly payments to \$66 per year of service offered in the initial Boeing offer, as insufficient and far less than the company could afford.

Boeing: Called it a competitive offer that no other manufacturer exceeded. Also offered Machinists an opportunity to add as much as \$9,000 to 401(k)-style investment plan.

Final Settlement: Monthly payment was raised to \$70 per year of Service but 401(K) investment plan contribution opportunity stayed the same. Workers will also receive an 8 percent ratification bonus or about \$5,200 per employee. In addition they will receive \$3,000 lump sums in each of the last two years of the contract, for a total of \$6,000.

Health care

Machinists: Complained Boeing would no longer offer any health plans with zero premium payments, and all plans would significantly increase employees' costs.

Boeing: Offered "wellness credits" that qualifying workers could use to decrease premiums on all plans, including bringing one plan to zero premiums.

Final Settlement: There was no change and the contract stayed the

same as 2002-2005

Job security

Machinists: Wanted to toughen language preventing job losses due to outsourcing, and to alter 2002 provisions allowing vendors to make deliveries to the factory floor.

Boeing: Argued the only way to protect jobs is to increase Boeing's efficiency and competitiveness so it can sell as many airplanes as possible - Offered no changes to existing language.

Final Settlement: Recall rights were extended to 7 years for employees with over 5 years seniority and 8 years for all employees laid off as a result of 9/11. Boeing also agreed to include language in the new contract that says suppliers and vendors will not install parts or components on airplanes on the factory floor. That was a sore point with the union after the last contract in 2002. In addition, the language in the tentative deal says the union's forklift drivers will deliver parts within the factory, Blondin said.

Team leader

Machinists: Sought to expand criteria for choosing work-group leaders to include seniority.

Boeing: Said the change in 2002 to choose team leaders based on skills and aptitude has gone smoothly and increased the quality of work across the company.

Final Settlement: Seniority will be part of the selection process for team leaders on the factory floor. Also the selection process to include structured interviews to recommend candidate(s). If two or more candidates are recommended, the candidate with the greatest seniority will be selected.

Wichita

Machinists: Accused Boeing of trying to divide the union by offering 900 Machinists in Wichita lower bonuses and salary increases.

Boeing: Contended the smaller economic package for Wichita reflected that area's lower cost of living.

Final Settlement: The 900 IAM workers in Wichita will receive the same economic package as those in the Puget Sound region and in Portland.

Simultaneous operation of multiple machines

Machinists: Rejected the change in work practices sought by Boeing as dangerous and likely to lead to job losses.

Boeing: Offered a \$1 per hour raise to any Machinists operating multiple machines. Noted that the practice is common at other manufacturers.

Final Settlement: Boeing withdrew the proposal that would have allowed complex-machine operators to run more than one machine

simultaneously. The union said that would have eliminated jobs.

Retiree health care

Machinists: Said Boeing's proposal to decrease benefits for current retirees, and to eliminate retiree medical coverage for future hires, was unfair to past and future union members.

Boeing: Said reducing retiree medical coverage is a practical and increasingly common strategy to minimize health-care costs for current work

Final Settlement: Boeing backed off from its proposal to eliminate retiree medical for new hires, and medical for current employees also stayed the same.

The month long strike had a cost for both the Boeing Company and Union Members. Union members lost about \$88 million in wages. The longer the strike had gone the more costly it would have been for the Boeing Company.

The one month strike could potentially delay the debut of the company's new 787 Jet. Even the one-month 787 delay projected in the internal Boeing analysis could be a serious embarrassment, since it would threaten delivery of some of the first 787s to Chinese airlines in time for the summer Olympics in 2008. (Bowermaster-Seattle Times)

One-month strike scenario

Missed jet deliveries: **31**

Loss of revenue, 2005: **\$2.15 billion**

Recovery period: **2005-2008**

Net loss of earnings (2005-2009): **\$169 million**

Three-month strike scenario

Missed jet deliveries: **80**

Loss of revenue, 2005: **\$5.33 billion**

Recovery period: **2005-2009**

Net loss of earnings (2005-2009): **\$1.1 billion**

Although Boeing Commercial Airplanes Chief Executive Alan Mulally said the new agreement will cost Boeing no more than its previous offer, union members clearly believed they had gained.

Will Boeing react to paying higher benefits and health-care contributions by outsourcing more work in the future?

Health care costs are one of the greatest expenses for US companies. Employers have been pushing this cost more and more toward their employees. (Gates, D. Seattle Times Aerospace Reporter-2005).

Health Insurance and Outsourcing

The portion of employers offering health insurance to workers has fallen substantially in the last five years, dropping to 60% this year from 69% in 2000. Waning offerings from small businesses are driving the decline, as small-firm coverage fell to 59% from 68% over the

same period. The rate of premium growth is more than three times the growth in workers' earnings, which edged up 2.7%, and two-and-a-half times the rate of inflation, which stands at 3.5%, the study said. Premiums have risen 73% since 2000. As a result, the percentage of workers covered by their own employer's insurance, which also can be influenced by a spouse's employment and coverage choices, fell to 60% this year from 63% in 2000. General Motors which is the same as The Boeing Company is one of the Fortune 500 Companies, in order to survive it cut \$15 Billion from its retiree Health care program. GM and the UAW announced an outline of the agreement October 18, 2005 that GM expects to save \$3 billion annually before taxes on health care. The agreement also would cut GM's liability for retiree health care by \$15 billion, or 25 percent. The stock market reacted positive to this news and GM stock went up 7 percent. GM wasn't the first automaker to win cuts from the UAW this year. In March, the UAW and Chrysler agreed that certain hourly workers and retirees would pay deductibles of between \$100 and \$1,000 for their health care for the first time. (Gerencher 2005).

Boeing tried to offer to IAM union "wellness credits" that qualifying workers could use to decrease premiums on all plans, including bringing one plan to zero premiums. But union members did not accept the offer, and Boeing in the final settlement agreed to change the Health Benefits and keep the contract the same as the contract

negotiated in 2002. This is a huge cost that Boeing Company is trying to avoid by outsourcing its work.

The Puget Sound region has already lost some Boeing work due to the Machinists strike. Last week, the company's fabrication division sent out short-term work making parts for two freighter programs from Auburn to its nonunion facility in Salt Lake City. The loss of fabrication work — even temporarily — raises a troubling question about the strike: Having apparently won this contract battle, will the Machinists lose the long-term war? Union leaders hope not. The Boeing Company said no. But experts and Analysts disagree. (Gates – Seattle Times, September 2005)

Boeing cautions not to read too much into its transfer of low-quantity work to Salt Lake City. The small plant there specializes in urgent work and parts needed for short runs. "This is work we needed done to protect the schedules, and it is temporarily moved out," said Boeing spokesman Charles Bickers. "No decision has been made for a permanent movement." But, he said, some of the work may be completed in Utah before the company has a chance to move it back. The work includes producing parts for three large cargo freighters — converted 747s that will ferry the big pieces of the new 787 jet around the world. A delay to that cargo program threatened to delay the new

jet entering service.

Also shifted was parts work on another high-priority air-cargo development program, the 747 converted freighters. Boeing has 30 orders.

Salt Lake City is taking over fabrication of initial production parts for converting used 747 passenger jets into freighters, work originally intended for Auburn. Most of the later production work on both programs have long been earmarked for overseas suppliers. Taikoo (Xiamen) Aircraft Engineering in China will modify the converted freighters. Evergreen Aviation Technologies in Taiwan will modify the three large cargo freighters.

"The work moved to Utah is for the first few runs and then it goes out to the regular supply chain," said Bickers. "It's not work that the fabrication division was slated to do long term."

Many industry analysts accept Boeing's claim that the tentative agreement is a reasonable compromise but they differed on what it means for the future.

Adam Pilarski, an analyst with Avitas, said the union's rejection of extra money tied to performance is a serious setback to management. The union's insistence instead on guaranteed pension and health

benefits, he said, won't make the company more competitive and will encourage outsourcing. He described management's likely reaction as: "Give them now what they want, as long as it doesn't cost too much, because in the long run, I really don't want to deal with them."

J.B. Groh, an analyst with D.A. Davidson, also forecast a speedup in outsourcing overseas.

The Machinists "have won the battle. I don't think they'll win the war," said Groh. "This is just one more reason to look toward more outsourcing." Glenn Engel of Goldman Sachs expects a more pragmatic response from Boeing. Outsourcing will continue on schedule, he said, but the Machinists claims won't speed it up.

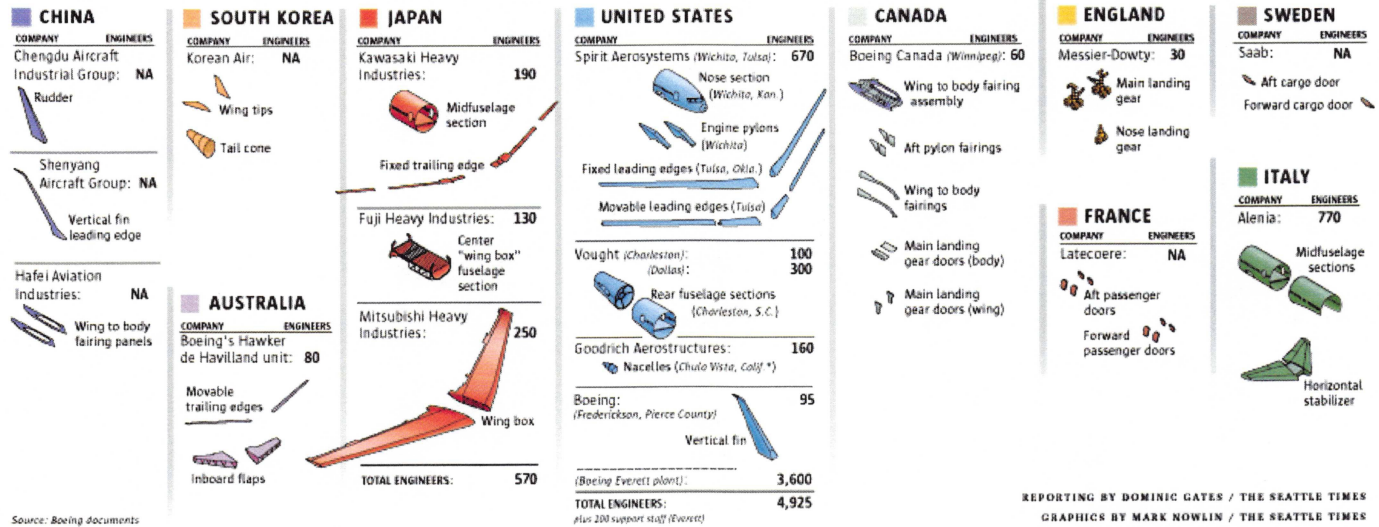
The company offered more to the union to keep airplanes rolling out and revenue coming in, Engel said. The ultimate cost of the Settlement will depend upon how fast Boeing can deliver airplanes. (Gates – Seattle Times, September 2005)

Another area that Boeing aggressively is looking into for outsourcing is The new 787 program. Boeing 787 will be manufacture globally, and assemble locally. Boeing this year will complete its design of the 787's main features, and then the detailed work on components will be handed off to suppliers around the world. The color-coded chart below

shows the complex logistics of building and moving 787 parts across the globe before final assembly in Everett, Washington. (Seattle Times - Business 2005).

Who makes the parts and where the engineering jobs are

Numbers of engineers are projections for the end of 2005 made by Boeing's first-tier partners, and may not include all engineering specialties. Production workers are not included.



Source: Boeing documents

REPORTING BY DOMINIC GATES / THE SEATTLE TIMES
 GRAPHICS BY MARK NOWLIN / THE SEATTLE TIMES



The color-coded charts above show the major Boeing Suppliers around the world that will manufacture the different sections of the 787 and ship them to Everett, Washington for final assembly (Seattle Times - Business 2005).

As author Thomas Friedman discusses in its latest book "World is Flat", boundaries between the countries and markets are being removed more and more each day. Any work that can be digitized, will be digitized and sent to any place that cost less. As discussed earlier, no job is immune from outsourcing. If the companies do not find these services with the quality they need anywhere else, then they will stay home and pay what they need to pay.

SURVEY METHODOLOGY

The purpose of this study was to determine whether the 2005 Boeing Machinist (IAM) Strike was justified, in light of world economic realities as perceived by the member of the Boeing Product Acceptance Planning (PAP) Group.

A questionnaire survey was used as the data gathering device for this study. The Questionnaire contained thirteen (13) questions.

questioners were distributes among 23 PAP members. Of the 23 questioners, 22 were returned - a response rate of 95%.

There were two choices to each question, either a Yes or No.

Questionnaires were manually distributed among the Product Acceptance Planning Group members which consist of 23 employees.

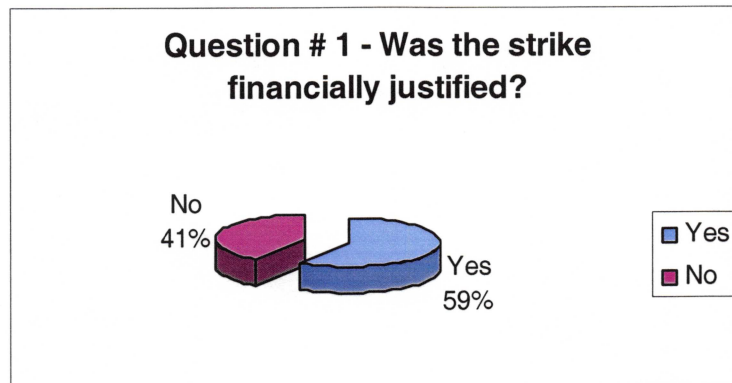
The questionnaires were handed out manually to PAP members with a brief explanation of the study and its questions. When this study was started the IAM strike was still in progress. However, by the time the questionnaires were distributed and returned, the strike was settled.

Although not necessarily by choice, a majority of the PAP members belong to the SPEEA Union. The attitude of this demographic could have skewed the results of the survey in favor of IAM Union demands. The questionnaires represent the population's opinion after the strike settlement. The result of the completed questionnaires were analyzed and presented in the Analysis of Survey Results section.

ANALYSIS OF SURVEY RESULTS

Questioners were distributed among 23 PAP members. Of the 23 questioners, 22 were returned - a response rate of 95%.

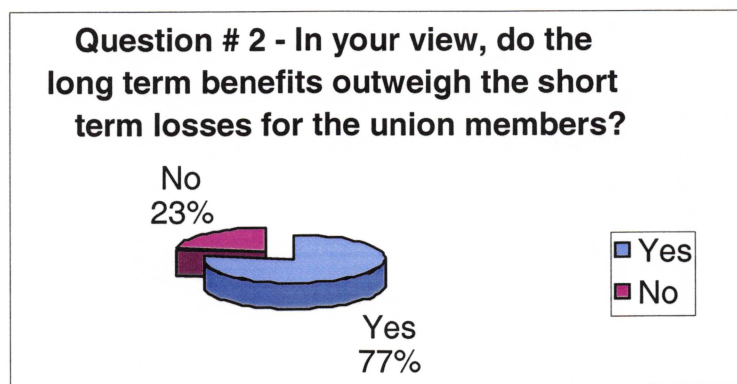
1. Was the strike financially justified?



All of the following questions, including question No. 1, were answered by the target population after the strike was settled. About 59% of the population had positive response to this question. The union members lost an average of \$4,900 during the month of the strike. Despite the lost wages, they maintained existing health care plans at the same cost. They received an 8 percent ratification bonus which amounted to \$5,200 per employee. They also received a \$3,000 lump-sum payment in year 2 and year 3 of the contract. Retiree medical plans stayed the same and Boeing backed off a prior proposal to eliminate retiree medical benefits for new IAM hires. A Boeing internal analysis estimated that the four-week strike would result in 31 fewer airplanes this year, reducing revenue by \$2.15 billion. However, a recovery plan that accelerated production of the 777 and 737 jets after a return to

work would cost the company \$169 million loss in profit. Allen Mulally, President of Boeing commercial, said in a statement that the total overall cost of the new settlement made by Boeing is similar to the previous contract. The union received no agreement that ensured job security. It seems that in the short term, the union members benefited from a month long strike but in the long term, they might lose their jobs due to outsourcing. Indications are that Boeing's reaction to paying higher benefits and health-care contributions will result in more outsourcing in the future.

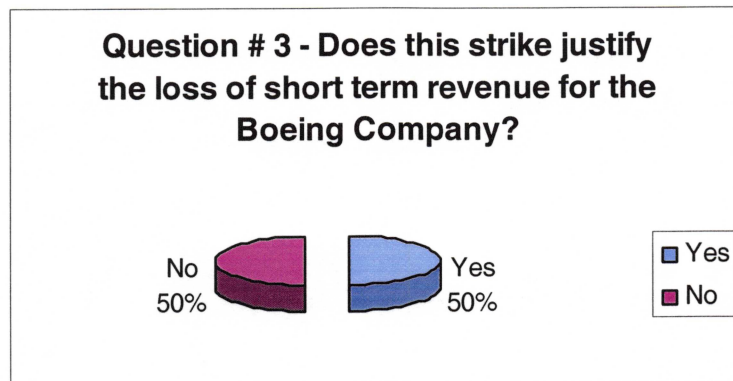
2. In your view, do the long term benefits outweigh the short term losses for the union members?



About 77 percent responded positively to this question. It seems the PAP members responded to this question based on the obvious gain in the three year contract. What the union members gained from the strike outweighed the loss of a one month strike, considering these jobs be available for long run beyond the term of this and future

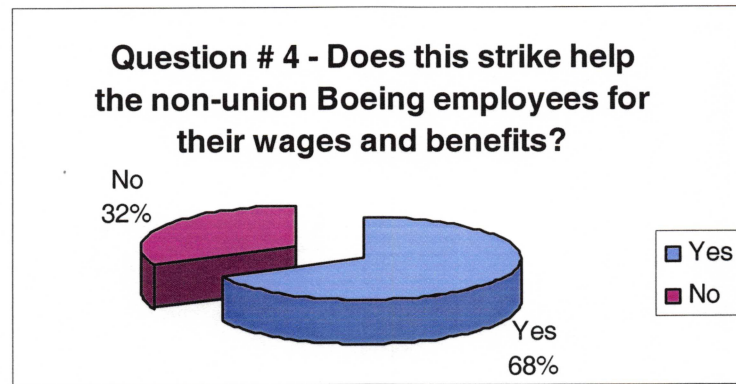
contracts.

3. Does this strike justify the loss of short term revenue for the Boeing Company?



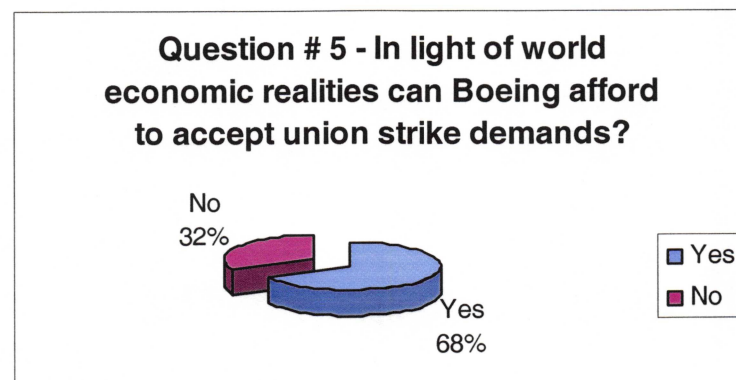
Responses to this question were split 50/50. With Boeing under pressure to meet customer airplane deliveries and their desire to not fall behind on 787 projects, they backed off from its stance on a benefits cut. Announcing their third-quarter financial results, Boeing predicted its revenues falling four percent to \$12.6 billion, due to the delivery of fewer airplanes caused by the four-week strike. It seemed as if Boeing could not fiscally afford a longer strike, thus they gave in to most of Union's demands and settled the strike.

4. Does this strike help the non-union Boeing employees for their wages and benefits?



Majority (68%) of the population responded positively to this question. Historically IAM contracts set precedents regarding wages and benefits for Boeing SPEEA union and non-union employees.

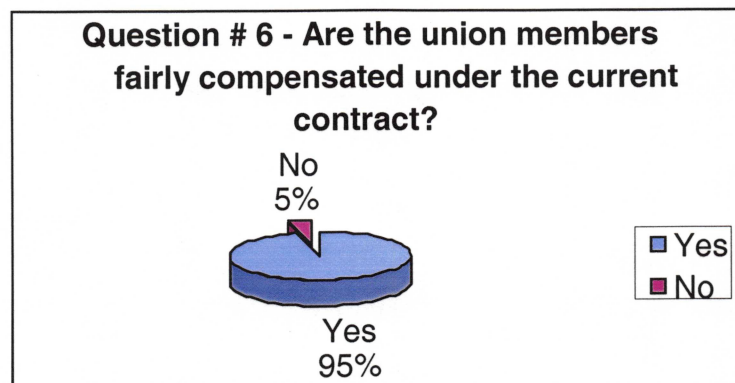
5. In light of World economic realities can Boeing afford to accept union strike demands?



About 68 percent of PAP members believed Boeing could accept the union demands. The profitability and success of the Boeing Company

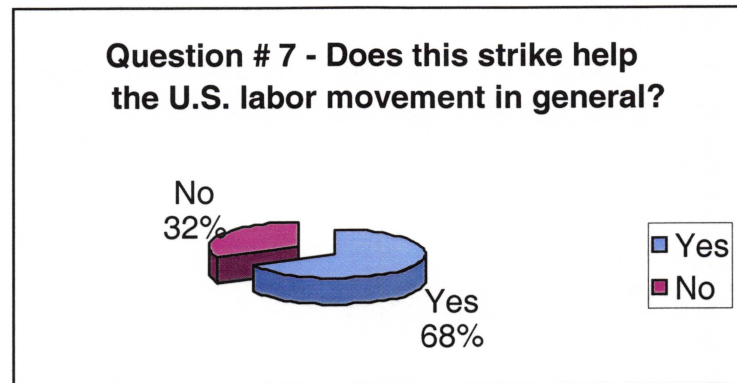
during the last few years probably support this view. The Boeing stock as has been discussed in the review of literature, having risen some 60 percent in the past 14 months. The company has about \$8 Billion in cash. Domestically, Boeing has begun enjoying success in its battle with Airbus. Northwest Airlines placed an order for as many as 68 Boeing 787 Dreamliners three months ago. It was a major coup for Boeing considering that Northwest had previously been the biggest U.S. customer for Airbus. Boeing also has been successful in its sales abroad. Recently Boeing sold 10 of its 787 Dreamliners to Ethiopian Airlines which will generate \$3 billion in revenue.

6. Are Union members fairly compensated under current contract?



The survey population strongly agreed (95 percent) that union members are fairly compensated. IAM union members voted 80% in favor of the new contract, supporting this survey question result.

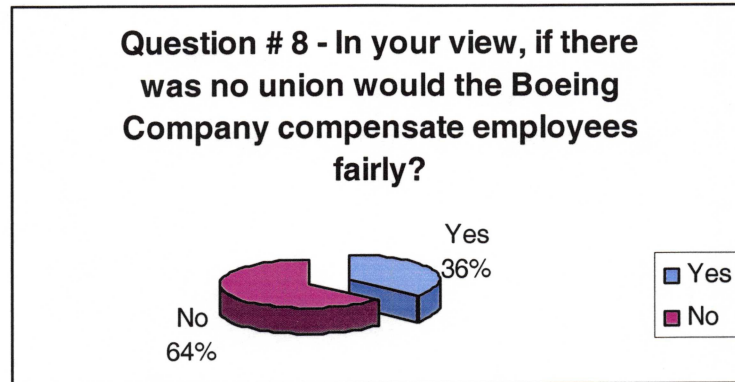
7. Does this strike help the U.S. labor movement in general?



The majority of the survey populations (68 percent) think this strike will help U.S. labor in general. U.S. labor Union power and its presence has been steadily declining. This decline is due to various reasons such as change in Global Economic realities, and labor unions lagging behind in updating and re-organizing their missions, and aligning themselves to these realities. By implementing new global trade treaties and regulations or lack of—such as WTO—U.S. companies will continue searching for inexpensive labor and less regulated places to make their products from design to production and distribution. If the companies do not find these services with the quality they need anywhere else, then they will stay home and pay what they need to pay. The main question is how to stay competitive while providing the wages and benefits that unions demand. But there is no doubt that this strike or any other successful strikes (from the Union's point of view) will help US labor

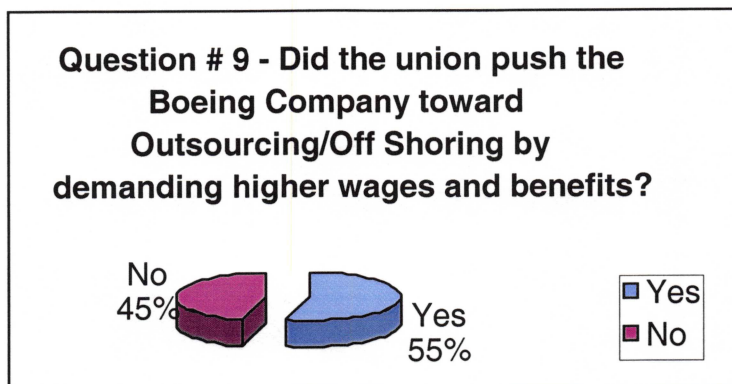
in general – at least in the short run.

8. In your view, if there was no union would the Boeing Company compensate employees fairly?



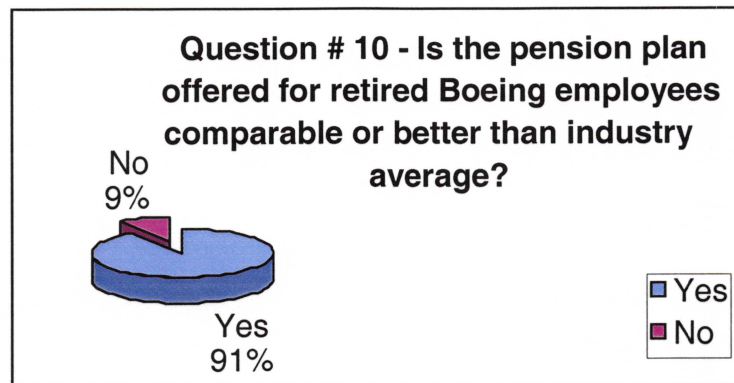
Majority of PAP members responded negatively to this question. The response to this question was unexpected. This could be due to the fact that the majority of people who participated in the survey were members of the SPEEA Union. Despite the fact that PAP members are not parts of the IAM Union, 64% of them responding to this question felt unions in the Boeing Company help the employees with their wages and benefits.

9. Did the union push the Boeing Company toward Outsourcing/Off shoring by demanding higher wages and benefits?



Results of this survey question are in close alignment to question # 8. About 55 percent of the population felt that in search of cutting the cost of airplane production, company has outsourced and off shored work. Some examples of these activities are the recent sell of Wichita facility and 787 production Model. The 787 airplanes will be built in major sections around the world by Boeing major suppliers and will be flown into the U.S. via 747 cargo airplanes which are specifically built for this purpose and assembled together at Everett facility.

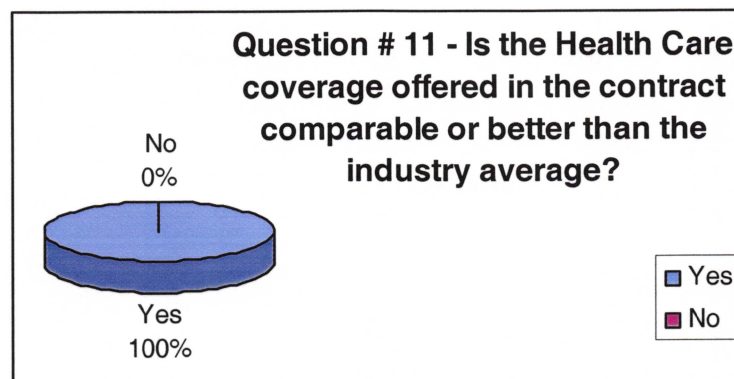
10. Is the pension plan offered for Retired Boeing employees comparable or better than the industry average?



Response to question No. 10 was strong, 91% positive.

A large majority of the survey population believed the pension offered in the contract was comparable or better than the industry average. The pension amount was raised over 16% from \$60 per year of work to \$70. What Boeing offered the IAM Union was very competitive or better than similar industries.

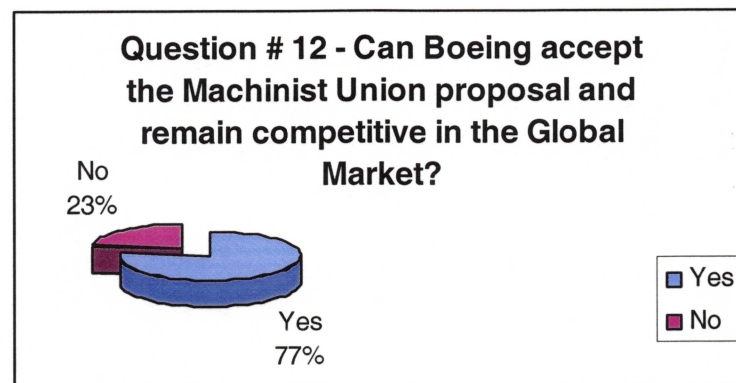
11. Is the Health Care coverage offered in the contract comparable or better than the industry average?



Question No. 11 was the only question in this survey that the

population unanimously answered "yes". The population as a whole believed that Health Care coverage offered in the final contract was comparable or better than the industry average. The cost of health care is one of the most costly expenses that Boeing and other US companies are facing today. Employers have been pushing this cost more and more toward the employees. As the population survey indicated, The Boeing offer on Health Care Coverage was very generous compared with other companies.

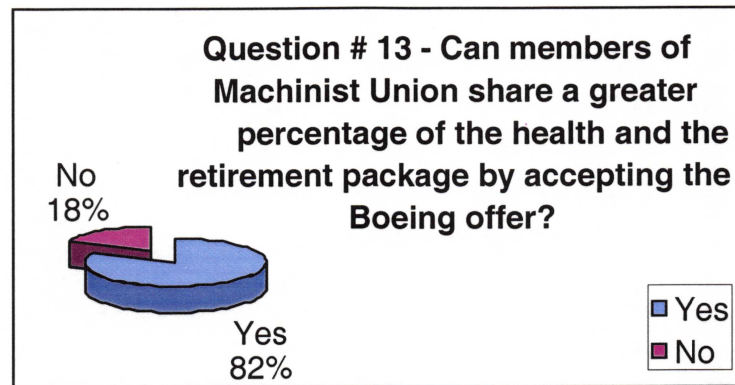
12. Can Boeing accept the machinist union proposal and remain competitive in Global Market?



The majority (77%) of the population thought that Boeing can accept the Machinist Union proposal and still remain competitive in the Global Market. The final settlement offer was a little different from initial IAM demands. The aerospace industry is a specialized field which requires a skilled workforce. This skilled workforce naturally demands higher wages and benefits. Companies will pay for these benefit high expenses to stay in the business. But these

high expenses will display themselves in the price of final products and services, which eventually are paid by the consumers.

13. Can members of the machinist union share a greater percentage of the health and the retirement package by accepting the Boeing offer?



About 82% of PAP members thought IAM union members could share a greater percentage of the Health Care cost and back off from some of their demands on coverage. The Union did not compromise on this issue. The Boeing Company, in dire need of its Machinists to get back to work and not fall behind on airplane deliveries, backed off and offered the same Health Package that IAM received in the previous contract. The Health package Boeing offered IAM was competitive or better than industry average.

SUMMARY AND RECOMMENDATION

Summary

The purpose of this study was to determine if the 2005 Boeing Machinist Strike was justified, in light of world economic realities as perceived by the members of Boeing's Product Acceptance Planning Group. Review of the survey results indicted that product acceptance planning members - who were mostly SPEEA Union members - responded positively to the majority of the questions in support of the strike and the good results that it brought for the IAM Union members. A majority of the members felt that the strike was financially justified. They felt that the benefits and wages that union members received as a result of the one month strike compensated the short term loss of the one month's wages they lost. About 68 percent responded positively to the question of, "In light of world economic realities can Boeing afford to accept the IAM strike demands?" However, 55 percent of the population thought the Union demands for high wages and benefits will eventually push the Boeing Company to move toward outsourcing and Off shoring. The Boeing Company is hoping to lower its costs to fight off competition from Airbus and other Industrial countries such as Japan and China that are entering the aerospace industry. It is critical for Boeing to reduce its costs and operate as lean as possible. The one month

strike was a costly one for the Boeing Company. The company missed the delivery of about 30 new airplanes and they could not afford to miss anymore deliveries, especially the new 787 jets that are in the design stage. IAM could have won the battle but may have lost the war. In order to reduce costs and keep the price of airplanes competitive, the Boeing Company probably will continue with out sourcing and off shoring. With 787 jets being built globally and assembled locally, Boeing might extend this business model to its other airplanes.

IAM tried to toughen language in the 2005 contract preventing job losses due to Outsourcing. Boeing did not gave in and argued the only way to protect jobs is to increase Boeing's efficiency and competitiveness so it can sell as many airplanes as possible and offered no changes to existing contract language.

Recommendations

This study surveyed members of the Boeing Product Acceptance Planning group. The majority of its members belong to the SPEEA Union. The existing three-year SPEEA contract is set to expire on December 5, 2005. The Boeing Company and the SPEEA union are currently negotiating a new contract—which if approved—will set the wages and benefits of SPEEA members for the next three years. As a result of conducting this study, additional research might be undertaken to answer the same questions about the SPEEA contract,

this time surveyed among the IAM union members. In the year 2000 IAM union successfully negotiated a contract with the Boeing Company that did not result in a strike. The IAM union members were satisfied with the package they received. On the other hand, SPEEA union members thought that Boeing did not offer them a fair contract after realizing the terms of the IAM Union deal. SPEEA could not reach agreement with Boeing before the contract deadline and went on strike for 40 days. SPEEA and Boeing are currently negotiating the contents of the SPEEA contract. If they do not reach agreement by December 5, there is the possibility of a strike by SPEEA members. Additional studies could be conducted to determine:

Did the final 2005 IAM settlements have any effect on the outcome of the final 2005 SPEEA settlement?

Did the offer to the IAM union set the precedent for the offer to SPEEA?

Were the important issues for the SPEEA members similar to those of IAM members?

Were the wages and benefits that SPEEA members received comparable to the IAM contract?

What were the differences in the atmosphere, attitude, and negotiation methods between SPEEA Union and IAM union?

APPENDICES

The following questionnaire survey was used as the data gathering device for this study. The Questionnaire contained thirteen (13) questions. There were two choices to each question, either a Yes or No. Questionnaires were manually distributed among the Product Acceptance Planning Group members which consist of 23 employees. The questionnaires were handed out manually to PAP members with a brief explanation of the study and its questions.

Questioners about the IAM Union 2005 Strike
Graduate Paper Study – BMBA 6203
By Mohammad Zarrabi-Kashani

Please answer the following questions based on your personal opinion

1. Was the strike financially justified?

Yes No

2. In your view, do the long term benefits outweigh the short term loss for the union members?

Yes No

3. Does this strike justify the loss of short term revenue for the Boeing Company?

Yes No

4. Does this strike help the non-union Boeing employees for their wages and benefits?

Yes No

5. In light of World economic realities can Boeing afford to accept union strike demands?

Yes No

6. Are Union members fairly compensated under current contract?

Yes No

7. Does this strike help the US labor movement in general?

Yes No

8. In your view, if there was no union would the company compensate employees fairly?

Yes No

9. Did the union push the Boeing Company toward Outsourcing/Off shoring by demanding high wages and benefits?

Yes No

10. Is the pension plan offered for Retired Boeing employees comparable or better than industries average?

Yes No

11. Is the Health Care coverage offered in the contract comparable or better than the industry average?

Yes No

12. Can Boeing accept the machinist union proposal and remain competitive in Global Market?

Yes No

13. Can members of machinist union share a greater percentage of health and the retirement package by accepting the Boeing offer?

Yes No

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