

# UP AGAINST THE CORPORATE WALL

FIFTH EDITION

MODERN CORPORATIONS  
AND SOCIAL ISSUES  
OF THE NINETIES



S. PRAKASH SETHI  
PAUL STEIDLMEIER

**Fifth Edition**

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# **UP AGAINST THE CORPORATE WALL**

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**Modern Corporations and Social Issues  
of the Nineties**

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**UP AGAINST  
THE CORPORATE WALL**

To  
*those haves and have-nots among us  
who still have hopes  
that when people of reason get together  
they will plan the survival  
and not the extinction  
of the human race and of humanity,  
this book is affectionately dedicated.*

*It is to this itch of being spoken of,  
to this fury of distinguishing ourselves, which  
seldom or never gives us a moment of respite,  
that we owe both the best and the worst things  
among us.*

*Ralph Waldo Emerson*

## **PREFACE**

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The last two decades were quite turbulent in the evolving relationship between business, especially the large corporations, and society. It would be presumptuous for someone who has lived through this period and is so close to it to declare that its lessons have been learned and that all that remains is to add up the gains and losses from the experience. For this, we must await the mature perspective which only distance from the present can afford.

Instant history, however, has its uses. For neither now nor in the future can we ignore the recent past. It provides us with a point of departure from which we can measure progress or deflection from it. On the one hand, we are encumbered by the recent past in our perceptual biases about the behavior and motives of the people and institutions we must deal with. On the other hand, however, it provides the context in which we articulate the goals we wish to achieve and the means we would like to employ.

History repeats itself, precisely because we have short memories.

We are all captives of our imaginations, which are constrained to a large extent by our living environment. Societies survive and civilizations flourish because people of wisdom can judiciously combine the lessons of the distant past with the human and material resource constraints. To build a future based solely on historical antecedents that ignore the real concerns of living persons is like casting a grand illusion. There is always a sense of motion, but no progress. To build a future as if it were an incremental step determined solely by the step just taken is ineffective. There is a continued sense of progress but, in an endless chain of actions and reactions, nothing substantive or lasting is ever accomplished.

The conflicts between business firms and various elements of society during the early 1960s arose from long-standing grievances of various disenfranchised groups.



They felt their rightful share of the opportunities, aspirations, and fruits of American society were being denied by powerful vested economic interests supported and protected by a captive political system. Their rebellion was born out of the desperation of those who had nothing to lose. Issues were seen as black or white, groups as villainous or virtuous, causes as holy or satanic, and leaders as saints or charlatans.

The social and political upheavals of the 1960s forced us to face the injustices inflicted on certain social groups in our political and economic order. This was nothing new. We have experienced similar cycles throughout our history, starting with the Industrial Revolution and ending with the Great Depression. During the 1960s, the inequities in opportunity, the lack of caring, and the high proportion of society's rewards going to a few combined to make people doubt the legitimacy of the large corporations that were identified with the socioeconomic order. We saw well-being not only in the aggregate growth, but in terms of those poor who were lost in the counting. We examined political democracy not only in terms of its grand design but in terms of the disenfranchised who did not count at all.

The 1970s brought a partial resolution of these problems: large-scale, overt inequalities were outlawed. In an effort to prevent future inequities and provide fair compensation for past inequities, inequality of opportunity was measured, in a large number of cases, by inequality of outcome. These resolutions of past inequalities have become institutionalized in a plethora of new rights and entitlements. We all claim rights to education, a decent standard of living, support for the family, privacy, a cleaner environment, old age support, and protection from failure. When divorced from any individual obligation or reciprocity, these rights become absolutes with politically strong constituencies to protect and expand them.

An inevitable outcome of this approach

surfaced in the 1980s with the emergence of single-issue causes and narrowly based political groups as a dominant feature, and not necessarily a beneficial one, of the American sociopolitical arena. These single-issue advocacy groups brought about a shift in power alliances and yielded highly visible benefits to groups who were previously not so fortunate. The shift in power from producer to consumer groups also brought about a shift in outlook concerning the future of society, from a perspective of eternal optimism and growth to a mood of pessimism and finite resources. Instead of everyone sharing in a common endeavor, we viewed society as a zero-sum game where one's gains must come at someone else's costs.

The 1980s began under the banner of the "me-generation." This self-centeredness was elevated to the status of a noble calling. We became cloistered in our self-ordained virtues. We disdained compromises because to see reason in an adversary is to sully one's own reputation.

Business has not been immune to these changes over the past three decades. Both as a measure of self-preservation and as a consequence of a narrow perspective, business has answered its critics largely with strident intransigence and an uncompromising attitude. Instead of defining corporate interests within the larger framework of the public good, it has often resorted to defining the public interest as if it were a secondary and incidental outcome of corporate interests.

During the early 1960s, when social pressures on business had barely gathered momentum, the business response to opposition groups was generally one of lofty disdain. Business felt that paying these groups any attention would be legitimizing their social credibility. The response was a simplistic one: Pretend they are not there, and they and their complaints will go away.

In the 1970s, business displayed a more conciliatory response to societal concerns.



Although corporations were aggressive in formulating the national agenda, they nevertheless attempted to narrow the gap between societal expectations and corporate performance. Substantive gains were made, some of them only after changes were institutionalized and mandated by law. During the 1980s, corporations became far more sophisticated in managing their relations to society. Confronted with well-organized and articulate adversaries, corporations began to use some of the same tactics. Rhetoric was substituted for substance. Compromises and consensus were discarded in favor of holding firm. Corporations began to speak out on social issues not only by advocating specific public policies, but also by questioning their opponents' motives and even branding them misinformed and ignorant. The polarization of viewpoints had become almost complete.

The tragedy has been the failure of both the corporate community and the social activists to work as partners in finding and developing commonly acceptable solutions to societal problems. The relationship has been an adversarial one, each side attempting to persuade the American public that the opposition is the villain. Each seems more interested in directing attention to deficiencies and labeling the opposition than in acting in the public interest.

The problems of the 1960s and 1970s concerned the correction of flagrant imbalances in the allocation of costs and the distribution of benefits among various societal groups. Business bore the major burden of enacting social changes because it was the repository of the nation's economic resources; it had the management expertise to bring about those changes; and it was most susceptible to public and political pressures for change because it comprised large, private collectives with weak constituencies.

In the 1990s, our problems are infinitely more complex and their solutions immeasurably more difficult. We seem to have reached

a watershed in terms of conflict between business and social groups. We have come to realize that big government can be just as insensitive to individual needs as big business. Although big government has solved some problems, it has created others equally ominous: social and economic inefficiencies, erosion of purchasing power through inflation, allocation of increased proportions of Gross National Product to public sector spending, and even invasion of individual privacy. There is a growing aversion toward increased reliance on the government to solve all our problems.

There is also some questioning concerning the viability of solutions offered by social activists. We no longer accept on faith every activist group that purports to speak for the public interest. It is becoming apparent that often in their strident intransigence and uncompromising attitudes the activists may be advancing only their own self-interests. They frequently speak for those who directly and immediately stand to gain from their positions.

The ethical problems of the 1980s and 1990s stemming from the conflict between business and society do not concern obvious right and wrong, guilt and innocence, but one type of inequity over another, giving one group more while taking from another group, the virtue of frugality and the sin of accumulation, and the morality of principles versus the morality of situations. In an unjust world, the distinctions between the guilty and innocent have become ambiguous. We are confronted with the realization that we live in an increasingly interdependent society where individual good is not possible outside the context of common good. It makes no sense to separate moral principles from institutional behavior, political power from economic influence, and environmental values from material rewards. To do so is to divorce the social system from its basic element, the human being, who does not behave in a fragmented manner.

The corporation must become an active agent for social change. The corporation cannot confine its role to responding to societal goals advocated by other groups. As a dominant institution in society, it must assume its rightful place and contribute to the articulation of the public agenda itself. In today's pluralistic society, corporate participation in social policy formulation is not a luxury but a necessity; it must receive top management attention and the corporate resources to do it right and to do it well. The cost of being wrong can be very high. Participation simply to defend the corporate position on a given social issue, to support a political candidate considered friendly to the firm, or to sell the free enterprise system is not sufficient. Effective participation demands the advancement of a coherent political position, something most businesspeople do not have today. Businesspeople cannot participate effectively in the political process until they can articulate who and what they are socially and what role their products and services play culturally. This demands positive political strategies, not ad hoc responses to immediate crises.

This fifth edition of *Up Against the Corporate Wall* presents case studies that will likely become critical issues of conflict between business and society in the 1990s. The challenge is for the business student and business executive to develop innovative and constructive approaches to resolving these issues. The cases represent, in our view, the major areas of concern that will involve the business community and larger segments of the American society in the 1990s. We would have liked to have covered a great many more issues and more cases, but this would have been impossible given the constraints of space and time. We recognize that there may be differences of opinion as to our choices of issues and cases; however, we would hope that such differences are minimal.

Public policy has come to exert an increasingly powerful influence on business strategies. While all of the cases we present

reflect this dynamic, seven are particularly centered around public policy regulations and processes. The sociopolitical dimension is reflected in issues affecting personal security. The National Rifle Association and Gun Control case captures the conviction and emotion surrounding the desire for safety in the streets, with protagonists taking radically different approaches to law and order.

Socioeconomic dimensions of corporate policy have riveted the public's attention with the drama of plant closings as corporations struggle for survival in an increasingly competitive world. At the same time, the public has been stunned with disbelief as layer after layer is peeled away from the scandal of insider trading. The saga of Dennis Levine, Ivan Boesky, and the firm of Drexel Burnham Lambert took four years to come to light, and even as this book goes to press the end is not in sight. On the other hand, the multibillion-dollar stakes of the turbulent world of corporate takeovers leave the common person to piece together what happened long after the action has been played out. The drama is epitomized in the struggle that took place between Goodyear and Sir James Goldsmith (see the Goodyear Tire & Rubber Company case).

Corporations do not simply adopt a reactive approach to public policy, however. Increasingly, they take the offensive with advocacy advertising. Both the AFSCME and Chemical Manufacturers cases illustrate the tactics economic agents increasingly employ to shape public opinion and their operating environments.

In the past decades, responsibility for corporate social performance has increasingly been placed on top management. Often, when a scandal is uncovered top management does a disappearing act, leaving subordinates or the nameless system to shoulder the blame. This is examined in the E. F. Hutton check kiting case, the General Dynamics defense industry profiteering case, and the Bank of Boston money laundering case. At the same time, the question of whether boards of directors have any real

clout is dramatized in the case of Grumman Corporation, where top management was at odds with its board.

Since the origins of capitalism, the worker has occupied a central place of concern. Our case selection reflects this long-standing orientation, as we devote four cases to workplace safety and four to employee rights. Both the Warner-Lambert and Whirlpool cases examine specific industrial accidents and raise the question of management responsibility. In the IBP case, the focus shifts from a specific accident to a regular pattern of accidents. This case raises classic questions of management practice in a cost-cutting industry when there is a ready supply of unskilled labor. The Film Recovery case focuses on the responsibility of top management when industrial hazards result in the death of an employee.

Our cases on employee rights concern sex discrimination (Comparable Worth), race discrimination (Sears, Roebuck), age discrimination (United Airlines), and alleged race and sex discrimination against American employees by a Japanese company. These cases all raise fundamental questions concerning the dignity of the individual, which lies at the root of democracy.

Two cases focus on the rights of consumers. The case concerning GM's X-car examines the issue of auto safety. At the same time, it draws attention (along with the Sears case) to the problem of regulatory excesses and their impact on affected busi-

nesses. The case concerning the role of the tobacco industry in the United States examines consumer welfare and choice in the face of the legal production and marketing of a harmful product.

Finally, we examine the role of multinational corporations in developing societies. The South Africa case examines the role of American corporations in societies which explicitly avow principles of discrimination. The Bhopal case focuses on industrial accidents in settings where the likelihood of implementing safety precautions is marginal at best. The case concerning the tobacco industry in the Third World examines what the tobacco multinationals seek to do in the Third World that they are forbidden to do at home.

We are especially grateful to Professor Karen Paul of the Rochester Institute of Technology for contributing the case on South Africa, and to Professor Paul Shrivastava of New York University for the case of Bhopal. In addition, we would like to thank the staff at the Center for Management at Baruch College of the City University of New York. We particularly note the research assistance of Leo Giglio and Ramesh Gehani, who are doctoral candidates in management at Baruch College. Finally, we are grateful for the typing and word processing chores indefatigably carried out by Ruben Cardona, with additional support from Beulah Babulal and Julie Levine.

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# **Top Management Actions and Corporate Social Performance**

