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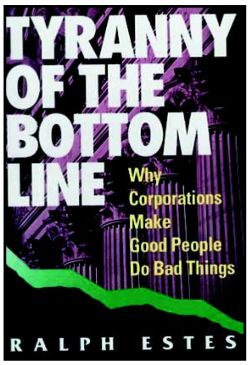

Tyranny of the Bottom Line

Why Corporations Make Good People Do Bad Things

by Ralph W. Estes
Berrett-Koehler © 1996
296 pages

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Take-Aways

- The corporate system has gone astray.
- The original purpose of corporations was to serve the public interest.
- Instead, corporations have moved to the opposite of that original purpose, and now essentially control society.
- The corporate system's biggest fault lies in its unbalanced approach, which focuses solely on profit-and-loss and bases every decision only on the bottom line.
- Corporate domination has the potential to do much good, but has an even larger capacity to have a horrific impact on every aspect of society and its individuals.
- Everyone in society is a stakeholder in every corporation.
- Everyone in society has a right to corporate accountability.
- Corporations make decisions that routinely harm stakeholders.
- Shareholders usually have little, if any, control over corporations.
- Executives and management control corporations, usually for personal gain.

Rating (10 is best)

Overall	Applicability	Innovation	Style
6	**4**	**8**	**8**

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Review

Tyranny of the Bottom Line

Are you in the mood for some top-notch, well-documented corporation bashing? Ralph W, Estes' powerful work is widely considered one of the most important books written on American corporations and their vast power, and he has nothing kind to say. Compelling and clearly written, his book shines a bright light into some very dark, creepy corners. And although he overstates, over-generalizes and tends to blame corporations for every evil in society, there's no debating that the concept of stakeholder accountability that Estes sets forth has moved to center-stage. Estes' book specifically covers United States-based corporations, but *getAbstract.com* recommends this book to anyone who is subject to corporate influence, and — from the rainforest hunter-gatherer to you — that's everybody.

Abstract

What's Wrong

The corporate system has gone astray. The history of corporations shows that their original purpose has been "systematically perverted" through an unbalanced approach that focuses solely on profit-and-loss. Note these symptoms of corporate power gone wrong:

- Permanent layoffs affect millions of Americans while CEO salaries soar.
- Massive layoffs shatter careers and devastate lives, while those with jobs live in fear.
- Toxic waste poisons the land, water and air.
- The market is filled with unhealthy and dangerous products.
- Injury and death on the job remain a huge problem.
- White-collar "hustles" in the S&Ls and on Wall Street ultimately cost the entire society.
- Employees at all levels are held hostage to the tyranny of the bottom line.
- Managers, who often perpetrate the corporate mess, are also the system's victims — required to subordinate personal morality to an impersonal corporate culture.

"Business can be run successfully, with a fair return not only to stockholders but to all stakeholders, and still be humane. It can be competitive, it can be financially strong. And it can be fun."

"Unfortunately, unaccountable power will always, sooner or later, be abused."

The corporate system was created to serve the public interest, but it has ended up acquiring enormous power over the public. Today, corporations face only minimal control from the regulatory bureaucracy, and exercise silent dominance over much of our society. While this domination has the capacity to produce good, it has an even larger capacity to produce calamity, which it does routinely, including employee injury and death, financial and personal loss to customers, desolation to communities and onslaughts of pollution and waste.

"General Motors is larger than the U.S. Army, larger than the Air Force, larger than the Navy and Marines Corp combined."

Everyone in society is a stakeholder in every corporation, with an investment, an interest in its performance and a right to accountability. Because corporate performance is measured solely by the "bottom line," corporate managers are forced to make decisions that harm stakeholders. More effective, humane companies can be created, thus restoring corporations' original public purpose and allowing managers to make ethical, fair choices.

The Root of the Problem

A growing number of business leaders are finally challenging the notion that harmful actions can be justified by the bottom line. They are asking: "Isn't it possible in business to do well while doing good?" Plenty of research shows that business can do well while doing good and that an ethical business will probably do better in the long run.

"The power of the bottom line to overwhelm basic human morality is strikingly evident when it can lead a large airline to risk the safety of its passengers and crews to save maintenance costs."

Because they have a rational scoring system, coaches know that they won't win if they support one player and sacrifice the rest of the team. But business mangers are stuck with an irrational scorecard: the profit-and-loss statement. While showing only stockholder returns, it conceals the effects of putting stockholder interests above the teams' other players. Even when corporations find these practices ineffective, their loyalty to their scoring system makes them justify the negative effects.

Since a business exists through the investments and efforts of various stakeholders, it needs a scorecard that reports the performance of the enterprise and its managers in providing fair return or profit (and not just in the form of money) to all stakeholders, including workers, customers and communities.

"The challenge we face is to restore our corporations to their public purpose, to redefine our measures of corporate performance so the bottom line is only one component of success and not the whole. This will require corporate accountability."

Full and fair disclosure and accountability can empower the marketplace to discipline corporations and thus prompt more responsible corporate behavior. Today, corporations are the ultimate example of power without accountability. Stockholders rarely control corporations. No one has direct, significant control over top management. Yet, stockholders occasionally fire management, contest for control and even reject management recommendations at stockholders' meetings, but such events are unusual. For example, Kmart stockholders prevented the sale of interest in its specialty outlets. Such events are exceptions. Successful stockholder uprisings are extremely rare. "The CEO or a few top executives exercise autocratic control in the great majority of these colossal enterprises."

The Real Role of Stockholders

For hundreds of years, accountants have produced reports for stockholders, measuring corporate performance only in terms of its effect on stockholders, while ignoring effects on other stakeholders. This practice gradually elevated the stockholder to an apparent position of "absolute primacy." You have been taught that stockholders provide the funds that fuel corporations, and that corporate power comes from those funds. But, this is not true. Only a small portion of the funds that corporations use comes directly from stockholder investments. Most corporate capital comes from operating profits realized from customers' purchases of goods and services. When more funds are needed than retaining and reinvesting profits can provide, the corporation usually borrows instead of selling stock. As economist John Kenneth Galbraith has explained, "In the large corporation capital is all but exclusively provided out of earnings or by borrowing. The stockholder has no power and hence no role in the running of the firm."

"I saw too many people needlessly hurt by corporations, and I wondered if business had to be that way."

Stockholders don't produce goods or make the sales, so — except in extraordinary situations — they have little say over what happens to the profits. If stockholders are so inconsequential, why is Wall Street at the heart of the U.S. economy? Stocks are important, but mainly to those who trade them and to the Wall Street industry that makes money on the trades. Corporations generally aren't involved or affected.

"Instead of striving for better products and better service, corporations often focus on mergers and takeovers."

Corporate stock transactions are much like used car sales. Ford is affected when it sells new cars. But, later, when used cars are bought and sold, Ford is not involved. It's the same with Ford stock: after a stock issue is first sold (and for most outstanding stock

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that happened years ago), stock market transactions have no direct effect on Ford. If Ford never again issues any new stock, the market price of its stock can go through the roof or sink to the cellar without changing a dollar on Ford's balance sheet. After initial offerings, large corporations rarely issue new stock, so stock sales are an insignificant source of corporate funds. Wall Street consultant Charles R. Morris explains, "Companies rarely, if ever, raise capital through the stock market. Since 1983, in fact, companies have been buying back their shares, at the rate of about five percent of the total value of listed stocks each year."

"Doing business ought to make us feel good. We ought to have a feeling of accomplishment — providing goods and services that people like that help them and seeing employees become friends and sharing in their success as they advance in the organization."

Stockholders provide funds for start-up companies and other small corporations. Big corporations get their funds from sales and from borrowing. Their power today comes from sources other than stockholders. Stockholders would like to have more power, and a current movement in that direction is gaining momentum. Shareholder power can ultimately hold corporations accountable to communities, employees, customers and other stakeholders.

What Corporate Executives Do with Their Power

Consumers, government, employees and boards of directors also have little, if any power over corporations. Almost entirely, corporate power lies in executives' hands. Studies show what corporate managers do with their power:

- They are driven toward growth: a larger market share, more assets, a bigger corporation.
- Since growth means even more power, prestige and money, executives have plenty of incentive to pursue it.
- This growth doesn't have to result in higher corporate earnings for the executives to keep their jobs or enjoy salary increases.
- Managers and executives take care of themselves first; stockholder, corporate and stakeholder needs come second. The smoke screen is the party line they hide behind when they are involved in something damaging or unpleasant. This justification creates an appearance of responsibility and accountability that doesn't correspond to reality.

"For over two centuries, corporations were viewed as fairly benign servants of the public good. But they are no longer our servants, and they are often not benign."

John Kenneth Galbraith has noted, "The salary of the chief executive of the large corporation is not a market reward for achievement. It is frequently in the nature of a warm personal gesture by the individual to himself."

Infamous automotive mogul John Z. DeLorean, formerly a General Motors executive, explained the lack of corporate conscience: "The system has a different morality as a group than the people do as individuals, which permits it to willfully produce ineffective or dangerous products, deal dictatorially and often unfairly with suppliers, pay bribes for business, abrogate the rights of employees by demanding blind loyalty to management or tamper with the democratic process of government through illegal political contributions."

"Citizens in democratic societies are prone to guard against government encroachment on their liberty. But what about corporate encroachment?"

Corporate power is in the hands of a small group chosen by themselves, from among themselves, a managerial elite whose members hold great power, and whose personal morality is kept on hold while acting in their corporate roles.

The United States isn't really a democracy; it is a corpocracy, in which corporations have ultimate control and little accountability. Within this corpocracy, citizens feel powerless to reduce corporate power. By a margin of 73% to 21%, people think large corporations

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"have too much power for the good of the country." Corporate influence is "more subtle and more pervasive" than governmental influence. In *The Age of Uncertainty*, John Kenneth Galbraith wrote, "The institution that most changes our lives we least understand or, more correctly, seek most elaborately to misunderstand. That is the modern corporation. Week by week, month by month, year by year, it exercises a greater influence on our livelihood and the way we live than unions, universities, politicians, the government."

"Even states are not always powerful enough to buck the larger corporations."

However, many movements are underway regarding corporate social accountability. Some corporations have made commendable efforts in the area, while many others take a public stance in its favor but do little if anything to back it up.

Corporate Control of Our Culture

Corporations gather power through money, property, armies of employees, access to the media, influence on politicians and, most visibly, by advertising, which wields more public influence than education or family. Robert L. Heilbroner has called advertising, "the deadliest subversive force within capitalism." Through advertising, corporations set the standards for morality, ethics, interpersonal relations and every area of culture. Their influence has become an omnipresence in our daily lives. Studies of advertising have concluded:

"The corporate performance scorecard only records the costs and profits to the company; it never counts the lives lost and the pain consumers suffer."

- Advertising wields a social influence comparable to that of religion and education.
- Advertising employs techniques of intensive persuasion that amount to manipulation.
- Advertising's intent is to preoccupy society with material concerns.
- Advertising promotes self-doubt, makes consumers unhappy and fosters self-contempt.
- Advertising teaches that the simple cure for this desolation is consumption.
- Advertising has fostered a consumption binge.
- Advertising has obliterated the ethic of thrift and replaced it with the duty to buy.
- Advertising has taught that only young, slim, beautiful, people (particularly women) have value, thus causing great psychological harm to other individuals (particularly women).
- Advertising affects the basic patterns of society: the structure of authority in the family, the pattern of morals, the meanings of achievement.

About The Author

Ralph W. Estes is a professor of business administration at The American University, as well as resident scholar and co-founder of The Center for the Advancement of Public Policy in Washington, DC. He is also a CPA and was senior accountant with Arthur Andersen & Co.

Buzz-Words

Corpocracy / **S**ocial accounting / **U**naccountability

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