# Case Study: Texaco, Inc.

## Racial Discrimination Suit (A)

Amidst pending allegations that Texaco had consistently failed to promote blacks in certain employee groups because of their race and had "fostered a racially hostile environment,"[1] Texaco was hit with yet another allegation. As reported by *The New York Times* on November 4, 1996, Texaco executives were taped discussing a $520 million lawsuit which was filed by six employees in 1994 on behalf of almost 1,500 other minority workers at the firm. In these discussions, "senior Texaco managers made disparaging comments about minorities and discussed destroying documents related to [the] class-action discrimination suit."[2]

Texaco Chief Executive Officer, Peter I. Bijur, now faced a major corporate crisis in just his sixth month at the helm of Texaco. "The tape recording is [the latest] piece of evidence in [the] anti-discrimination lawsuit brought against the company in two years."[3] Texaco's history of hiring and promoting minorities was less than exemplary, even for the oil industry. The written transcripts of the audiotape, as provided to the courts by an ex-Texaco executive, containing racial slurs and stating intentions to destroy evidence, threatened to exacerbate Texaco's already mounting minority-related issues. The once hardly-noticed racial discrimination suit, *Roberts v. Texaco*, quickly began to attract media and public attention.

### The Charge

Among the many questions immediately facing Texaco's CEO, Peter Bijur, were these: what action should he take on behalf of the company in response to the newly released tapes? What would the best approach be in managing this public-relations disaster? Should employees be addressed separately from the public sector? Is racial discrimination part of the Texaco culture? What, if any, steps can be taken to minimize future discrimination practices? Are reparations necessary? If so, how should it be addressed?

### Texaco, Inc. Background

"Texaco Inc., originally known as The Texas Company, was founded in 1902 in Beaumont, Texas, by oilman 'Buckskin' Joe Cullinan and New York investor Arnold Schlaet."[4] In 1996, the time of the case, Texaco ranked #11 on the *Fortune 500* (Exhibit 1) list and employed more than 27,000 people worldwide.[5] Within the petroleum industry, Texaco ranked third behind Exxon and Mobil. At year's end in 1996, Texaco had assets of $27 billion and revenues of more than $45 billion.[6]

The company's recent employee history had been less than ideal. *The Wall Street Journal* reported that:

> Texaco had been a snakepit of disappointed middle management since the 1980s . . . It went from 11 layers of management to five, dumping tens of thousands

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*Source*: This case was written by Research Assistants Tanya Goria, DeWayne Reed, and Dan Skendzel under the direction of James S. O'Rourke, Concurrent Associate Professor of Management, as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation. Information was gathered from corporate as well as public sources.

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of employees over the next decade. Last year [1996], in fact, was the first in a long time that Texaco's payroll grew instead of shrank.[7]

Middle management discontent may have been an issue, but Texaco claims to have been working earnestly toward a more integrated workforce, despite the layoffs. In a November 1996 interview on *Nightline*, Texaco CEO Peter Bijur offered this assessment of Texaco's employment figures: "16.6 percent of our U.S. work force of 27,426 were minorities in 1991, while as of last June, 22.3 percent of our 19,554 employees were minorities. Of those employees, the percentage of minorities in supervisory, management, and executive positions was 6.8 percent in 1989, and 9.5 percent in 1994."[8]

In early 1996, the Equal Employment Opportunity Commission (EEOC) reviewed the lawsuit against Texaco and found that black workers seeking promotion were chosen "at rates significantly below that of their nonblack counterparts."[9] The EEOC's finding also support the results of a study of one Texaco division by the Department of Labor. They discovered that minority employees took up to twice as many years as white workers to win promotions and ordered Texaco to pay compensation and revised its company-wide appraisal system.

Another survey, carried out for a rival oil company, found that the proportion of highly paid black workers at Texaco was consistently below the industry average. White senior managers at Texaco outnumbered their black counterparts by more than 80 to one.

## The Meeting

During a 1994 meeting between Texaco finance department manager Richard Lundwall and other Texaco finance department managers, recordings were made by Lundwall allegedly detailing derogatory remarks being made by the department managers concerning Texaco's African-American employees. The transcript filed by Plaintiffs of the pending discrimination lawsuit against Texaco contains four instances of remarks with apparent racial connotations: (1) a statement characterizing African-Americans as "f****** n****rs"; (2) a statement, "you know how black jelly beans agree," followed by other remarks relating to jelly beans; (3) references to an event at which African-Americans allegedly sat through the playing of the United States National Anthem and then standing for a song presented as the Black National Anthem; and (4) references to Hanukkah and Kwanzaa.[10] Further comments included: "All the black jelly beans seem to be glued to the bottom of the bag."[11]

The behavior captured on tape revealed discrimination issues within the culture at Texaco. The term "black jelly beans" was used on the tape and Bob Ulrich, an attendee of the meeting and one of the individuals who used the term, through his attorney Jonathan Rosner, stated that the reference on the tape was not in any way intended to be a racial slur. Rosner pointed out that the term "jelly bean" is not, in and of itself, known to be a derogatory term, and Ulrich had no reason to think that the reference carried any such connotations.

Rosner also observed that Ulrich's reference to jelly beans was prompted by a speech given by an African-American at a conference at which the speaker, advocating integration and opposing separatist philosophies, illustrated his remarks by using jars of jelly beans as an analogy for racial integration. While Ulrich could not remember the name of the speaker to whom he referred, Dr. R. Roosevelt Thomas, Jr. was identified as the probable source of the remarks alluded to by Ulrich. Dr. Thomas is the founder and former President of the American Institute for Managing Diversity, at Morehouse College in Atlanta, Georgia.[12]