Hooker Chemical Company (A)

Sandie Kroeger, communications coordinator for Hooker Chemical Company, sat at her desk in Houston, staring out the window at the humid sunset. It was the summer of 1978. Sandie had just hung up the phone after speaking with Don McNeil from the New York Times. The Times was going to break the following day with McNeil's front-page piece on an old chemical dump at the Love Canal site that had once belonged to the company (see Exhibit 1).

McNeil wanted a comment from Donald Baeder, Hooker's president. The reporter's deadline for filing the story was fast approaching. Sandie, however, knew she would be unable to contact Baeder because he was in a meeting. McNeil asked to be put through to Baeder anyway, but Sandie told him this was impossible.

As she sat thinking about how the next day's news would be received, she remembered her first introduction to the company. She had been hired by the vice-president of employee relations to work on internal communications, and as she put it: "Oh, maybe I'd have to get out a couple of press releases a month." In the months that were to follow McNeil's ominous call, she would do far more than that.

History of the Love Canal

The story began in 1892 when an enterprising young man named William Love decided to build a canal connecting two lakes. It was the era of direct current: the canal was designed to bring hydroelectric power from the nearby falls to local industry. A model city would be built, having ready access to cheap electricity and to markets via the canal. Two years later, however, alternating current made the canal obsolete. In addition, a recession made funding scarce for the canal as a transit route. So the partially dug canal was left unfinished until Hooker Chemical Company thought to use the land as a waste disposal site.

The company used the site for ten years beginning in 1942 when it received a license to dump. (Due to title problems, Hooker did not actually acquire the land until 1947.) During the same period, the U.S. Army also dumped an undetermined amount of toxic chemicals in the canal. In addition, the city used the canal for general refuse. The generally accepted procedure at the time was to make a dam of clay to isolate the newly used portions of the dump and then to cover it with a four foot cap of clay.

In 1952 the Niagara Board of Education needed a site for a new school but was short of cash. The board asked Hooker for the now vacant land at Love Canal. One year before, the board had drawn up plans for a school and threatened to condemn the property if the land was not
deeded over to them. Had the city condemned and taken the land, Hooker would have had no voice over the use of the land. Consequently, on the advice of the firm's attorney, the company insisted on transferring the deed and receiving $1 for the land. This deed included provisions stating the former use of the land, limiting any future liability for the company, and ensuring that any future owners were given the same provisions (see Exhibit 2).

The school was built, but in the process the construction contractor dug into the chemical zone. He suggested that the chemicals might hurt the concrete foundation. The architect moved the site thirty feet east and construction continued.

In 1957 the school board tried to sell unused portions of the 32,000-foot-long canal to residential developers. Hooker protested to the board, and a split decision by the board prevented the sale this time. But in 1958 the first of a few storm sewers was put through the canal area, puncturing the clay walls. Developments in succeeding years further disturbed the cover when more sewers and then roads were built across the canal.

The current controversy started up in the late 1970s after a period of heavy snow and rainfall. Starting in October of 1976, the local press reported that chemicals from the former dump site had seeped into some basements of homes along the boundaries of the canal. The *Niagara Gazette* reported that analyses of residues near the dump site at Love Canal indicated the presence of fifteen inorganic chemicals, including three chemicals known to be toxic (see Exhibit 3). There were reports of illnesses and injuries among local residents and damage to animals and plants.

In 1977 a task force composed of the city of Niagara Falls, the Niagara County Health Department, and Hooker Chemical Company was formed to study the situation. In addition, the Calspan Corporation was commissioned to prepare an abatement plan. The study, completed and presented to the city in August, was not approved.

In March of 1978, the city commissioned Conestoga-Rovers, a private engineering firm, to design a remedial plan. In June the company presented a plan recommending a system to contain wastes migrating from the canal. It was expected to cost $840,000, and Hooker offered to pay one third. By June, however, the school board wanted to drop its share of the costs. Meanwhile, state health officials and the U.S. Environmental Protection Association were studying the situation, including the complaints of health problems among area residents. These studies, which spanned April-July, led to the declaration of a state of emergency by New York Health Commissioner Robert Whalen on August 2. Love Canal hit national news that day, with McNeil's article.

**Hooker Chemical Company**

In 1968 Occidental Petroleum Company (Oxy), owned by Armand Hammer and based in Los Angeles, acquired Hooker Chemical. Oxy took the Hooker name for its chemical division, and future chemical-related businesses were merged into the Hooker Chemical Company.

By 1976 these businesses had combined sales of over $1 billion and included electroplating, metal finishing, plastics, fertilizers, and the original specialty and industrial chemicals. In
the early 1970s these were profitable businesses, providing 27-35 percent of Oxy's sales yet contributing 30-57 percent of operating income (see Exhibit 4).

Growth and Expansion in the 1970s
Most of these profits went to develop Oxy's oil and gas operations. In 1972, however, Hammer went to the USSR as Nixon's emissary to develop trade. Two years later, Hammer signed an agreement called the "Russian Project" -- a twenty-year fertilizer agreement to sell super phosphoric acid to Russia in return for Russian urea, ammonia, and potash.

The Russian Project was a mammoth undertaking. Major capital investments were made in Hooker, in fertilizer facilities, phosphoric acid processing facilities, phosphate mine development, port facilities, and, in another major portion of the portfolio, the Niagara Industrial Chemicals Group. That same year, a $60 million project for converting Niagara's city wastes into electrical energy began.

Strategic Planning at Hooker
In the late 1970s, Hooker had a "bottom up, top down" planning process that ended up in optimistic plans from the divisions according to managers in the planning department. Hooker corporate examined capital availability, basing its assessment on past financial performance, market position, product maturity, etc. Any "gap" in the projections was filled by a contingency reserve. Risk analysis of the various divisions' plans justified the reserve. Finally negotiation between divisions and staff settled the final reserve issues and related costs. The plan was then sent off to Oxy corporate.

According to managers involved in strategic planning at Hooker, issues raised through risk analysis were sometimes buried in the financials. The extensive five-year financial plan required by Oxy included the strategic plan boiled down to negotiated issues. At that time Hooker was the only one of Oxy's three (oil & gas, coal, and chemicals) groups that provided a strategic plan along with the five-year financial projections.

Top management in Houston was technology-oriented and unused to strategic planning. In addition, with the financial orientation of Oxy, it was difficult for Hooker to gain management attention for an issue like environmental concerns, an area difficult to quantify and with few precedents from which to develop a solution.

In the 1978 strategic plan, two areas of potential environmental concern were raised: the pollution of the river adjoining Hooker's Montague, Michigan, facilities (where the company later settled out of court with Michigan for a $15 million clean-up bill) and a potential Niagara Falls clean up estimated at $5 million. However, the probability for the Niagara Falls contingency was so low that the amount was never included in the final reserve (see Exhibit 5).

During the reserve development process it was suggested that Hooker buy out the first ring of homes around the canal dump site. The legal staff rejected the plan saying Hooker did not want to admit any legal liability.
Thus a major strategic issue -- in this case Niagara environmental clean-up -- was again buried in the financials. As a member of the strategic group said, "The trouble with trying to do effective strategic planning under such circumstances was that it was like plunking a sophisticated planning system, based on that of General Electric, onto an 'old nag.'"

By April 1978 the HCC 1978-1982 strategic plan had been approved by Oxy management and then by the board of directors in early May -- the usual procedure. When the Love Canal crisis hit later that summer, the plan to buy out homes was not an official contingency plan.

That same spring, Hooker announced a major corporate reorganization. The idea was to centralize the staff of the different businesses, creating a unified corporation instead of a number of autonomous holding companies. An international division was put in place to focus on ex-U.S. enterprises and expansion overseas. The business divisions became groups and all their presidents and staff were relocated to Houston. This had considerable impact on the Niagara Hooker chemicals and plastics division which was divided into a few groups, its top layer of staff relocated to Houston, and a number of people laid off in Niagara Falls.

**Mead Corporation**

On August 11, 1978, Occidental Petroleum announced its intent to acquire the Mead Corporation, a forest products company, for $1 billion. Mead tried to prevent the takeover and Hooker headquarters in Houston was soon overrun with lawyers from both sides collecting information for the ensuing court battle. Nearly every piece of paper in the files was numbered and "hot" files were marked with red stickers for possible future use (see Exhibit 5). The SEC was demanding more information on the potential riskiness of many of Oxy's businesses, and the company had to satisfy the SEC without appearing to have withheld information from its shareholders.

Communications was in turmoil. Once they had been provided to the SEC, thousands of internal company documents became publicly available through the Freedom of Information Act. The company lawyers had to approve all public statements by any employee.

Hooker joined the rest of Oxy under the public looking glass primarily because of the high-risk Russian Project, which was expected to provide a net loss of $40 million in the next year alone. Moreover, the fertilizer and commodity chemicals businesses (industrial chemicals) were in a cyclical market slump at the same time that the company was racking up multimillion-dollar expenses to get the Russian Project underway.

Occidental's attempted takeover of the Mead Corporation further aggravated Hooker's problems because all of Oxy's files -- and thus Hooker's -- were open to public scrutiny in the takeover battle. Ultimately Oxy lost Mead, but it still had to suffer the consequences of the unfriendly takeover and the effects of having many of its internal documents become "evidence" against the corporation.
August 2, 1978

Hooker management began to feel the pressure when, by coincidence, Don McNeil's piece on the front page of the *New York Times* (see Exhibit 1) coincided with a declaration of a state of emergency by the New York state health commissioner, Robert Whalen.

Sandie Kroeger conferred with top management in Houston that day to decide upon a public relations strategy during the crisis. Given the company's previous stance, she wondered whether Hooker should be more aggressive in its relations with the media.

Members of the legal staff and management, however, wondered whether a more passive stance would be appropriate. They reasoned that the current attention in the press would die down in a few days.