SOLUTIONS

to accompany

business and society 16th edition by lawrence

CHAPTER 2
MANAGING PUBLIC ISSUES AND STAKEHOLDER RELATIONSHIPS

INTRODUCTION

Businesses today operate in an ever-changing external environment, where effective management requires anticipating emerging public issues and engaging positively with a wide range of stakeholders. Whether the issue is growing concerns about climate change, health care, safety at work or in our schools, social equality, or consumer safety, managers must respond to the opportunities and risks it presents. To do so effectively often requires building relationships across organizational boundaries, learning from external stakeholders, and altering practices in response. Effective management of public issues and stakeholder relationships builds value for the firm.

PREVIEW CASE

Business and Social Issues

Teaching Tip: Preview Case

Business leaders increasing engagement in emerging social and public issues is a very controversial topic. This likely could evoke a good discussion or debate among students in class. As new issues emerge, students should present the various sides supporting or criticizing business leaders involvement and to identify the stakeholders affected by this action and the resulting consequences.

CHAPTER OUTLINE

I. **PUBLIC ISSUES**

II. **ENVIRONMENTAL ANALYSIS**

Teaching Tip: Eight Strategic Radar Screens

The “eight strategic radar screens” is a useful tool for nearly any case. The instructor may want to introduce a case from the end of the book, before launching into a more elaborate analysis later in the semester using the same case, since the radar screens can provide an overview of the major forces engaged in the case. Or, a local situation from the community or campus might be a good focus for applying the radar screens.

A. Competitive Intelligence

B. Stakeholder Materiality

Teaching Tip: Stakeholder Materiality

This emerging notion comes out of corporate practice. Students may be assigned to search for companies, other than Nestle, that use this tool. The instructor may want to apply this tool to a case used earlier in the semester. Or, this tool is implicitly used to organize and prioritize the many demands on us in our daily lives.

III. THE ISSUE MANAGEMENT PROCESS

A. Identify Issue

B. Analyze Issue

C. Generate Options

D. Take Action

E. Evaluate Results

Teaching Tip: Issue Management Process

This is another opportunity where a current issue on campus, in the local community, or on the national or international stage could be used for students to analyze how this issue is progressing or has progressed through the issue management process. To supplement the information in this chapter on the use of antibiotics in chickens, see: https://articles.mercola.com/sites/articles/archive/2018/02/11/how-antibiotics-created-chicken-industry.aspx

IV. ORGANIZING FOR EFFECTIVE ISSUE MANAGEMENT

V. STAKEHOLDER ENGAGEMENT

A. Stages in the Business-Stakeholder Relationship

Teaching Tip: Stages in the Business-Stakeholder Relationship

The four stages provide an excellent comparison of business action toward a stakeholder. Comparing the impact of these different actions to any case could be a good illustration for the students. The many demands on us in our daily lives.

B. Drivers of Stakeholder Engagement

- **Goals**
- **Motivation**
- **Organizational Capacity**

C. The Role of Social Media in Stakeholder Engagement

Teaching Tip: The Role of Social Media

Students could investigate and locate examples of businesses turning to social media to engage with its stakeholders. Examples could be internal to the business or from the larger social environment.

VI. STAKEHOLDER DIALOGUE

A. Stakeholder Networks

B. The Benefits of Engagement

GETTING STARTED

KEY LEARNING OBJECTIVES

LO 2-1: Identifying public issues and analyzing gaps between corporate performance and stakeholder expectations.

A public issue is an issue that is of mutual concern to an organization and one or more of the organization's stakeholders. Stakeholders expect a level of performance by businesses, and if it is not met a gap between performance and expectation emerges. The larger the gap, the greater risk of stakeholder backlash or missed business opportunity.

LO 2-2: Applying available tools or techniques to scan an organization's multiple environments and assessing stakeholder materiality.

The eight strategic radar screens (the customer, competitor, economic, technological, social, political, legal, and geophysical environments) enable public affairs managers to assess and acquire information regarding their business environments. Managers must also assess the importance or materiality of public issues to the firm and their stakeholders.

LO 2-3: Describing the steps in the issue management process and determining how to make the process most effective.

The issue management process includes identification and analysis of issues, the generation of options, action, and evaluation of the results.

LO 2-4: Identifying the managerial skills required to respond to emerging issues effectively.

In the modern corporation, the issue management process takes place in many boundary-spanning departments. Some firms have a department of external affairs or corporate relations to coordinate these activities and top management support is essential for effective issue management.

LO 2-5: Understanding the various stages through which businesses can engage with stakeholders, what drives this engagement, and the role social media can play.

Stakeholder engagement involves building relationships between a business firm and its stakeholders around issues of common concern and is enhanced by understanding the goals, motivations, and organizational capacities relevant to the engagement. Social media is playing a more expansive role in stakeholder engagement.

LO 2-6: Recognizing the value of creating stakeholder dialogue and networks.

Stakeholder dialogue is central to good stakeholder engagement, supported by network building or partnerships.

KEY TERMS

competitive intelligence

environmental analysis

environmental intelligence

issue management

issue management process

performance–expectations gap

public issue

stakeholder dialogue

stakeholder engagement

stakeholder materiality

stakeholder network

INTERNET RESOURCES

www.wn.com/publicissues	World News, Public Issues
www.nifi.org	National Issues Forum
www.un.org/en/globalissues	United Nations, Global Issues
www.issuemanagement.org	Issue Management Council
www.scip.org	Society of Competitive Intelligence Professionals
www.wfs.org	World Future Society
www.globalissues.org	Global Issues
www.millennium-project.org	The Millennium Project
www.cfr.org	Council on Foreign Relations
pac.org/fpa	Foundation for Public Affairs, Public Affairs Council

DISCUSSION CASE

BUSINESSES RESPOND TO THE MOVEMENT FOR SCHOOL SAFETY

Discussion Questions

1. **What was the public issue facing the companies in this case?**

   The chapter defines a **public issue** as "any issue that is of mutual concern to an organization and one or more of its stakeholders". They are typically broad issues, often impacting many companies and groups, and of concern to a significant number of people. Public issues are often contentious—different groups may have different opinions about what should be done about them. They often, but not always, have public policy or legislative implications." In this case, the relevant issue is public concern about the safety of children in schools and the role that protecting the Second Amendment right to bear arms plays in our society.

2. Describe the "performance–expectations gap" found in the case. What were the stakeholders' (community and school students) expectations, and how did they differ from businesses' performance?

After the Parkland, Florida, shooting, school students, teachers and community groups were outraged that businesses had not adopted a stronger stance against school violence and the access to guns in our society. These groups launched the #NeverAgain movement and organized protests and marches to bring attention to their demands to curb school violence. Many of these groups wanted a ban on assault rifles and more thorough background checks for gun purchasers. They believed that business could – and even should – use their economic influence in support of this important public issue. Yet, led by the National Rifle Association, some businesses argued that access to guns is protected by the Second Amendment of the U.S. Constitution and that current measures are adequate in balancing safety with individual rights.

3. If you applied the strategic radar screens model to this case, which of the eight environments would be most significant, and why?

Each of the eight strategic radar screens, shown in Figure 2.2, may be relevant in analyzing this case. The consumer environment could be applied to investigate those who seek to purchase a gun: who is purchasing a gun, what is their mental or criminal history state, and other important characteristics. There is a highly competitive environment within the gun manufacturers' and retailers' industries. Their use of enticements to attract more gun purchasers is a common advertising practice. This also leads to a more competitive economic environment. Advancements in the technological environment are pivotal in this case, as more sophisticated weaponry allows for more accurate shooting and could lead to greater difficulty in detecting the possession of a gun. The social environment seems the most central environment to this case. Our society has been rocked by increasing gun violence in our schools, making our vulnerable student population more at risk. A result of the social protests and marches by these stakeholder groups is their challenge for lawmakers to address the issue of gun safety and create more strict laws regulating the purchase and use of guns, addressing the political environment. It is likely in the aftermath of the violence in Parkland, Florida, lawsuits were filed by victims and their families for the injuries suffered and criticizing the lack of stronger legal gun control in our society, engaging the legal environment. Finally, the geophysical environment is relevant to this case as school administrators began to rethink their safety procedures regarding access to school buildings.

4. Apply the issue management process to this case. Which stages of the process can you identify?

The Issue Management Process, shown in Figure 2.4, can be applied to this case. It appears that the issue has been identified and analyzed based on the facts in the case. The school safety issue appears to be at the generate options stage of the Issue Management Process. Discussions regarding what are the proper actions range from the passage of stricter gun controls, such as a ban on assault rifles; more thorough background checks before a gun can be purchased; or better mental health care for those with a troubled history. Others believed that these actions should be tempered with a protection of an individual's constitutionally protected right to own a gun. As these options continue to be discussed, the issue eventually will move into the take action stage and then the results of these actions can be evaluated.

5. **In your opinion, did businesses respond appropriately to this issue? Why or why not?**

Businesses' responses to the school safety issue, as discussed in this case, remain very controversial. Supporters of the NRA were outraged that businesses would backlash against NRA members after the Parkland school shooting by eliminating long-standing discounts and ending promotions targeting NRA members. Banks cancelled the NRA branded credit cards and loan opportunities to some gun manufacturers. Two airlines cut their ties with the NRA, ending their discount programs for NRA members.

The NRA and its supporters were quick to fire back at these actions and businesses who acted against the NRA did experience negative consequences. As mentioned in the case, the Georgia state legislature removed a portion in a tax bill that would have provided Delta Airlines with a $40 million fuel tax exemption, presumably due to Delta Airlines' action against NRA members.

Some might argue that the negative consequences businesses encountered was a small price to pay, although it remains to be seen if businesses' actions contributed to a safer environment for school children.

6. **If you had been a manager of one of the airlines or banks discussed in the case, what would you have decided to do (or not do) in the face of emerging public concern about gun violence in schools?**

This question should evoke a wide range of opinions from students discussing this case. Some may argue that businesses, as members of society, have an obligation to be involved in public issues, such as school safety. These students could use many of the tools described in this chapter in support of their position. However, others might argue that business's primary role is economic and they should not be engaged in public issues. The primary focus of this textbook is the awareness of business as a participant in society and thus it is plausible that business should become engaged in important public issues, but how they do that remains a debatable issue.

TEACHING NOTE

Wells Fargo's Unauthorized Customer Accounts[1]

This case illustrates the following themes and concepts discussed in the chapters listed:

Theme/Concept	Chapter
Stakeholder analysis	1
Organizational ethics	6
Corporate governance	13
Consumer protection/consumer rights	14
Employee compensation	15

Case Synopsis

This case describes the actions of Wells Fargo, a leading bank and financial services company, which opened more than two million unauthorized checking, credit card, and other accounts without the consent of its customers between 2011 and 2015. Wells Fargo settled with the U.S. government and state and local regulatory agencies, paying more than $100 million in fines, without admitting or denying the alleged misconduct. In late 2016, when the case opens, the bank also faced lawsuits from customers, former employees, and shareholders alleging that the bank had misled investors about its financial performance and the success of its sales practices. The case enables students to identify which stakeholders were helped and which were harmed by the bank's unethical practices. It also challenges students to analyze a firm's culture and organizational practices to identify possible causes of its unethical actions and to recommend actions by Wells Fargo's board and management team to prevent a recurrence.

[1] This teaching note was prepared by Anne T. Lawrence, based on a more extensive instructor's manual prepared by the case authors, Samir Kumar Barua, Indian Institute of Management Ahmedabad, and Mahendra R. Gujarathi, Bentley University.

TEACHING TIP: WHERE TO USE THE CASE IN THE COURSE

This case is integrative, in that it draws on many themes of the text. It is best used at the end of the course as a final, integrative assignment, or with the study of Chapter 6 (organizational ethics).

TEACHING TIP: VIDEOS

Several videos may be used in conjunction with this case.

A short introduction to the case prepared by CNN Money, "Here's How Wells Fargo Workers Created Fake Accounts" (4:27), which includes an interview with an employee explaining the pressure to open unauthorized accounts, is available here: https://www.youtube.com/watch?v=QXbD6YggCYQ

A brief (1:26) graphical description of what Wells Fargo did, prepared by the *Los Angeles Times*, is here: https://www.youtube.com/watch?v=QXbD6YggCYQ

A clip (17:52) of Senator Elizabeth Warren's (D-Mass.) questioning of CEO John Stumpf during the Senate hearing, cited in the opening of the case, is available at: https://www.youtube.com/watch?v=xJhkX74D10M.

Discussion Questions and Answers

1. **Describe the "unauthorized customer accounts" referenced in the title of the case. What did the bank and its employees do? Which stakeholders were helped, and which were harmed by these actions?**

The *unauthorized customer accounts* referenced in the title of the case refer to *checking, credit card, and other accounts opened by Wells Fargo employees on behalf of customers, without their approval or consent.* As the case documents, between 2011 and 2015, bank employees opened as many as 1,534,280 unauthorized deposit accounts and another 565,443 unauthorized credit card accounts. They had done so by creating phony PIN numbers and e-mail addresses, forging client signatures on paperwork, and moving money from existing accounts to newly opened ones. In many cases, customers did not know that a new account had been opened in their name. Opening unauthorized accounts clearly violated the bank's rules.

Which stakeholders were helped, and which were harmed by these actions?

Shareholders benefited: During the period in which Wells Fargo was pursuing very aggressive sales practices—including the opening of unauthorized accounts—it was enjoying great commercial success. In 2015, with market capitalization of about $300 billion, Wells Fargo became the most valuable bank in the world. Its stock outperformed the broader benchmark, consisting of about 24 leading national and regional banks. Thus, until 2015, shareholders may have benefited directly from cross-selling.

Top managers benefited: The case suggests that the bank's top executives were well rewarded for the success of its sales strategy. In 2015, CEO John Stumpf and the head of the community banking division, Carrie Tolstedt, received total compensation of $19.3 million and $9.1 million, respectively. Tolstedt was scheduled to retire at the end of 2016 with a package worth $124 million.

Customers were hurt: The case does not quantify the losses to customers for whom unauthorized accounts were opened. The costs to customers included wrongfully-charged fees, inconvenience, and a deterioration in their credit-worthiness—leading possibly to higher interest rates or denied access to credit.

TEACHING TIP: ESTIMATING COSTS TO CUSTOMERS

Instructors may ask students to research online the estimated cost of Wells Fargo's unethical behavior to customers. This information may be gleaned from settlements from ongoing class action lawsuits against the bank by aggrieved customers.

Employees were hurt: Some employees benefited by earning higher bonuses. Many employees suffered from a stressful, high-pressure sales culture, punishment, and even termination for failure to meet sales quotas.

2. Do you believe Wells Fargo demonstrated an ethical corporate culture? Why or why not? In your response, please consider both the formal ethics policies of the bank and ethical leadership as modeled by its senior executives and board of directors.

Chapter 6 defines *corporate culture* as "a blend of ideas, customs, traditional practices, company values, and shared meanings that help define normal behavior for everyone who works in a company." A corporation's culture can either strengthen or weaken the likelihood that its employees will behave ethically. As the chapter explains, "most companies have a kind of moral atmosphere. People can feel which way the ethical winds are blowing. They pick up subtle hints and clues that tell them what behavior is approved and what is forbidden."

How did Wells Fargo's culture, as manifested in its formal ethics policies and the leadership modeled by its senior managers and board members, influence its employees behavior?

On the surface at least, Wells Fargo had taken *many steps to establish a strong ethical culture and organizational practices*, including many described as best practices in Chapter 6.

The bank had a *Code of Ethics and Business Conduct* that described the importance of ethical behavior and emphasized employees' responsibility to protect the reputation and integrity of Wells Fargo. The bank had also established a *process for employees to follow when faced with an ethical dilemma:* they were instructed to contact their manager, HR advisor, or *Office of Global Ethics and Integrity* for help. Employees could also report any concern regarding accounting, internal accounting controls and auditing matters directly to the *audit and examinations committee* of the board or could call the bank's *ethics hotline* if they saw or suspected illegal or unethical behavior. The bank had a no-retaliation policy.

The bank had publicly declared that "we strive for the highest ethical standards with our team members, our customers, our communities and our shareholders." *Top executives* had emphasized the *importance of values* in their communications with employees. For example, the case quotes CEO John Stumpf as saying, "Around here if you have something to say, you say it—nobody is going to be offended" (implying an openness to internal criticism). A profile of Tolstedt reported that she "thinks up ways to communicate values to the front line."

The *corporate governance practices* described in the case mostly correspond with the best practices described in Chapter 13. Of the bank's 15-member board, all were independent (outside) directors except for the CEO. All standing committees of the board, including the human resources committee that determined the compensation of senior executives, consisted solely of independent directors. The board had adopted a *code of ethics and business conduct* for its members. The board had been honored for its *diversity.* However, in one respect the board deviated from best practices, as Stumpf served as both *chairman of the board and chief executive officer.*

TEACHING TIP: WHY WERE GOOD PRACTICES NOT ENOUGH?

One of the most intriguing issues for student discussion and analysis is why the bank engaged in widespread unethical action despite having policies and practices that in many ways conformed to ethical and governance best practices. When, and why, are "textbook" practices not enough?

3. Describe "cross-selling." What were the benefits of cross-selling to the bank and its shareholders? In what ways did cross-selling contribute to the problems Wells Fargo later faced?

Cross-selling refers to the practice of marketing related or complementary products to an organization's existing customers (as contrasted with attracting new customers). For example, the bank might market a credit card to a customer who already had a checking account, or a mortgage loan to a customer who already had a savings account.

Cross-selling had several benefits. It:

- increased a customer's reliance on the firm and decreased the likelihood he or she would switch to a competitor;
- allowed a firm to extract the maximum revenue potential from each customer;
- was more efficient (servicing a single account was less expensive).

Both Stumpf and Tolstedt placed great emphasis on the importance of cross-selling to achieving the bank's financial goals.

The bank's managers used several techniques to increase its cross-sell ratio.

First, it encouraged customers to open multiple accounts by offering discounts on interrelated products purchased as a package. For example, its premier relationship package (called a PMA account) offered customers a free checking account and free bill payments, together with options to add a savings account, credit card, mortgage loan, and a discount brokerage account.

Second, it provided both positive and negative incentives for employees to open new accounts for existing customers. Employees who cross-sold successfully (and their managers) were rewarded with extra compensation and bonuses. In addition, the bank mandated quotas for the number and types of products to be sold by employees. Employees' sales were closely monitored. The case provides anecdotal evidence that employees who failed to meet their quotas, or who complained, were harassed, publicly criticized, penalized, or terminated.

The problem, apparently, was that sales pressure at the company was so intense that employees felt compelled to violate the bank's own rules and stated values to meet unrealistic quotas—to earn their bonuses or just to hold on to their jobs.

TEACHING TIP: ALIGNING COMPENSATION WITH VALUES

One important takeaway from this case is the importance of aligning employee compensation and incentives with stated values. Wells Fargo's stated values and ethical safeguards were admirable, but at the same time, it provided powerful incentives to employees to do anything necessary to meet aggressive and arguably unrealistic sales quotas. In the conflict between stated values and monetary incentives, the latter won out much of the time—apparently, as top managers had intended. The bank was thus arguably guilty of ethical hypocrisy—saying one thing while incentivizing another.

4. If you were an employee of Wells Fargo and felt pressured to cross-sell to customers, even when you felt this was inappropriate, what would you have done?

The case provides several examples of employees who individually resisted what they viewed an inappropriate pressure to cross-sell to customers. They took several actions, including refusing to cross-sell to customers who would not benefit from new accounts, complaining to managers, and reporting their concerns to human resources or to the company's hot line. Some of these employees were later disciplined or fired. These examples imply that it was extremely difficult for employees to resist sales pressure without jeopardizing their jobs.

Employees also took collective action. Ten thousand employees presented a petition to the board at both the 2014 and 2015 annual meetings, urging the board to recognize the link between high-pressure sales quotas and the fraudulent opening of accounts without customer permission. Although the case implies that these petitions did not influence the board right away, they may have spurred government investigations, media attention, and lawsuits.

5. Did Wells Fargo respond appropriately to employees who voiced their concerns about unauthorized accounts? What should it have done differently?

As of the time of the case (late 2016), the bank had taken several actions. Stumpf had testified before Congress, where he had apologized and accepted full responsibility. Since 2011, the bank had fired 5,300 employees who had opened unauthorized accounts and refunded to customers $2.6 million of wrongfully-charged fees. Stumpf had recommended that Wells Fargo's board rescind unvested stock awards of $41 million to him and $19 million to Tolstedt.

Arguably, the bank responded inappropriately to employees who had expressed concerns about unauthorized accounts. Instead of firing these employees, the bank should have investigated their concerns and taken remedial action.

6. Looking at the case as a whole, what steps would you recommend Wells Fargo, its senior managers, and its board of directors do now to prevent such events from occurring again in the future?

Students may make a range of suggestions for senior managers and the board. These may include:

- Replace John Stumpf as CEO and chairman.
- Replace Carrie Tolstedt as head of the community banking division.
- "Claw back" some of the compensation or retirement benefits of these two executives.
- Separate the roles of CEO and chairman by appointing an independent lead director.

- Replace some directors who may have been insufficiently attentive to problems with cross-selling.
- Reorganize the bank to exercise greater centralized control over its divisions, including community banking.
- Compensate customers who were harmed by deceptive or aggressive sales practices, or for whom unauthorized accounts were opened.
- Settle ongoing lawsuits.
- Completely overhaul the employee compensation system, removing all sales quotas in the community banking division and replacing them with incentives based on customer satisfaction.
- Set up a stakeholder engagement or advisory council process.

TEACHING TIP: WHAT DID WELLS FARGO DO?

After developing a set of recommendations, students may be instructed to compare their conclusion with what Wells Fargo has done. The bank has prepared a document that summarizes the remedial actions it has taken: https://stories.wf.com/betterbank.

In conclusion, the authors of the case offer the following lesson:

> "The case… provides a context to discuss how an excessive focus on a quantifiable goal can create blind spots that can run counter to the strategic vision of the businesses leaders. The case helps students to understand the limitations of a pay-for-performance system…and drives home the lesson that the negative impact of unethical business decisions far exceeds the short-term financial gain to a few stakeholders. Although the case addresses issues in one firm (Wells Fargo) in one industry (commercial banking), its lessons are applicable to numerous other contexts and companies. Whenever a company has (a) an excessive focus on a singular performance metric, (b) its managerial bonuses tied to profits and stock price growth rather than to furthering its fundamental vision, and (c) a weak tone at the top, the consequences that Wells Fargo faced are inevitable. Possible approaches to deal with the issues faced by Wells Fargo and their implications are also relevant for other firms and other industries."