Business and Society Stakeholders Ethics Public Policy 15th edition Lawrence Solutions Manual

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CHAPTER 1
THE CORPORATION AND ITS STAKEHOLDERS

INTRODUCTION

Business corporations have complex relationships with many individuals and organizations in society. The term *stakeholder* refers to all those that affect, or are affected by, the actions of the firm. An important part of management's role is to identify a firm's relevant stakeholders and understand the nature of their interests, power, and alliances with one another. Building positive and mutually beneficial relationships across organizational boundaries can help enhance a company's reputation and address critical social and ethical challenges. In a world of fast-paced globalization, shifting public expectations and government policies, growing ecological concerns, and new technologies, managers face the difficult challenge of achieving economic results while simultaneously creating value for all of their diverse stakeholders.

PREVIEW CASE

Walmart Stores, Inc.

Teaching Tip: Preview Case Video

The Walmart example that opens the chapter illustrates the challenges of managing successfully in a complex global network of stakeholders. It may also be used to illustrate how different stakeholders may perceive a corporation differently, depending on their vantage point. Instructors that wish to explore this theme more fully may wish to use material from the several films about the company. "Wal-Mart Nation" (www.walmartnation.com) takes a highly critical stance. "Why Wal-Mart Works and Why That Makes Some People Crazy" (available on www.amazon.com) was made by the company to respond to its critics. "Is Wal-Mart Good For America," a Frontline documentary (www.pbs.org), tries to take a balanced view.

CHAPTER OUTLINE

I. BUSINESS AND SOCIETY

A. A Systems Perspective

II. THE STAKEHOLDER THEORY OF THE FIRM

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Teaching Tip: Stakeholder Engagement and Dialogue

"The Clayoquot Controversy: A Stakeholder Dialogue Simulation" by Anne T. Lawrence and Ann Svendsen, is designed to teach the skills of stakeholder engagement and dialogue. Through an experiential exercise, students are taught to find common ground when facing complex conflicts involving business firms and their stakeholders.

The particular situation involves a leading forest products company in Canada, MacMillan Bloedel. During the 1990s, this company was involved in a difficult and protracted dispute with several of its stakeholders, including environmentalists, local communities, native peoples, labor unions, and government agencies. At issue was the company's logging practices in Clayoquot Sound on the western side of Vancouver Island, located off the coast of British Columbia. At the time, Clayoquot Sound was home to one of the largest remaining stands of old-growth, temperate rainforest in the world. The case situation is presented as it appeared to the parties in 1998.

The controversy is left deliberately unresolved, and student teams must engage in a simulated stakeholder dialogue process in an effort to find common ground. An epilogue in the instructor's manual provides information about how the controversy played out in real life. The time allotted to the exercise may range from two-and-a-half to eight hours. A full instructor's manual is available. The case materials are provided on a PC-compatible CD-ROM, but may also be delivered to students over an institutional Intranet. For more information, please go to: www.cim.sfu.ca/clayoquot. For a complimentary examination copy, please contact the author at anne.t.lawrence@gmail.com.

A. The Stakeholder Concept

B. Different Kinds of Stakeholders

III. STAKEHOLDER ANALYSIS

A. Stakeholder Interests

B. Stakeholder Power

C. Stakeholder Coalitions

D. Stakeholder Salience and Mapping

IV. THE CORPORATION'S BOUNDARY-SPANNING DEPARTMENTS

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V. THE DYNAMIC ENVIRONMENT OF BUSINESS

A. Creating Value in a Dynamic Environment

GETTING STARTED

KEY LEARNING OBJECTIVES

LO 1-1: Understanding the relationship between business and society and the ways in which business and society are part of an interactive system.

Business firms are organizations that are engaged in making a product or providing a service for a profit. Society, in its broadest sense, refers to human beings and to the social structures they collectively create. Business is part of society and engages in ongoing exchanges with its external environment. Together, business and society form an interactive social system in which the actions of each profoundly influence the other.

LO 1-2: Considering the purpose of the modern corporation.

According to the stakeholder theory of the firm, the purpose of the modern corporation is to create value for all of its stakeholders. To survive, all companies must make a profit for their owners. However, they also create many other kinds of value as well for their employees, customers, suppliers, communities, and others. For both practical and ethical reasons, corporations must take all stakeholders' interests into account.

LO 1-3: Knowing what a stakeholder is and who a corporation's market and non-market stakeholders are.

Every business firm has economic and social relationships with others in society. Some are intended, some unintended; some are positive, others negative. Stakeholders are all those who affect, or are affected by, the actions of the firm. Some have a market relationship with the company, and others have a nonmarket relationship with it; some stakeholders are internal, and others are external.

LO 1-4: Conducting a stakeholder analysis and understanding the basis of stakeholder interests and power.

Stakeholders often have multiple interests and can exercise their economic, political, and other powers in ways that benefit or challenge the organization. Stakeholders may also act independently or create coalitions to influence the company. Stakeholder mapping is a technique for graphically representing stakeholders' relationship to an issue facing a firm. A stakeholder analysis is an analytic process by which managers identify relevant stakeholders and understand their interests and

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power. Stakeholders can exercise their voting, economic, political, legal and informational power in ways that benefit or challenge the organization. Stakeholders may also act independently or create coalitions to influence the company. Managers must learn how to engage interactively with stakeholders to create mutually beneficial outcomes. Positive relationships with stakeholders can create value.

LO 1-5: Recognizing the diverse ways in which modern corporations organize internally to interact with various stakeholders.

Modern corporations have developed a range of boundary-crossing departments and offices to manage interactions with market and nonmarket stakeholders. The organization of the corporation's boundary-spanning functions is complex. Most companies have many departments specifically charged with interacting with stakeholders.

LO 1-6: Analyzing the forces of change that continually reshape the business and society relationship.

A number of broad forces shape the relationship between business and society. These include changing societal and ethical expectations; a dynamic global economy; redefinition of the role of government; ecological and natural resource concerns; and the transformational role of technology and innovation. To deal effectively with these changes, corporate strategy must address the expectations of all of the company's stakeholders.

KEY TERMS

boundary-spanning departments

business

external stakeholder

focal organization

general systems theory

interactive social system

internal stakeholder

ownership theory of the firm

society

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stakeholder

stakeholder analysis

stakeholder coalitions

stakeholder interests

stakeholder (market)

stakeholder (nonmarket)

stakeholder map

stakeholder power

stakeholder salience

stakeholder theory of the firm

INTERNET RESOURCES

www.economist.com	*The Economist*
www.fortune.com	*Fortune*
www.nytimes.com	*The New York Times*
www.wsj.com	*The Wall Street Journal*
www.bloomberg.com	*Bloomberg*
www.ft.com	*Financial Times (London)*
www.cnnmoney.com	*CNN Money*

DISCUSSION CASE

INSURING UBER'S APP-ON GAP

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Teaching Tip: Discussion Case Video

A short video describing the accident portrayed in the opening of the discussion case and interviewing Uber's CEO about the company's liability, appears on the New York Times website. It may be used to open the discussion of the case. The link is: http://dealbook.nytimes.com/2015/01/21/uber-closes-a-1-6-billion financing/

A prompt that can be used after viewing the video is: "Do you think Uber was responsible in any way for the death of this child?"

Discussion Questions

1. Who are Uber's relevant market and nonmarket stakeholders in this situation?

The term **stakeholder** refers to persons and groups that affect, or are affected by, an organization's decisions, policies, and operations. **Market stakeholders** are those that engage in economic transactions with the company. **Nonmarket stakeholders**, by contrast, are people and groups who, although they do not engage in direct economic exchange with the firm—are nonetheless affected by or can affect its actions.

The following stakeholders of Uber are mentioned in the case:

Market Stakeholders	Non-market Stakeholders
Uber employees	American Insurance Association
Uber customers	California App-Based Drivers Association
	Taxi companies
	Competitors such as other ride-sharing firms like Lyft
	Consumer attorneys
	The general public
	Governments
	High-tech trade associations and Internet-based firms

After listing these on the board, the instructor may wish to bring out these points:

- Uber is the focal company in the case.

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- Individuals can hold multiple stakeholder roles at the same time. For example, government regulators may also be Uber customers.

- Not all stakeholders are relevant to this particular situation. For example, other high-tech and internet firms may have very different applications that carry little to no liability, thus giving them less influence over the situation.

- Nonmarket stakeholders are not necessarily less important than market stakeholders. In this case, nonmarket stakeholders such as the Government and the American Insurance Association may well have the power to force Uber to close the App-On Gap.

2. What are the various stakeholders' interests? Please indicate if each stakeholder would likely support, or oppose, a requirement that Uber extend its insurance to cover the app-on gap.

Stakeholders FOR closing the App-On Gap:

Uber employees: Most drivers support the new law because it reduces driver's risk, personal liability and private insurance costs and coverage.

Uber customers, American Insurance Associate, the California App-Based Drivers, and Consumer Attorneys: There is less risk of insurance non-payment from a firm over an individual. The firm offers better protection for consumers

Taxi Companies: increased liability for Uber decreases their competitive advantage over traditional taxi companies and puts them on a more even playing field. Taxi companies already pay for commercial liability insurance.

Government: Legislator Bonilla introduced the bill to close the App-On Gap and many city, state and national governments have limited or banned Uber in their regions.

Stakeholders AGAINST the App-On Gap:

Competitors (such as Lyft): Closing the App-on Gap would set precedence and could force all ride-hailing services to offer enhanced commercial insurance at a cost

High-tech trade associations and Internet-based firms: Increased responsibilities for Uber could ripple into other app-based services at a high cost

3. What sources of power do the relevant stakeholders have?

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City, state and national **Governments** have the *political* power to enforce laws that protect the consumer, in this case, ensuring adequate insurance coverage.

Uber **Employees** have *economic* power in that they can strike, quit or attempt to form a union. Employees also have *informational* power through a deep understanding of how the Uber application works – they may know how to avoid the gap.

Uber **Customers** have *legal* power to file lawsuits against Uber. In fact, many lawsuits can be combined into a class-action suit that has more impact than an individual suit. Customers also have *economic* power through their choice of transportation services.

The **American Insurance Association** and the **California App-Based Drivers** groups can exert *political* power by outwardly supporting the proposed App-On Gap law. They may work as a coalition to argue that the law will better protect customers.

High-tech trade associations and **Internet-based firms** can use *political* power to speak out against the bill to close the gap. They may form a coalition to argue that the costs of compliance could be prohibitive.

4. Based on the information you have, draft a stakeholder map of this case showing each stakeholder's position on the issue and degree of salience. What conclusions can you draw from the stakeholder map?

A stakeholder map is a useful tool, because it enables managers to see quickly how stakeholders feel about an issue and whether salient stakeholders tend to be in favor or opposed. It also helps managers see how stakeholder coalitions are likely to form, and what outcomes are likely. In this example, Uber executives might conclude from the stakeholder map that customers, insurance companies and the Government have the *higher* salience in support of closing the insurance coverage gap. High-tech firms and direct competitors have *lower* salience in their fight against the new law. Investors have high salience because their power, urgency and legitimacy are high, but they will appear on the map as the minority.

5. What do you think Uber should do in response to the bill introduced by Susan Bonilla, and why?

It is likely that the relevant stakeholders have enough salience to enact the new law that would close the App-On Gap. Rather than fighting the majority opinion, Uber should work with insurance companies to design the best commercial coverage at the most cost-effective price. Although this approach would most likely increase Uber's insurance costs, it would avoid customer lawsuits and unhappy drivers. Acquiescing to public opinion would also have the side benefit

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of enhancing the company's reputation as a good corporate citizen.

Students should be asked to brainstorm creative solutions to the issues posed in this dispute. These might include:

- Adding the liability insurance
- Subsidizing employee private insurance
- Working with insurance companies to create a new kind of coverage
- Changing the application to flag drivers as available but with no riders
- Working with lawmakers to ensure that the law is fair for the firm, employees and customers
- Working with "smart car" experts that seek to avoid all accidents through the use of technology
- Offering special training to drivers

After generating such a list, the instructor may wish to point out that students need not select among these options; the take-away point is simply that a process of dialogue can produce solutions that may be able simultaneously to meet multiple stakeholder interests in creative ways.

Epilogue

After strenuously opposing Susan Bonilla's bill, Uber backed off, apparently recognizing that the company did not have the political strength to defeat it. Inside, the company entered into negotiations over the specific terms of the legislation to reduce somewhat the amount of insurance required. Once these changes had been made, Uber (and its allies) dropped their opposition to the bill, and it easily passed the legislature, becoming law in California in September, 2014. Bonilla's office issued a statement saying, "While AB 2293 is a consumer protection bill, it represents much more than that. This measure symbolizes business flexibility, consumer affordability, political compromise, and most importantly, what public policy should be—a collective process for all stakeholders to contribute."[1]

In the following months, laws designed to close the app-on gap went into effect in 19 other states, requiring required Uber, Lyft and other similar application providers to guarantee primary liability insurance as soon as a driver signaled availability, even if they had not yet collected a passenger. [2]

[1] "Bonilla's Groundbreaking Bill Defining Insurance Coverage for Uber and Lyft Signed by Governor," press release, September 17, 2014;
[2] "New Laws Push Uber And Lyft To Bump Up Insurance Coverage, But a Collision Gap Remains," July 1, 2015, at http://www.forbes.com/sites/ellenhuet/2015/07/01/new-laws-push-uber-and-lyft-to-bump-up-insurance-coverage-but-a-collision-gap-remains/.

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Chapter 2

Managing Public Issues and Stakeholder Relationships

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Ch. 2: Key Learning Objectives

- Identifying public issues and analyzing gaps between corporate performance and stakeholder expectations.
- Applying available tools or techniques to scan an organization's multiple environments and assessing stakeholder materiality.
- Describing the steps in the issue management process and determining how to make the process most effective.
- Identifying the managerial skills required to respond to emerging issues effectively.
- Understanding how businesses can effectively engage with its stakeholders, what drives this engagement, and the role social media can play.
- Recognizing the value of creating stakeholder dialogue and networks.

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Public Issues

- **Public Issue:** Any issue that is of mutual concern to an organization and one or more of its stakeholders.
- **Stakeholder Expectations:** A mixture of people's opinions, attitudes, and beliefs about what constitutes reasonable business behavior.

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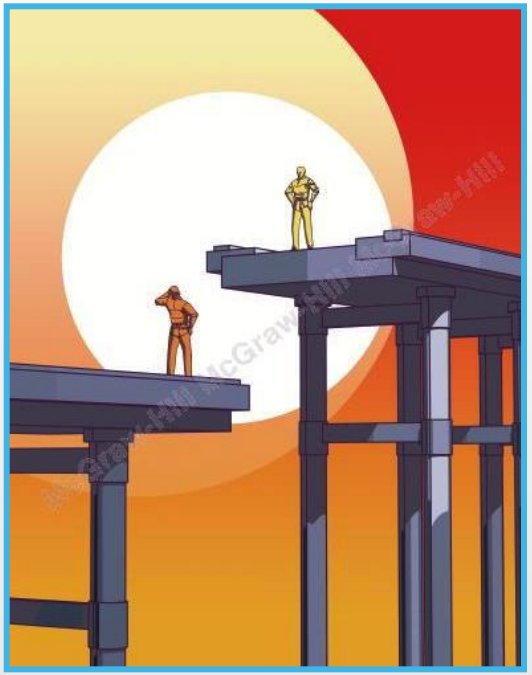
Public Issues: Performance-Expectations Gap

- Failure to understand stakeholder concerns and to respond appropriately will:
  - Permit the performances–expectations gap to grow.
  - The larger the gap, the greater the risk of stakeholder backlash or of missing business opportunity.

→ Example:

Human antibiotic in chicken



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The Performance Expectations Gap

Figure 2.1

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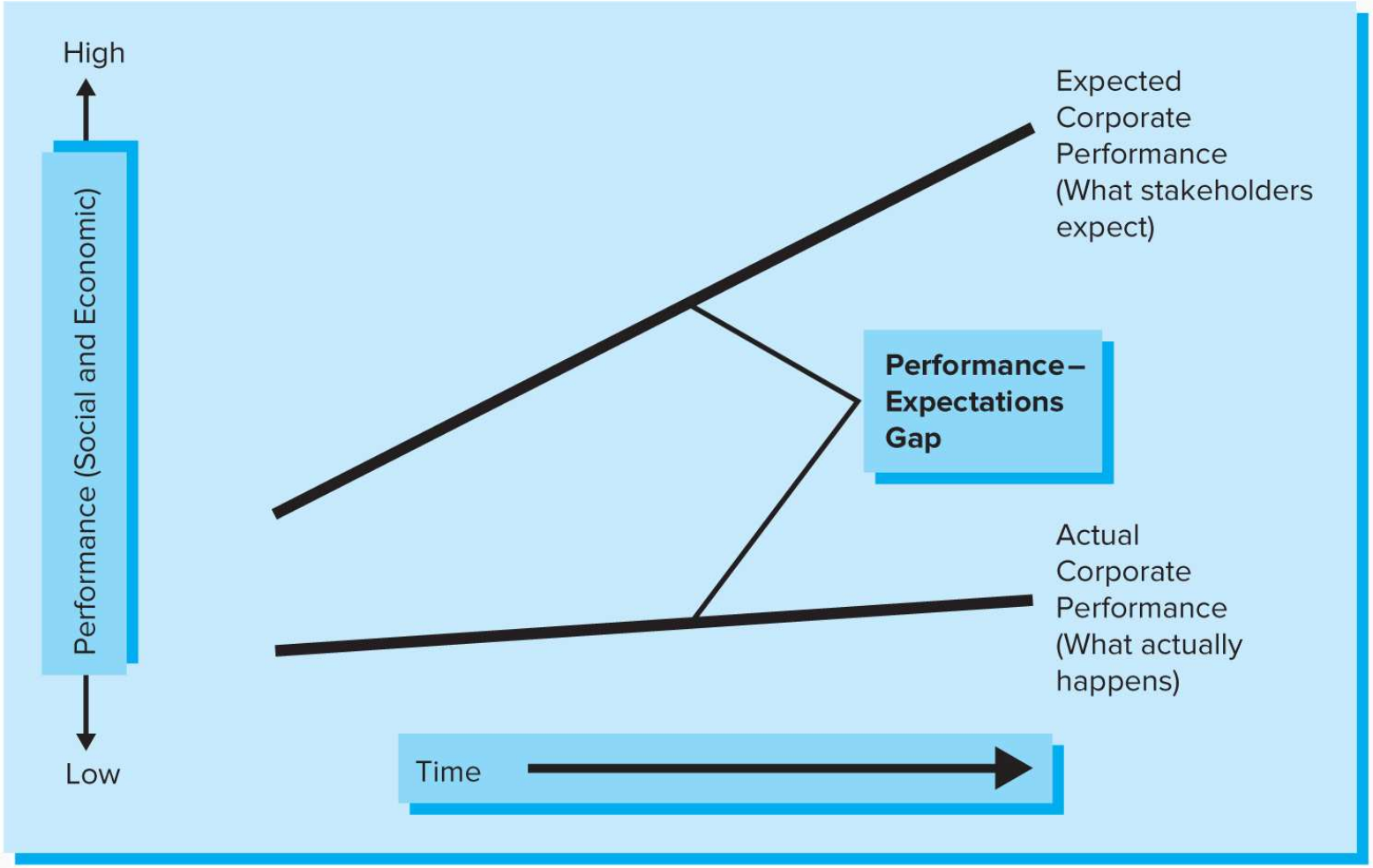

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Environmental Analysis and Intelligence

- **Environmental Analysis:** A method managers use to gather information about external issues and trends

to develop an organizational strategy that minimizes threats and takes advantage of new opportunities.

- **Environmental Intelligence**: the acquisition of information gained from analyzing the multiple environments affecting organizations.

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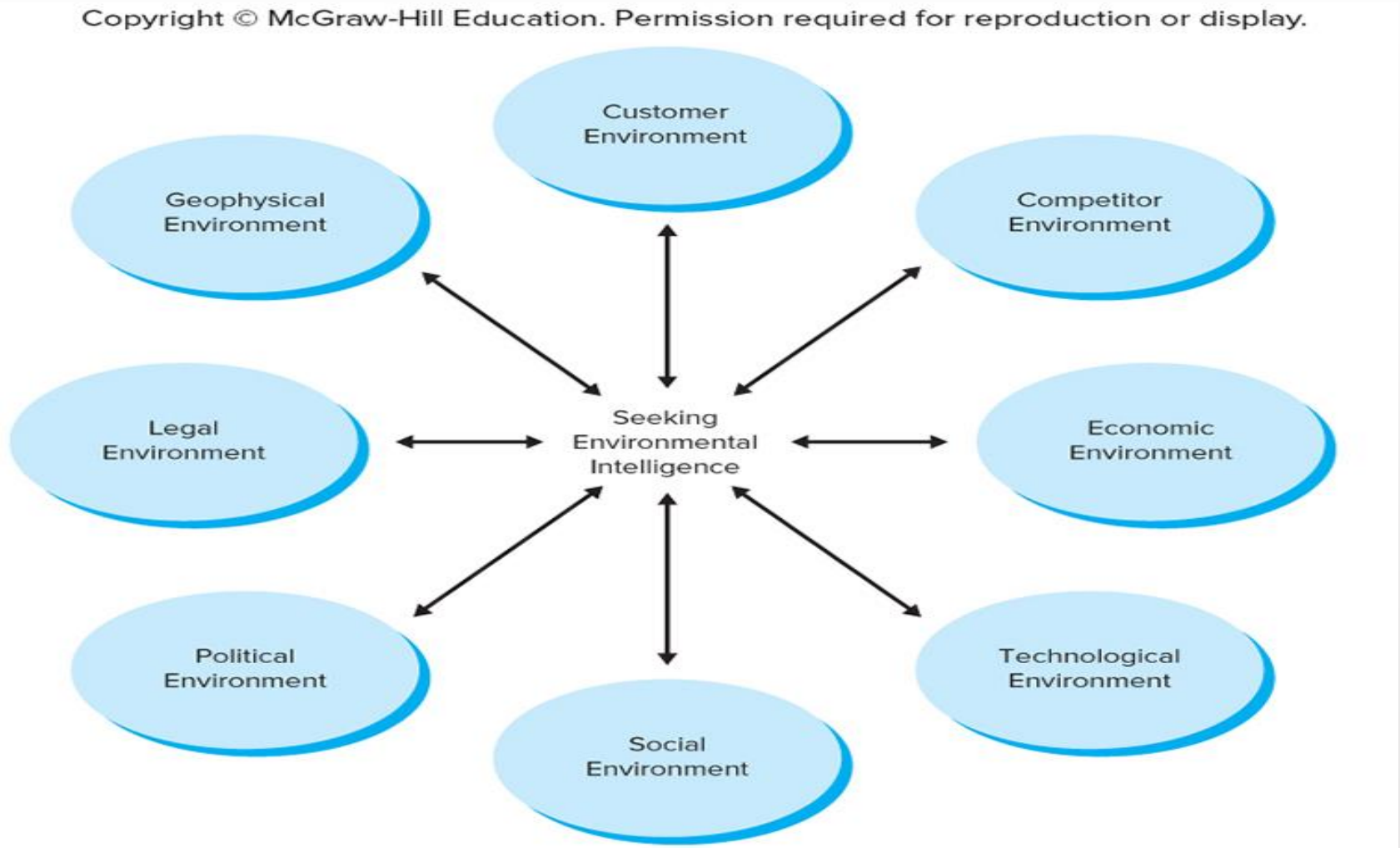
Eight Strategic Radar Screens

Figure 2.2



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Competitive Intelligence

- The systematic and continuous process of gathering, analyzing, and managing external information about the organization's competitors that can affect the organization's plans, decisions, and operations.

- With the need to comply with all applicable laws, and to follow the professional standards of fairness and honesty.

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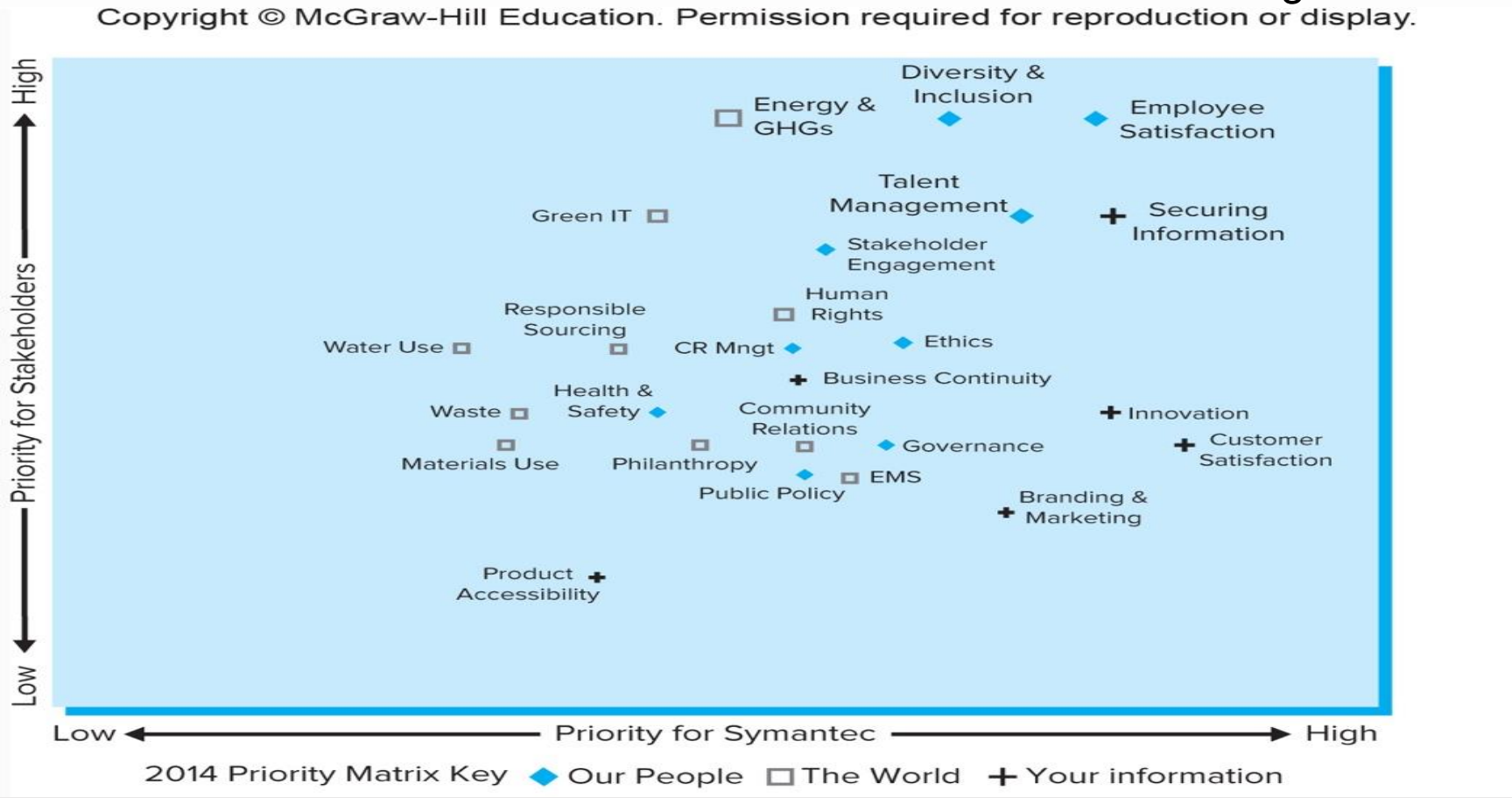
Stakeholder Materiality*

Figure 2.3



*Adaptation of an accounting term to prioritize the relevance of the stakeholders and their issues to the company

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The Issue Management Process

1. Identify Issue
   - Anticipating emerging concerns, or "horizon" issues
2. Analyze Issue
   - Organizations must understand how the issue is likely to evolve, and how it is likely to affect them
3. Generate Options
   - Requires complex judgments that incorporate ethical considerations like the company's reputation
4. Take Action
   - Once an option is chosen, the organization must design and implement a plan of action
5. Evaluate Results
   - Must assess results of the program and make adjustments if necessary

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The Issue Management Process

Figure 2.4

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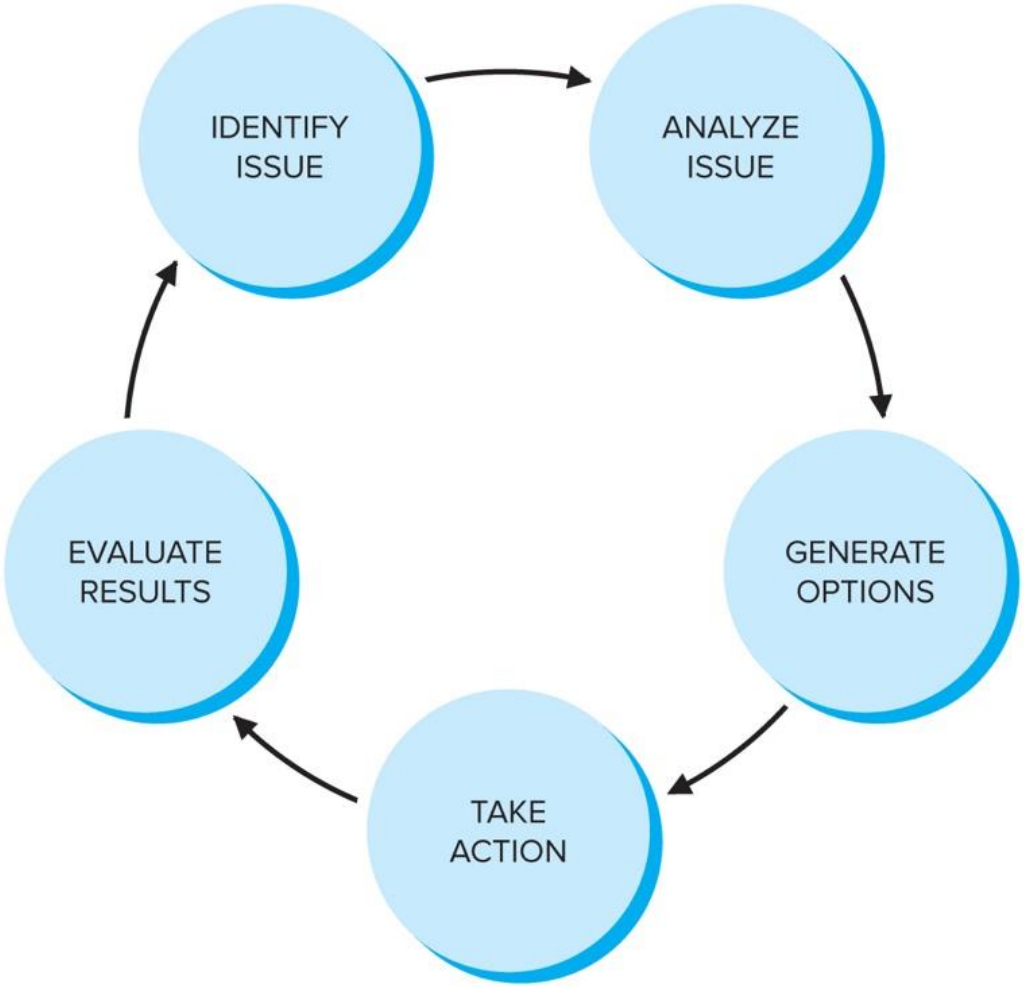

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Organizing for Effective Issue Management

- Part of the organization is mobilized to address a particular emerging issue, it often depends on the nature of the issue itself.
  - Involve the board of directors and top management levels
- Effective global leadership on public issues requires three basic capabilities:
  - Understanding of the changing business context
  - Ability to lead in the face of complexity
  - Connectedness: the ability to engage with external stakeholders in dialogue and partnership

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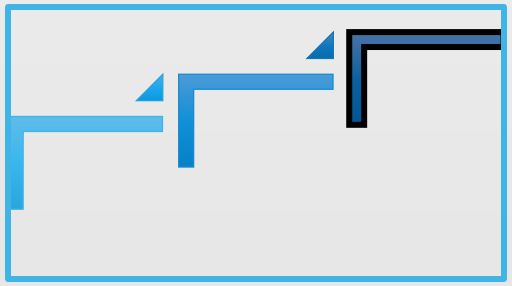
Stages in the Business-Stakeholder Relationship

- Over time, the nature of business's relationship with its stakeholders often evolve through a series of stages.
  - *Inactive* – Companies ignore stakeholder concerns
  - *Reactive* – Companies act only when forced to do so, and then in a defensive manner
  - *Proactive* – Companies try to anticipate stakeholder concerns
  - *Interactive* –Companies actively engage stakeholders in an ongoing relationship of mutual respect, openness, and trust



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Drivers of Stakeholder Engagement

- Stakeholder engagement is, at its core, a *relationship.*
- The participation of a business organization and *at least one* stakeholder organization is necessary.
- Engagement: both the company and its stakeholders both have:
  - An urgent and important *goal*
  - The *motivation* to participate
  - The *organizational capacity* to engage with one another

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Drivers of Stakeholder Engagement

Figure 2.4

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	Company	Stakeholders(s)
Goal	To improve corporate reputation; to earn a license to operate; to win approval of society	To change corporate behavior on an issue of concern
Motivation	Needs stakeholder involvement because of their expertise or control of critical resources	Governmental campaigns, protest perceived as inadequate to change corporate behavior
Organizational capacity	Top leaders committed to engagement; well-funded department of external (stakeholder) affairs	Experienced staff; core group of activists committed to dialogue with business

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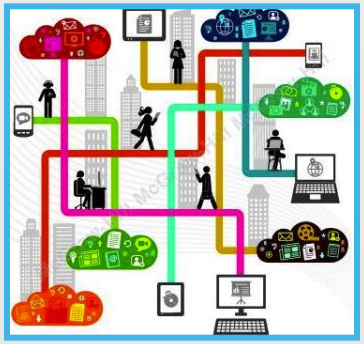
The Role of Social Media in Stakeholder Engagement

- *Address* public issues and engage stakeholders.
- *Identify* and *solve* problems faster.
- *Share* information better among their employees and partners.
- *Bring customers' ideas* for new product designs to market earlier.
- *Platforms* to engage with multiple stakeholders, communication has become faster and more effective.
- Example:
  - Supervalu
  - Red Robin



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Stakeholder Dialogue

Business and its Stakeholders come to face-to-face conversations

Core interest and concerns, common definition of a problem

Understandings and concerns of all parties

Invent innovative solutions and implement them

→Example: Pacific Power

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Stakeholder Networks

- Addressing public issues by:
  - working collaboratively with other businesses, concerned persons and organizations in stakeholder networks.

→Example: Nike

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The Benefits of Engagement

- Stakeholder organizations bring a number of distinct strengths:
  - Alert companies to emerging issues
  - Give a firm access to information via networking
  - Technical or scientific expertise in specific areas
  - Better result in the eyes of the public
  - Meet the society's expectations and generate good solutions
  - Improve a company's reputation

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