



“The producers . . . let go of the creative reins when they saw that the blogosphere had taken it over and was telling the story differently. . . . You can’t create that in-house,” commented the author of a book on viral marketing.<sup>4</sup>

Businesses today operate in an ever-changing external environment, where effective management requires not just responding to, but anticipating emerging issues. Whether the issue is shifting consumer preferences, new regulatory regimes, or discontinuous technology, managers have to interact across organizational boundaries, learn from external stakeholders, and alter their practices in response. This chapter will introduce the concept of a public issue and explain the stages of the issue management process. It will also describe the corporation’s boundary-spanning departments and describe tools that public affairs officers use to anticipate emergent issues that might help or harm an organization, as they develop and implement strategies for responding to stakeholder concerns.

## Public Issues

A **public issue** is an issue that is of mutual concern to an organization and one or more of the organization’s stakeholders. The emergence of a new public issue often indicates there is a *gap* between what the firm wants to do or is doing and what stakeholders expect. Scholars have called this the **performance–expectations gap**. Stakeholder expectations are a mixture of people’s opinions, attitudes, and beliefs about what constitutes reasonable business behavior. Managers and organizations have good reason to identify emergent expectations as early as possible. Failure to understand stakeholder concerns and to respond appropriately will permit the performance–expectations gap to grow: the larger the gap, the greater the risk of stakeholder backlash or of missing a major business opportunity. The performance–expectations gap is pictured in Figure 2.1.

Public issues can be of critical importance to a company. The worldwide managing director of McKinsey, the business consultancy, commented in a recent opinion column in *The Economist*:

**From a defensive point of view, companies that ignore public sentiment make themselves vulnerable to attack. But social pressures can also operate as early indicators of factors core to corporate profitability: for example, the regulations and public policy environment in which companies must operate; the appetite of consumers for certain goods above others; and the motivation (and willingness to be hired in the first place) of employees. Companies that treat social issues as either irritating distractions or simply unjustified vehicles for attack on business are turning a blind eye to impending forces that have the potential fundamentally to alter their strategic future.**<sup>5</sup>

Emerging public issues are both a risk and an opportunity. They are a risk because issues that firms do not anticipate and plan for effectively can seriously hurt a company. A classic example of this was Monsanto, which introduced genetically modified corn, soybeans, and other crops in the late 1990s. Although the products were well accepted in the United States, they sparked intense opposition from European consumers, who objected to eating food that had been genetically engineered. Monsanto, which had not anticipated the depth of the opposition it would face, was forced to withdraw its products from the European market. (This situation is further discussed in Chapter 14.)

On the other hand, correctly anticipating the emergence of an issue can confer a competitive advantage. Toyota was one of the first firms to recognize that growing public concern about the environment and related government regulations would spur demand for fuel-efficient and low-emission vehicles. As a result, the company

got an early start on developing gas–electric engines and is today the leading producer of such vehicles. Toyota announced in 2006 that they had sold half a million Priuses worldwide since the hybrid car’s introduction, exceeding all expectations.

~~Understanding the relationship between a firm and its stakeholders is a key to success. This chapter discusses the importance of understanding the relationship between a firm and its stakeholders. It also discusses the importance of understanding the relationship between a firm and its stakeholders.~~

## The Corporation’s Boundary-Spanning Departments

Chapter 1 presented a model of the corporation and its stakeholders. It argued that how corporations interact with stakeholders—and understand their expectations—powerfully contributes to business success or failure. **Boundary-spanning departments** are departments, or offices, within an organization that reach across the dividing line that separates the company from groups and people in society. Building positive and mutually beneficial relationships across organizational boundaries is a growing part of management’s role. How do today’s companies organize internally to manage relationships with their stakeholders? In a world of fast-paced globalization, shifting public expectations and government policies, growing ecological concerns, and new technologies, doing so successfully has never been more challenging.

Figure 2.2 presents a list of the corporation’s market and nonmarket stakeholders, alongside the corporate departments that typically have responsibility for engaging with them. As the figure suggests, the organization of the corporation’s boundary-spanning functions is complex. In many organizations, departments of public affairs or government relations interact with public officials and agencies. Departments of investor relations interact with shareholders; human resources with employees; customer relations with customers; and community relations with the community. Specialized departments of environment, health, and safety may deal with environmental compliance and worker health and safety, and public relations or corporate communications with the media. Many of these specific departments will be discussed in more detail in later chapters.

The nature of business’s external relationship is changing so fast that many corporations are moving to reinvent how they relate with society. In some cases, companies have broadened the job of the public affairs office—once focused mainly on government relations—to include a wider range of tasks, or have created new departments of corporate citizenship or corporate affairs to centralize some of the functions listed in Figure 2.2 under common leadership. This chapter will address the work of the public affairs department; Chapter 4 will discuss in more detail the role of departments of corporate citizenship.

## Public Affairs Management

~~The rise of business firms that focus on public issues is increasingly complex. This chapter discusses the importance of understanding the relationship between a firm and its stakeholders. It also discusses the importance of understanding the relationship between a firm and its stakeholders.~~

The growth of public affairs activities in business organizations has several causes, according to management scholar Craig S. Fleisher. These include:

- *External forces*, such as the loss of public trust in institutions (including government and business), the globalization of world markets, and the rise of the Internet and other technologies that allow stakeholders access to more information than ever before.

- *Internal forces*, such as better communication within organizations, more experience dealing with significant change and complexity, and a growing focus on the interplay between the organization, its environment, and its strategies.<sup>9</sup>

Each of these forces challenges public affairs managers to assess the effectiveness of their current practices and possibly make significant changes in how they interact with their organization’s stakeholders.

**Public affairs management** refers broadly to the active management of a company’s external relations, especially its relations with stakeholders such as government and regulatory agencies, customers, investors, and communities. Other names sometimes used to describe the function are corporate affairs, external affairs, and government relations. Exhibit 2.A presents the profile of activities performed by public affairs units as reported by around 150 large and medium-sized companies in 2005. As shown in the exhibit, the main activities of public affairs managers include government relations, issue management, and working with trade associations and stakeholder coalitions.

The activities listed in the exhibit may seem quite different, but all are linked to an organization’s need to relate to its many stakeholders. Notice how many of the activities refer to a named stakeholder group (e.g., state and local government relations, community relations, media relations, and employee communications). Others refer to activities that are clearly connected to more than one stakeholder (e.g., coalitions, corporate philanthropy, and grassroots/grasstops communication). (“Grassroots” refers to ordinary citizens; “grasstops” refers to particularly influential people in a community.)

~~Most public affairs managers will assign the public affairs function to the public affairs department, but some will assign it to a separate division or to a committee of the board of directors. Some will assign it to a separate division or to a committee of the board of directors. Some will assign it to a separate division or to a committee of the board of directors.~~

Unilever, a transnational corporation based in the Netherlands and the United Kingdom, makes laundry detergent, shampoo, toothpaste, tea, ice cream, frozen foods, and many other consumer products. It provides an example of how one company has organized its public affairs function. The company’s chairman and board of directors (called an executive committee in Europe) have overall responsibility for managing external relations at the corporate level. A committee of the board called the External Affairs and Corporate Relations Committee is charged with this specific responsibility. A full-time corporate development director is responsible for working with other managers around the world to handle the public affairs function. For example, in Canada, this role is held by an executive whose title is manager of environmental and corporate affairs. This job is described on the company’s Web site as “creating a link between the company and its local communities.” Unilever’s external relations activities are organized and coordinated at many levels—from the board down to the business unit.<sup>10</sup>

The heads of most public affairs departments are senior vice president or vice president positions; some report directly to the CEO, while others are one level below this in the organizational hierarchy. Most work out of company headquarters; most of the rest—particularly those whose work focuses on government relations—work in Washington, D.C. Thirty percent of major companies have an external relations committee of the board of directors.<sup>11</sup> A 2005 survey of CEOs conducted by McKinsey showed that these executives believed that overall responsibility for managing sociopolitical issues should rest at the top. Fifty-six percent reported that the CEO or chair *did* take the lead in this area, but 74 percent thought the CEO or chair *should* take the lead. This finding suggests their perception of the growing importance of public issues and the need to link the work of the public affairs department closely with strategic oversight at top levels of the corporation.<sup>12</sup> This group’s opinion of what tactics used by public affairs managers are most effective is presented in Exhibit 2.B.

## International Public Affairs Management

Public affairs management necessarily must be global or international, since public issues know no national boundaries and business practices are increasingly international in scope. Attention to public issues is a common concern in every country. Businesses in other nations have also developed extensive public affairs functions. And many U.S.-based businesses have extended their public affairs activities globally.

Public affairs managers all over the world were largely by the explosion of the business of outsourcing where companies would contract for services to be provided by individuals located in a country other than where the company was based. In March 2004, 86 percent of executives polled said they expected to send technical jobs overseas in the next 12 months. Many businesses sought individuals from India, the Philippines, Mexico, China, and elsewhere to provide cost-effective communications programming, call center work, support and operations services. The Coalition for Economic Growth and America's Jobs, composed of 200 U.S. state groups, began a public relations and public campaign to prevent a slow-down in the outsourcing of U.S. jobs to other countries. However, the argument that jobs are being imported into the United States in the areas of construction, transportation, education, and health services do not hold high technical skills of the American labor force. And of course, the outsourcing and providing jobs and help to individuals in many developing countries.<sup>13</sup>

Businesses have recently understood the importance of developing public affairs abilities in order to be effective in the international arena. For example, public affairs managers must develop intercultural competencies, understanding cultural disparities as well as similarities. The impact of the organization's policies or practices could have markedly different impacts given the culture, social or political systems, or history of a country where the organization operates. The public affairs manager must understand local public policy institutions and processes and the role that nongovernmental entities play in the public policy process. Language skills are critical for a public affairs manager seeking to be effective in an international media environment. The ability to communicate with local media and other stakeholder groups in their native language and avoid embarrassing or misleading communication due to poor translations must be assured. All of these basic public affairs tasks are more complex in an international business environment but must be mastered by an effective public affairs manager.<sup>14</sup>

Nike encountered a complex public issue that needed to be addressed by a well-organized, international public affairs management plan—carried out by a network of companies and stakeholder groups—when it began to introduce organic cotton into its production processes, as described in Exhibit 2.C.

## Issue Management

One primary function of the public affairs office, in the United States and in other nations, is to manage public issues as they emerge. **Issue management** is a structured and systematic process to aid organizations in identifying, monitoring, and selecting public issues that warrant organizational action. These are the issues that are perceived to be of greatest importance to the organization. Organizations rarely have full control of a public issue because of the many factors involved. But it is possible for the organization to create a management system that identifies and monitors issues as they emerge and, if they are selected for response, involves managers in action to minimize the negative effects of a public issue or to maximize its positive effects. Some of these issues will have a significant impact on the business's profitability; others might not, or might not for a long time.

### Scanning the Environment

To identify those public issues that require attention and action, a firm needs a framework of environmental information. (In this context, *environmental* means *outside the organization*; in Chapters 11 and 12, the term refers to the natural

environment.) **Environmental analysis** provides managers with the information about external issues and trends that enables an organization to develop a strategy that minimizes threats and takes advantage of new opportunities.

**Environmental intelligence** is the acquisition of information gained from analyzing the multiple environments affecting organizations. Acquiring this information may be done informally or as a formal management process. If done well, this environmental intelligence can help an organization avoid crises and spot opportunities.

Coca-Cola learned their lesson the hard way about how important it is to scan the environment for potential threats when it failed to anticipate the damage to its sales that could be caused by a small group of determined activists halfway around the world. Amit Srivastava ran the India Resource Center, a nonprofit organization that had just one full-time employee: himself. Nonetheless, Srivastava caused significant damage to Coca-Cola's operations in India and the firm's reputation worldwide. During a tour of U.S. college campuses in 2005, Srivastava accused Coca-Cola of stealing water from local residents, poisoning land, and selling drinks laced with dangerous pesticides. In Kerala, India, local officials shut down a \$16 million bottling plant after claims made by local residents and Indian activists that Coca-Cola drained and polluted local water supplies. An Indian court issued an order requiring soft-drink makers to list pesticide residues on their labels. Coca-Cola was forced to fight legal and legislative battles across India because of Srivastava's claims, even though some were unsubstantiated.<sup>15</sup>

According to management scholar Karl Albrecht, scanning to acquire environmental intelligence should focus on eight strategic radar screens or environments.<sup>16</sup> The eight environments identified by Albrecht are shown in Figure 2.3 and described next.

- *Customer environment* includes the demographic factors, such as gender, age, marital status, and other factors, of the organization's customers as well as their social values or preferences. For example, the "graying" of the population as members of the baby boomer generation has created a market for active older adults.
- *Competitor environment* includes information on the number and strength of the organization's competitors, whether they are potential or actual allies, patterns of aggressive growth versus static maintenance of market share, and the potential for customers to become competitors if they "insource" products or services previously purchased from the organization.
- *Economic environment* includes information about costs, prices, international trade, and any other features of the economic environment that affect customers or competitor behavior. The example of pressure to reduce drug prices at the beginning of this chapter illustrated a shift in the economic environment of pharmaceutical companies.
- *Technological environment* includes the development of new technologies and their applications affecting the organization, its customers, and other stakeholder groups. The ease with which people could download music from the Internet, and the emergence of software that allowed them to swap files with others, forced the music industry to change its business model fundamentally in the early 2000s.
- *Scale environment* includes the impact of scale on the organization and its competitors. Scale refers to the size of the organization, its customers, and its competitors. Scale can be measured in terms of sales, revenue, assets, and other financial metrics. Scale is important because it affects the organization's ability to compete in the market.

- *Political environment* includes the structure, processes, and actions of all levels of government—local, state, national, and international. The stability or instability of a government or the inclination or disinclination to pass laws and regulations are essential environmental intelligence for the organization. The emergence of strict environmental laws in Europe—industrialists who were providing at the end of a product’s life—have caused firms all over the world that sell to - Europeans to rethink how they design and package their products.
- *Legal environment* includes legal considerations of patents, copyrights, trademarks, and intellectual property, as well as antitrust considerations, trade protectionism, and organizational liability.
- *Geophysical environment* includes an awareness of the physical surroundings of the organization’s facilities and operations, whether it is the organization’s headquarters or its field offices and distribution centers, and the organization’s dependency and impact on natural resources such as minerals, water, land, or air. Growing concerns about global warming and climate change, for example, have caused many firms to seek to improve their energy efficiency.

The eight strategic radar screens, as presented in Figure 2.3, represent a system of interrelated segments, each one connected to and influencing the others. The discussion case at the end of this chapter describes how one company, Wal-Mart, was challenged to respond to changes in several aspects of its external environment. It is important that companies attend to potential change in all segments of their external environments.

Companies do not become experts in acquiring environmental intelligence overnight. New attitudes have to be developed, new routines learned, and new policies and action programs designed. Many obstacles must be overcome in developing and implementing the effective scanning of the business environments. Some are structural, such as the reporting relationships between groups of managers; others are cultural, such as changing traditional ways of doing things. In addition, the dynamic nature of the business environments requires the organization to continuously evaluate the effectiveness of its scanning procedures. Building ongoing, positive relationships with stakeholders is one important strategy for learning more on a regular basis about how people outside the organization are thinking, and what issues are important to them.

## Competitive Intelligence

Another important environmental scanning function often entrusted to the public affairs manager is collecting competitive intelligence. **Competitive intelligence** is 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. The acquisition of competitive intelligence enhances an organization’s marketplace competitiveness through a greater understanding of the competitive environment. Competitive intelligence enables managers in organizations of all sizes to make informed decisions ranging from marketing, research and development, and investing tactics to long-term business strategies. Clearly, numerous ethical issues are raised in the acquisition and use of competitive intelligence. A public affairs officer must be aware of these issues, often clarified in the organization’s code of ethics.<sup>17</sup>

A survey of global business leaders indicated the growing importance given to competitive intelligence as a tool for businesses in today’s economic environment. “During difficult times, excellent competitive intelligence can be the differentiating factor in the marketplace,” explained Paul Meade, vice president at Best Practices.

Companies that can successfully gather and analyze competitive information, then implement strategic decisions based on that analysis, position themselves to be ahead of the pack.<sup>18</sup>

The importance of ethical considerations when collecting competitive intelligence cannot be overstated. One example where competitive intelligence may have been collected unethically became the focus of an SEC investigation.

Boeing Company was sued in federal court with Lockheed Martin, the dominant manufacturer of jet and surveillance communications and satellites for the US Government. Kenneth Barshalek, known as an engineer and manager with Lockheed, rode to a meeting of Boeing's stockholders in California to cash his job interview. Before Barshalek's interview, he pulled from his briefcase a report of Lockheed's stock program and showed it to the Boeing executives according to a witness statement by an interviewee. Kenneth Barshalek was hired to work on Boeing's stock program. The SEC investigation focused on whether Boeing intentionally disclosed competitive information to the Boeing stockholders to facilitate the sale of the Boeing stock to the US Government. Boeing's stockholders were involved in this and reported to the US Government to the tax company's stock supply.<sup>19</sup>

As the Boeing–Lockheed Martin story indicates, the importance of acquiring a competitor's intelligence may tempt businesses to use unethical or illegal means. However, the *ethical* acquisition of competitors' intelligence remains one of the most valued benefits emerging from the public affairs function.

## The Issue Management Process

Environmental scanning is an ongoing process, designed to turn up public issues that are of concern to the company and its stakeholders. It provides the foundation for the core function of the public affairs officer or office: to act on this knowledge. The **issue management process**, illustrated in Figure 2.4, comprises five steps, or stages.<sup>20</sup> Each of these steps is discussed below, using the example of McDonald's response to emerging stakeholder concerns about the humane treatment of farm animals raised for food. As the largest buyer of beef and the second largest buyer of chicken in the United States, McDonald's was vulnerable to stakeholder pressure on this issue, but also was well positioned to take action and move ahead of its competitors.

### Issue Identification

**Issue identification** involves anticipating emerging concerns, sometimes called "horizon issues" by managers because they seem to be just coming up over the horizon, like the first morning sun—or a potential storm cloud. Sometimes managers become aware of issues by carefully tracking the media, experts' views, and legislative developments to identify issues of concern to the public. Normally, this requires attention to all eight of the environments described in Figure 2.3. Organizations often use techniques of data searching, media analysis, and public surveys to track ideas, themes, and issues that may be relevant to their interests from all over the world. They also rely on ongoing conversations with key stakeholders. Sometimes, awareness of issues is forced on companies by lawsuits or protests by activists who hold strong views about a particular matter.

In 1997, a judge handed down a decision in a legal dispute between McDonald's and several of the company's critics in the United Kingdom, calling the company "culpabl[y] responsible for cruel practices [toward animals]." People for the Ethical Treatment of Animals (PETA), an animal rights organization based in the United States, immediately followed up with a campaign against McDonald's and other fast food companies. The group charged, among other things, that chickens used to produce McNuggets were crammed by the tens of thousands into sheds that stunk of ammonia fumes from accumulated waste, suffered broken bones from being bred to be top



heavy, and were slaughtered by having their throats slit while still conscious. PETA wrote the McDonald's CEO and campaigned publicly for its goals, including sponsoring shareholder resolutions, placing provocative ads, and mounting public demonstrations to pressure McDonald's and other fast food companies to change their practices.

McDonald's had been aware of the animal welfare issue for some time and had held discussions with organizations such as Animal Rights International. But PETA's challenge elevated the urgency to the company of the issue of humane treatment of animals and put it squarely on the agenda of managers.

### ***Issue Analysis***

Once an issue has been identified, its implications must be analyzed. Organizations must understand how the issue is likely to evolve, and how it is likely to affect them. For each company, the ramifications of the issue will be different.

How the animal welfare issue affected McDonald's was complex. On one hand, the company was concerned about public perception, and did not want customers to turn away because of concerns about the mistreatment of cows, pigs, and chickens used for food. On the other hand, it was also concerned about maintaining standards for food quality and keeping down costs. An added complexity was that McDonald's did not raise its own animals for slaughter, but relied on a network of suppliers for its meat, including such major firms as Tyson, ConAgra, and National Beef. In order to influence the treatment of animals, it would need to collaborate closely with companies in its supply chain.

A result of the issue analysis process for McDonald's was an understanding that it would need to work with ranchers, poultry farmers, meat processors, and others to address its stakeholders' concerns.

### ***Option Generation, Evaluation, and Selection***

An issue's public profile indicates to managers how significant an issue is for the organization, but it does not tell them what to do. The next step in the issue management process involves generating, evaluating, and selecting among possible options. This requires complex judgments that incorporate ethical considerations, the organization's reputation and good name, and other nonquantifiable factors.

McDonald's began discussions with Temple Grandin, a renowned animal behavior expert, to consider possible options. Professor Grandin had developed methods for judging animal welfare, such as the use of a batch of products based on the number of defects. McDonald's visited the corporate responsibility office at the time of the implementation in 1997 when Grandin presented a concept for a different program to managers. "We saw something that we could support," he commented. The company began examining ways to improve its practices in 1999, to see how the system might work in practice. The company also sought to learn more about animal welfare on the farms that supplied its cows and pigs to its processing plants. In 2000, McDonald's worked with Animal Welfare Canada to establish a network of company auditors to inspect its suppliers.

Selecting an appropriate response often involves a creative process of considering various alternatives and rigorously testing them to see how they work in practice.

### ***Program Design and Implementation***

Once an option has been chosen, the organization must design and implement a program to implement it.

In 2001, McDonald's issued a set of guiding principles for animal welfare, affirming the company's belief that "animals should be free from abuse and neglect" and that animal welfare is "an integral part of an overall quality assurance program that makes good business sense." The company also formalized its audit program, completing 500 audits worldwide of beef, poultry, and pork processing plants in 2002. In the small number of cases where the results were "not acceptable," the company required the facility to

take corrective action. The company also sponsored animal welfare training for its suppliers to bring them on board.

### ***Assessment of Results and Continuous Improvement***

One organization implemented this emerging program in its own case studies and leadership. Many public affairs managers are in a process of learning from this example.

McDonald's continued to talk with animal welfare organizations, examine its own practices, and try new approaches. In 2005, the company launched a study of the feasibility of using a more humane way to slaughter chickens, called controlled-atmosphere killing, or CAK. Standard industry practice had been to hang chicken by their feet on a conveyer line and move them through a vat of water charged with electricity. In CAK, by contrast, oxygen in the air was slowly replaced by an inert gas. PETA responded by withdrawing a shareholder proposal that had criticized McDonald's for using a method that was cruel to animals. "McDonald's agreed to do what we asked it to do, and it agreed to do it sooner than we asked," said a PETA spokesperson.<sup>21</sup>

This example illustrates the complexity of the issue management process. Figure 2.4 is deliberately drawn in the form of a loop. When working well, the issue management process continuously cycles back to the beginning and repeats, pulling in more information, generating more options, and improving programmatic response. Contemporary issue management is truly an interactive process, as forward-thinking companies continue their dialogue with their stakeholders about issues that matter. In 2006, McDonald's vice president for corporate responsibility began regularly posting to a blog where he talked with interested members of the public about the company's animal welfare policies. As a result, all parties continued to learn from one another.<sup>22</sup> Public affairs managers must not only implement programs, but also continue to reassess their actions to be consistent with both ethical practices and long-term survival. Is the issue management process an art or a science? One practitioner's observations are presented in Exhibit 2.D.

Companies are learning that it is important to take a strategic approach to the management of public issues, both domestically and globally. This requires thinking ahead, understanding what is important to stakeholders, scanning the environment, and formulating action plans that anticipate changes in the external environment. Effective issue management requires involvement by both professional staff and leaders at top levels of the organization. It entails communicating across organizational boundaries, engaging with the public, and working creatively to solve complex problems.

- A public issue is an issue that is of mutual concern to an organization and one or more of the organization's stakeholders. Emerging public issues present a risk, but they also present an opportunity, because companies that correctly anticipate and respond to them can often obtain a competitive advantage.
- The organization of the corporation's boundary-spanning functions is complex. Most companies have many departments specifically charged with interacting

with stakeholders. One of the most important of these is the department of public affairs.

- An organization's public affairs function or manager is charged with the active management of the organization's external relations. This function encompasses many diverse activities, ranging from government relations to issue management to grassroots communication, and often is international in scope.
- 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 learn to look outward to understand key developments and anticipate their impact on the business.
- Competitive intelligence is the systematic and continuous process of gathering, analyzing, and managing information about an organization's competitors; this information is often important, but care must be taken to gather it ethically.
- The issue management process includes identification and analysis of issues, development of policy options, program design, and evaluation of the results of such activities.

### **Discussion Case: *Wal-Mart and Its Public Opponents***

In the early 2000s, Wal-Mart targeted California for its latest expansion project, announcing plans to build 40 new supercenters—enormous stores that sell groceries alongside many other goods—during the next five years within the state. It soon ran into a broad-based backlash.

In the primarily African-American and Hispanic city of Inglewood, California, Wal-Mart proposed constructing a mega-store and collection of chain stores and restaurants on 60 acres of barren land near the Hollywood Park racetrack. This development promised to generate more than 1,000 permanent new jobs in the neighborhood, add \$3 to \$5 million annually to the distressed city's tax base, and provide a revenue stream to finance as much as \$100 million in new bonds. "We are talking about a new police station, a new community and cultural center, and upgrades for existing parks in the area," said Roosevelt Dorn, Inglewood's mayor, a proponent of the project.

Despite the bright prospects for the city of Inglewood, opponents mobilized to block the retailer. One group that lined up against Wal-Mart was organized labor. The United Food and Commercial Workers (UFCW) at the time was enmeshed in a bruising conflict with the southern California grocery industry. Unionized grocery store chains, anticipating competition from nonunion Wal-Mart, were aggressively fighting the UFCW's wage and benefit demands.

Church groups and community groups also opposed the proposal, citing environmental, traffic, and public safety concerns. They argued that Wal-Mart was requesting exemptions from nearly all city ordinances, which would create a virtual "company town" within the Inglewood city limits where none of the normal zoning or other regulations would apply. While some residents were not opposed to Wal-Mart itself, they were very disturbed by the way the company was attempting to avoid basic commercial rules imposed on all other businesses operating in Inglewood. "The question was whether the wealthiest company in the world could circumvent the law," said a local state assemblyman.

Many small businesses in the area feared that the mega-chain would drive them out of business. Reports indicated Inglewood had the right to make zoning changes that would allow Wal-Mart to build a store with a parking lot in an area zoned for small businesses. If the city approved the plan, it would be a major blow to the local small business community. The city council would have to vote on the plan for Wal-Mart. The city council would have to vote on the plan for Wal-Mart. The city council would have to vote on the plan for Wal-Mart.

Wal-Mart sued the city of Inglewood. Using public records, Wal-Mart obtained more than 1,000 signatures and petitions in support of the plan. The city council would have to vote on the plan for Wal-Mart. The city council would have to vote on the plan for Wal-Mart. The city council would have to vote on the plan for Wal-Mart.

In April 2004, Inglewood residents voted 60 to 40 percent against the Wal-Mart initiative. “This means that Wal-Mart has to go through the front door and deal with cities and communities as equals,” said Madeline Janis-Aparicio, leader of the Coalition for a Better Inglewood. “They can’t trick cities and communities into giving away the store, getting everything they want without any oversight. They’re going to have to do business differently if they want to do business in California.”

Bob McAdam, vice president of corporate affairs at Wal-Mart explained, “We are disappointed that a small group of Inglewood leaders together with representatives of outside special interests were able to convince a majority of Inglewood voters that they don’t deserve the job opportunities and shopping choices that others in the L.A. area enjoy. □.□.□. This is just about one store. □.□.□. It will have no implications beyond that. We’re still going to meet our goal of building the stores we predicted we’d build.”

Source: “Stymied by Politicians, Wal-Mart Turns to Voters,” *The New York Times*, April 5, 2004, [www.nytimes.com](http://www.nytimes.com); “Voters in Los Angeles Suburb Say No to a Big Wal-Mart,” *The New York Times*, April 8, 2004, [www.nytimes.com](http://www.nytimes.com); “Los Angeles to Wal-Mart: Bigger’s Not Always Better,” *The Washington Post*, February 3, 2004, p. A3.

<sup>1</sup> A summary of the surgeon general’s report is available online at [www.surgeongeneral.gov/topics/obesity/calltoaction](http://www.surgeongeneral.gov/topics/obesity/calltoaction).

<sup>2</sup> ~~Interview with Anne T. Lawrence, “Shell Oil in Nigeria,” interactive online case published by [www.case.com](http://www.case.com).~~

<sup>3</sup> “Drugmakers: A Dose of Reality,” *BusinessWeek*, June 19, 2006, p. 98.

<sup>4</sup> “Snakes on a Plane Blog Buzz Forces Hollywood into Overdue Attitude Adjustment,” *San Francisco Chronicle*, June 12, 2006, pp. E1, E5.

**FIGURE 2.1**

**The Performance– Expectations Gap**

<sup>5</sup> “The Biggest Contract: Business and Society,” *The Economist*, May 28, 2005, p. 87.

<sup>6</sup> Interview conducted for Anne T. Lawrence, “Shell Oil in Nigeria,” interactive online case published by [www.case.com](http://www.case.com).

**FIGURE 2.2 The Corporation’s Boundary-Spanning Departments**

<sup>7</sup> See James E. Post and Jennifer J. Griffin, “Corporate Reputation and External Affairs Management,” *Corporate Reputation Review* 1 (1997), pp. 165–71. The global patterns of public affairs practice are documented in *Journal of Public Affairs*, published by Henry Stewart Publishing beginning in 2001.

<sup>8</sup> For an excellent review of public affairs development around the world see Craig S. Fleisher and Natasha Blair, “Surveying the Field: Status and Trends Affecting Public Affairs across Australia, Canada, EU and the U.S.,” in *Assessing, Managing and Maximizing Public Affairs Performance*, Management Handbook series, ed. Craig S. Fleisher (Washington, DC: Public Affairs Council, 1997).

<sup>9</sup> Craig S. Fleisher, “Emerging U.S. Public Affairs Practice: The 2001 PA Model,” *Journal of Public Affairs* 1, no. 1 (January 2001), pp. 44–52.

Which of the following activities are currently conducted within your public affairs department?

**Activity** **Percentage of Respondents**

Source: Foundation for Public Affairs, *State of Corporate Public Affairs* (September 2005), p. 9. Based on a survey of 151 companies. Used by permission.

<sup>10</sup> Information on Unilever’s corporate structure is available online at: [www.unilever.com/company/corporatestructure](http://www.unilever.com/company/corporatestructure).

~~Interview with Anne T. Lawrence, “Shell Oil in Nigeria,” interactive online case published by [www.case.com](http://www.case.com).~~

When large companies in your industry try to manage sociopolitical issues, which three tactics do you believe are most effective?

Source: “The McKinsey Global Survey of Business Executives: Business and Society,” *McKinsey Quarterly*, January 2006, Exhibit 2. Based on a survey of 4,238 CEOs and top-level executives in 116 countries, conducted in December 2005. Used by permission.

<sup>13</sup> “Business Coalition Battles Outsourcing Backlash,” *The Wall Street Journal*, March 1, 2004, pp. A1, A10; “More Work Is Outsourced to U.S., Than Away From It,” *The Wall Street Journal*, March 15, 2004, pp. A2, A4; “Offshore Outsourcing Will Increase, Poll Finds,” *The Wall Street Journal*, March 26, 2004, p. B3; and “Outsourcing May Create U.S. Jobs,” *The Wall Street Journal*, March 30, 2004, p. A2.

Corporations often encounter public issues that they cannot effectively address by themselves but only by working collaboratively with other businesses and concerned stakeholders in international networks. One such issue that confronted Nike, Inc., was a growing demand by environmentally aware consumers for apparel and shoes made from organic cotton. Cotton, traditionally cultivated with large quantities of synthetic fertilizers, pesticides, and herbicides, is one of the world’s most environmentally destructive crops. In the late 1990s, in response both to consumer pressure and to its own internal commitments, Nike began for the first time to incorporate organic cotton into its sports apparel products. Its intention was to ramp up slowly, achieving 5 percent organic content by 2010. However, Nike quickly encountered many barriers to achieving even these limited objectives. Farmers were reluctant to transition to organic methods without a sure market, processors found it inefficient to shut down production lines to clean them for organic runs, and banks were unwilling to loan money for unproven technologies. The solution, it turned out, involved extensive collaboration with groups throughout the supply chain—farmers, cooperatives, merchants, processors, and financial institutions—as well as other companies that were buyers of cotton, to facilitate the emergence of a global market for organic cotton. The outcome was the formation in 2003 of a new organization called the Organic Exchange, in which Nike continues to play a leading role.

Source: The Web site for the Organic Exchange is [www.organicexchange.org](http://www.organicexchange.org). Nike’s description of its efforts is available online at [www.nike.com/nikebiz](http://www.nike.com/nikebiz). This case is discussed in Ann C. Svendsen and Myriam Laberge, “Convening Stakeholder Networks: A New Way of Thinking, Being, and Engaging,” *Journal of Corporate Citizenship* 19 (Autumn 2005), pp. 91–104.

<sup>14</sup> For a thorough discussion on these issues see Craig S. Fleisher, “The Development of Competencies in International Public Affairs,” *Journal of Public Affairs* 3, no. 3 (March 2003), pp. 76–82.

<sup>15</sup> “How a Global Web of Activists Gives Coke Problems in India,” *The Wall Street Journal*, June 7, 2005, [www.wsj.com](http://www.wsj.com).

<sup>16</sup> Adapted from Karl Albrecht, *Corporate Radar: Tracking the Forces That Are Shaping Your Business* (New York: American Management Association, 2000).

## FIGURE 2.3

### Eight Strategic Radar Screens

Source: Karl Albrecht, *Corporate Radar: Tracking Forces That Are Shaping Your Business* (New York: American Management Association, 2000).

<sup>17</sup> For information about the professional association serving this public affairs function, particularly the attention to ethical considerations, see the Society of Competitive Intelligence Professionals Web site at [www.scip.org](http://www.scip.org).

<sup>18</sup> See Best Practices report at [www.benchmarkingreports.com/competitiveintelligence](http://www.benchmarkingreports.com/competitiveintelligence).

<sup>19</sup> “U.S. Probes Whether Boeing Misused a Rival’s Document,” *The Wall Street Journal*, May 5, 2003, pp. A1, A7; and “Boeing Employees Are Disciplined in Espionage Case,” *The Wall Street Journal*, September 12, 2003, p. A2.

<sup>20</sup> Other depictions of the development of a public issue can be found in Rogene Buchholz, *Public Issues for Management*, 2nd ed. (Englewood Cliffs, NJ: Prentice Hall, 1992); Robert Heath, *Strategic Issues Management* (Thousand Oaks, CA: Sage, 1997); and Eli Sopow, *The Critical Issues Audit* (Leesburg, VA: Issues Action Publications, 1994).

## FIGURE 2.4

### The Issue Management Process

<sup>21</sup> “McD Seeks a Less Cruel Way to Kill Chickens,” *Nation’s Restaurant News*, January 24, 2005, pp. 1–2.

A recent opinion article published in the *Journal of Public Affairs* by Tony Jacques, issue manager for the Dow Chemical Company in Asia-Pacific and a board member of the issue management council, offered the provocative thesis that issue management often overemphasizes technique and underemphasizes creative problem solving. Jacques pointed out that many of the techniques used to manage issues were highly systematized, involving computerized data scanning, media analysis, and information storing and sharing. The purpose, he suggested, was to “reduce variation and eliminate defects.” This approach, Jacques argued, was wrong-headed. In his view, issue management “by definition deals with problems which are often subjective, highly emotive, prone to political whim, demanding judgment and compromise, and where ‘perception is reality’ and there is seldom a ‘right answer.’” Data analysis can be useful in identifying issues, but not in determining out what to do about them. For that, creative problem-solving is required. Jacques concluded, “The reality is that issue management is neither all art nor all science. It has elements of both art

and science . . . [T]he desired outcome of getting the balance right is not to deliver the perfect process but to deliver genuine bottom line . . . outcomes.”

Source: Tony Jacques, “Issue Management: Process versus Progress,” *Journal of Public Affairs* 6, no. 1 (February 2006), pp. 69–74.

<sup>22</sup> Information on McDonald’s animal welfare policies is available online at [www.mcdonalds.com/corp/values/socialrespons/market/animalwelfare](http://www.mcdonalds.com/corp/values/socialrespons/market/animalwelfare). Its corporate responsibility blog is available online at: <http://csr.blogs.mcdonalds.com>. Information on PETA’s campaign against McDonald’s is available online at [www.mccruelty.com](http://www.mccruelty.com). Dr. Temple Grandin’s Web site is [www.grandin.com](http://www.grandin.com).

## Key Terms

boundary-spanning department, 26

competitive □intelligence, 35

environmental □analysis, 33

environmental intelligence, 33

issue identification, 36

issue management, 32

issue management process, 36

performance–expectations gap, 25

public affairs management, 28

public issue, 25

[www.gpai.org](http://www.gpai.org)

Global Public Affairs Institute

[www.issuemanagement.org](http://www.issuemanagement.org)

Issue Management Council

[www.pac.org](http://www.pac.org)

Public Affairs Council

[www.scip.org](http://www.scip.org)

Society of Competitive Intelligence Professionals

[www.wfs.org](http://www.wfs.org)

World Future Society

## Internet Resources

### Discussion Questions

1. Do you think a gap existed between the expectations of the public and Wal-Mart’s performance? If so, in what respects did the two differ? In your answer, please refer to the concept of a performance–expectations gap.
2. If Wal-Mart’s public affairs managers had scanned the external environment prior to planning its expansion, using the eight strategic radar screens presented in Figure 2.3, what segments would have been of greatest concern to them? Which environments were critical in this case?
3. Referring to the issue management process, shown in Figure 2.4, did Wal-Mart move through all stages of the process in its response to community opposition? If not, which stages are illustrated by this case?
4. Referring to Exhibit 2.A, which public affairs activities did Wal-Mart’s managers use to attempt to defuse the opposition to its expansion plans? Do you think Wal-Mart’s strategy was appropriate, or not?
5. If you had been a public affairs manager at Wal-Mart, what actions would you have recommended, and why?