



A Collection Scandal at Sears Roebuck & Company

TEACHING NOTE

Purpose of Case Study

1. To encourage students to think about the role of strategic communication within an organization.
2. To encourage students to think about the ethical dimension of communicating clearly to all constituencies.
3. To enhance understanding of managing a public relations crisis.
4. To give students an appreciation for the importance of effective communication, both internally and publicly, to the long-term success of any business.

Identify the Business Problem

The business problem here is two-fold: Sears must work to regain its positive public image in the wake of the negative publicity surrounding its actions to coerce customers who had already declared bankruptcy into repaying debt; and, Sears must address the internal culture that allowed “aggressively pursuing bad debts while filtering out bad news from top management to become part of the company’s culture and official policy.”

This teaching note was prepared by Cynthia Maciejczyk under the direction of James O’Rourke, Concurrent Professor of Management, as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation.

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Forecast the Most Desirable Outcome

The most desirable outcome for Sears would involve the company regaining the trust and confidence of its customers and successfully polishing its tarnished public image, thus ensuring its continuing survival as one of the nation's largest retailers. In addition, the company would create an internal culture that values, promotes, and rewards ethical behavior so that a similar situation could not recur.

Identify the Critical Issues

These are the main issues involved in this case:

- Managing the company's public response to the news of its questionable practices with regard to pursuing bad debt.
- Determining how to deal with the internal culture that may have contributed to the practices.
- Looking into why news of this questionable policy did not reach upper management until it was too late.
- Communicating the company's position to its key stakeholders: customers, employees, and shareholders.

Stakeholder perspectives include:

- Customers (credit customers, non-credit customers, customers who have declared bankruptcy).
- Consumers in general (potential customers).
- Employees.
- Management.
- Shareholders.
- Government agencies involved.
- Competitors in the industry.

Identify and Discuss Possible Solutions to the Problem

Solutions may include, but are not limited to, the following:

1. Immediately stop the practice of “dunning” credit card holders (encouraging them to sign reaffirmation agreements after they had been granted bankruptcy by the court).
2. Cooperate with authorities in the investigation. Admit wrongdoing; apologize to customers.
3. Address the impact of negative publicity surrounding news of this practice in the marketplace.
4. Reevaluate the procedures for granting credit to new customers.
5. Evaluate Sears’ corporate culture. Did the changes that Martinez put in place to turn Sears around have the unintended consequence of creating a culture in which bad news was kept from upper management?

Explain How to Communicate the Solution

Sears must communicate its course of action within its own corporate structure as well as to the public and other external stakeholders (such as shareholders and the community at large). The key is to develop strategies tailored to the information needs of each group.

Strategies for employee communication may include internal memos from key management personnel, special meetings called to address the situation, all-hands e-mail messages, directing employees to specific pages of the Corporate Web site. Strategies for communicating with external stakeholders may include a press release, talking with the local and national media, meeting with key members of the business press, letters to current customers, posting information to the company’s Web site, e-mailing or writing to shareholders, to name a few.

In this case, Sears did make a startling public admission: “that its own ‘flawed legal judgment’ was to blame for the misconduct.”¹ From the beginning of his knowledge of this crisis, Martinez insisted that Sears hide nothing. The company accepted a plea bargain with the government in which the company admitted wrongdoing and accepted a \$60 million fine. Sears conducted an internal investigation to locate and repay the people it had wronged. Total cost of the scandal totaled \$475 million.

¹ McCormick, John. “The Sorry Side of Sears,” *Newsweek* (February 22, 1999).

Teaching the Case

One week prior

Distribute the case at least one lesson before you intend to discuss it in class. Tell the students that you will focus on several issues during the discussion of the case, including the following:

- Managing a public relations crisis
- Dealing with negative media representation
- Importance of effective internal communications
- Identifying the key issues of the case
- Identifying the major stakeholder groups in this situation

First 30 minutes of the class

Spend the first 5-10 minutes of the class session briefly recapping the facts of the case. Then, for the next 20 minutes, have the students identify the issues listed above.

Some points for student consideration may include:

- *The public's likely response when news of Sears' wrongdoing gets out.*
- *How Sears' own corporate culture and lack of a clear corporate communication structure might have contributed to this public relations disaster.*
- *Thinking about the ethical issues involved. It may be perfectly legal to try to extract money from people who have been granted bankruptcy protection, but is it ethical?*
- *The media's role in publicizing negative information.*
- *Strategies for communicating with the different stakeholders.*

Next, identify the stakeholders in this case and their separate interests and concerns:

Customers (credit customers, noncredit customers, customers who have declared bankruptcy). Customer loyalty is built on trust and confidence. Sears' actions have undoubtedly eroded many customer's trust and confidence. Many will be outraged by Sears' heavy-handed tactics to extract money from bankrupts. Others may feel that Sears' actions were justified. Both groups will be turned off by any perception of legal wrongdoing on the part of Sears. Offering a sincere apology to customers for any

wrongdoing will go a long way toward maintaining customer goodwill. Sears will also have to create a strategy designed to restore customer trust and confidence.

Consumers in general. This group represents Sears' potential customers. As with current Sears customers, many will be outraged and many will see nothing wrong with Sears' actions. Sears needs to convince these people that they should shop at Sears, that it is an ethical company with which to do business.

Employees. Employee morale is likely to suffer in this case. No one wants to be associated with a company that sanctions questionable business practices. Sears management will need to focus on restoring the employees' faith in the company as well as communicating the message that these practices are not to continue. A clear communication strategy is needed to educate employees on what is and is not acceptable.

Management. How did these practices come to be sanctioned by managers? In implementing and communicating a solution to this situation, Sears needs to communicate clearly and directly with its management to avoid similar situations in the future.

Shareholders. This group will be concerned about the financial well-being of the company as it manages this situation. Many also want to be associated with an ethically sound company (as do consumers and employees). Management needs to keep this group informed so that shareholders will make informed decisions with regard to their investment.

Government agencies. Bankruptcy is governed by Federal law. The FBI was involved in the investigation and the Justice Department involved in the prosecution of the case. The judge, Judge Carol Kenner, who was the first to become aware of Sears' practices, takes a personal interest in the case. It would be to Sears' benefit to create a positive relationship with Judge Kenner.

Industry competitors. Competitors always watch closely when a situation such as this arises. They pay particular attention to how the events are perceived in the marketplace and how the company handles its public relations. They are interested in not only capitalizing on the fallout, but also learning from the mistakes of others.

Last portion of class

Summarize student responses. Ask students for their communication plan. What would they do in Sears management's shoes?

Issues to consider include:

Strategic communication objectives. What are Sears' strategic business objectives and how can they be linked directly to the communication objectives?

Audience analysis. Who are we most concerned about reaching? Why do we want to communicate with them? What outcome do we hope for when we reach them?

Message construction. What do we want to say to each of these audiences? Will our message differ from one set of stakeholders to another? How simple or complex should the message be?

Medium selection. How should we try to reach these stakeholders? Should we consider electronic means? How about print means? Should we telemediate our message through the press? Should we try to communicate directly with one or more of the stakeholder groups?

Measurement of outcome. How will we know if we have succeeded? What criteria should we use to determine success? If we're not successful, what should we consider changing first: medium, message, audience, or objectives?

Last 5 minutes of class

Conclude the discussion.

The key to this case, as with nearly all other management communication cases, is to let the students speak freely, but guide their comments toward the situation facing Sears and the communication issues the case presents.

Timetable of Events

This timetable of events is included for your reference. A list of possible assignments follows.

Date	Events
1992	Arthur C. Martinez joins Sears as CEO and begins a turn-around strategy that will transform an exhausted, defeatist beaurocracy into "an aggressive, can-do company."
November 1996	Disabled security guard Francis Latanowich writes a letter to the Boston Bankruptcy Court asking the court to reopen his case. He writes that the reaffirmation agreement that he signed with Sears (<i>after</i> the judge had wiped out his debts) is "keeping food off the table."
January 1997	A lawyer working for Sears offers a convoluted technical excuse for why the reaffirmation agreement wasn't filed with the court.

	She says “Baloney” and asks for a list of all such reaffirmations agreements.
March 1997	Sears produces a list of nearly 2,800 reaffirmation agreements that were NOT filed with the court in Massachusetts alone. This kicks off the investigation of Sears’ practices with regard to reaffirmation agreements and bankrupt credit card holders.

Possible Assignments

There are several options available for writing assignments related to this case. These are just a few suggestions:

1. Have students assume the role of either Ron Culp, senior VP for Public Relations and Government Affairs or Bill Giffen, VP for Ethics and Business Policy. Ask them to draft a 2-3 page response to Martinez’s question: “What do you think we should do?” Students should focus not only on the solution to the problem but strategies for communicating with the various constituencies.
2. Ask students to draft a 2-3 page memo to all employees describing the situation and what Sears plans to do about it. Because they are writing to a broad audience, students will have to take into account the varying ages, educational backgrounds, reading abilities, vocabulary, knowledge of the subject, and a host of other, possible relevant factors.
3. Have students develop a communication strategy that focuses solely on the public relations aspect of the case. Who are the stakeholders in the public arena and what are their interests in this case. What are Sears’ business goals for each group? As part of the exercise, have them develop a press release.