

## Chapter 4-Stakeholders




**What you should know- You should be able to:**


- Internal stakeholders
- External stakeholders
- Conflict between stakeholders

### Stakeholder










**A stakeholder** is any individual or group that affects an organisation with a direct interest or involvement in the operations and performance of a business. Hence, stakeholders are impacted by the activities of the organisation.


*Stakeholders are often classified as internal and external stakeholders.*

 **Internal stakeholders** are the members of the organisation namely managers & Directors, employees and shareholders (owners) of the business

 **External stakeholders** are individuals or organizations that are not the part of the business but have direct interest in its activities and performance such as customers, suppliers, competitors, government, pressure groups local community.

## Summary of Stakeholders Interests

<i>Internal Stakeholders</i>	<i>What do they expect from the company</i>
<p><b>Employees</b></p> <p><u>Employees</u> are workers within an organization. It is the staff who produce goods and service for sale, they are the ones who directly communicate with the customer, so their level of motivation and productivity have a direct impact on the performance and prosperity of the business.</p>	<ul style="list-style-type: none"> <li> Compensation and career advancement</li> <li> good working conditions</li> <li> Better pay and bonuses</li> <li> Equal opportunities</li> <li> Improved job security</li> </ul>
<p><b>Managers and Directors</b></p> <p><u>Managers</u> are the people who oversee the daily operations of the business.</p> <p><u>Directors</u> are the group of senior managers who are legally responsible for the overall running of a company on behalf of their shareholders (the legal co-owners of the company).</p>	<ul style="list-style-type: none"> <li> Striving to improve operational efficiency, labour productivity and profits as these are all measure of management performance.</li> <li> Aiming to improve customer relations in order to maintain or improve the organization's competitiveness.</li> <li> Aiming to improve their own salaries, bonuses and other fringe benefits - just like all employees of the organization</li> </ul> <p><i>Directors have same interest in the business-like managers including the interest listed below -</i></p> <ul style="list-style-type: none"> <li> They are concerned with the organization's return on investment for their shareholders.</li> </ul>

	<ul style="list-style-type: none"> <li>They strive to improve the competitiveness of the organization as measured by market share and market growth.</li> </ul>
<p><b>Shareholders</b></p> <p><u>Shareholders (or stockholders)</u> The limited liability company are owned by their shareholders. Shareholders (or stockholders) are people or other organizations that buy shares in the company.</p> <div style="border: 1px solid orange; padding: 10px; margin-top: 10px;">  <i>Students often confuse the terms 'shareholders' with 'stakeholders. Shareholders (owners of limited liability companies) are a type of stakeholder group, but business have other stakeholders too that are not necessarily shareholders (such as employees, suppliers and the government).</i> </div>	<ul style="list-style-type: none"> <li>They have rights to a share of any profits that the company earns (dividend payments); shareholders expect regular payment of dividends.</li> <li>They also have voting rights (based on the number of shares they own) on how the company should be run.</li> <li>As co-owners of the limited liability company, shareholders expect the business to earn a certain (financial) return on their investment.</li> </ul>
<b>Internal Stakeholders</b>	<b>What do they expect from the company</b>
<p><b>Customers</b></p> <p><u>Customers</u> are the firm's clients who pay for the goods and/or services of the business. Customers can simply choose to spend their money elsewhere, thereby threatening the survival of a business</p>	<ul style="list-style-type: none"> <li>Customers strive for cheaper and more competitive prices for the goods and services they purchase.</li> <li>They demand products that are of an acceptable quality for the price they pay.</li> <li>They want products that are safe and fit for their purpose.</li> </ul>

	<ul style="list-style-type: none"> <li>📌 Customer service is paramount, such as the provision of after-sales support.</li> <li>📌 Overall, customers want value for money.</li> </ul>
<p><b>Suppliers</b></p> <p><u>Suppliers</u> are the organizations that provide the, stock of raw materials, component parts, finished goods and support services for other organizations</p>	<ul style="list-style-type: none"> <li>📌 Suppliers are interested in securing contracts for regular orders from their business customers.</li> <li>📌 They demand prompt payment from their business clients for the orders placed and the deliveries made.</li> <li>📌 Whilst they may offer larger business customers price discounts, suppliers strive to achieve reasonable prices for the goods and services they supply.</li> </ul>
<p><b>Financiers</b></p> <p><u>Financiers</u> are the financial institutions (such as commercial banks as well individual investors (such as angel investors) who provide the sources of finance for an organization</p>	<ul style="list-style-type: none"> <li>📌 They expect regular and prompt repayment of the money lent to the business and interest on loan</li> <li>📌 They are interested in the financial health of an organization in order to judge the ability of the business to repay its debts and to generate profits.</li> <li>📌 Establishing long term relationships with the borrowers in order to generate subsequent earnings.</li> </ul>

## Competitors

They are the rival businesses of the organisation.  
It is common for competitors to also hold shares in other businesses. For example, Porsche owns more than 31% of the shares in Audi (which itself is a part of Volkswagen group)

- ❏ Competitors are interested in the organization's operations, such as its product range and pricing strategies.
- ❏ Competitors are also interested in the finances of the business in question, such as its final accounts and how competitive its remuneration package is (such as salaries and fringe benefits offered to its employees).
- ❏ Rivals are also interested in benchmark data to measure their own performance, such as sales turnover, market share, and financial ratio analysis.

## Government

The government is an external stakeholder of all organizations operating within the country. The government is keen to see that businesses operate in a legal and socially responsible way.

- ❏ Unfair business practices are avoided
- ❏ Correct amount of taxes is paid from the net profit of the business.
- ❏ Health and safety measures are met  
Consumer protections laws are upheld
- ❏ There is compliance with employment legislation
- ❏ Strives to ensure that business acts in the interest of general public

### Local community

The local community refers to the general public and local businesses (not necessarily competitors though) that have a direct interest in the activities of the business in question.

- Members of the local community try to encourage the business in question to act in a socially responsible way, such as sustainable activities that protect the environment.
- They expect the business to create jobs in the local area.
- The local community may also want financial support (such as sponsorships and donations) for local events.

### Pressure groups


Pressure groups are organizations consisting of like-minded individuals who come together for a common cause or concern. For example,


- Greenpeace is an international organization that campaigns for environmental issues and global peace.
- Oxfam International (poverty eradication and disaster relief).
- Organizations set up campaign against smoking, deforestation, harmful treatment of animals.

- Pressure groups strive to influence government and public opinion in order to create the desired social change, such as protection of the environment, fairer terms of international trade or the upholding of human rights.
- They put pressure on organizations to operate in a socially responsible and ethical way, such as the fair treatment of workers.

## Labour unions

A labour union is an organization that aims to protect the interests of its worker members. A worker becomes a member of a trade union by paying a subscription fee, usually on a yearly basis. The membership fees help to pay for the administrative and legal expenses of operating the trade union.


 In particular, it focuses on the terms and conditions of employment, such as workers' pay and benefits.


 They also lobby the government to pass laws and regulations that protect workers, such as statutory employment rights.


## Conflict between stakeholders' interests

Different stakeholder groups have different interests, which can conflict. Conflict refers to difference in varying needs and priorities interests of different stakeholder groups. Such conflicting interest means that it is not possible to meet all of its stakeholders' interest simultaneously. If this is not managed, it often leads to protracted disagreements, disputed and arguments in the workplace.

### Employers and Employees:

 There is often conflict between the interests of employees and employers. For example, an increase in pay and benefits, along with pressures to reduce working hours, will improve the terms of employment for employees but increase costs for employers.

 Employers may want greater efficiency and productivity gains by investing in new technologies, but this might create job losses for employees.

 Management may wish to maximize productivity, while employees may prefer to work less or under less stressful conditions.

### Employees and shareholders:

- 📊 Employees demand higher wages, which raises production costs so can reduce the amount of profits from which shareholders receive dividend payments.

### Shareholders and Managers.

- 📊 Managers may sometimes look after their own interests rather than those of the firm. They may engage in activities that improve their personal reputation or remuneration without improving profits.
- 📊 Senior managers and directors may demand large bonuses for their work, but this may also reduce the profits available to distribute to the company's shareholders.

### Customers and Shareholders:

- 📊 Customers may want lower prices, but this reduced the firm's profit margin so can upset the company's shareholders.

### Customers and suppliers.

- 📊 Customers demand high quality and low prices, which is in conflict with suppliers' interest in being paid fairly. This conflict is played out between agricultural producers and consumers, with supermarkets in the middle coming under pressure from both stakeholders.

### Pressure groups and employees.

- 📊 Pressure groups may oppose certain projects that have the potential to harm the environment. These same projects may benefit the local community in terms of employment