

# SL IB Business Management



Your notes

## 1.4 Stakeholders

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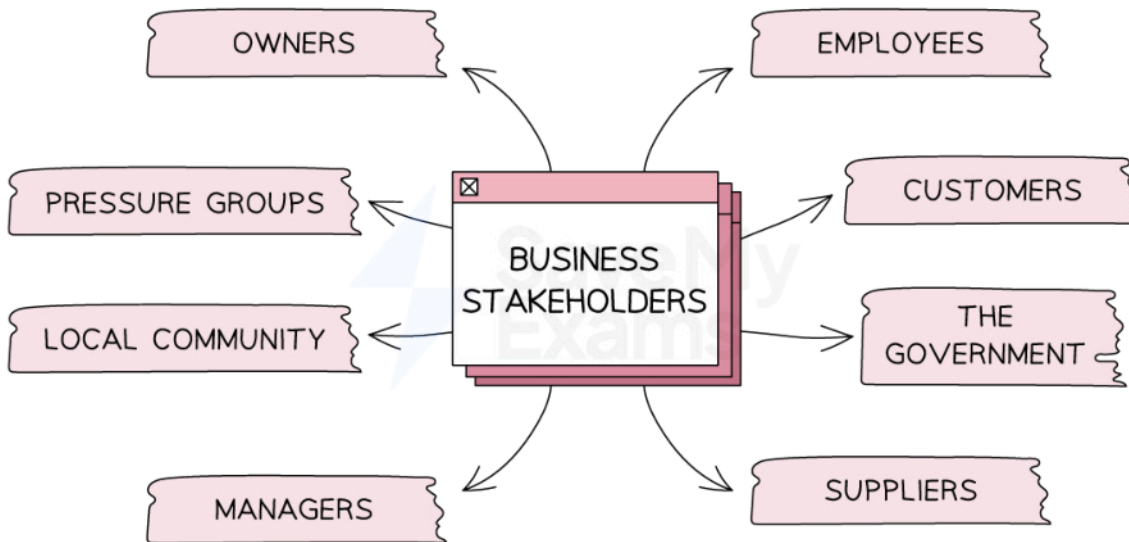


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## Internal & External Stakeholders

### An Introduction to Stakeholders

- Stakeholders are individuals or groups that **affect or are affected by the actions of a business**
  - A business needs to take into account the **needs and interests of its stakeholders** in order to operate successfully and ensure long term success



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*Groups with an interest in the activities of a business*



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## Internal Stakeholders

- **Internal stakeholders** are individuals or groups **inside** the business
  - Employees
  - Managers and Directors
  - Business owners

### The Different Objectives of Internal Stakeholders

Stakeholder	Objective	Example
<b>Owners</b>	<ul style="list-style-type: none"> <li>▪ Owners may be <b>sole traders</b>, a <b>partner</b> in a business or a <b>shareholder in a private limited company</b></li> <li>▪ Owners are likely to work within the business as well as own it and so will be relying on the business to <b>provide an income</b></li> <li>▪ They will want all, or a <b>share of the profit</b> and will want the business to be <b>succeed</b></li> </ul>	<ul style="list-style-type: none"> <li>▪ E.g the owner of a small building business may want it to <b>provide a job and income</b> <ul style="list-style-type: none"> <li>▪ The owner may also have the aim of <b>passing the business on</b> to a family member on retirement</li> </ul> </li> </ul>
<b>Employees</b>	<ul style="list-style-type: none"> <li>▪ Employees are individuals who work for a company</li> <li>▪ Their primary objective is to earn a living, have <b>job security</b> and <b>be compensated fairly</b> for their work and have a safe working environment</li> </ul>	<ul style="list-style-type: none"> <li>▪ E.g. Google employees in California have some of the <b>best working conditions in the world</b>, with the Company offering sleeping pods, games rooms and free speciality coffee all day</li> </ul>
<b>Management</b>	<ul style="list-style-type: none"> <li>▪ Managers are individuals who are responsible for the day-to-day operations of a company</li> <li>▪ Their primary objective is to <b>meet the company's goals and objectives</b></li> <li>▪ They want to maximise profits and minimise costs while ensuring that the company operates efficiently</li> </ul>	<ul style="list-style-type: none"> <li>▪ E.g. a manager of McDonald's may want the restaurant to <b>increase sales and reduce costs</b> by improving efficiency</li> </ul>



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## External Stakeholders

- **External stakeholders** are individuals or groups outside of a business
  - Customers
  - Shareholders
  - Creditors
  - Suppliers
  - The local community
  - Local and national government
  - Pressure groups

### The Different Objectives of External Stakeholders

Stakeholder	Objective	Example
Customers	<ul style="list-style-type: none"> <li>▪ Customers are individuals or businesses who purchase goods/services from a business</li> <li>▪ Their primary objective is to <b>receive high-quality products or services at a fair price</b></li> <li>▪ Customers also want good customer service and a positive experience with the company</li> </ul>	<ul style="list-style-type: none"> <li>▪ E.g. a customer of Nike may want the company to provide high-quality shoes at a reasonable price - and to <b>deal promptly with any customer concern issues</b></li> </ul>
Shareholders	<ul style="list-style-type: none"> <li>▪ Shareholders are individuals or entities who <b>own a portion of a company's stock</b></li> <li>▪ They invest in the company with the goal of making a profit</li> <li>▪ Shareholders' <b>primary objective</b> is to <b>maximise their returns</b> on investment</li> <li>▪ They want the company to be profitable and <b>generate a high return</b> on their investment</li> </ul>	<ul style="list-style-type: none"> <li>▪ E.g. a shareholder of Apple may want the company to release new products and increase sales <b>to increase the value of their shares</b></li> </ul>
Suppliers & creditors	<ul style="list-style-type: none"> <li>▪ Suppliers and creditors are likely to be one and the same</li> <li>▪ Their primary objective is for the business to <b>pay what it owes</b> promptly and in full</li> </ul>	<ul style="list-style-type: none"> <li>▪ E.g. an egg supplier is likely to value a long-term supply contract with a leading supermarket even if the price it receives for its eggs is low because <b>sales are guaranteed</b></li> </ul>



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	<ul style="list-style-type: none"> <li>Suppliers often want to be able to <b>establish long-term arrangements</b> with customers to improve business stability</li> </ul>	
<b>The local community</b>	<ul style="list-style-type: none"> <li>The local community includes individuals and organisations that live or operate in the area where a business operates</li> <li>Their primary objective is <b>for the business to have a positive impact</b> on the community <ul style="list-style-type: none"> <li>This may include the business being environmentally responsible, providing jobs, and <b>contributing to local causes</b></li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>For example, <b>Burnley Savings &amp; Loans Ltd (Bank of Dave)</b> donates all of their profits to local charities and good causes</li> </ul>
<b>Local and national government</b>	<ul style="list-style-type: none"> <li>The government is responsible for creating and enforcing laws and regulations that affect businesses</li> <li>Their primary objective is to <b>promote the public good and protect the interests of citizens</b></li> <li>The government wants companies to operate within the law and contribute to the economy</li> </ul>	<ul style="list-style-type: none"> <li>E.g. the government may want a <b>company to pay taxes</b>, comply with environmental regulations, and create jobs</li> </ul>
<b>Pressure groups</b>	<ul style="list-style-type: none"> <li>Pressure groups are organisations that seek to <b>influence the policies and actions of businesses</b> or governments</li> <li>Their primary objective is to promote a <b>specific cause or agenda</b></li> <li>Pressure groups want the company to support their cause or take action on an issue</li> </ul>	<ul style="list-style-type: none"> <li>E.g. an animal rights group may want a clothing company to <b>stop using animal products</b> in their clothing</li> </ul>

### Examiner Tip

Some stakeholders can be both internal and external

- Shareholders are usually classified as external stakeholders but employees and business managers may own shares and therefore have an internal stake in business success too
- Similarly, the local community is usually considered to be an external stakeholder but it is likely to contain workers for a business

The fact that stakeholders may wear more than one 'hat' can make meeting their varied objectives even more of a challenge and businesses will need to take care to understand concerns effectively



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## Stakeholder Conflicts

### Possible Conflicts Between Stakeholder Groups

- Stakeholder groups can have **conflicting interests and objectives**, which can lead to tensions and conflicts
  - **Shareholders** may prioritise profit maximisation, while **employees** may prioritise fair treatment and high wages
  - **Customers** may prioritise low prices, while the **local community** may prioritise environmental sustainability which raises costs and prices
  
- These conflicts can create challenges for businesses to **balance the competing demands of different stakeholder groups**
  - E.g. A company may need to invest in costly environmental technology to meet the demands of the local community, but this **may reduce profitability** and upset shareholders
  
- Conflicts can also arise when stakeholders have **different levels of power and influence**
  - E.g. Pressure groups with strong public support may be able to influence business activity more than individual shareholders
  
- Businesses should try to **balance** the needs of stakeholders as much as possible to reduce the **disruptive** impact of conflict
  - **Managing stakeholder conflicts** requires careful communication, transparency, and compromise

#### Real Business Examples of Stakeholder Conflicts

Stakeholders	Conflict
Employees vs. Employers	<ul style="list-style-type: none"> <li>▪ In 2020, British Airways faced criticism from its employees and unions after announcing plans to <b>cut 12,000 jobs and reduce pay and benefits</b> for remaining staff due to the impact of the COVID-19 pandemic on the airline industry</li> <li>▪ The cuts were met with protests and legal challenges from unions and employees, who argued that the airline was <b>unfairly targeting its workers</b></li> </ul>
Pressure Groups vs. Government	<ul style="list-style-type: none"> <li>▪ In 2019, <b>Extinction Rebellion</b>, a climate change activist group, organised protests across the UK to <b>demand government action on climate change</b></li> <li>▪ While the group had the support of many members of the public, some politicians criticised the protests for <b>disrupting public order</b> and causing economic damage</li> </ul>



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<p><b>Local Communities vs. Developers</b></p>	<ul style="list-style-type: none"> <li>In 2019, plans to build a <b>new high-speed rail line, HS2</b>, faced <b>opposition from residents</b> of areas affected by the proposed route, who argued that the project would damage the environment, disrupt communities, and be too expensive</li> <li>The project also faced <b>opposition from environmental groups</b> who argued that the resources could be better spent on other infrastructure projects</li> </ul>
<p><b>Managers &amp; Employees</b></p>	<ul style="list-style-type: none"> <li>In 2022 postal workers were engaged in strike action against their employer Royal Mail as they objected to a range of changes being made to their <b>pay and working conditions</b> intended to boost profits</li> </ul>
<p><b>Shareholders &amp; Customers</b></p>	<ul style="list-style-type: none"> <li>Customers of UK energy suppliers have been concerned that record-breaking shareholder dividends in 2022 occurred at the same time as <b>consumer prices rose by more than 60%</b></li> </ul>
<p><b>Managers &amp; Local Communities</b></p>	<ul style="list-style-type: none"> <li>US grocery giant Walmart has faced numerous protests by local communities, angered by the businesses profit-driven decision to <b>close underperforming stores</b></li> </ul>
<p><b>Shareholders &amp; Government</b></p>	<ul style="list-style-type: none"> <li>Large corporations such as Amazon and Shell have been accused of <b>tax avoidance</b> through the offshoring of profit, reducing the amount of corporation tax paid to the UK government</li> </ul>

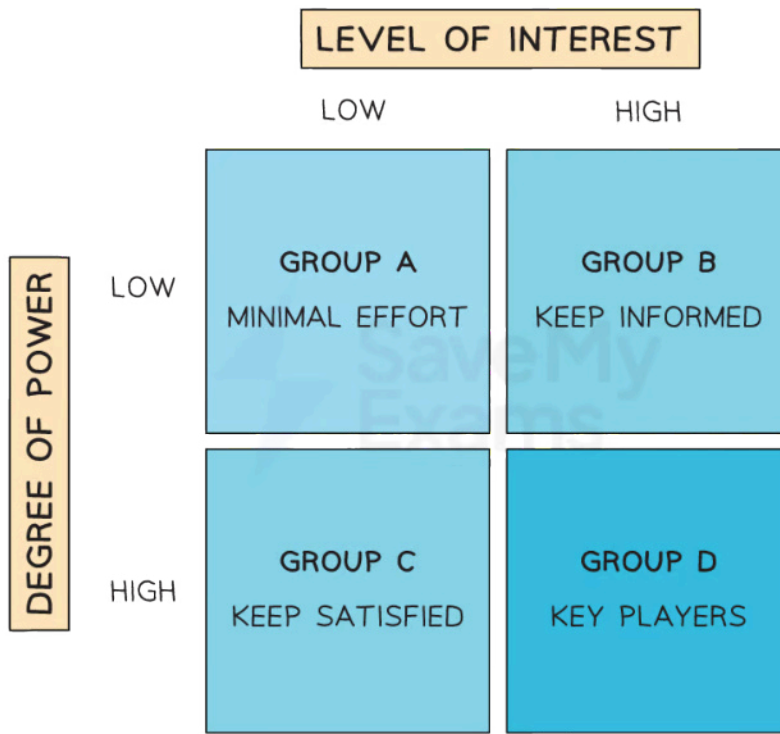
## Stakeholder Mapping

- Stakeholder mapping** can help a business to **identify appropriate strategies** for managing relationships with stakeholders, taking into account the **level of interest** and **degree of power** they hold





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*Stakeholder mapping helps a business to prioritise their stakeholder strategies*

### Diagram analysis

- Group A stakeholders have **low interest and little power**
  - These needs of these stakeholders can usually be ignored
- Group B stakeholders have **high interest but little power**
  - This group needs to be **kept informed** to instil a sense of belonging and encourage support
  - Little effort is usually required to achieve this - a newsletter or informative website may be enough
    - E.g. The **local community**
- Group C stakeholders have **low interest but are powerful**
  - Satisfying this influential group is important
  - These stakeholders must feel included and their power acknowledged
    - E.g. The **media**. Businesses in certain sectors make great public relations efforts to keep the media 'on side' through press conferences and media events
- Group D stakeholders have both **high interest and a high degree of power**
  - These are key players - they must be fully informed and satisfied

- E.g. Shareholders and employees

### Examiner Tip

The interests of stakeholders should be considered whenever a question asks you to weigh up business choices, typically in the longer-answer questions. You might consider the following:

- Which stakeholders might be supportive of each option?
- And which stakeholders might oppose each option?
- Is there a conflict between different stakeholders?
- How might conflict be overcome?



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