

HL IB Business Management



Your notes

1.4 Stakeholders

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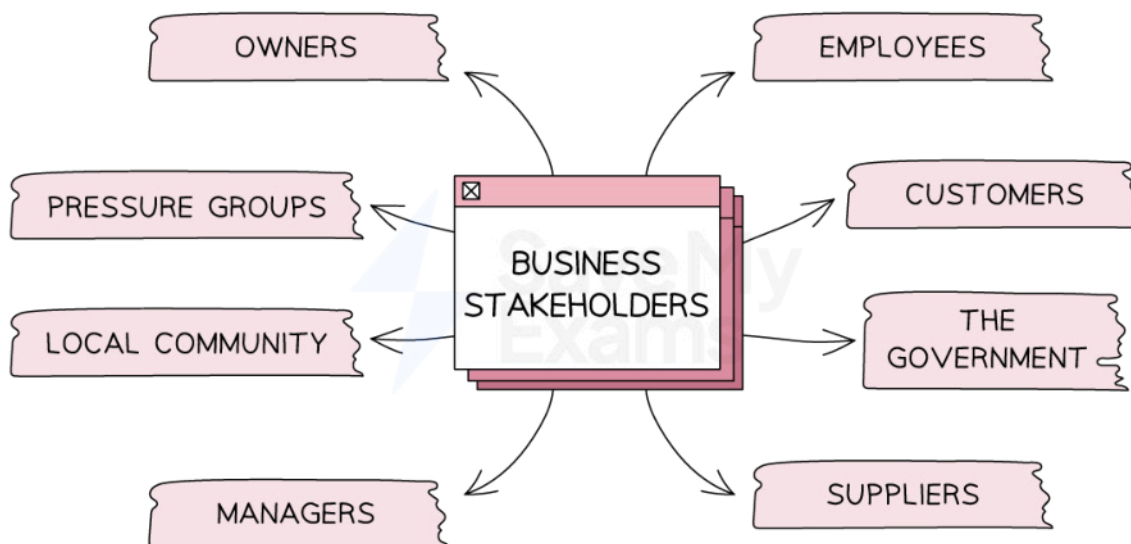


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Internal & External Stakeholders

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



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



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

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



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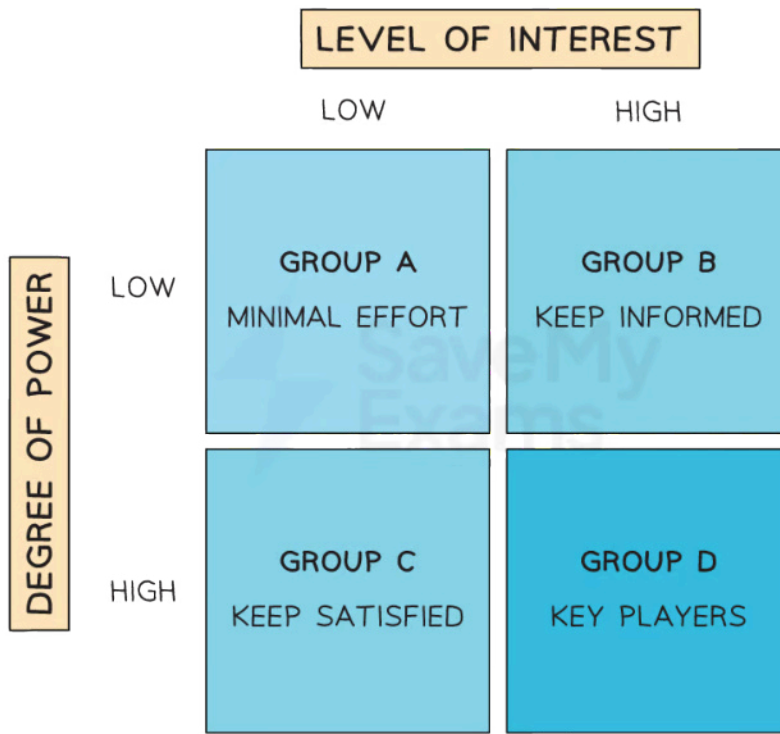
<p>Local Communities vs. Developers</p>	<ul style="list-style-type: none"> In 2019, plans to build a new high-speed rail line, HS2, faced opposition from residents of areas affected by the proposed route, who argued that the project would damage the environment, disrupt communities, and be too expensive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

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**



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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?