Business Decisions and Stakeholders

Stakeholders

A stakeholder is anyone who has a **vested interest in the activities and decision making of a business**. Stakeholders include:

- Shareholders or business owners
- Managers & employees
- Customers
- Suppliers
- Banks and other finance providers
- Government
- Local community
- Other external groups (e.g. pressure groups)
- Competitors
- The media

Various factors affect how many stakeholders a business has and the strength of their interest and influence. These factors include:

The size and scale of the business: for example, a small, sole-trader service business will have relatively few stakeholders. Contrast this with a much larger, complex business like a national supermarket chain like Asda which has thousands of employees, operates in numerous locations and is an important customer to hundreds of suppliers.

The nature of the product or service: some products are more likely to attract the attention of stakeholders. For example, a manufacturing business that has high levels of carbon emissions or waste packaging will be scrutinised much closer than a simple service business. The local community will have a greater interest in a business that is a major local employer than in a one-man band.

Main interests of business stakeholders

The main interests of each main stakeholder group can be summarised as follows:

Stakeholder	Mainly interested in…
Shareholders / Owners	Return on investment Profits and dividends Success and growth of the business Proper running of the business (if shareholders are not directly involved in running the company)
Managers & Employees	Rewards, including basic pay and other financial incentives Job security & working conditions (e.g. holidays) Promotion opportunities Job satisfaction & status – motivation, roles and responsibilities Success of the business
Customers	Value for money Product quality – something that meets their needs Customer service
Suppliers	Continued, profitable trade with the business Financial stability – can the business pay its bills?
Banks & other finance providers	Risk that the business will not be able to repay finance provided (banks and other lenders) Profitability and cash flows of the business Growth in profits and value of the business (investors in the shares of the company – e.g. business angels)
Government	The correct collection and payment of taxes (e.g. VAT, Income Tax) Helping the business to grow – creating jobs Compliance with business legislation – e.g. health & safety, consumer protection, fair trading, environmental protection
Local community	Success of the business – particularly creating and retaining jobs Compliance with local laws and regulations (e.g. noise, pollution)

Why might the objectives of stakeholders be in conflict?

Many business objectives complement each other and are acceptable to a broad range of stakeholders.

For example, an objective for a business start-up of achieving survival would be supported by nearly all the stakeholders. It is in no-one's interest for a business to fail!

However, once a business becomes better established and larger, then potential conflicts begin to arise. Let's look at two examples in a little detail:

Business expansion versus higher short-term profit:

An objective of increasing the size and scale of a business might be supported by managers, employees, suppliers and the local community – largely for the extra jobs and sales that expansion would bring.

However, an expansion is often associated with increased costs in the short-term (e.g. extra marketing spending, new locations opened, more production capacity added). This might result in lower overall profits in the short-term, which may cause conflict with the business shareholders or owners. In the longer-term, however, most business owners would be pleased to support an expansion if it increases the overall value of the business.

Job losses versus keeping jobs

This has been a big issue for many businesses during the economic downturn in 2008-2010. In order to reduce costs and conserve cash, business managers have often made redundancies amongst the workforce or introduced other measures like short-time working to reduce wage costs. This will have been supported by business owners and managers.

However, it creates a potential conflict with stakeholders such as employees (who are directly affected), the local community (affected by local job losses) and suppliers (who suffer from a reduction in business).

Here are some other potential causes of conflicts between stakeholders:

- “Short-term” thinking by managers may discourage important long-term investment in the business
- New developments in the business such as a major product launch or new factory may require extra finance to be raised, which reduces the control of existing investors
- Investing in new machinery to achieve better efficiency may result in job losses
- Extending products into mass markets may result in lower quality standards