Stakeholder conflict

Stakeholders are interdependent and yet there can be tension between their interests. Both this section and Section 1.4.4 (/study/app/y12-business-management-a-sl-may-2024/sid-352-cid-174703/book/designing-businesses-for-stakeholder-alignment-id-36860) will explore areas of stakeholder alignment and areas of stakeholder conflict.

Stakeholder alignment

Most stakeholders in a company will be better off if the company thrives; they have a 'stake' in the company's success. Stakeholder groups usually understand that the fulfilment of their interests is constrained by the interests of other stakeholders. For example, customers may benefit from low prices, but they can see that companies need to cover their costs or they will go out of business. Managers and employees appreciate generous pay packages, but they usually understand that profits are also necessary in order to ensure the future of the business. Shareholders may want to receive high dividends, but these cannot be paid year after year while satisfying customers and maintaining a happy and productive workforce.

In general, stakeholder interests are often more aligned in the long term than in the short term.

- **Economic sustainability**: Most stakeholders will want to see a business survive and thrive, especially if it is meeting human needs. Stakeholders recognise that the business needs to cover its costs at a minimum. For-profit businesses will need to or want to earn profits, which may be distributed to shareholders or reinvested back into the business.
- **Sociocultural sustainability**: Most stakeholders associated with a business want it to have a positive impact on people, both locally and globally. This means distributing value to a wide range of stakeholders instead of extracting value for just one group. Businesses are part of societies and depend on social health.

- **Environmental sustainability**: Most stakeholders associated with a business want it to have a positive impact on the planet. Businesses are a part of the environment and depend on the health of the planet for their future.

Even though stakeholders may all agree on these long-term objectives, they may disagree about the methods of reaching them. They may also disagree about the balance between these and other business objectives and the pace of actions to reach these objectives.

Stakeholder conflict

With so many diverse interests, stakeholders are bound to come into conflict. Although most stakeholders do not wish the company ill, they may prioritise their own interests over those of other stakeholders. It is usually the role of management to reconcile the competing interests of shareholders in the company's interest. Not all stakeholders can be satisfied at all times. Management has to prioritise demands that are most legitimate and that must be met in the interest of the organisation.

It would be impossible to list the many potential conflicts between stakeholders, but the following are a few of the more common examples:

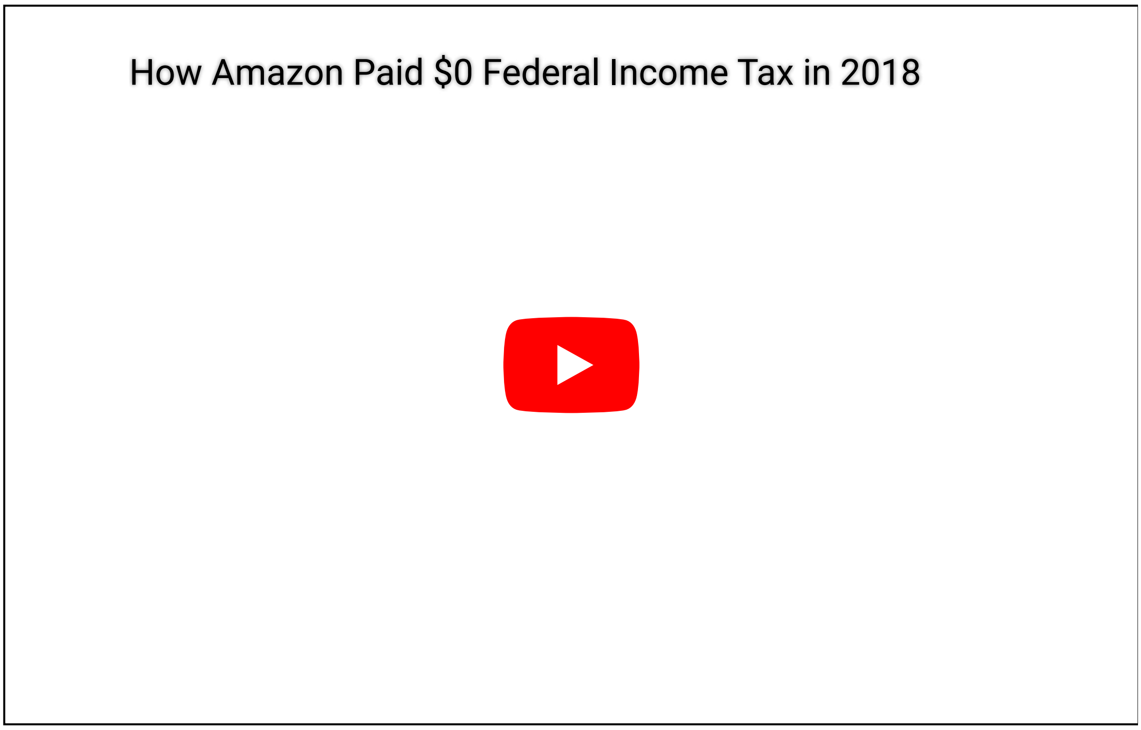
- **Managers and employees**: Management may wish to maximise productivity, while employees may prefer to work under less stressful conditions. One potential solution to this is employee participation in management or ownership (see Section 1.2.3 (/study/app/y12-business-management-a-sl-may-2024/sid-352-cid-174703/book/forprofit-social-enterprises-id-36841)) and performance-related pay (see **Subtopic 2.4 Motivation**).
- **Shareholders and managers**: Managers may sometimes look after their own interests rather than those of the shareholders. They may engage in activities that improve their personal reputation or remuneration without improving profits. One potential solution to this is granting managers stock options to buy shares in order to try to align their interests with those of shareholders. This solution, however, has become controversial

in recent years, and may pit managers with shareholders against other stakeholders with longer-term interests in the business.

Figure 1. It is usually the job of management to reconcile the competing interests of stakeholders.

Credit: Sorbetto, Getty Images

- **Shareholders and the government**: Governments expect businesses to pay their fair share of taxes, according to the law of the country in which they operate. Shareholders may pressure management to reduce the company's tax burden through sophisticated accounting and legal schemes. Minimising taxes is not in the interest of the government of the country in which the company's operations are located. Watch the video below to see how Amazon minimises its tax burden.



Video 1. How Amazon keeps down its tax bills.

- **Local community and shareholders:** Shareholders often want to maximise returns on investment, while the concerns of the local community and/or environmental groups often focus on sustainability. For example, local communities would want to ensure that environmental resources are not depleted and the area where the business operates is inhabitable in the long term.

Case study

Royal Dutch Shell (Shell) is a large Anglo-Dutch multinational company (MNC) that specialises in petrochemicals. Oil companies like Shell have come under increased pressure from external stakeholders, especially environmental groups, governments and investors, to reduce carbon emissions as a step towards combatting global warming.

In 2021, external stakeholders took a number of steps to steer Shell towards more sustainable production:

- A group of Dutch environmental NGOs won a court case that forced Shell to reduce CO_2 emissions by 45% (http://www.shell.com/media/news-and-media-releases/2021/shell-confirms-decision-to-appeal-court-ruling-in-netherlands-climate-case.html) by 2030 (compared to its 2019 emissions). This reduction will be at a faster rate than Shell would have preferred.

- A large European pension fund called ABP decided to (https://www.bloomberg.com/news/articles/2021-10-27/shell-s-isolation-at-home-increases-as-ally-fund-turns-away)divest (http://www.bloomberg.com/news/articles/2021-10-27/shell-s-isolation-at-home-increases-as-ally-fund-turns-away)(remove investment money) from Shell, citing environmental concerns.

These are examples of how stakeholders pursue their interests, which may not be in alignment, at least in the short term. For example, in the case of CO_2 emissions, both Shell and the environmental groups agree that emissions should be reduced. However, Shell is committed to a 45% reduction by 2050, while environmental pressure groups want a 2030 deadline.

As a result of the court decision on CO_2 emissions, and also to take advantage of lower UK taxes, Shell's management decided to abandon its dual Anglo-Dutch structure and move permanently to the UK (http://www.nytimes.com/2021/11/15/business/shell-britain-move.html). A further reason for the move was that it meant Shell would not face limitations on buying back shares, which it has encountered in the Netherlands.

These recent events surrounding Shell are just one example of the complex and sometimes conflicting interests of different stakeholders in a large multinational company.

Questions

1. Identify two stakeholders in the case study above. [2 marks]
2. Distinguish between the interests of the stakeholders above in the short term and the long term. [4 marks]
3. Suggest two policies that Shell and the government of the UK may implement to align the interests of the stakeholders. [4 marks]

Figure 2. The case of Royal Dutch Shell is an example of stakeholder conflict.

Concept

The case of Shell above raises questions aligned with the concepts studied in this course, namely:

- **Sustainability:** To what extent do companies have an obligation to pursue sustainable policies, and who decides on the timeline of sustainable policy benchmarks?
- **Ethics:** Why could it be considered unethical to move tax and legal domicile (changing the host country) to lower tax liability and/or to potentially avoid the court ruling to reduce CO_2 emissions?
- **Creativity:** To what extent is moving domicile the most creative way to address the company's needs?
- **Change**: With the increased pressures to pursue more environmentally sustainable practices, how could businesses change their operations to meet the interests and needs of stakeholders?

- **Managers and unions:** Managers may oppose unions' intervention in the relationship between managers and employees at a particular firm. This is because unions can assist employees in obtaining better wages and benefits from management than employees might otherwise negotiate on their own.

- **Customers and suppliers:** Customers demand high quality and low prices, which may be 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 by providing employment.

Activity

Learner profile: Inquirers
Approaches to learning: Research skills (information literacy); Thinking skills (critical thinking)

Take a well-known multinational company, such as McDonalds (USA), Nokia (Finland), Toyota (Japan) or Huawei (China), which has responsibilities to a variety of global stakeholders. Describe a few stakeholders in the company in its host country and then globally. Identify their areas of mutual interest or potential conflict. An example is shown in **Table 1**.

Table 1. An example of mutual interest/potential conflict between McDonalds and one of its stakeholders.

Stakeholder	Mutual interest/potential conflict	Other stakeholders affected

Stakeholder	Mutual interest/potential conflict	Other stakeholders affected
Beyond Meat, a vegetarian meat supplier	McDonalds has announced that the company will introduce vegetarian meat, produced by Beyond Meat, in its outlets. Beyond Meat will benefit from relations with the largest fast-food chain in the world. McDonalds customers will see a greater variety of products and, hopefully, more customers will be attracted to the fast food chain. This should lead to greater profitability in the long term benefitting the shareholders.	McDonalds customers

Figure 3. Multinational companies have an array of global stakeholders.

Credit: Maskot, Getty Images