

Designing businesses for stakeholder alignment

Stakeholders in a business need to be aware of other interested groups in order to operate harmoniously and profitably. For example, governments need to think of implementing taxation policies and regulatory frameworks (laws and regulations) that attract sustainable businesses to their countries without degrading their nations' long-term environmental sustainability.

Theory of Knowledge

Considering perspectives is an important part of the Theory of knowledge course. These can include your own perspectives and what informs them, the perspectives of researchers, those of stakeholders and how perspectives change over time.

It is clear that the perspectives and interests of stakeholders are important for a business to consider and react to in order for the enterprise to be successful.

Consider the following:

- How might the perspectives of stakeholders change over time?
- Why might conflicts between stakeholders be more prevalent in the short term than in the long term for businesses?

A business should meet the interests of the owners/shareholders while also serving the needs of its employees and the community. Local communities benefit from the business providing jobs and economic growth, but also need to be aware of longer-term environmental impact of its operations.

Although stakeholders may have conflicting interests, most companies and their stakeholders care about the long-term survival and health of the business. It is therefore often in a company's best interest to actively seek input from stakeholders and proactively search for areas of compromise.

Concept

Sustainability

Many businesses today actively aim to improve the sociocultural and environmental sustainability of their practices. Many have chosen to adopt a set of Environmental, Social and Governance (ESG) standards and have proactively sought to align their internal practices with ESG criteria. Aligning with ESG criteria is one way to improve corporate social responsibility. (You learned about this in [Section 1.3.2](#) ([/study/app/y12-business-management-a-sl-may-2024/sid-352-cid-174703/book/business-objectives-and-value-id-36848](#)).)

Examples of ESG criteria that companies may aim to improve are:

- eliminating harmful pollutants
- improving community relations and encouraging diversity
- promoting corporate transparency

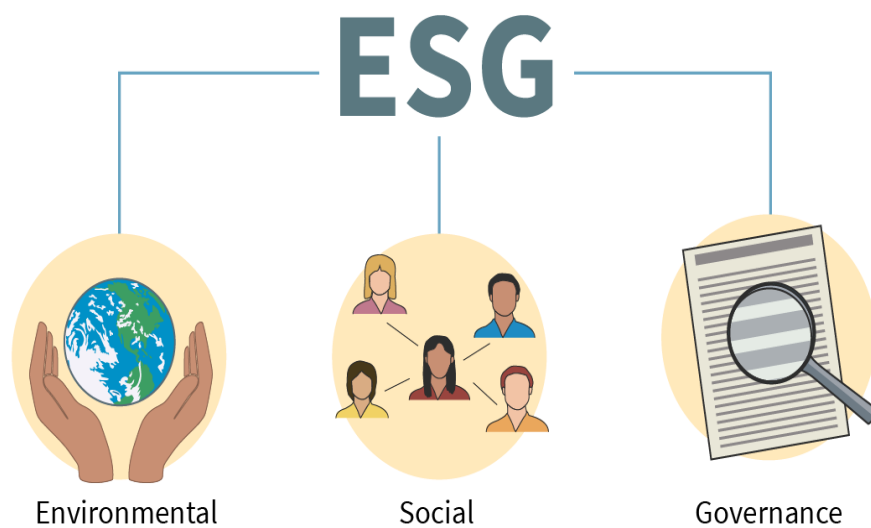


Figure 1. Many companies proactively choose to adopt the ESG framework.

Adopting the ESG framework is one example of how businesses can align their practices with the needs and interests of internal and external stakeholders. Other examples of implementing policies that ensure stronger alignment between the demands of stakeholders may include:

- **Designing manager compensation to align with long-term performance of the business:** Managers of companies often receive other forms of compensation in addition to a salary, such as shares in the company, stock options and pay tied to short- and long-term performance. Ensuring that managers' pay is tied to long-term performance could help managers pursue long-term objectives. However this is not easy. In 2021, the average

compensation plan for executives was only 1.7 years in duration (<http://www.fcltglobal.org/resource/executive-pay/>), which is a very short time horizon. The ESG standards and corporate social responsibility (CSR) objectives discussed in Section 1.3.1 (</study/app/y12-business-management-a-sl-may-2024/sid-352-cid-174703/book/vision-and-mission-statements-id-36847>), can only be achieved in the long term, so it is important to align financial incentives accordingly. Some companies have even gone as far as to have compensation based on group performance rather than individual performance, thus creating a common goal towards which teams can work.

- **Designing more flexible work policies:** When designing the working day, office space and employee policies, companies can be proactive in anticipating customer or employee needs and adjust policies accordingly. For example, a US-based company Badger has a Bring Baby to Work program (<https://www.forbes.com/sites/tanyaklich/2018/11/19/how-family-friendly-badger-balm-faced-cost-cutting-without-sacrificing-its-parent-benefits/?sh=3601676214ab>), where parents can bring their infants (under 6-months old) to the office with them. Since the COVID-19 pandemic, many employers have become more flexible in allowing staff to work either fully or partially from home.
- **Community feedback:** Companies may also ask for input from local communities before launching a project. While this has become more routine in urban planning and government projects, the practice could also benefit private companies. For example, it could help businesses such as Amazon to avoid the backlash against warehouses, as outline in Section 1.5.2 (</study/app/y12-business-management-a-sl-may-2024/sid-352-cid-174703/book/internal-and-ext-economies-id-36866>).

Making connections

In [Section 1.1.7 \(/study/app/y12-business-management-a-sl-may-2024/sid-352-cid-174703/book/tool-business-plan-id-36835\)](/study/app/y12-business-management-a-sl-may-2024/sid-352-cid-174703/book/tool-business-plan-id-36835), you were introduced to the business plan as a tool that businesses use to plan and share their business model. The business plan provides an ideal opportunity to actively design for stakeholder alignment in a business. It is much easier to plan for this when setting up a business than to correct poor business design later.

List at least three possible ways in which a business can incorporate its responsibilities to multiple stakeholders in the business plan.

Possible answers may include:

- The company's mission, which may include its commitment to sustainable practices. See how Patagonia's famous mission statement is explained on its [website \(http://www.patagonia.com.au/pages/our-mission\)](http://www.patagonia.com.au/pages/our-mission).
- Management pay structure and shareholder dividends.
- The company's policy on employee pay, benefits and flexibility of work.

Case study

Nisolo, a shoe brand with production facilities in Trujillo, Peru and distribution networks in the USA, has embraced its stewardship of the planet and responsibilities toward its employees. The company commits to:

- actively pursuing 100% living wages that cover the basic needs of people within supply chains
- actively pursue 0% net carbon for the planet through the reduction and offsetting of all carbon emissions
- elevating transparency by tracking and publicly sharing core metrics tied to the treatment of people and planet
- elevating accountability by validating practices through reputable third party certification and, when unavailable, self-evaluating and publishing progress
- ecosystem building: advocating for a more equitable fashion industry by supporting changemakers and legislation that protects and amplifies the rights of people and the planet.



Figure 2. Many companies now embrace the ESG framework.

Credit: IronHeart, Getty Images

Questions

1. Explain one way in which Nisolo attempts to align interests of internal and external stakeholders. [2 marks]
2. Describe two connections between the operations of the business and social and/or environmental sustainability. (Hint: You may want to consider the Doughnut Model or the SDGs outlined in [Section 1.1.2 \(/study/app/y12-business-management-a-sl-may-2024/sid-352-cid-174703/book/the-doughnut-economics-model-id-36830\)](https://study/app/y12-business-management-a-sl-may-2024/sid-352-cid-174703/book/the-doughnut-economics-model-id-36830) to make your response more specific.) [4 marks]