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The big picture

As you read in Section 1.3.1 (/study/app/business-hl/sid-351-cid-762729/book/vision-and-mission-statements-id-36516/), businesses are concerned with value creation. You saw that the issue of value is not only about *what* value is created, but also *for whom*. This raises some interesting questions:

- To what extent do businesses have a responsibility to distribute value to a wider range of stakeholders, rather than just delivering profits to shareholders?
- To what extent would distributing value more widely promote the longevity and resilience of the business?
- To what extent might stakeholders share long-term interests?

Historically, business leaders believed that the management of a company should simply concern itself with the profits generated for, and distributed to, the shareholders; they believed it was the responsibility of the government to think about the environmental or social costs.

These days, the thinking around profitability has shifted and more emphasis is now placed on meeting human needs within planetary boundaries. Leaders in the business world increasingly share the view that profitability should not come at the expense of the other stakeholders in the company, and a business can be both profitable and socially/environmentally sustainable at the same time. As mentioned in Section 1.3.1 (/study/app/business-hl/sid-351-cid-762729/book/vision-and-mission-statements-id-36516/), the book Net Positive (http://ig.ft.com/sites/business-book-award/books/2021/longlist/net-positive-by-paul-polman-and-andrew-winston/), by ex-Unilever CEO Paul Polman and sustainable business expert Andrew Winston, discusses this approach.

Overview (/study/ap hl/sid-351-cid-762729/c

This subtopic will focus on the role of stakeholders in a business. A stakeholder is any individual or group that affects, or is affected by, an organisation. Because stakeholders are interconnected, their interests may come into conflict and require negotiation and compromise. You may have experienced stakeholder conflicts yourself, such as:

- disagreements and compromises between coaches and athletes
- a conflict of interest between parents and their children
- a difference of opinion between teachers and school management

This subtopic explores stakeholders and their relationships, as well as areas of mutual interest and areas of conflict.

Figure 1. Stakeholders are interconnected and may experience conflict at times.

Credit: Yuichiro Chino, Getty Images

Learning objectives from the IBDP Business Management guide with assessment objective level:

- **Distinguish** between internal and external stakeholders (AO2)
- **Explain** the reasons for conflict between stakeholders (AO2)

Student view

1. Introduction to business management / 1.4 Stakeholders

Internal stakeholders

Introduction to stakeholders

An organisation is often thought of as a single unit making decisions as one entity. In reality, organisations are made up of different groups, called stakeholders, that often compete for influence and control. A stakeholder is any individual or group that affects, or is affected by, an organisation. Stakeholders can be classified according to whether they are considered to be inside the organisation (internal stakeholders) or outside the organisation (external stakeholders).

For example, the image below shows a variety of stakeholders, both internal and external, in a railway company.

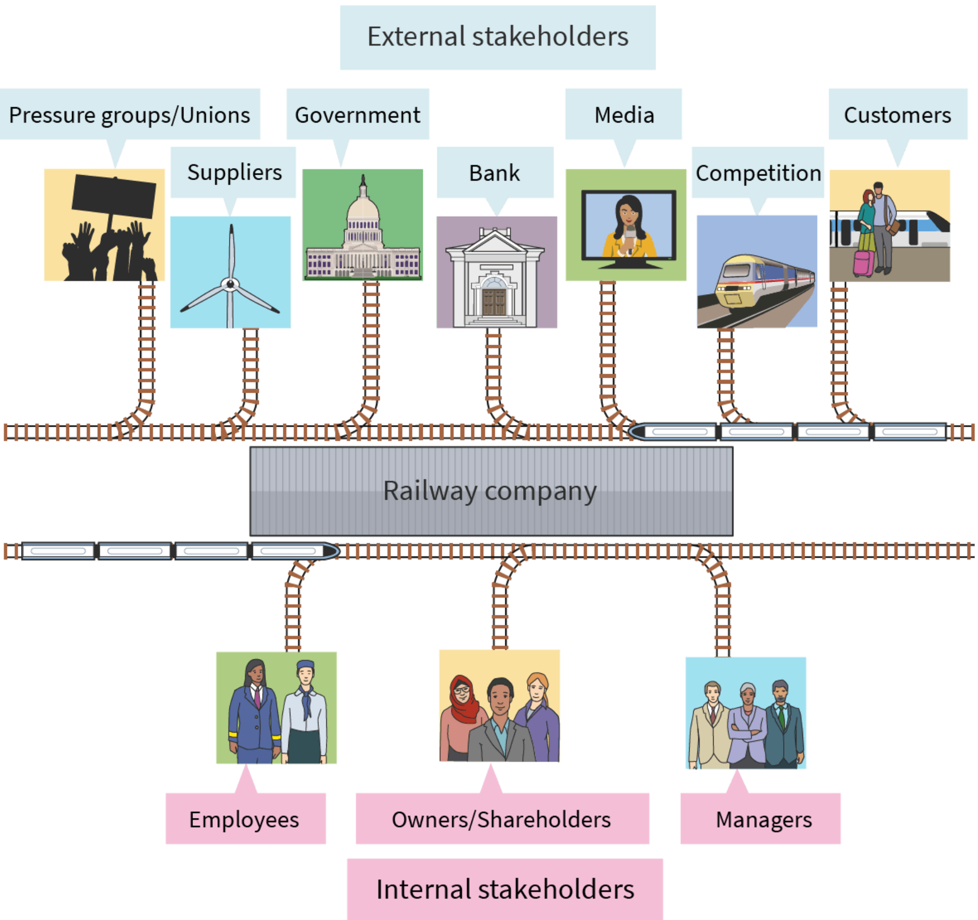

Figure 1. Internal and external stakeholders.

More information for figure 1

The diagram illustrates the internal and external stakeholders involved in a railway company. The central element of the diagram is a rectangular box labeled "Railway company," symbolizing the company itself. There are railway tracks connecting this central box to various stakeholder groups.

Above the central box, labeled "External stakeholders," there are six categories: 1. **Pressure groups/Unions** - Represented by an illustration of raised hands holding a sign. 2. **Suppliers** - Represented by an image of a wind turbine. 3. **Government** - Represented by an image of a government building. 4. **Bank** - Illustrated by a bank building. 5. **Media** - Represented by a person on a television screen. 6. **Customers** - Depicted by two individuals with luggage at a railway station.

These external stakeholders are connected to the railway company by tracks symbolizing their relationship and influence with the central organization.

Below the central box, labeled "Internal stakeholders," there are three categories: 1. **Employees** - Illustrated by a group of two people in uniform. 2. **Owners/Shareholders** - Depicted by a group of three person representatives. 3. **Managers** - Shown by another group of three people in business attire.

Similar to the external stakeholders, railway tracks connect these internal stakeholders to the central railway company box.

[Generated by AI]

Exam tip

You should be aware that the distinction between internal and external stakeholders is not always very clear. For example, internal stakeholders such as employees are also part of the community and have a different view on business activities in their role as part of the community. As internal stakeholders, they might be interested in job security and work conditions, while as external stakeholders they might be concerned about the business damaging the natural environment.

Internal stakeholders

An internal stakeholder is an individual or group that affects, or is affected by, an organisation and is directly involved inside the organisation. Internal stakeholders include managers, employees and (usually) shareholders.

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Managers are the individuals who run the organisation. They are responsible both for setting aims and objectives, and for making sure these aims and objectives are met. In order to be successful, managers must create an environment in which employees can work together to meet these objectives. Managers may have personal ambitions too, such as the advancement of their own careers, compensation, benefits, legacy and job security.

Employees are the individuals who work for the company. Like managers, employees are motivated by personal interests in compensation, benefits, job security and working conditions.

As many modern businesses have moved to empower employees, the distinction between managers and employees has become less clear. It is important to understand that in the real world people may have blurred stakeholder roles.

Figure 2. Many employees, such as engineers, may have both managerial and operations responsibilities, blurring their stakeholder roles.

Credit: TuiPhotoengineer, Getty Images

Shareholders are the owners of the company. Shareholders invest in a business in order to receive a return on their investment. They are therefore primarily concerned with the company's profitability. Profits will allow shareholders to receive a return on their investment in the form of dividends or an increase in the value of their ownership interest (capital gains).

Shareholders are sometimes considered to be external stakeholders because, in the case of large publicly held companies, they are generally not involved in the day-to-day running of the business. However, shareholders appoint a board of directors, which chooses a CEO to run the company in the shareholders' interest. This explains why most sources consider shareholders to be internal stakeholders.

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Figure 3. Shareholders in a corporation elect a board of directors to act in their interest.

Credit: skynesher, Getty Images

Internal stakeholders, such as managers and employees, can also be shareholders of the company. This is the case if some of their compensation is paid out in shares or if they choose to purchase company shares. In June 2020, during the COVID-19 pandemic, Zoom paid its employees stock bonuses (http://www.protocol.com/workplace/-zoom-pandemic-employee-stock-reward), so its employees benefitted from the increase in stock price. Again, this shows that there can be significant blurring of stakeholder roles.

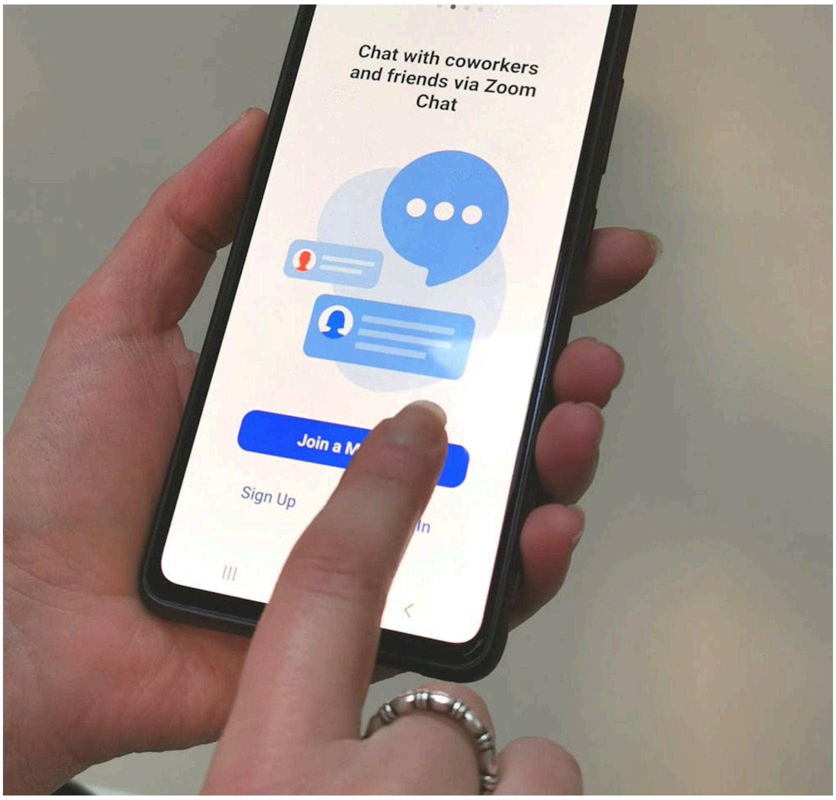

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Figure 4. Zoom gave stock to their employees in the pandemic.

Credit: Paperghosts

You should note that discussions related to shareholders tend to focus on publicly held companies. As mentioned in Section 1.3.1 (/study/app/business-hl/sid-351-cid-762729/book/vision-and-mission-statements-id-36516/), investors in these companies often look for short-term profits, placing them in conflict with the longer-term interests of some other stakeholders. One way in which governments try to align the interests of shareholders and other stakeholders in companies is by imposing a higher capital gains tax rate on short-term (speculative) investment and lower tax rates on long-term investment. This encourages long-term investment, aligning the interests of shareholders and other stakeholders of the company, with both focused on the long-term performance of the business.

In the case of sole traders, partnerships and privately held companies, there is no distinction between shareholders and managers. The individuals who own and run the organisation are the same, therefore their long-term interests are better aligned.

Exam tip

Do not confuse the terms 'stakeholders' and 'shareholders'. A shareholder is a part-owner of the company and is just one type of stakeholder.

Activity

Learner profile: Thinkers
Approaches to learning: Thinking skills (critical thinking)

Table 1 and **Table 2** below show data on long-term vs. short-term capital gains* taxes for a single person in the USA versus Japan.

*Long-term capital gains refers to gains on assets held longer than a year in the USA and held longer than five years in Japan.

Short-term capital gains refers to gains on assets held less than a year in the USA and less than five years in Japan.

Compare the tax rates based on the length of investment.

Student view

Table 1. US 2021 capital gains tax rates (up to $209 425).

Sources: NerdWallet (https://www.nerdwallet.com/article/taxes/capital-gains-tax-rates) (5 Janu
Forbes (https://www.forbes.com/advisor/taxes/taxes-federal-income-tax-bracket/)(10 Noven

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Personal income of taxpayer	Tax rate on short-term capital gains	Tax rate on long-term capital gai
$0 to $9950	10%	0%
$9951 to $40 400	$995 plus 12% over $9950	0%
$40 401 to $86 375	$4664 plus 22% of the excess over $40 400	15%
$86 375 to $164 925	$14 751 plus 24% of the excess over $86 375	15%
$164 925 to $209 425	$33 603 plus 32% of the excess over $164 925	15%

Table 2. Japan 2020 capital gains tax rates.
Source: Deloitte (https://www2.deloitte.com/content/dam/Deloitte/global/Documents/Tax/c japanhighlights-2020.pdf?nc=1) (January 2020)

Tax rate on short-term capital gains	Tax rate on long-term capital gains
30% (39.63% including national surtax and local inhabitants tax)	15% (20.315% including national surta local inhabitants tax)

Questions

1. Comment on how the tax structures outlined above could encourage long-term investment and how this would help to align the interests of shareholders with other stakeholders.

2. US President Joe Biden proposed a 43.4% capital gains tax on those taxpayers with personal incomes greater than 1 million USD. Japanese Prime Minister Fumio Kishida discussed the possibility of raising Japanese capital gains taxes in 2021.

   Discuss the extent to which a higher tax rate for higher earners is justified to promote **equity**. Identify arguments for and against such a tax from the point of view of different stakeholders.

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Concept

Change

Why/how can change bring conflict among stakeholders?

Change in the external environment can alter stakeholder interests, either by aligning them or by putting them in conflict. Change can also reveal aligned or conflicting interests that were not evident before.

In the wake of the COVID-19 pandemic, many governments imposed vaccine mandates that required businesses to demand that all workers show proof of vaccination to continue to work in person, especially those working in the public sector or in medical fields.

Here are some examples of where countries imposed a vaccination mandate by the end of 2021:

- Austria made Covid vaccines compulsory for those aged 14 and over, and imposed fines for non-compliance. You can read more about the regulation in the following article: 'Austria plans to fine vaccine holdouts up to 3,600 euros a quarter (https://www.reuters.com/world/europe/austria-announce-details-planned-covid-19-vaccine-mandate-2021-12-09)'.
- Peru made it a requirement that all businesses with more than ten employees present proof of employee vaccination.
- Hungary required that all healthcare employees be fully vaccinated.

Such regulations have the potential to cause conflict in some organisations as well as with the government, due to some individuals' refusal to get vaccinated. On the one hand, managers were obligated to follow government regulations. On the other hand, if some of their employees chose not to get vaccinated, the company would lose talent, since those without the vaccine would not be permitted to work.

Student
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Figure 5. Internal stakeholders, such as workers, may choose to reject COVID-19 vaccines, while other internal stakeholders, such as managers, are expected to enforce national vaccine mandates.
Credit: Prostock-Studio, Getty Images

5 section questions

Question 1

Which of the following is an individual or group that affects, or is affected by, an organisation?

1 Stakeholder ✓

2 Shareholder

3 Employee

4 CEO

Explanation

Those who affect, or are affected by, and organisation are called stakeholders. The other answers are examples of stakeholders, but the best answer in this case is the more general one — a stakeholder.

Question 2

The stakeholders most closely involved in a company are the 1 internal ✓ stakeholders. 2 External ✓ stakeholders are those who are not directly involved with company decision-making.

Accepted answers and explanation

#1 internal

#2 External

General explanation

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Internal stakeholders are those 'inside' the company and include managers, employees and shareholders. External stakeholders are parties 'outside' the company that are nonetheless affected by its decisions, and include customers, competitors, suppliers, banks, the government, society and pressure groups.

Question 3

Which internal stakeholder(s) would be more likely to benefit from, and therefore be concerned about, profitability?

1 Shareholders ✓

2 Employees

3 Labour unions

4 Suppliers

Explanation

While all stakeholders are affected by the profitability of a business, shareholders are the ones that receive dividends (share of profit). As a result, they are the most likely to benefit from a company being profitable. Employees and labour unions will also benefit from a company being profitable, but to a lesser extent than the shareholders.

Question 4

Which stakeholder(s) are most likely to be concerned about ethical treatment of workers?

1 Employees ✓

2 Shareholders

3 Customers

4 Governments

Explanation

Employees are the ones that are directly affected by how ethically they are treated; they represent the group that is most concerned about the ethical treatment of workers.

Student view

Question 5

Overview
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Which of the following is **not** an example of an internal stakeholder?

1 Supplier ✓

2 Employee

3 Owner

4 Manager

Explanation

Suppliers are examples of external stakeholders. Employees, owners and managers are internal stakeholders.

1. Introduction to business management / 1.4 Stakeholders

External stakeholders

Internal and external stakeholders Internal and external stakeholders

Section Student… (0/0) Feedback Print (/study/app/business-hl/sid-351-cid-762729/book/external-stakeholders-id-36527/print/) Assign

An external stakeholder is an individual or group that affects, or is affected by, an organisation, but who is not directly involved inside the organisation. For the most part, external stakeholders have less influence over the organisation than internal stakeholders. However, this does not mean that they can be ignored.

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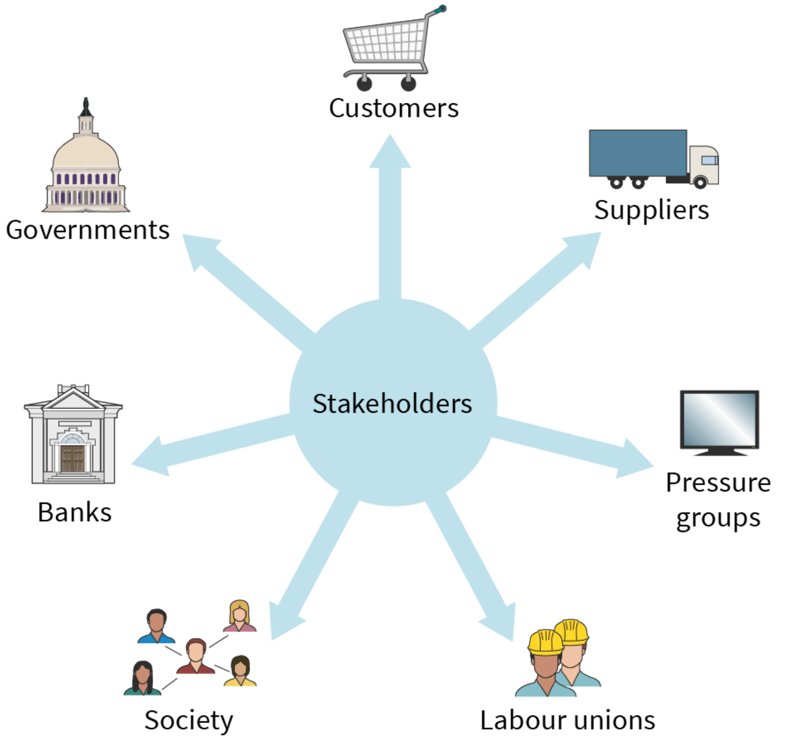

Figure 1. External stakeholders have less influence than internal stakeholders, but they cannot be ignored.

More information for figure 1

The diagram illustrates various external stakeholders of an organization, represented as a central circle labeled 'Stakeholders.' Arrows extend from the center to different icons and text labels surrounding it.

1. **Customers:** Shown at the top with a shopping cart icon, indicating individuals or businesses that purchase products.
2. **Suppliers:** Positioned to the upper right with a truck icon, representing companies providing goods or services.
3. **Pressure groups:** To the right with a computer monitor icon, signifying organized groups that can influence public opinion or policy.
4. **Labour unions:** At the bottom right with hard hat icons, indicating groups advocating for workers' rights.
5. **Society:** To the lower left with group icons of people, reflecting the broader community affected by the organization.
6. **Banks:** Positioned to the lower left of center with a building icon, representing financial institutions involved in funding.
7. **Governments:** At the far left with a government building icon, denoting entities that regulate or influence policies.

These stakeholders, while external, have varying degrees of influence over the organization, emphasizing their importance in strategic planning.

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Customers include both individuals and other businesses that purchase the products of the organisation. They demand good service and quality products that are also safe and are sold at a reasonable price. Customers can be a driving force for a company to change its practices in order to be more ethical and sustainable. In many research surveys, the majority of people that respond say that they would switch brands if a business violated their values.

Activity

Learner profile: Principled
Approaches to learning: Research skills (media literacy)

Consumers can affect business decisions, but only if they are informed about ethical and sustainable business practices. An increasing number of platforms help consumers put their power to use.

One such platform is Ethical Consumer (https://www.ethicalconsumer.org/food-drink/shopping-guide/ethical-chocolate), a non-profit social enterprise that rates consumer goods.

1. Open the Ethical Consumer website (https://www.ethicalconsumer.org/food-drink/shopping-guide/ethical-chocolate) , find a chocolate brand that you are familiar with and find its ranking based on cocoa and palm oil sourcing.
2. Find a chocolate brand similar to the one you have just accessed but that has a better rating.
3. How easy or difficult would it be for you to change your buying habits to a business with a better rating? Why?

Suppliers are the individuals and businesses that sell goods and services to another organisation. They want to be paid prices that are both fair and reasonable for these inputs. They also wish to maintain a stable business relationship with the companies they supply in order to ensure a reliable market for their goods. Suppliers are therefore concerned about the health and continued existence of the businesses to which they sell.

International Mindedness

In Subtopic 1.6 (/study/app/business-hl/sid-351-cid-762729/book/the-big-picture-id-36543/) you will learn about multinational companies (MNCs). Since these businesses operate in more than one country, their stakeholders — such as customers, suppliers

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and employees — may be based in different countries. As a result, they may have different legal frameworks and also different expectations of what constitutes ethical and sustainable practices.

Governments regulate organisations in order to protect the public interest. They also enforce laws and reprimand businesses when necessary. In addition, governments, particularly local governments, are dependent upon businesses to provide tax revenues and employment. In some cases governments are also customers of businesses, as is the case for the defence industry and the pharmaceutical industry.

As you learned in Section 1.2.3 (/study/app/business-hl/sid-351-cid-762729/book/forprofit-social-enterprises-id-36510/), governments also sometimes hire for-profit social enterprises to provide essential public services, such as recycling.

Governments may also intervene to align the interests of stakeholders.

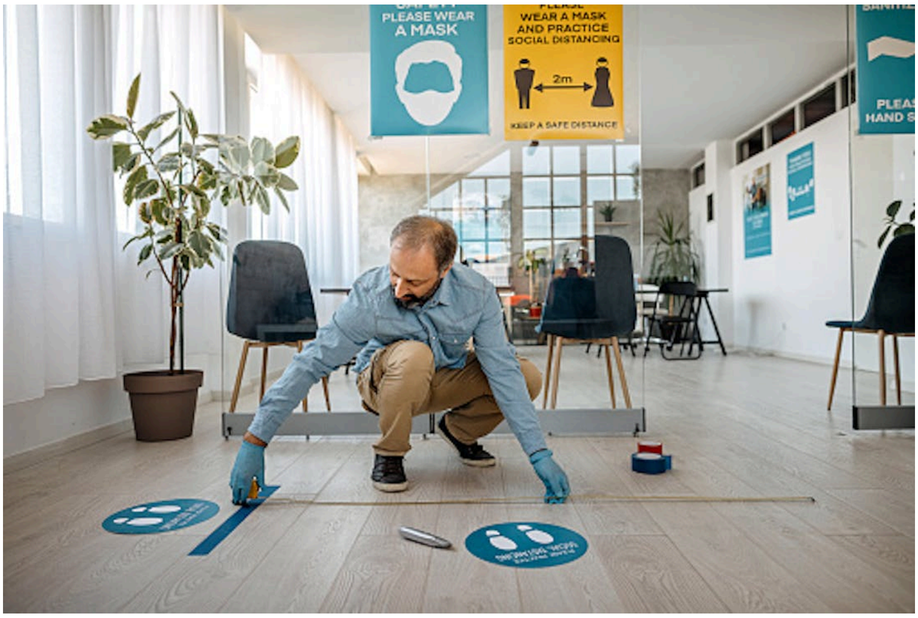

Figure 2. During the COVID-19 pandemic, governments introduced guidance and regulation to protect all stakeholders in an organisation.

Credit: Mixetto, Getty Images

Labour unions exist to protect the livelihoods and rights of employees; they are important stakeholders for many organisations. Unions usually represent employees in many different companies; that way they have more resources to defend employees' interests than the employees in a single company acting alone. You will study unions in **Subtopic 2.7**.

Student
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Banks and financial institutions lend organisations money so they can invest and carry out their operations. Banks want to be sure that these loans are paid back, with interest, on time. They will therefore monitor the organisation's financial health closely using final accounts (**Subtopic 3.4**). Banks will also pay attention to other indicators of the organisation's health as reported in the community and in the media. In the event of difficulty, companies may be able to renegotiate the payment schedules they have with their lenders. You will study these issues in **Subtopic 3.2**, Sources of finance.

Society as a whole, as well as the natural environment, is affected by business behaviour. When society's interests are not adequately met by businesses or defended by government, local communities, pressure groups (also called interest groups) and/or environmental organisations may step in to hold businesses accountable to communities and the environment. Local communities are most directly impacted by business decisions to locate to a given area, or to shut down their operations there. These communities may benefit from jobs and tax revenues, but may also be disadvantaged by things like traffic and pollution.

Figure 3. Environmental or other groups will often protest against business or government behaviour.

Credit: E4C, Getty Images

Activity

Learner profile: Knowledgeable
Approaches to learning: Thinking skills (critical thinking)

Sort the following into internal and external stakeholders.

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Local politicians
NGOs
Owners
Suppliers
Employees
Labour unions
Partners in a partnership
Local community
Managers
Shareholders

Check

Interactive 1. Understanding Business Stakeholders: Internal and External Groups.

Activity

Learner profile: Thinkers
Approaches to learning: Thinking skills (critical thinking, transfer)

Think of a local business with which you are familiar. It could be an on-campus store or a local cafe. Copy and complete the table below showing the interests of external and internal stakeholders in the business and discuss with a partner or submit to your teacher.

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Business and Stakeholder Interests Analysis			
Local business name:			
Stakeholders	**What do they expect from the business?**	**What structures and provisions exist to represent their interests?**	**What can t do to get w they want?**
Internal stakeholders			
External stakeholders			

2 section questions

Student view

Overview
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Question 1

Name the type of stakeholder that sells goods and services to another organisation.

Supplier ✓

Accepted answers

Supplier

Also accepted

supplier, Suppliers, suppliers, Proveedor, proveedor, proveedores, Proveedores, fournisseur, Fournisseur, le fournisseur, Providers, suplliers

Explanation

Suppliers are organisations that sell inputs to another organisation.

Question 2

What is the name given to an organisation that protects employees' rights?

Labour union ✓

Accepted answers

Labour union

Also accepted

Trade unions, Unions, Trade union, Union, Labour union, Labour unions, A trade union, A union, A labour union, labor unions, labor union, Labor union, Labor unions, international labor organization, Labor Union, Laborunion

Explanation

Unions are organisations that exist to protect employees' rights, as well as their interests, such as pay and benefits.

1. Introduction to business management / 1.4 Stakeholders

Stakeholder conflict

Conflict between stakeholders Conflict between stakeholders

Section Student... (0/0) Feedback Print (/study/app/business-hl/sid-351-cid-762729/book/stakeholder-conflict-id-36528/print/) Assign

Stakeholders are interdependent and yet there can be tension between their interests. Both this section and Section 1.4.4 (/study/app/business-hl/sid-351-cid-762729/book/designing-businesses-for-stakeholder-alignment-id-36529/) will explore areas of stakeholder alignment and areas of stakeholder conflict.

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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 stakeholders 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.

Student view

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

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- **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/business-hl/sid-351-cid-762729/book/forprofit-social-enterprises-id-36510/)) 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.

Student
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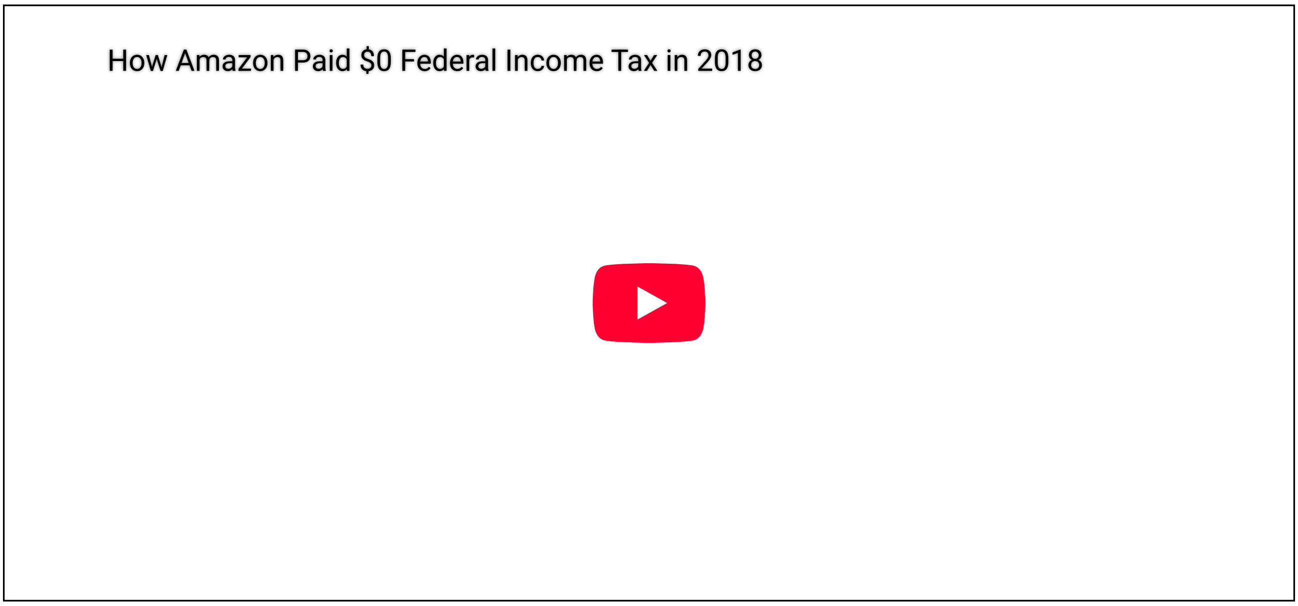

Video 1. How Amazon keeps down its tax bills.

- **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 (https://www.theguardian.com/environment/2021/oct/26/abp-pension-fund-to-stop-investing-in-fossil-fuels-amid-climate-fears)(remove investment money) from Shell, citing environmental concerns.

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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]

Question 1

Environmental groups, governments of the UK and the Netherlands, Shell shareholders, Shell employees, Shell management.

Identify is an AO1 level command term requiring that you provide an answer from a number of possibilities outlined above.

- One mark for identifying one stakeholder.
- Two marks for identifying two stakeholders.

Question 2

Environmental groups may be concerned with the company's emissions in the long and short term, while the shareholders in the company may be concerned with short- to medium-term profitability. The management of the company may be concerned that complying with the long-term limits on emissions would impact short-term operating costs (the costs of running a business).

Distinguish between is an AO2 level command term that requires you to make clear what the differences are between two or more concepts or items.

Both the long- and short-term interests for each of the two stakeholders need to be described and a contrast clearly highlighted. You should visibly separate short paragraphs that describe a stakeholder and their long- and short-term

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interests and use information from the case study (example) to support the response. Other responses are possible and would be rewarded if appropriate.

- Two marks are given for distinguishing between the needs of two stakeholders in the long or short term.
- Four marks are given for distinguishing between the needs of two stakeholders in both the long and short term.

Question 3

If all stakeholders take the long-term view of the situation, it may be easier to align their interests. For example, one such alignment could be tying compensation of the CEO to long-term environmental performance of the company. Another policy could be tying corporate tax rates to Shell meeting specific CO_2 reduction targets.

Suggest is a AO2 level command term that requires you to propose a solution, hypothesis or other possible answer.

- Two marks are given for one reasonable policy described to address the needs of two or more stakeholders.
- Four marks are given for two reasonable policies described to address the needs of two or more stakeholders.
- You must always include theory and application to the case study in your responses to achieve full marks.

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

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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**.

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

Stakeholder	Mutual interest/potential conflict	Oth stakeh affec
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.	McDona custome

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

Credit: Maskot, Getty Images

2 section questions

Question 1

Managers, employees, unions, shareholders and government are all stakeholder groups. Which of these statements best describes potential conflicts between them?

1 All of these stakeholders can come into conflict. ✓

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2 Managers and employees are most likely to come into conflict.

3 Shareholders and the government are most likely to come into conflict.

4 Managers and unions are most likely to come into conflict.

Explanation

Each stakeholder group has its own interests, and there is almost an infinite variety of potential stakeholder conflicts. Those included in this section are examples of potential conflicts, but there are many others.

Question 2

Stakeholder conflicts can involve ...

1 any two stakeholder groups. ✓

2 two internal stakeholder groups.

3 an internal stakeholder group and an external stakeholder group.

4 two external stakeholder groups.

Explanation

Almost any stakeholder group can potentially have a conflict with any other stakeholder group.

1. Introduction to business management / 1.4 Stakeholders

Designing businesses for stakeholder alignment

Conflict between stakeholders Conflict between stakeholders

Section Student... (0/0) Feedback Print (/study/app/business-hl/sid-351-cid-762729/book/designing-businesses-for-stakeholder-alignment-id-36529/print/) Assign

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.

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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/business-hl/sid-351-cid-762729/book/business-objectives-and-value-id-36517/).)

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

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

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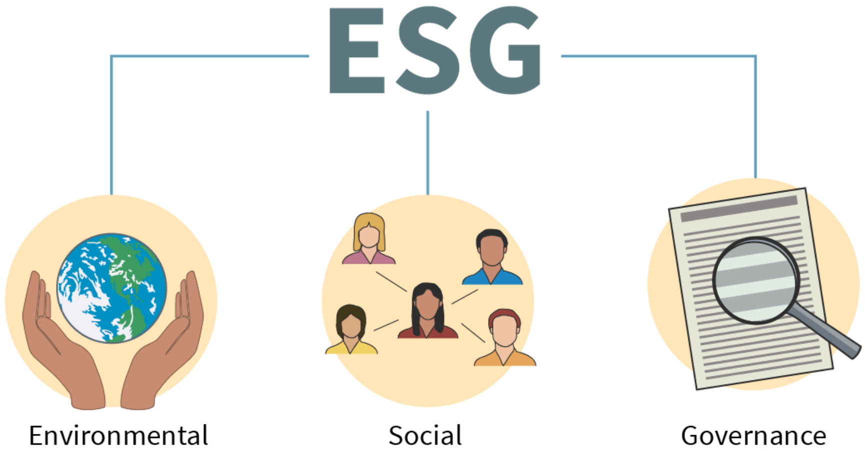

Figure 1. Many companies proactively choose to adopt the ESG framework.

More information for figure 1

The diagram illustrates the ESG framework, which stands for Environmental, Social, and Governance. At the top center, 'ESG' is prominently displayed. Below it, three elements branch out:

1. **Environmental**: On the left, represented by a globe image cradled by two hands, highlighting the focus on environmental stewardship and sustainability.
2. **Social**: In the middle, a network of five diverse people is connected by lines, symbolizing social relationships, diversity, and community engagement.
3. **Governance:** On the right, a document with a magnifying glass on top indicates a focus on governance, transparency, and accountability.

These three components are visually connected, emphasizing their integrated role in the ESG framework.

[Generated by AI]

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

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Section 1.3.1 (/study/app/business-hl/sid-351-cid-762729/book/vision-and-mission-statements-id-36516/) 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/business-hl/sid-351-cid-762729/book/internal-and-ext-economies-id-36534/).

Making connections

In Section 1.1.7 (/study/app/business-hl/sid-351-cid-762729/book/tool-business-plan-id-36505/) 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).
- Management pay structure and shareholder dividends.
- The company's policy on employee pay, benefits and flexibility of work.

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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/business-

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hl/sid-351-cid-762729/book/the-doughnut-economics-model-id-36500/) to make your response more specific.) [4 marks]

Question 1

The business aims to include the interest of internal stakeholders as follows:

- Nisolo commits to paying living wages to its employees. This promotes longer-term employment and loyalty to the company.

The business aims to include the interests of external stakeholders as follows:

- Seeking third party certification for their practices. This allows the business to obtain an external evaluation of their policies and adjust to include the interests of external stakeholders, such as local communities or suppliers.
- Carbon emissions offset refers to the business pursuing policies that counteract carbon emissions. This policy allows Nisolo to address potential concerns of local communities or environmental groups.

Explain is an AO2 level command term requiring a detailed account including reasons or causes. Explain *why*, explain *how*.

- Only one point needs to be made. Other responses are possible and would be rewarded if appropriate.
- To achieve full marks, you must always include theory and application to the case study in your responses.

Question 2

Possible answers may include:

- The business is actively working to offset carbon emissions (causing climate change) thus attempting to stay within the ecological ceiling outlined by the Doughnut Model.
- The company is aiming to fortify the social foundation by providing dignified employment and providing a living wage (income).

Describe is an AO1 level command term requiring a detailed account. Describe *what* something is.

- Two marks are given for correctly identifying and explaining one connection between Nisolo's operation and social and/or environmental sustainability (perhaps connecting to the Doughnut Model or SDGs), using information from the text to support the response.
- Four marks are given for correctly identifying and explaining two connections between Nisolo's operation and social and/or environmental sustainability (perhaps connecting to the Doughnut Model or SDGs), using information from the text to support the response.

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- To achieve full marks, you must always include theory and application to the case study in your responses.

2 section questions

Question 1

Which of the following could be a way to align the interests of employees and managers?

1. Increase decision-making transparency and tie compensation for both employees and managers to long-term company performance. ✓
2. Put employees on short-term renewable contracts.
3. Reduce decision-making transparency and increase manager pay without increasing employee pay.
4. Employee and manager interests are always aligned, therefore no policy change is needed.

Explanation

Tying compensation of both employees and managers to the business's long-term performance would ensure that their interests and long-term goals are aligned. Putting employees on short-term contracts is an incorrect choice, as it does not promote long-term alignment of interests. Increasing manager pay without increasing employee pay may generate resentment and may not serve to align long-term interests.

Question 2

How could a business ensure that it is aligning its interests with those of the local community?

1. Conduct an environmental study and ask for feedback from the local community before, and over, the course of operation. ✓
2. Follow the same procedures as in their previous project without adjusting for the needs of the new community.
3. Maximise profits without ensuring long-term sustainability of the project.
4. Bribe a corrupt government official for an environmental permit.

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Explanation

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A business can align its interests with those of the local community by asking for feedback before and during operations and adjusting operations accordingly.

1. Introduction to business management / 1.4 Stakeholders

Terminology exercise

Section Student... (0/0) Feedback Print (/study/app/business-hl/sid-351-cid-762729/book/terminology-exercise-id-36530/print/) Assign

Check that you understand the terminology used in this subtopic by dragging the correct word into each space.

Businesses are increasingly concerned with maximising returns for their ______ and increasing the value of their assets (in other words, with their ______). They are also concerned with creating value for other stakeholders or those who are affected by the organisation.

Further, businesses should aim to align the long-term interests of ______ stakeholders (those directly involved in the organisation) with the interests of ______ stakeholders (those outside the organisation). ______ have the added challenge of catering to a variety of global stakeholders.

external | shareholders | capital gains | internal | MNCs

Check

Interactive 1. Stakeholders and Business Interests.

1. Introduction to business management / 1.4 Stakeholders

Checklist

Section Student... (0/0) Feedback Print (/study/app/business-hl/sid-351-cid-762729/book/checklist-id-36531/print/) Assign

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What you should know

By the end of this subtopic, you should be able to:

- define the following terms: (AO1)
  - stakeholders
  - internal stakeholders
  - external stakeholders
  - shareholders
- distinguish between internal and external stakeholders (AO2)
- explain the interests of a particular stakeholder group (AO2)
- explain at least one possible area of mutual benefit, or at least one potential conflict, between stakeholders (AO2)
- suggest possible solutions to stakeholder conflict (AO2)

Reflection

Teacher instructions

The goal of this section is to encourage students to pause at the end of the subtopic and to reflect on their learning. Students can use the questions provided below to guide their reflection. The questions encourage students to look at the bigger picture and to consider how the subtopic's contents might have impacted the way they view the subject.

The following table shows you how each prompt aligns to the DP *Business management guide*:

Prompt #	Syllabus alignment
1	**Learner profile:** Principled

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Prompt #	Syllabus alignment
2	**Concept:** Ethics

Students can submit their reflections to you by clicking on ‘Submit’. You will then see their answers in the ‘Insights’ part of the Kognity platform.

Reflection

In this subtopic you looked at stakeholders and stakeholder conflict.

Take a moment to reflect on your learning so far. You can use the following questions to guide your reflection. If you click ‘Submit’, your answers will be shared with your teacher.

1. Think of a stakeholder conflict in your school or another group you belong to (music orchestra, sports team, etc.), now or in the past. How was the stakeholder conflict resolved? To what extent did the parties remain principled while resolving the conflict?
2. To what extent do you agree with the following statement: ‘All stakeholder conflicts involve ethics’?

Once you submit your response, you won't be able to edit it.

0/2000

Submit

Rate subtopic 1.4 Stakeholders

Help us improve the content and user experience.

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