17 Shareholders versus stakeholders

Definition

A shareholder owns a proportion of a company's share capital and therefore has voting rights at the annual general meeting. A stakeholder is any individual or group affected by the activities of an organisation.

Linked to: Corporate objectives, Ch 1; Reasons for staying small, Ch 10; Corporate influences, Ch 15; Business ethics, Ch 18

17.1 Introduction

All firms come into contact on a daily basis with suppliers, customers, the local community and employees. Each of these groups has an impact on the firm's success and at the same time is likely to be affected by any change in its activities. If, for example, the managers decide to expand the business, this may lead to:

- overtime for employees
- more orders for suppliers
- a wider range of products for consumers
- more traffic for the local community.

Groups such as suppliers, employees and the community are known as the firm's **stakeholder** groups because of their links with the organisation. A stakeholder group both has an effect on and is affected by the decisions of the firm. Each stakeholder group will have its own objectives. The managers of a firm must decide on the extent to which they should change their behaviour to meet these objectives. Some, but not all, firms believe they can benefit from co-operating with stakeholder groups and incorporating their needs into the decision-making process. Examples include:

- improving the working life of employees through more challenging work, better pay and greater responsibilities, so that the business benefits from a more motivated and committed workforce
- giving something back to the community to ensure greater co-operation from local inhabitants whenever the business needs their help; for example, when seeking planning permission for expansion
- treating suppliers with respect and involving them in its plans so that the firm builds up a long-term relationship; this should lead to better-quality supplies and a better all-round service; if, for example, your supplier has limited availability of an item, it is more likely you would still get supplied because of the way you have treated the supplier in the past.

Despite the benefits that are evident in a stakeholder approach, many managers believe that an organisation's sole duty is to its investors (that decisions should be made in the best interests of **shareholders** alone). Generally, this means maximising **shareholder value** (increasing the share price and the dividends paid to shareholders). Even company directors who instinctively want to serve all the stakeholders often find that day-to-day pressures force them to pay primary concern to shareholders' interests – because shareholders are the only people with the power to get rid of the board of directors.

'If you look after your customers and you look after your staff then shareholders will do very well ... If you put shareholder interest – particularly short-term interest – first, you don't create a business.'

Ian Gregg, who built Greggs from one shop to 1,600

Figure 17.1

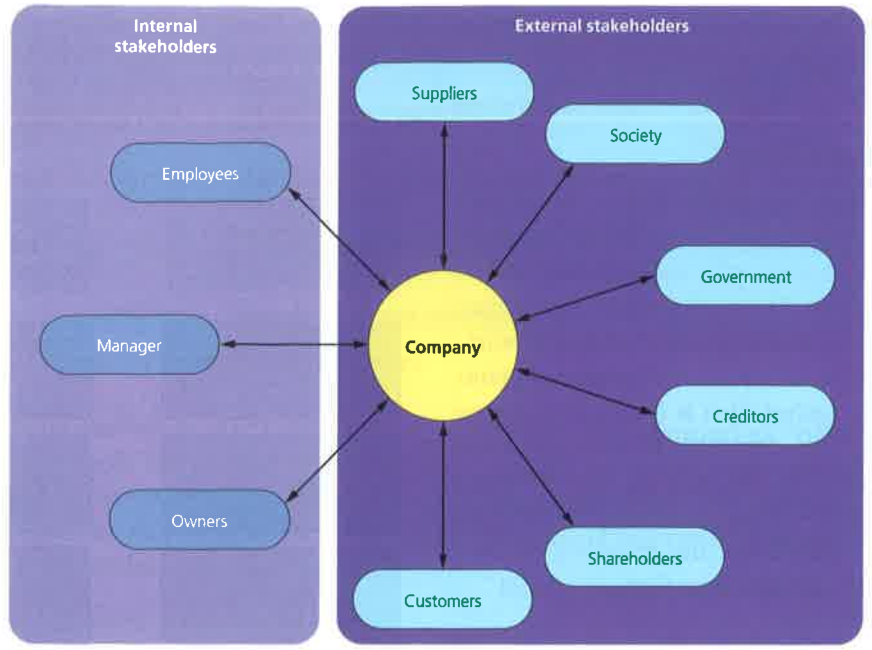

Figure 17.2 Internal and external stakeholders

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Although it is easy to come up with a long list of possible stakeholders, it makes sense to try to identify the more important groups. One way is to divide them into internal and external stakeholders. In Figure 17.2 it is important to take the dividing line between internal and external as no more than a guideline. After all, 'owners' are listed as internal while 'shareholders' are external – yet they are legally one and the same. The point is that whereas Ray Kelvin, founder of Ted Baker plc, owns a 35 per cent stake in the company (and is clearly an internal stakeholder), most small shareholders may only have £1,000 of shares and only a passing interest in the business. Therefore the latter are external stakeholders.

Well-run businesses think about the potential value of drawing relevant stakeholder groups away from the external towards the internal category. Franchise owners such as Subway want their franchisees to feel part of the 'family'. So although franchisees are really customers, they are treated as internal stakeholders. It would be a foolish franchisor who kept franchisees at arms' length, in a them-and-us stand-off.

17.3 Stakeholder objectives

Each stakeholder group is likely to have a primary objective that may or may not coincide with the objectives of the other groups. Staff are likely to prioritise stability and security. Shareholders, with an eye on the profit potential of robotics, may have other ideas. The objective that is most likely to create agreement is growth. But local residents may think of traffic congestion due to increasing deliveries. Table 17.1 shows the most likely objectives for the main stakeholder groups. Note that there is no reason to suppose that internal stakeholders have a common purpose – with or against external ones.

Stakeholder group	Main objectives
Staff	Growth (preferably organic); new technology by product, not process; rising profits (if they're shared in some way)
Managers/directors	Growth (organic or inorganic); new technology by process or product; rising profits (especially if bonuses are available)
Shareholders	Rising profits – short-term and long-term
Suppliers	Growth
Customers	Quality of product and service; innovative new products
Bankers	Stable profits
Local residents	Clean, green production with few deliveries or despatches

Table 17.1 Objectives of main stakeholder groups

17.4 Stakeholder and shareholder influences

Influence of stakeholders

There is no doubt that businesses today understand the public relations benefits that come from a positive corporate image based on respect for stakeholders. This is how Ben & Jerry's became America's favourite ice cream and how Innocent Drinks became Britain's favourite start-up. But ultimately both sold out to the corporate giants they claimed they were against: Ben & Jerry's to Unilever for $326 million and Innocent Drinks to Coca-Cola for a final valuation of £320 million. So was Innocent *really* concerned about providing something healthy for its customers? Surely, ultimately, the founders' actions showed that shareholders always came first.

Despite these reasons for scepticism, there are companies that make a consistent effort to consider all stakeholders when setting objectives and making decisions. In Britain, the John Lewis Partnership is held up as an exceptional example of how to deal with stakeholders fairly. Customers feel they are buying ethically sourced, high-quality products and suppliers feel better looked after than with Tesco, Boots and many other high-street retailers. Impressively, suppliers also speak warmly about their dealings with the 'hard discounters' Aldi and Lidl. And for customers, the low prices and high quality standards are pleasing. In its 2015 survey, *The Grocer* magazine's annual 'Own Label Product Awards' placed Lidl first and Aldi second. It is possible, then, to provide high quality, reasonable prices, yet keep suppliers onside.

Influence of shareholders

In the first quarter of its 2015 financial year, McDonald's suffered a sixth quarter of falling same-store sales in America and weakness in Europe as well. While McDonald's sales were declining, Domino's Pizza enjoyed a 14.5 per cent increase in sales in America. And how did financial analysts and stock market professionals respond to this crisis? By pressing its new chief executive about a series of issues that add up to nothing more than financial engineering, for example taking on more debt. That is an attempt to boost profits by financial means, not trading improvements. Surely shareholders should be taking the long view and asking whether McDonald's menu and its service standards are fit for the modern world?

If shareholders seem obsessed with quick fixes to boost profits and the share price, it's very hard for senior executives to buck this trend. In effect the directors inevitably end up doing what the shareholders want. To boost dividend payments and the share price, higher profits are needed. So they will be delivered.

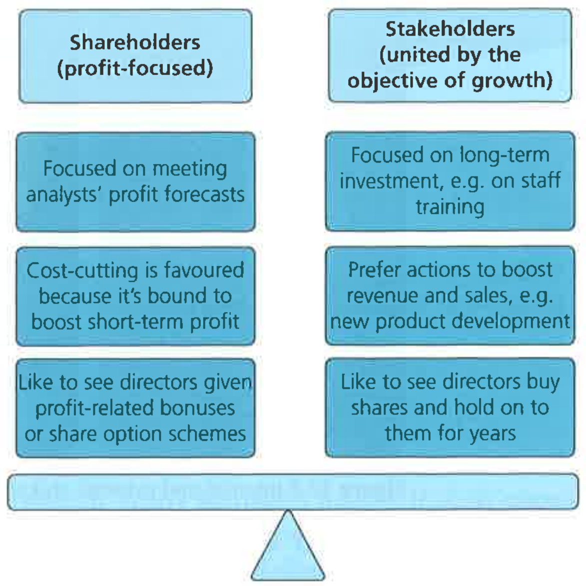

Figure 17.3 Logic balance: stakeholders vs shareholders

17.5 Potential for conflict between shareholder and stakeholder objectives

Certain business circumstances may be to the advantage of all primary stakeholders. If, like Primark, your business concept is working successfully overseas, there are benefits to staff (promotion prospects), the board (bonuses), suppliers, shareholders, financiers and distributors. Even among external shareholders there are potential benefits to Inland Revenue and the wider community. Perhaps the only negative comments might come from environmental **pressure groups**.

Sadly, this is not often the case. All too often different stakeholders seem unable to stop themselves taking advantage of any weakness in others. In July 2014 Lloyds Bank was fined £105 million by the UK's Financial Conduct Authority and ordered to pay the Bank of England £7.76 million. Lloyds had not only rigged markets but had also deliberately underpaid the British government for help given to keep Lloyds afloat during the tough days in 2009 and 2010. By attempting to benefit its shareholders at the cost of the government and the taxpayer, Lloyds' executives were showing clearly where their stakeholder priorities lie.

Situation	Shared interests/needs between stakeholders	Conflicting stakeholder interests/needs
Productivity advance – perhaps coming from a staff suggestion scheme	Shareholders, managers and customers	Managers and employees (threats of redundancy)
Fashion or weather turns in your favour	Shareholders, managers, suppliers and employees	Green campaigners may object to increased resource use
Consumer demand switches from shops to e- and m-commerce	Shareholders and customers	Managers and employees
High and rising inflation	Shareholders and managers	Employees, suppliers and customers

Table 17.2 Stakeholder needs in different business circumstances

'We intend to conduct our business in a way that not only meets but exceeds the expectations of our customers, business partners, shareholders, and creditors, as well as the communities in which we operate and society at large.'

Akira Mori, Japanese businessman

'Find the appropriate balance of competing claims by various groups of stakeholders. All claims deserve consideration but some claims are more important than others.'

Warren Bennis, business author

Five whys and a how

Question	Answer
Why may it be risky for a business to focus solely on shareholder value?	Because the interests of wider stakeholders may lead to bad publicity, for example Primark and its low-cost Asian suppliers.
Why might a company choose to act with social responsibility – but without publicising it?	It might see more advantage in focusing on the good than in publicising the good, e.g. knowing that staff like pursuing a goal other than shareholders' profits.
Why may staff feel that they should be treated as a higher priority than other stakeholders?	Because the staff are actually the heart of the enterprise. It's like football fans and football managers – the latter come and go but the former are there for the long term.
Why might it be sensible to give thought to who your internal stakeholders *should* be?	Because it's helpful to think about who the business really needs a strong relationship with, e.g. Jaguar Land Rover treating supplier GKN as a key part of JLR's success.
Why might a new small company treat customers as its only key stakeholder?	Because the business will stand or fall on repeat purchase and word of mouth from those customers.
How might a large clothing retailer establish effective consultation with its stakeholders?	It would be hard because there are potentially so many of them. Perhaps get two representatives from each stakeholder group – then meet regularly (every two months?)

17.6 Shareholders versus stakeholders – evaluation

In recent years, there has been much greater interest in the idea that firms should pay attention to their **social responsibilities**. Increasingly, firms are being asked to consider and justify their actions towards a wide range of groups rather than just their shareholders. Managers are expected to take into account the interests and opinions of numerous internal and external groups before they make a decision. This social responsibility often makes good business sense. If you ignore your stakeholder groups, you are vulnerable to pressure group action and may well lose customers and your brightest employees.

It may not be possible to meet the needs of all interest groups, however. Firms must decide on the extent to which they take stakeholders into account. Given their limited resources and other obligations, managers must decide on their priorities. In difficult times it may well be that the need for short-term profit overcomes the demands of various stakeholder groups. It would be naive to ignore the fact that TV consumer programmes such as the BBC's *Watchdog* keep exposing business malpractice. Even if progress is being made in general, there are still many firms that persist in seeing short-term profit as the sole business objective.

Key terms

Pressure group: a group of people with a common interest who try to further that interest (for example, Greenpeace).

Shareholder: an owner of (part of) a company.

Shareholder value: a term widely used by company chairmen and chairwomen, which means little more than the attempt to maximise the company's share price.

Social responsibilities: duties towards stakeholder groups, which the firm may or may not accept.

Stakeholder: an individual or group that affects and is affected by an organisation.

17.7 Workbook

Revision questions

(45 marks; 45 minutes)

1 What is meant by a 'stakeholder'? (2)

2 Distinguish between internal and external stakeholders. (3)

3 Some people believe that an increasing number of firms are now trying to meet their social responsibilities. Explain why this may be the case. (4)

4 Outline two responsibilities a firm may have to:

a) its employees (4)

b) its customers (4)

c) the local community. (4)

5 Explain how a firm could damage its profits in the pursuit of meeting its shareholder responsibilities. (4)

6 Explain why a firm's profit may fall by meeting its stakeholder responsibilities. (4)

7 Some managers reject the idea of stakeholding. They believe that a company's duty is purely to its shareholders. Outline two points in favour and two points against this opinion. (8)

8 What factors are likely to determine whether a firm accepts its responsibilities to a particular stakeholder group? (4)

9 Explain why a company in the public eye such as Next plc might find it difficult to pursue the shareholder concept. (4)

Revision activities

Data response

Marks & Spencer plc and Plan A

M&S has spent 20 years in a strategy vacuum. Bosses have come and gone, but nothing has altered the slide in the company's core business: women's clothing. It is curious, then, that the business has been consistent in one strategy for the past decade: 'Plan A': its Corporate Social Responsibility plan. From its inception it has been remarkably wide in its scope, covering staff diversity through to health and safety and on to a series of environmental commitments. In some ways, it's hard to see how Plan A has helped. Today John Lewis can do no wrong, while the reputation of Marks & Spencer is as low as it's ever been. But perhaps it has helped keep staff onside during such a turbulent period.

Plan A is supposed to keep M&S focused on a better tomorrow. Many of its targets are to be achieved by 2020. But it's surprising that some targets that are viewed as important one year disappear the next. The 2011/2012 report boasts of an 'employee engagement positivity score of 75 per cent' (previous year 76 per cent), but this measure had been dropped by the time of the 2014 report. Other measurements are covered with more consistency, such as (Figure 17.3) the dramatic reduction in customer use of single-use (plastic) carrier bags since a 5p charge was levied in 2006/2007.

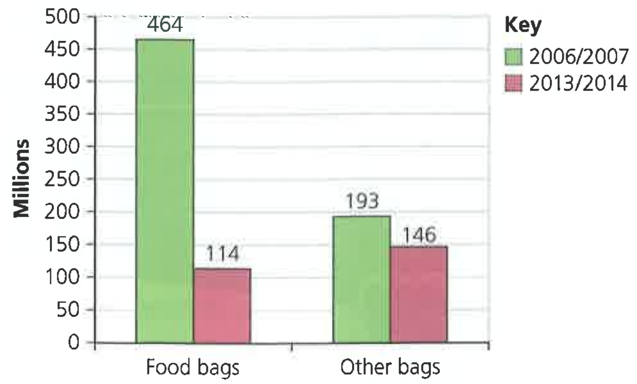

Figure 17.4 M&S Plan A: single-use carrier bags (source: M&S Plan A Report 2014)

	CO_2 emissions 2006/2007	CO_2 emissions 2011/2012	CO_2 emissions 2013/2014
Business travel	10,000 tonnes	14,000 tonnes	Not included
Total gross CO_2 emissions	730,000 tonnes	572,000 tonnes	566,000 tonnes
Carbon offsets purchased	0 tonnes	131,000 tonnes	566,000 tonnes
Net CO_2 emissions	730,000 tonnes	441,000 tonnes	0 tonnes

Table 17.3 M&S CO_2 emissions (source: M&S reports 2011/2012 and 2013/2014)

	2011	2012	2013	2014
Women employees	76%	74%	74%	73%
Women managers	65%	64%	64%	58%
Women in senior management	32%	35%	35%	39%
Ethnic minority employees	12%	13%	12%	11%
Ethnic minority managers	11%	12%	13%	14%

Table 17.4 Diversity data: UK figures as a % of the total UK workforce (source: M&S reports 2011/2012 and 2013/2014)

The same pattern of inconsistency occurs with the main environmental finding, showing an extraordinary change from 730,000 tonnes of CO_2 emissions in 2006/2007 to zero in 2013/2014, but dropping data for business travel.

Amidst many other pieces of data, the figures for workforce diversity are interesting. It is a pity there is no data provided to cover the percentage of senior management occupied by ethnic minority employees.

As mentioned above, it may be that Plan A has brought staff together, with a feeling of common purpose. From the outside, though, it is hard to see that it has achieved one of the goals M&S has set itself: 'To excite and inspire our customers at every turn'.

Questions (40 marks; 50 minutes)

1 Assess the data provided to examine two strengths and two weaknesses of Plan A so far. (10)

2 Assess whether Marks & Spencer is focusing most on its shareholders or its stakeholders. (10)

3 Evaluate whether Marks & Spencer should regard Plan A as a strategic success. Justify your answer. (20)

Extended writing

1 Evaluate whether the objectives of the different stakeholder groups necessarily conflict. Use real business examples to develop your answer. (20)

2 'A manager's responsibility should be to the shareholders alone.' Evaluate this view. (20)