

# CHAPTER 2: THE STAKEHOLDERS IN BUSINESS ORGANISATION

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## LEARNING OUTCOME

At the end of the chapter, you should be able to:

- TLO A2a:** Define stakeholders and explain the agency relationship in business and how it may vary in different types of business organisation.
- TLO A2b.** Define internal, connected and external stakeholders and explain their impact on the organisation.
- TLO A2c.** Identify the main stakeholder groups and the objectives of each group.
- TLO A2d.** Explain how the different stakeholder groups interact and how their objectives may conflict with one another.
- TLO A2e.** Compare the power and influence of various stakeholder groups and how their needs should be accounted for, such under Mendelow's Framework.

**2.1 Internal, Connected and External Stakeholder**

**Learning Outcome (ACCA Study Guide Area A)**

**A2b: Define** stakeholder and **identify** the main stakeholder groups and the objectives of each group.

**A2c: Define** and **explain** the impact of internal, connected and external stakeholders on the organisation.

**A2d: Explain** how the different stakeholder groups interact and how their objectives may conflict with one another.

**2.1.1 Main Stakeholder Groups and Objectives**

Johnson, Scholes and Whittington define a stakeholder as:

“Individuals or group of individuals who are affected by an organisation’s activities, and who in turn, affects the way an organisation operates.”

Diagram 2.1.1(a): Main Stakeholder Groups

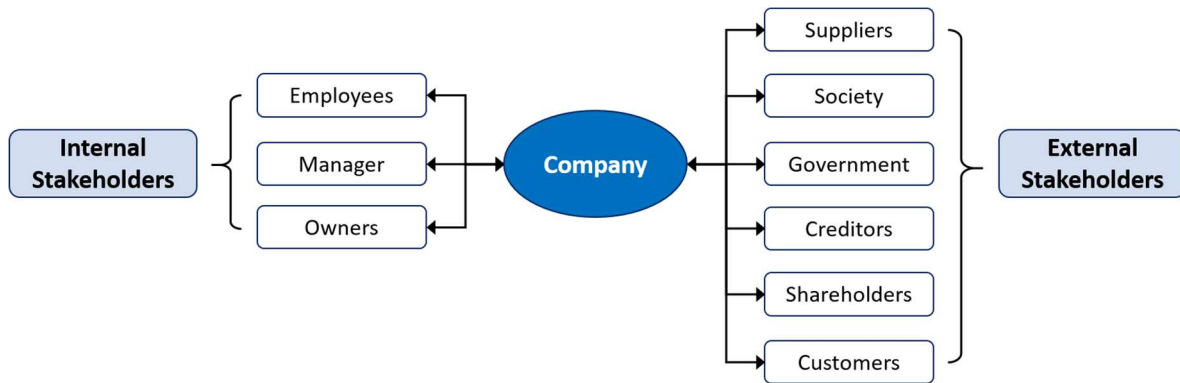
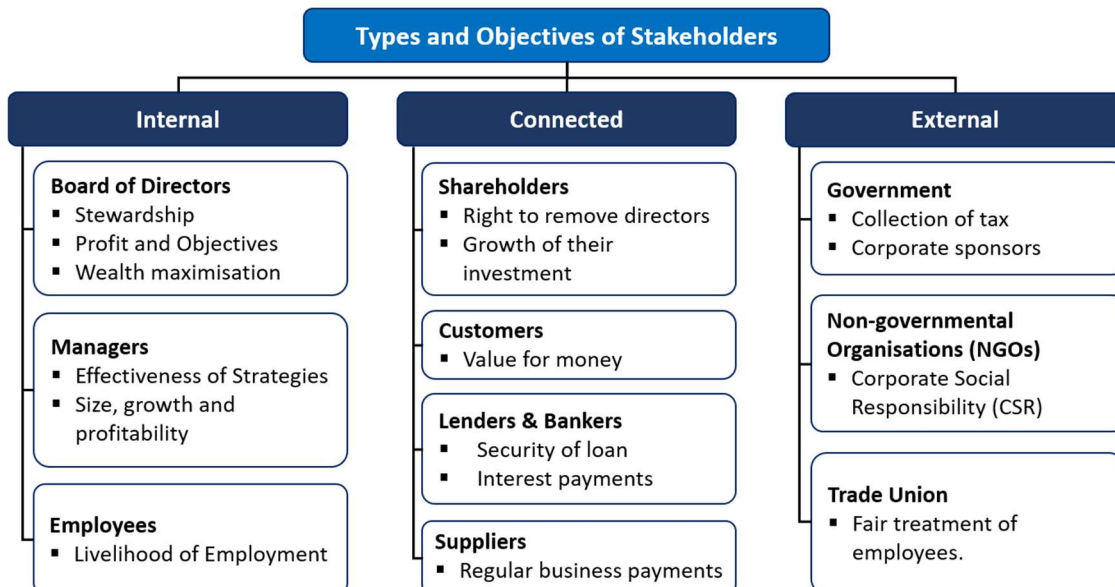
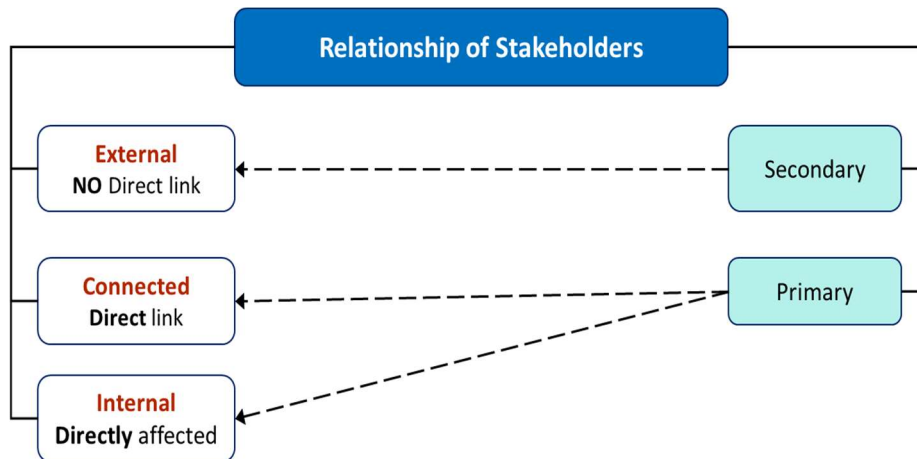


Diagram 2.1.1(b): Types and Objectives of Stakeholder Groups



## 2.1.2 Relationship of Stakeholders

Diagram 2.1.2: Relationship of Stakeholders Groups



Stakeholders can be categorised as:

- **Internal Stakeholders**  
These stakeholders must be employed by and/or be involved in the running of the organisation. Internal stakeholders also mean those who directly affecting the decision-making from within the organisation.
- **Connected Stakeholders**  
Connected Stakeholders are stakeholders who have a **direct link** with the organisation. This link may be financial, or it may have direct non-financial impact.
- **External Stakeholders**  
External Stakeholders have **no direct link** with an organisation whether financially or in the running of the company.

Stakeholders may also be classified based on whether they have a **contractual link** with the organisation:

- **Primary Stakeholders:**  
Stakeholders **WITH** a contractual link (usually internal and connected stakeholders).
- **Secondary Stakeholders:**  
Stakeholders **WITHOUT** a contractual link (usually external stakeholders)

### 2.1.3 Impact of Stakeholders on Organisations

Stakeholders can impact an organisation as they influence the following areas based on their main interests:

- They are conduits of information in and out of the organisation.
- They have power to affect the decision of the organisation.
- They can limit an organisation’s choices of strategies to pursue.
- They embody culture that can affect how the organisation is run.
- They determine the success of the implementation of strategies by supporting them or otherwise.

Table 2.1.3 (a): Impact of Stakeholders on Organisations

	Stakeholders	Main Interests	Impact
Internal	<b>Employees</b>	Salaries and job security	<ul style="list-style-type: none"> <li>• staff turnover</li> <li>• quality of service</li> <li>• industrial action</li> </ul>
	<b>Managers</b>	Salary, share options, job security, status	<ul style="list-style-type: none"> <li>• decision making</li> <li>• how information is reported</li> <li>• how strategies are implemented</li> </ul>
	<b>Owners</b>	Profitability, company growth	<ul style="list-style-type: none"> <li>• funding</li> <li>• supporting strategies</li> <li>• hiring of management team</li> </ul>
External	<b>Suppliers</b>	Prompt payment, continuing contracts, purchasing power	<ul style="list-style-type: none"> <li>• pricing of raw materials</li> <li>• quality of raw materials</li> <li>• consistent supply of raw materials</li> </ul>
	<b>Society</b>	Environment, local impact on jobs, benefit to community	<ul style="list-style-type: none"> <li>• indirect influence via local action groups</li> <li>• lobby via media/press</li> </ul>
	<b>Government</b>	Growth in hiring, tax receipts, operate within laws and regulations	<ul style="list-style-type: none"> <li>• Political policies</li> <li>• Local authority’s regulations and by laws</li> <li>• Taxation</li> </ul>
	<b>Creditors</b>	Credit rating, service of loans	<ul style="list-style-type: none"> <li>• Banking facilities</li> <li>• Enforcements of interest rates</li> <li>• Source of funds</li> </ul>
	<b>Shareholders</b>	Profit and dividends	<ul style="list-style-type: none"> <li>• election of directors</li> <li>• influence of other shareholders</li> </ul>
	<b>Customers</b>	Value for money goods and services, ready supply, variety	<ul style="list-style-type: none"> <li>• repeated business/demand</li> <li>• influence via media on brand</li> <li>• word of mouth recommendations</li> </ul>



#### Notes

Connected stakeholder impact is based on their **direct link** to the organisation.

Stakeholders have their respective objectives and some of these objectives may be conflicting. Therefore, organisation has to know how to deal with these differences to ensure a balance in the organisation and all stakeholders are satisfied.

The following are some of the potential conflicts of interest among the different stakeholder groups:

Table 2.1.3 (b): Types of conflicts in Stakeholder groups

Stakeholders	Types of Conflicts
<b>Employees</b> and <b>Managers</b>	<b>Employees</b> would want high salary and wages with less work VS <b>Managers</b> want to minimise cost and maximise productivity
<b>Customers</b> and <b>Shareholders</b>	<b>Customers</b> want cheap products and services of high quality VS <b>Shareholders</b> interested in high profit (resulting in lower quality).
<b>Managers</b> and <b>Shareholders</b>	<b>Managers</b> want to be in control (manage things independently) VS <b>Shareholders</b> would want more control to protect their own interest.
<b>General Public</b> and <b>Shareholders</b>	General public expects corporate social responsibility (CSR) from organisations VS Shareholders expect higher dividends and less spending by organisations



## Check understanding

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### Topic 2.1: Internal, Connected and External Stakeholder

#### Learning Outcome (ACCA Study Guide Area A)

**A2b:** Define stakeholder and identify the main stakeholder groups and the objectives of each group.

**A2c:** Define and explain the impact of internal, connected and external stakeholders on the organisation.

**A2d:** Explain how the different stakeholder groups interact and how their objectives may conflict with one another.

#### Question 1:

Which of the following is an example of an internal stakeholder?

- A. Bankers
- B. Shareholders
- C. Board of Directors
- D. Customers

#### Question 2:

Shareholders may react negatively when an organisation failed to meet their expectation by \_\_\_\_\_.

- A. Suing them in court
- B. Charge a penalty or fine
- C. Sell off their shares
- D. Exchange for assets

#### Question 3:

Which group of stakeholders have indirect link towards the organisation?

- A. Shareholders
- B. Financial institution
- C. Government
- D. suppliers

## 2.2 Stakeholders and the Agency Relationship in Business

### Learning Outcome (ACCA Study Guide Area A)

**A2a: Explain** the agency relationship in business and how it may vary in different types of business organisation.

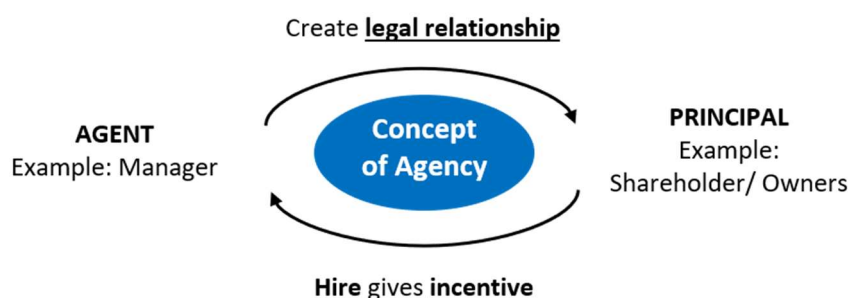
#### 2.2.1 The Concept of Agency

The concept of Agency refers to the set of rules in a workplace that governs the legal relationship between an **agent** and a **principal**.

An **Agent** is a person who is authorised to act on behalf of the principal, meaning an agent can create legal relationship with third parties. The agent will work under the control of the principal and is usually given an incentive and works under the control of the principal.

In the case of a business, the managers are the agents of the owners or shareholders (principal) as they run the company and safeguard the assets of the owners or shareholders. The managers are given a salary for their service and in return they meet the primary objective of their principals, which is to earn a profit.

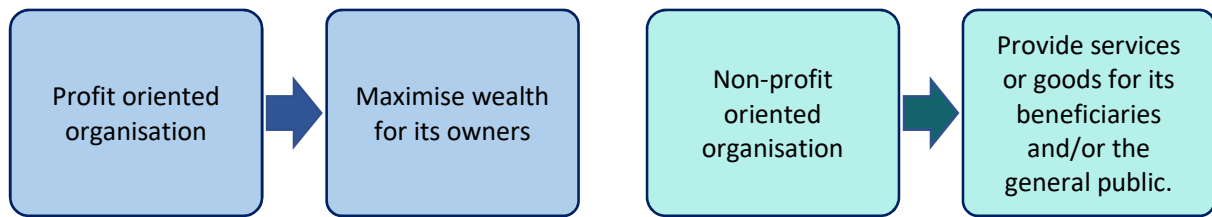
Diagram 2.2.1: The Concept of Agency



The relationship seems straightforward, but the agents or managers may act on their own interest instead of the owners or shareholder's interest.

Therefore, another independent agent is required to verify and validate the managers' work to ensure that the manager has the best interest of the owners or shareholders in mind. This second agent is usually the **external auditor**.

### 2.2.2 Agents in Profit and Not-For-Profit



The role of agents differs in organisations and the difference is primarily on how they meet the needs or the objectives of its principals.

In a profit oriented organisation, the agent's primary objective is to maximise wealth for its owners, the shareholders. As for not – for – profit organisations, the agents are to primarily provide services and/or goods for its beneficiaries and/or the general public



#### Check understanding

#### Topic 2.2: Stakeholders and the Agency Relationship in Business

#### Learning Outcome (ACCA Study Guide Area A)

**A2a: Explain** the agency relationship in business and how it may vary in different types of business organisation.

#### Question 1:

\_\_\_\_\_ refer to a person who are legally or naturally authorises someone to act on their behalf. \_\_\_\_\_ is any person who has been legally empowered to act on behalf of another person.

- A. an agent, a principal
- B. an agent, an agent
- C. a principal, an agent
- D. a principal, a principal



## 2.3 Power and Influence of Various Stakeholder Groups

### Learning Outcome (ACCA Study Guide Area A)

**A2e: Compare** the power and influence of various stakeholder groups and how their needs should be accounted for, such as under the Mendelow’s framework.

#### 2.3.1 Power and Influence of Stakeholder Groups

In this part of the chapter, we will look at how the different stakeholders influence the organisation by using Mendelow’s Stakeholder Mapping Matrix. The Mendelow’s Matrix aims to classify the organisation’s stakeholders by identifying:

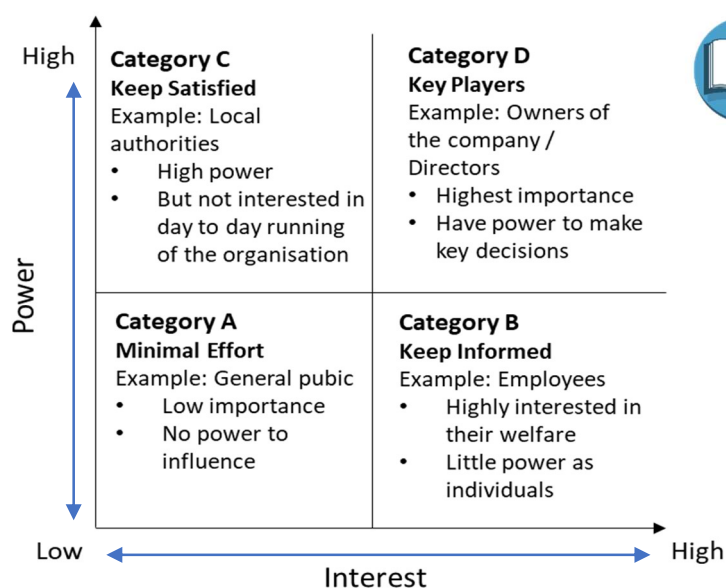
- Their interest in the organisation, and
- Their power over the organisation, which is their ability to affect the decision-making of the organisation.

By using the Mendelow’s Matrix, an organisation is able to determine which stakeholder is a key player and which are the ones that we need to keep satisfied and informed. The ones with the lowest interest and power will be given minimal effort.

#### 2.3.2 Mendelow’s Stakeholder Mapping Matrix

Organisations do not have unlimited resources nor are organisations able to make everybody happy. It is important that an organisation uses the right amount of resources and focus on making the right stakeholders happy. Using the Mendelow’s Matrix, an organisation is able to classify the stakeholders according to their needs:

Diagram 2.3.2: Mendelow’s Matrix



#### Notes

To use Mendelow’s Matrix effectively, it must be used as frequently as necessary, and the organisation’s strategy must be adjusted accordingly. This is because stakeholders can move between the quadrants!

For example, non-unionised employees may be in the “High interest, Low power” quadrant, but if they suddenly join trade union, they will move to the “High interest, High power” quadrant, and the organisation will have to adjust its strategy accordingly.



## Check understanding

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### Topic 2.3: Power and Influence of Various Stakeholder Groups

#### Learning Outcome (ACCA Study Guide Area A)

**A2e: Compare** the power and influence of various stakeholder groups and how their needs should be accounted for, such as under the Mendelow's framework.

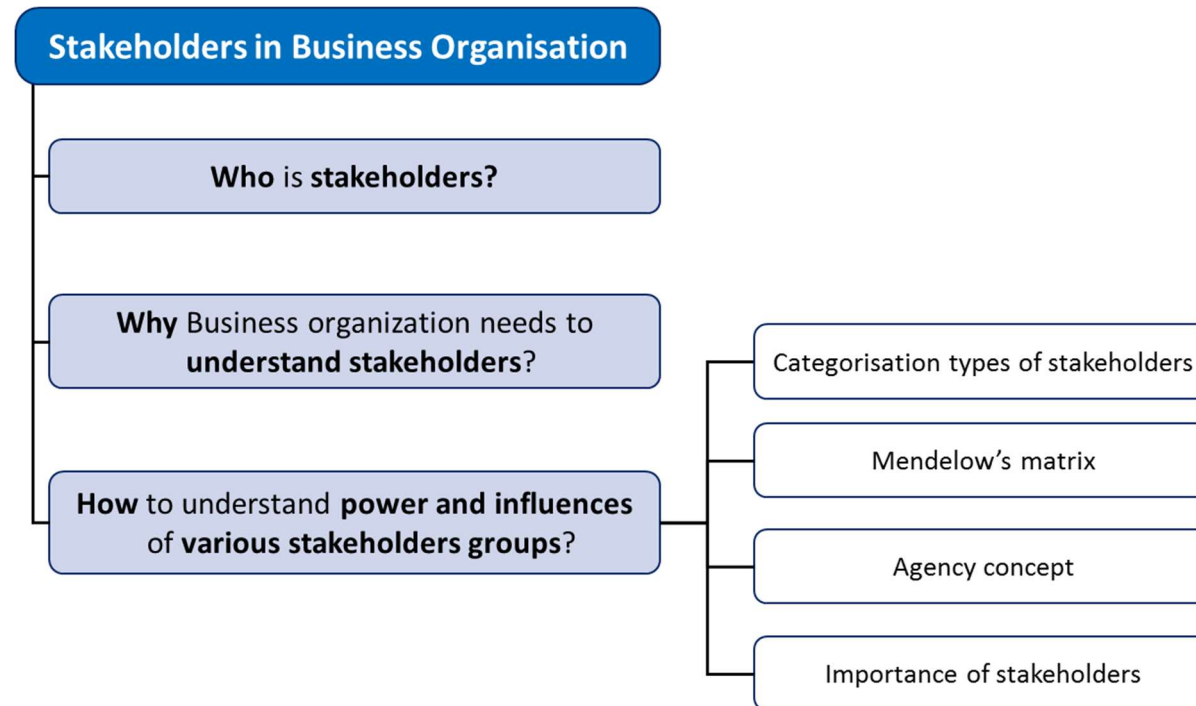
#### Question:

A University operation requires heavy compliance to rules and regulations by the authorities. When using Mendelow's matrix, this stakeholder would be classed as:

- A. Minimal effort
- B. Keep informed
- C. Keep satisfied
- D. Key players

## 2.4 Summary: Chapter 2

Diagram 2.4: Summary of the Stakeholders in Business Organisation.



## 2.5 Chapter 2 Check Understanding: Answers

### Topic 2.1: Internal, Connected and External Stakeholders

Answer:

1. C
2. C
3. C

### Topic 2.2: Stakeholders and the Agency Relationship in the Business

Answer:

1. C

### Topic 2.3: Power and Influence of Various Stakeholders Group

Answer:

1. C