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2. Stakeholder goals and objectives

2.1 What is stakeholder?

Stakeholders are those individuals or groups that, potentially, have an interest in what the organization does.

2.2 Category:

- ✓ Internal stakeholders
- ✓ Connected stakeholders
- ✓ External stakeholders

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Category 1	Stakeholders	Category 2
Internal stakeholders	Managers ,employees	Primary stakeholders
Connected stakeholders	Shareholders Bankers Suppliers Customers	
External stakeholders	Government, Interest/pressure groups, Professional bodies	Secondary stakeholders

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Stakeholders can be classified according to whether they have a **contractual relationship** with the organization.

➢**Primary stakeholders** :have **contractual** relationship

➢**Secondary stakeholders:** not have **contractual** relationship

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2.3 Stakeholder conflict

Since the interests of stakeholders may be widely different, conflict between stakeholders can be quite common.

For example, a common example will be the ***conflict between the managers and shareholders*** as both are stakeholder of different interests. The managers may view the organization as the vehicle for the exercise their managerial skills and practices while the shareholders may be primarily concerned with increased value of their respective shares.

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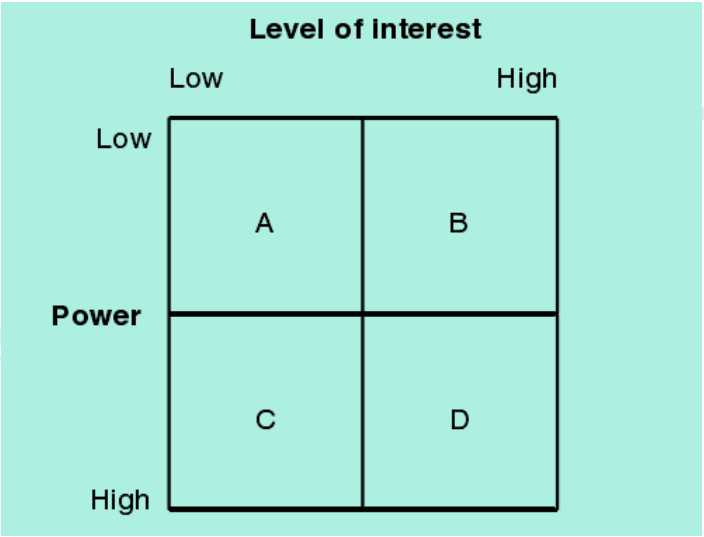
2.4 Stakeholder Mapping (Mendelow) :



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- ✓ **D-key players**. Strategy must be acceptable to them **(major customer**)
- ✓ **C- kept satisfied**. C must be treated with care .While often passive, they are capable of moving to segment D. **(large institutional shareholders**)
- ✓ **B-kept informed**. B do not have great ability to influence strategy, but their views can be important in influencing more powerful stakeholders, perhaps by lobbying
- ✓ **Minimal effort** is expended on segment A

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Type of stakeholders	Examples
High interest and high power	❑ Most important stakeholder group and key players of an organization. ❑ Institutional Investors, Local Planning Authority
Low interest and high power	❑ They should be kept satisfied by the organisation, as they are powerful, but their interest in strategies is low. ❑ Major Customers, Central Government, Media.
High interest and low power	❑ The stakeholders in this group should be kept informed. They can be important to influence the more powerful stakeholders. ❑ Employees, Environmental groups, Local community, Average investors
Low interest and low power	❑ The stakeholders in this group require only minimal effort and monitoring. Eg: office cleaner. ❑ Small customers, small shareholders, employees

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Each of the groups has **<u>three basic choices</u>**

✓ ***Loyalty***- they can do as they are told

✓ ***Exit***- For example by selling their share or getting a new job

✓ ***Voice***- they can stay and try to change the system

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2.5 Measuring stakeholder satisfaction Qualitative rather than quantitative

Stakeholder group	Measure
Employees	Staff turnover; pay and benefits relative to market rate; job vacancies
Government	Pollution measures; promptness of filing annual returns; accident rate; energy efficiency
Distributors	Share of joint promotions paid for; rate of running out of inventory

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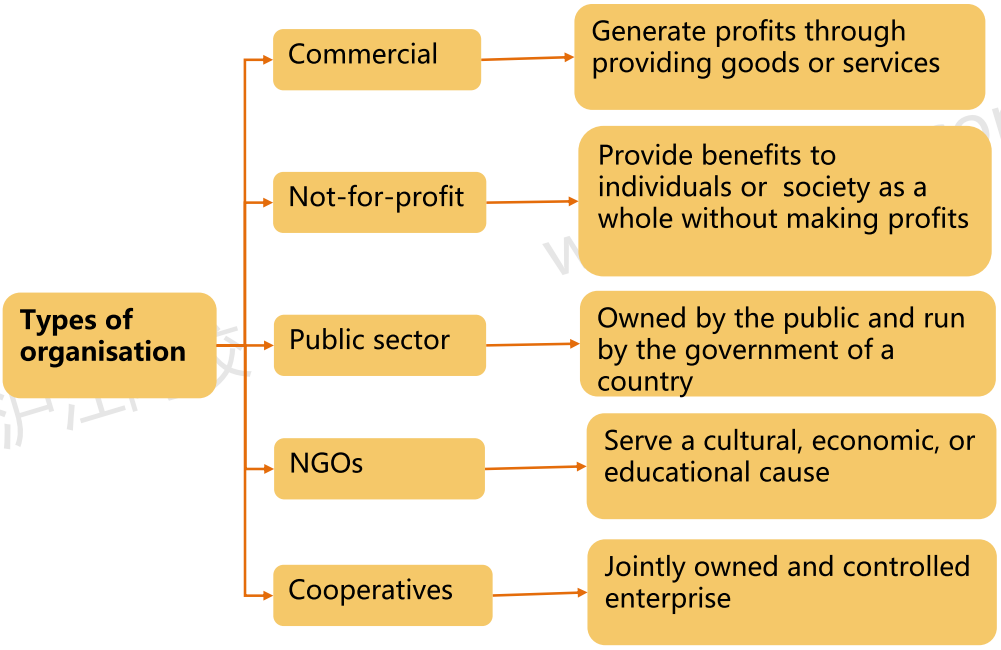
CHAPTER SUMMARY



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1. Define internal, connected and external stakeholders and explain their impact on the organization.
2. Identify the main stakeholder groups and the objectives of each group.
3. Explain how the different stakeholder groups interact and how their objectives may conflict with one another .
4. Compare the power and influence of various stakeholder groups and how their needs should be accounted for, such as under the Mendelow framework.

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CHAPTER 1 QUESTION

1.Which of the following statements is true? Answer: B

A Limited company status means that a company is only allowed to trade up to a predetermined turnover level in any one year.

B For organizations that have limited company status, ownership and control are legally separate.

C The benefit of being a sole trader is that you have no personal liability for the debts of your business.

D Partnerships offer the same benefits as limited companies but are usually formed by professionals such as doctors and solicitors.

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2. Which one of the following is an example of an internal stakeholder? (Pilot paper) Answer: C

A A shareholder

B A non-executive director

C A manager

D A supplier

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3. According to Mendelow which group of stakeholders must companies keep satisfied? Answer: B

A Those with little power and little interest in the company

B Those with a high level of power but little interest in the company

C Those with little power but a high level of interest in the company

D Those with a high level of power and a high level of interest in the company

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4.The following are stakeholders of a business organisation:

1.Manager

2.Customer

3.Executive Director

4.Supplier

Which of the above are CONNECTED stakeholders?

A 1,2 and 3

B 2 and 4

C 2 and 3 only

D 3 and 4

Answer: B

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5. An internal stakeholder is one who

A. Depends on the organisation to fulfill his own goals and on whom in turn the organisation depends

B. Is employed by and / or involved in the running of the organisation

C. Both of the above

D. None of the above

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➢ Answer：

The correct option is C

Internal stakeholders are individuals or groups who depend on the organization to fulfill their own goals and on whom in turn the organization depends and in addition they must also be employed by and / or be involved in the running of the organization.

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6. Which of the bellow two stakeholder group are most likely to have similar objectives?

A. Creditors and shareholders

B. Customers and employees

C. Suppliers and environment activists

D. None of the above

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➢ Answer

The correct option is A

Creditors and shareholders have similar objectives; both the financial position and performance of the company should be as strong as possible. This is because it is their money that is financing the operations of the organization.

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7. The following are either characteristics of a co-operative or of a public limited company:

(1) Maximising the excess of income over expenditure not a primary objective

(2) Members can vote according to the number of shares owned

(3) Shares can be bought and sold through personal transactions of the members

(4) All members are invited to attend the annual general meeting and participate in decisions at the meeting

Which of the above are the characteristics of public limited companies?

A 2,3 and 4

B 2 and 3 only

C 2 and 4 only

D 3 and 4 only

Answer: B

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8. Which of the following organizations would reply most heavily on value for money indicators and efficiency rather than information on performance and profitability?

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A A private accountancy college

B A local authority

C A small retailer

D A pension fund

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The answer is B.

Value for money indicators and efficiency measures are commonly used in not-for-profit organisations such as local authorities. While local authorities have become more exposed to commercial pressures in recent years, it is difficult to judge their performance by the use of conventional financial and non-financial performance measures. It is therefore necessary for these bodies to consider their results in relation to what they have delivered to the community against the resources consumed. By contrast, the private accountancy college, the retailer and the pension fund rely heavily on performance and profitability measures. Note that the F1 exam does not restrict its questions exclusively to private sector organisations–there can be questions in any section of the syllabus that may ask the candidate to consider business issues from a not for profit, or public sector perspective and tutors need to reflect this in their approach.

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9. As a longstanding customer, Walter has been highly critical of Fly Co ,an airline which he claims has provided him with bad service and poor value for money for many years. He has written many letters and has made numerous telephone calls, all expressing his concerns. Having now inherited a large block of voting shares in Fly Co, Walter can now voice his complaints at the annual shareholders' meeting for the first time.

With reference to Mendelow's theory, what is the implication of this development?

A Fly Co could previously have expended minimal effort on Walter's concerns, but it must now keep him informed

B Fly Co should previously have kept Walter informed, but it must now treat him as a key player

C Fly Co should previously have kept Walter satisfied, but it must now regard him as a key player

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The correct answer is B.

Mendelow's grid considers the relationship between the level of power and the level of interest that stakeholders may hold. The grid identifies four situations, trading off high/low power and high/low interest. By using Mendelow's grid, companies can map the positions of various stakeholders and formulate their strategies for dealing with the interests of each.

In this scenario question it is clear that Walter had a high level of interest but little power. Mendelow suggests that such stakeholders should be kept informed. By inheriting a large block of shares in the company, his power has increased and he must be regarded as a key player.

Only 39%of candidates selected the correct answer.

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