BUSINESS ORGANISATIONS AND THEIR STAKEHOLDERS

PURPOSE OF BUSINESS ORGANISATIONS

An organisation is: 'a **social** arrangement which pursues collective **goals,** which **controls** its own performance and which has a boundary separating it from its **environment**'.

SOME EXAMPLES OF ORGANISATIONS

- A multinational car manufacturer (eg Ford)
- A local authority
- An accountancy firm (eg Ernst & Young)
- A trade union (eg Unison)

CHARACTERISTICS OF ORGANISATIONS

- Organisations are preoccupied with performance, and meeting or improving their standards.
- Organisations contain formal, documented systems and procedures which enable them to control what they do.
- Different people do different things, or specialise in one activity.
- They pursue a variety of objectives and goals.
- Most organisations obtain inputs (eg materials), and process them into outputs (eg for others to buy).

WHY DO ORGANISATIONS EXIST?

- Organisations overcome people's individual limitations, whether physical or intellectual.
- Organisations enable people to specialise in what they do best.
- Organisations save time, because people can work together or do two aspects of a different task at the same time.
- Organisations accumulate and share knowledge.
- Organisations enable **synergy**: by bringing together two individuals their combined output will exceed their output if they continued working separately.

HOW ORGANISATIONS DIFFER

- Ownership
- Control
- Activity
- Profit or non-profit orientation
- Legal status
- Size
- Sources of finance
- Technology

WHAT THE ORGANISATION DOES

Industry	Activity
Agriculture	Producing and processing food
Manufacturing	Acquiring raw materials and, by the application of labour and technology, turning them into a product (eg a car)
Extractive/raw materials	Extracting and refining raw materials (eg mining)
Energy	Converting one resource (eg coal) into another (eg electricity)
Retailing/distribution	Delivering goods to the end consumer
Intellectual production	Producing **intellectual property** (eg software, publishing, films, music)
Service industries	Including retailing, distribution, transport, banking, various business services (eg accountancy, advertising) and public services such as education, medicine

TYPES OF BUSINESS ORGANISATION

- Profit
- Not-for-profit orientation

PROFIT VS NOT-FOR-PROFIT ORIENTATION

- An important difference in the list above is between profit orientated ('commercial') and not for profit orientated ('non-profit') organisations.

PRIVATE VS PUBLIC SECTOR

Private sector: Organisations not owned or run by central or local government, or government agencies

Public sector: Organisations owned or run by central or local government or government agencies

PRIVATE SECTOR COMMERCIAL BUSINESS ORGANISATIONS

- A commercial business organisation exists to make a profit.
- In other words, the costs of its activities should be less than the revenues it earns from providing goods or services.

LEGAL STATUS

- **Sole Proprietor – unlimited liability**
  Someone setting up a business can choose to go into business alone
- **Partnerships – unlimited liability**
  Take on one or more partners who also share the profits of the business
- **Limited Liability Companies – limited liability**

LIMITED COMPANIES

- A limited company has a separate legal personality from its owners (shareholders).
- The shareholders cannot normally be sued for the debts of the business unless they have given some personal guarantee.
- Their risk is generally restricted to the amount that they have invested in the company when buying the shares. This is called limited liability.
- Directors are appointed by shareholders to run the company

TYPES OF DIRECTORS

- **Executive directors** participate in the daily operations of the organisation.

- **Non-executive directors** are invited to join in an advisory capacity, usually to bring their particular skills or experience to the discussions of the board to exercise some overall guidance.

TYPES OF LIMITED COMPANY

Private limited companies - eg X Limited

Public limited companies - eg X plc

THEY DIFFER BECAUSE

- **Number of shareholders:** Most private companies are owned by only a small number of shareholders. Public companies generally are owned by a wider proportion of the investing public.
- **Transferability of shares:** Shares in public companies can be offered to the general public. In practice this means that they can be traded on a stock exchange. Shares in private companies, on the other hand, are rarely transferable without the consent of the shareholders.
- **Directors as shareholders:** The directors of a private limited company are more likely to hold a substantial portion of the company's shares than the directors of a public company.

DISADVANTAGES OF LIMITED COMPANIES

- **Legal compliance costs.** Because of limited liability, the financial statements of most limited companies have to be audited, and then published for shareholders.

- Shareholders **have little practical power**, other than to sell their shares to a new group of managers, although they can vote to sack the directors.

SOURCE OF CAPITAL

A **private company's** share capital will normally be provided from three sources.

1. The founder or promoter
2. Business associates of the founder or employer
3. Venture capitalists

A **public company's** share capital, in addition, can be raised from the public directly, or through institutional investors, using recognised markets.

ADVANTAGES OF LIMITED COMPANIES

- More money is available for investment.
- Risk is reduced for investors thanks to limited liability.
- They have a separate legal personality. A company can own property, make contracts etc.
- Ownership is legally separate from control. Investors need not get involved in operations.
- No restrictions on size apply. Some companies have millions of shareholders.
- They offer flexibility. Capital and enterprise can be brought together.

THE PUBLIC SECTOR

The public sector comprises all organisations owned and run by the government and local government.

- Examples:
- The armed forces
- Government departments
- Most schools and universities

OBJECTIVES OF PUBLIC SECTOR ORGANISATIONS

- The UK Pensions Service administers part of the social security system relating to pensions, benefits and retirement information.

- The Post Office makes a profit from mail services, although it does have a social function too.

KEY CHARACTERISTICS OF THE PUBLIC SECTOR

- Accountability
- Funding
- Demand for services
- Limited resources

ADVANTAGES

- Filling the gaps left by the private sector
- Public interest
- Economies of scale
- Cheaper finance
- Efficiency

DISADVANTAGES

- Accountability
- Interference
- Cos

NON-GOVERNMENTAL ORGANISATIONS

- A non-governmental organisation (NGO) is a legally constituted organisation of people acting together independently from any form of government.

ORGANISATIONAL FEATURES OF NGOS

- Staffing by volunteers as well as full-time paid employees
- Finance from grants or contracts
- Skills in advertising and media relations
- Some kind of national 'headquarters'
- Planning and budgeting expertise

CO-OPERATIVE SOCIETIES AND MUTUAL ASSOCIATIONS

Co-operatives are businesses owned by their workers or customers, who share the profits. Here are some of the features they have in common.

- Open membership
- Democratic control (one member, one vote)
- Distribution of the surplus in proportion to purchases
- Promotion of education

TYPES OF STAKEHOLDER IN AN ORGANISATION

Internal stakeholders – Sources of Human Resource (employees, management)

Connected stakeholders – Sources of Finance (shareholders, customers, suppliers, financiers)

External stakeholders (the community, government, pressure groups)

STAKEHOLDER GOALS AND OBJECTIVES

The managers act as agents for the stakeholders, whose influence varies from organisation to organisation and must be considered in decision making.

The **agency relationship** in business therefore refers to the separation between an organisation's owners (the shareholders) as the 'principal', and those managing the organisation on their behalf (the company directors) as their 'agents'.

Stakeholders are those individuals or groups that, potentially, have an interest in what the organisation does. These stakeholders can be within the organisation, connected to the organisation or external to the organisation.

INTERNAL STAKEHOLDERS

- Employees
- Management

Employees and Management are so intimately connected with the company, their objectives are likely to have a strong influence on how it is run

INTERNAL STAKEHOLDERS

They are interested in the following:

- The organisation's **continuation and growth.** Management and employees have a special interest in the organisation's continued existence

- **Individual interests and goals.** Managers and employees have individual interests and goals which can be harnessed to the goals of the organisation

CONNECTED STAKEHOLDERS

If management performance is measured and rewarded by reference to changes in shareholder value then shareholders will be happy, because managers are likely to encourage long-term share price growth.

EXTERNAL STAKEHOLDERS

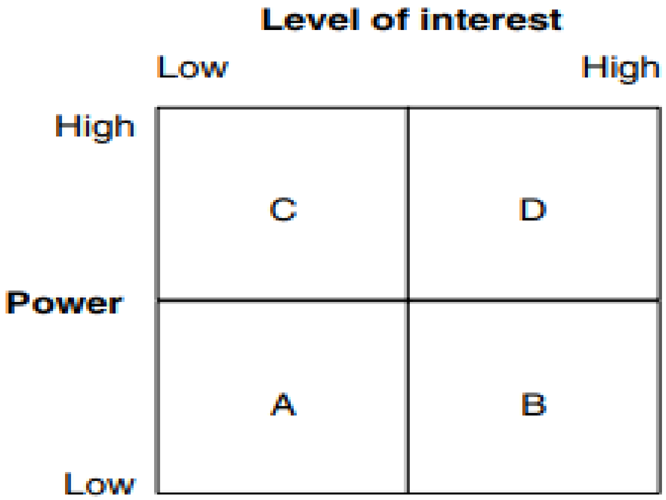
- External stakeholder groups the government, local authorities, pressure groups, the community at large, professional bodies are likely to have quite diverse objectives.

STAKEHOLDER CONFLICT

- Since their interests may be widely different, conflict between stakeholders can be quite common.
- Managers must take the potential for such conflict into account when setting policy and be prepared to deal with it if it arises in a form that affects the organisation.

STAKEHOLDER MAPPING: POWER AND INTEREST

Mendelow (1991) suggests that stakeholders may be positioned on a matrix whose axes are power held and likelihood of showing an interest in the organisation's activities



STAKEHOLDER MAPPING: POWER AND INTEREST

- **Key players are found in segment D**: strategy must be acceptable to them, at least. An example would be a major customer. These stakeholders may even participate in decision-making.
- **Stakeholders in segment C must be treated with care.** While often passive, they are capable of moving to segment D. They should therefore be kept satisfied. Large institutional shareholders might fall into segment C.
- **Stakeholders in segment B do not have great ability to influence strategy**, but their views can be important in influencing more powerful stakeholders, perhaps by lobbying. They should therefore be kept informed. Community representatives and charities might fall into segment B.
- **Minimal effort is expended on segment A.**

THE STRATEGIC VALUE OF STAKEHOLDERS

The firm can make strategic gains from managing stakeholder relationships. Over the years various theories and studies have revealed the following correlations:

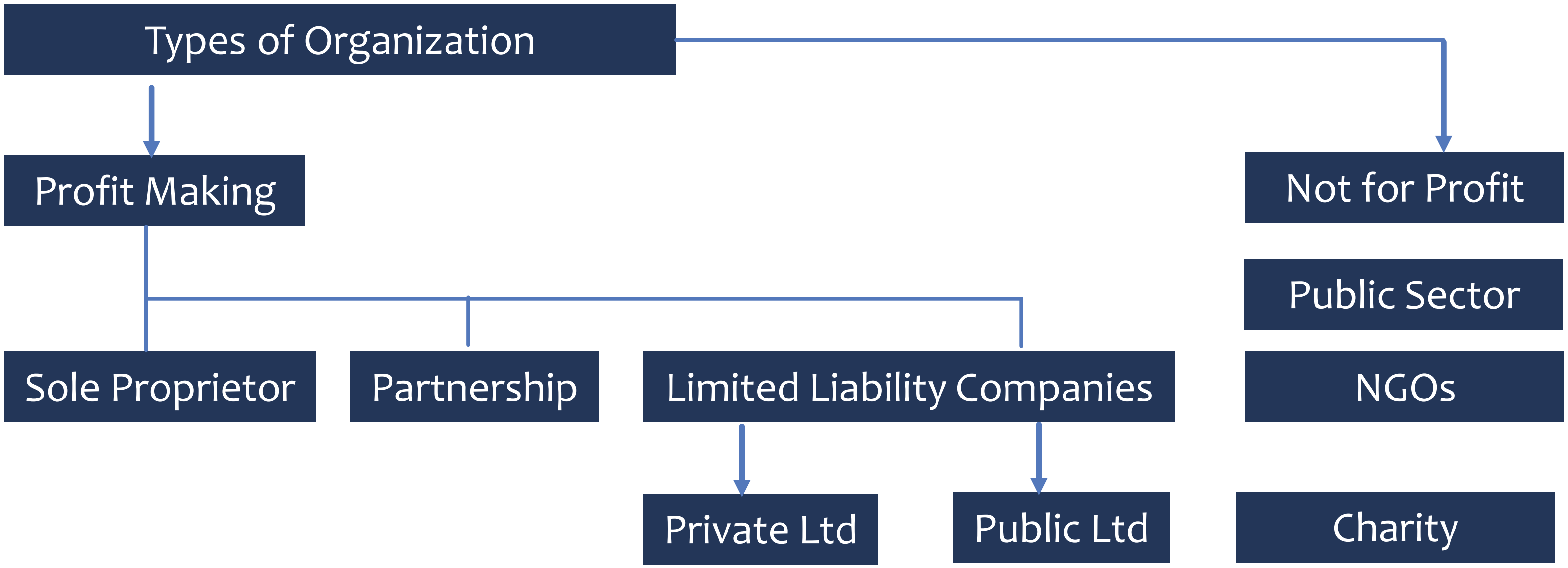
- A **correlation** between **employee and customer** loyalty (eg reduced staff turnover in service firms generally results in more repeat business).
- **Continuity and stability** in relationships with employees, customers and suppliers is important in enabling organisations to respond to certain types of change, necessary for business as a sustained activity.

MEASURING STAKEHOLDER SATISFACTION

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


Types of Organization
Profit Making
Not for Profit
Public Sector
Sole Proprietor
Partnership
Limited Liability Companies
NGOs
Private Ltd
Public Ltd
Charity