Stakeholder Theory of the firm

- Argues the corporation serves a broader purpose in order to create value for society
- Must make profit for owners to survive, however, creates other kinds of value too
- Corporations have multiple obligations, all “stakeholder” groups must be taken into account

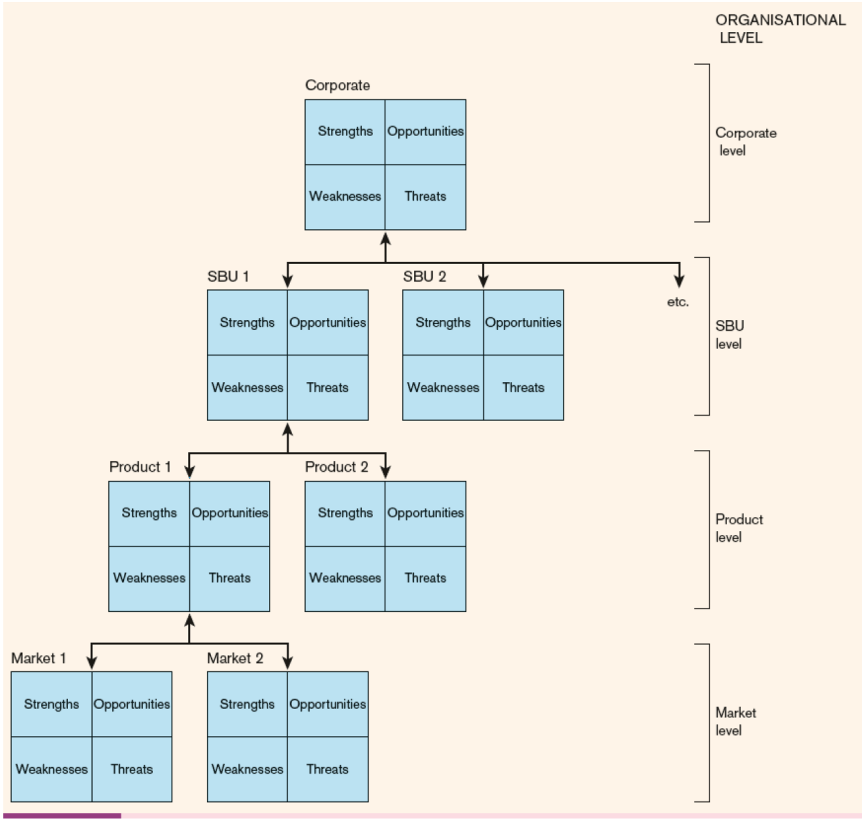
A ***stakeholder*** refers to persons or groups that affect, or are affected by, an organization’s decisions, policies and operations.
A ***shareholder*** owns part of a company through stock ownership, while a stakeholder is interested in the performance of a company for reasons other than just stock appreciation.

The Stakeholder of Business

	Market Stakeholders	Nonmarket Stakeholders
Internal Stakeholders	• Employees • Managers	
External Stakeholders	• Stockholders • Consumers • Creditors • Suppliers • Wholesalers and Retailers	• Governments • Communities • Nongovernmental Organizations • Business Support groups • Media • Competitors

- ***Employees***: are to take into account because they participate to the development of the firm; if they are not satisfied they can produce less or protest against the firm
- ***Managers***: are to take into account with firm’s decision (not always). For example in a family’s firm managers are rarely considered even if their ideas are good because the stakeholders want to take all the decisions. Cher are also expatriates, who are supported by the firm because they need people abroad so they must convince them to stay far away from home.
- ***Stockholders***: taken into account because they invest on the firm
- ***Customer***: when you take price decision you have to take into account the price consumers are willing to pay (they need informations about the product)
- ***Suppliers***: have an impact on competitive capacity and they are important because they sell you raw materials (or if you open a new business you need suppliers that sell you the quantity you need).
- ***Wholesalers:*** importers buy big quantity of products and sell it to financial market (can be also a distributor that buy from importers and sells to consumers). You need the collaboration of them in order to combine the price-quality.
- ***Retailers***: they decide characteristics of stores, position, employees and they can sell you a brand instead of another (they are independent from the company). There exist also the directly operated stores (*DOS*): when the owners of a firm want to organize by themselves the stores in order to control the sale activity (eg. Apple Store)
- ***Government***: influences business, for example with laws or with non-tariff barriers (the government influences markets with certifications and permits, or avoiding import exports
- ***Nongovernmental organizations***: eg. associations for children

SWOT in different organization levels



An example for:
www.unilever.com

Corporate Level:
- Unilever

SBU (Strategic Business Unit) Level:
- Food
- Personal care products
- Home care products

Product Level
- Frozen food
- Ice cream
- cheese

Market / Brand Level
- Viennetta
- Magnum
- Eskimo – Germany
- Algida - Italy

Strategic links in the SWOT analysis:

		Internal factors	
		Strengths (S)	Weaknesses (W)
External factors	Opportunities (O)	**SO Strategic options** Generate options here that use srengths to take advantage of opportunities	**WO Strategic options** Generate options here that take advantage of opportunities by overcoming weaknesses
	Threats (T)	**ST Strategic options** Generate options here that use srengths to avoid threats	**WT Strategic options** Generate options here that minimise weaknesses and avoid threats

- True cost leadership is only achieved by the possession of undisputed cost advantage
- If the competitors catch up, the cost leadership is lost
- New forms of product differentiation, so that costs is not the major purchase criterion
- Changes in consumer buying behavior towards new products and / or taste and style

Differentiation
- The differentiation is only achieved by satisfying buyer needs uniquely
- The objective is to realize a price premium that exceeds the cost of differentiation
- When the competitors catch up, the differentiation edge is lost
- Risk of creating differentiation that buyers do not values
- Excessive price premium (or too low)
- Failure to understand costs of differentiation
- Failure to “stay ahead”
- Inadequate or misleading buyer segmentation

Focus
- The ability to serve the needs of a specific buyer group better than any other competitor
- Risk that target segment becomes unattractive
- Broad scope competitors create offers that overwhelm the target segment
- The strategy is imitated by other competitors

Criticisms of Porter’s Generic Strategies

Cost leadership and differentiation can be combined profitably
- Cost leadership is not necessarily price leadership
- Differentiation does not necessarily involve premium pricing

Common objectives, their performance criteria and main measures

Profit and financial objectives	Profitability	•Profit •% Profit / sales •Contribution margin •ROI
	Contribution to owners	Earnings per share Price/earnings ratio
Growth objectives / marketing objectives	% yearly growth	Sales ($ and volume) Profits
	Competitive strenghts	Market share Brand awareness & preference
	Contribution to customers	Price/quality ratio Cust. satisfaction Cust. Loyalty
Social responsibilities objectives	Contribution to employees Contribution to society	

Market share and market concentration

Definitions of market share:
- Volume market share
- Value market share
- Relative market share

Definition of market concentration:
The four firms concentration ratio is the percentage of market share held by the 4 Largest Firms (LF) in an industry:

$CR4LF = \Sigma ms4LF$ → $CR4LF = ms1 + ms2 + ms3 + ms4$

ms=market share

Concentration levels (range from 0 to 100 percent)
•*No concentration* (high fragmentation): 0 - 5% means that the four largest firm in the industry would not have any significant market share.
•Low concentration: 5% to 50%.
•Medium concentration: 50% to 80%.
•High concentration: 80% to 100%. This category ranges from oligopoly to monopoly