**Prioritizing Stakeholders**

The CEO and his or her executive team have to satisfy and balance the demands of various parties. Sometimes these demands are in conflict and one has to be prioritized over another. So what is the pecking order among the company’s stakeholders? When it comes to the crunch whose needs should be met first? Here is a suggested order of preference.

**1. Customers**. Peter Drucker defined the purpose of a company as this; to create customers. Without customers the company cannot survive so in almost all situations the customer needs have to come first. The customer can always to choose to take his business to a competitor so it is essential that we continue to innovate, to offer good products and good value for money.

**2. Employees**. The employees are the ones who create and deliver the products or services that the customers consume. If we lose or antagonize our best employees then customer service will suffer so we need to look after them. If we want to attract and retain top talent at all levels then we have to offer terms and conditions that are attractive.

**3. Shareholders.** The shareholders own the company. They might well have put forward the seed capital which we need to get started so their needs are important. Ultimately the board, acting on behalf of the shareholders, can replace the CEO and the executive team. However, provided we are broadly on plan in terms of revenues and profit the shareholders are generally satisfied and will leave us alone. They will only take action when things are going badly wrong so we do not need to always act to please them.

**4. Suppliers, distributors and other business partners.** We need to collaborate with our partners to run the business. Many have essential skills that we lack. It is best to build good long-term relationships. However, the partners also have their own agendas and most can be replaced if they underperform or a better partner appears.

**5. The local community**. We want to be a good citizen with healthy links to the local community. We want to be seen as a responsible employer who is providing a good place to work. This is important but is clearly a lower priority than those above.

**6. National Government and regulatory authorities.**  These are less important stakeholders but we want to keep on the right side of them. We want to be compliant with regulations and avoid disputes and prosecutions.

This order of priority will help us to resolve conflicts. E.g.

• Should we hire cheaper staff to maximize profit even it if means poorer customer service? No; we should hire the best people we can afford in order to deliver better customer service. It might hurt profit in the short term but should deliver better growth and profits long term.
• Should we arrange things so as to minimize corporation tax and thereby increase profit? The answer clearly is yes. The shareholders outrank the national government in priority.
• Should we lay off staff if we are in serious financial difficulty? If it is necessary for survival then we have to take the difficult step of making employees redundant. We cannot serve the customers if we cannot survive.

Difficulties surface when we alter the priority list, e.g. when we put the shareholders first and milk the business of profits. Or when the employees are seen as more important than the customers. We sometimes see this in some offices where staff are too busy with their own affairs to look after the customer. A big problem arises if item 2 on the list above is split and becomes 2a senior executives and 2b ordinary employees. This can lead to a situation where the executive team puts its own requirements first – especially in terms of bonus, stock options and other monetary rewards. We have seen recent examples of how divisive and provocative this can be.

We want staff at all levels from the lowest to the most senior to act as a team, to be motivated and well rewarded – but not overpaid. If we overpay then we increase our cost base unnecessarily and put at risk price competitiveness in the marketplace and profitability.  It is essential to strike the right balance between the needs of the different stakeholders, but some are more important than others. If we can be clear about priorities in advance then it will help us to resolve the tricky conflicts that will arise sooner or later.