1.2 Stakeholders, growth and multinational companies

Name: _____ Class: _____ Date: _____ **Total: 30 marks**

KEY WORDS stakeholder • economies of scale • joint venture • franchising • takeover • multinational company

Objective

Build the skills to answer exam questions on **stakeholders** , **economies of scale** , **internal and external growth** and **multinational companies** , using SWOT and STEEPLE analysis.

You must be able to:

- distinguish internal and external stakeholders and explain conflicts between them
- calculate average cost and explain economies and diseconomies of scale
- compare internal (organic) growth with mergers, takeovers, joint ventures, strategic alliances and franchising
- explain the impact of MNCs on host countries
- use SWOT and STEEPLE analysis on a case

1 Key knowledge and worked examples

■ Stakeholders and growth

Stakeholders are individuals or groups with an interest in a business. **Internal:** employees, managers, shareholders. **External:** customers, suppliers, the government, the local community, pressure groups, lenders. Their interests often **conflict**: e.g. shareholders want higher profit, employees want higher pay, the community wants less pollution. A **stakeholder map** places groups by their **power** and **interest**.

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Economies of scale: average cost falls as output rises. Average cost $= \dfrac{\text{total cost}}{\text{output}}$.

internal economies	**internal diseconomies**
purchasing (bulk-buying discounts)	poor **communication** in a large firm
technical (bigger, more efficient machines)	weak **coordination** and control
financial (cheaper loans)	low **motivation** of staff who feel unimportant
marketing (cost spread over more units)	
specialization of managers	

External economies come from the growth of the whole industry in an area (skilled workers, specialist suppliers); **external diseconomies** from congestion and rising rents.

Small vs large: small firms are flexible and personal; large firms gain economies of scale and market power.

growth method	**meaning**	+	−
internal (organic)	grow by selling more, opening new branches	low risk, keeps culture and control	slow
merger / takeover (acquisition)	two firms join / one buys over 50% of another	fast, gains market share and skills	expensive; culture clash
joint venture	two firms create a new jointly owned business	shared costs, risks and local knowledge	disagreements; shared profit
strategic alliance	firms cooperate but stay independent	flexible, shared resources	less control
franchising	a franchisee pays to use the franchisor's brand and system	fast growth with others' capital	less control over quality

MNCs operate in more than one country. **Benefits to host countries:** jobs, investment, tax revenue, new skills and technology. **Costs:** profits sent home, local firms pushed out, possible exploitation of workers and the environment, political influence.

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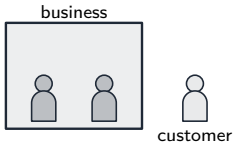
■ **Toolkit: SWOT and STEEPLE**

SWOT: internal **strengths** and **weaknesses**; external **opportunities** and **threats**.
STEEPLE: external factors that are social, technological, economic, environmental, political, legal and ethical.

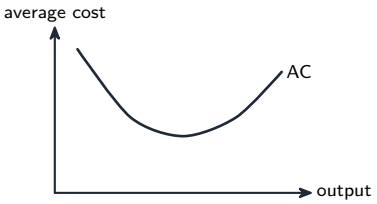
Answer shapes: calculate → explain the cause → one advantage and one disadvantage per option → judgement.

2 Practice

2.1 Distinguish between internal and external stakeholders. [2]



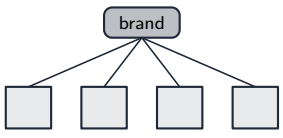
2.2 Define **diseconomies of scale**. [2]



2.3 A furniture maker produces 1 000 chairs a month at a total cost of $50,000. After buying a larger machine it produces 2 000 chairs at a total cost of $80,000. Calculate the average cost per chair at each level of output, and explain **one** economy of scale that could explain the change. [4]



2.4 Explain **one** advantage and **one** disadvantage for a restaurant brand of growing through franchising. [4]



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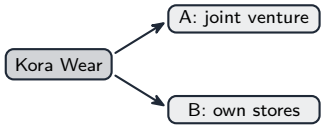
2.5 A car maker faces these changes: (i) young buyers prefer car-sharing apps; (ii) battery costs are falling; (iii) the government will ban new petrol cars in 2035; (iv) higher interest rates make car loans dearer. Identify the STEEPLE factor for each. [4]



3 Exam-style questions

3.1 Kora Wear is a clothing retailer with 40 stores in its home country. Strengths: a well-known brand, low-cost suppliers. Weaknesses: an old online shop, rising debt. It wants to enter a large neighbouring market. Option A: a joint venture with **Mallo**, a local retailer with 200 stores. Option B: organic growth by opening its own stores there, one at a time. Local fashion firms worry about the new competition.

(a) Construct a SWOT analysis for Kora Wear's entry into the new market. [4]



(b) Discuss whether Kora Wear should choose option A or option B. [10]

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Solutions

Marking: **M1** a correct method, **A1** the correct answer, **B1** an independent mark.

Each answer shows the steps, then the **result**.

2.1

internal stakeholders are members of the organization, e.g. employees, managers, shareholders; external stakeholders are outside it but affected by it, e.g. customers, suppliers, the government

2.2

a rise in average (unit) cost; as the firm grows beyond a certain size / output

2.3

$50\,000 \div 1\,000 = \$50$; $80\,000 \div 2\,000 = \$40$; technical economy: the larger machine produces more chairs per hour, spreading its cost; or purchasing economy: bulk discounts on wood; explained in context

2.4

advantage: fast growth using franchisees' capital, with income from fees and royalties; disadvantage: less control over quality and service, so one poor franchisee can damage the brand

2.5

(i) social; (ii) technological; (iii) political or legal; (iv) economic

3.1

(a) one relevant point in each box, from the case: S: well-known brand / low-cost suppliers; W: old online shop / rising debt; O: a large new market; Mallo's 200 stores and local knowledge; T: local competitors; differences in tastes; possible exchange-rate or legal changes

(b) award up to [10]: joint venture: fast access to 200 stores and local knowledge of tastes and rules; shares costs and risks, useful given rising debt; but profits are shared and there may be disagreements or culture clash with Mallo; organic growth: full control of brand and profit, keeps the culture; but slow and costly, each store financed by Kora alone; risky with rising debt; stakeholder view: local firms and Mallo's staff may react differently; judgement linked to the case: e.g. the joint venture suits a firm with debt and no local knowledge

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