



CAMBRIDGE INTERNATIONAL AS & A LEVEL

BUSINESS

*STAKEHOLDERS
IN A BUSINESS*

1.5 Stakeholders in a business

1.5.1 Business stakeholders

- individuals or groups with an interest in the activities of a business
- internal stakeholders and external stakeholders
- the roles, rights and responsibilities of stakeholders

1.5.2 The relative importance and influence of stakeholders on business activities

- the impact of business decisions on stakeholders, and their reactions
- the impact of stakeholder aims on business decisions
- how and why a business needs to be accountable to its stakeholders
- how conflict might arise from stakeholders having different aims and objectives
- how changing business objectives might affect its stakeholders

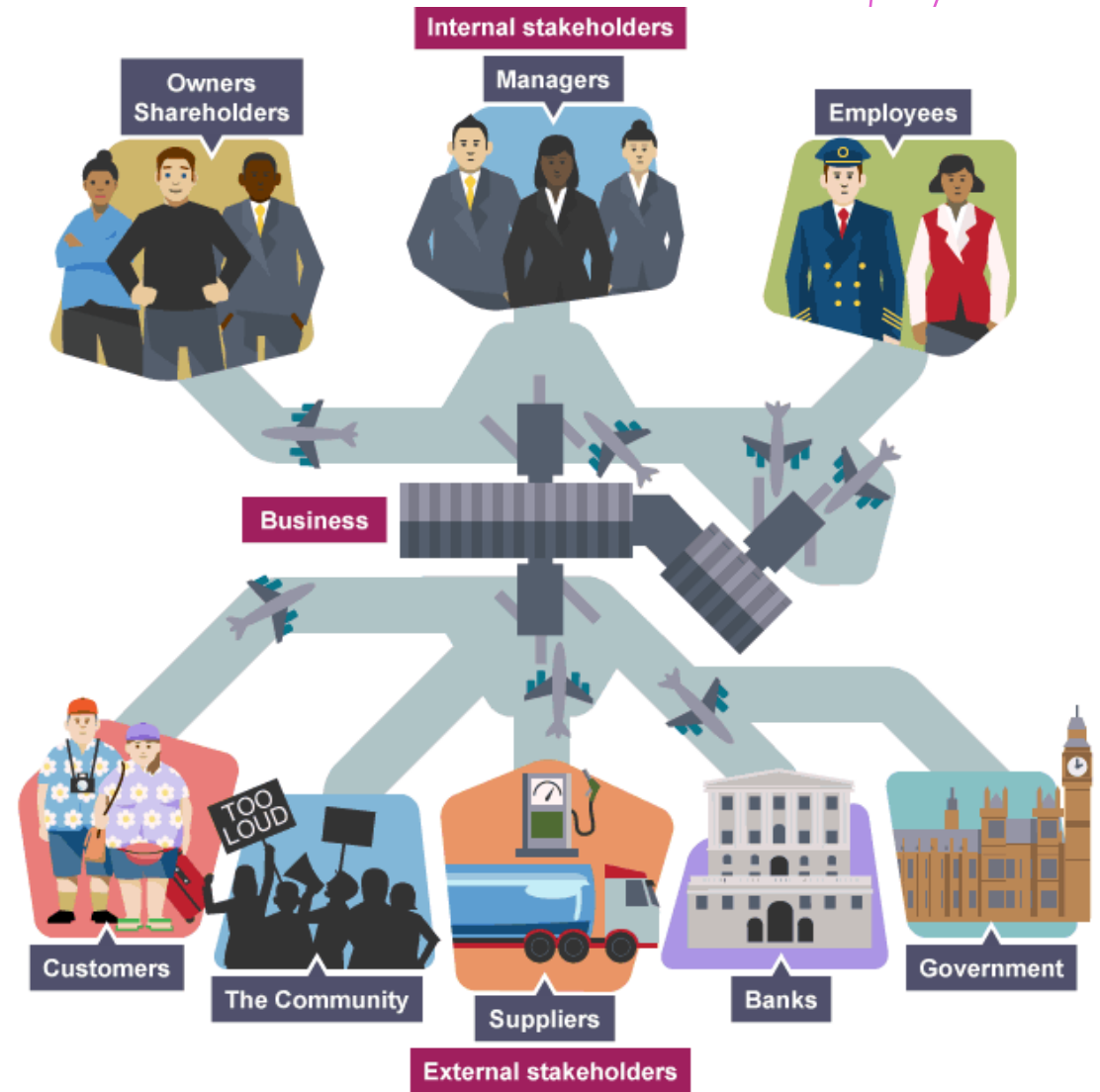
DISCUSS THE CLASS

- Use as an example a major retailer planning to develop a new shopping centre on park land 5 km from your nearest town centre.
- Discuss as a class. In groups learners suggest which stakeholder groups will be affected by this development, such as:
 - ✓ Owners/shareholders
 - ✓ Managers
 - ✓ Employees
 - ✓ Customers
 - ✓ Suppliers
 - ✓ Lenders
 - ✓ Government
 - ✓ Local community.

A **stakeholder** is anyone with an interest in a business. Stakeholders are **individuals, groups** or **organisations** that are affected by the activity of the business. They include:

- **Owners** who are interested in how much **profit** the business makes.
- **Managers** who are concerned about their **salary**.
- **Workers** who want to earn **high wages** and **keep their jobs**.
- **Customers** who want the business to produce quality products at reasonable prices.
- **Suppliers** who want the business to continue to buy their products.
- **Lenders** who want to be repaid on time and in full.
- The **community** which has a stake in the business as employers of local people. Business activity also affects the local environment. For example, noisy night-time deliveries or a smelly factory would be unpopular with local residents.

- **Internal stakeholders** are groups within a business – e.g owners and workers.
- **External stakeholders** are groups outside a business – e.g the community.



ROLES, RIGHTS AND RESPONSIBILITIES

	Roles	Rights	Responsibilities
Customers	Purchase products Provide revenue	To receive products that meet local laws...	
Suppliers	Supply goods & services		
Employees	Provide manual and other labour		
Local community	Provide local services and infrastructure		
Government	Pass laws, provide law, achieve economic stability		
Lenders	Provide finance		

THE RELATIVE IMPORTANCE AND INFLUENCE OF STAKEHOLDERS ON BUSINESS ACTIVITIES

- The impact of business decisions on stakeholders, and their reactions:

Business decision/activity	Possible impact on employees	Possible impact on local community	Possible impact on customers
Expansion of the business by building a new head office	More job and career opportunities		
Takeover of a competing firm /horizontal/			
Significant application of IT into production methods			

THE RELATIVE IMPORTANCE AND INFLUENCE OF STAKEHOLDERS ON BUSINESS ACTIVITIES

- The impact of stakeholder aims on business decisions

All stakeholder groups have an impact on a business, but some will have more impact than others, giving them more power and influence on the activities of the business.

Common areas that stakeholders may influence in a business include decision-making, aims and objectives, operational issues, sales, costs and profits.

INFLUENCE OF STAKEHOLDERS ON BUSINESS OBJECTIVES

- **Owners** have a big say in how the aims of the business are decided, but other groups also have an influence over **decision making**. For example, the **directors** who manage the day-to-day affairs of a company may decide to make higher sales a top priority rather than profits.
- **Customers** are also key stakeholders. Businesses that ignore the concerns of customers find themselves losing sales to rivals.
- In a **small business**, the most important or **primary stakeholders** are the owners, staff and customers. In a large company, **shareholders** are the primary stakeholders as they can vote out directors if they believe they are running the business badly.
- Less influential stakeholders are called **secondary stakeholders**.

Stakeholder	Impact on business activity
Shareholders and owners	Owners have the most impact, as they make decisions about the activities of the business and provide funding to enable it to start up and grow. Shareholders influence the aims and objectives of the business based on their financial, non-financial and social requirements.
Managers	Managers make some recommendations and decisions that influence the business' activity. They make key business and operational decisions on a daily basis and they try to achieve aims and objectives set by shareholders and owners. Managers making the right decisions are likely to reduce business costs and increase profits.
Employees	Employees play a large role in whether a business meets its aims and objectives. Employees can affect the business directly, eg by refusing to work or not working as well as they should. Hard-working employees would increase sales, however employees could also ask for wage increases, which would increase costs.

Stakeholder	Impact on business activity
Customers	Customers buy products and services and give feedback to businesses on how to improve them. Customers influence the sales and profits of a business.
Suppliers	Suppliers can have a significant impact on a business if there are any changes in the quality of the goods they supply or the reliability of their deliveries. Suppliers can affect a business costs, this may make a business re-evaluate their aims and objectives.
Local community	If a business affects a large number of local residents negatively, they may protest or object through the local council. They can also support businesses by buying products and services. The local community could also force a business to focus more on social and environmental causes.
Government	Governments can pass new laws, change tax levels or amend levels of government spending in ways that affect the business, eg by providing increased grants or funding. This may increase costs for a business, or allow them to achieve greater profits.

ASSESSING BUSINESS PERFORMANCE USING ACCOUNTS

Information published by a business helps stakeholders to judge how well it is performing. For example, **company reports** detail the amount of profit being earned and set out the **community policies** of the business. This means:

- **Owners** can judge how well the business is performing. Increased profits improve the chances of directors being re-elected at the next annual general meeting (AGM).
- **Rivals** can compare the amount of profit they are making with the business.
- **Pressure groups** can find out about the environmental policy of the business.

IMPACT ON STAKEHOLDERS OF CHANGING BUSINESS OBJECTIVES

- The dynamic business environment means that The Board of Directors and senior managers might be forced to change corporate objectives. When this situation happens, the impact on stakeholders of the business will be significant.
- Different stakeholder groups will be affected in different ways by these changes in business objectives –
 - owners may earn less dividends in the short-term,
 - managers may need to learn new skills, employees' jobs might be lost and
 - customers may have less choices of goods and services.
- On the positive side, in the long term, owners' returns might be safeguarded by the decisions taken today and banks will be reassured that loans given to the business earlier will be repaid from higher profits.

CONFLICTING STAKEHOLDER OBJECTIVES

Different stakeholders have different objectives. The interests of different stakeholder groups can conflict. For example:

- Owners generally seek high profits and so may be reluctant to see the business pay high wages to staff.
- A business decision to move production overseas may reduce staff costs. It will therefore benefit owners but work against the interests of existing staff who will lose their jobs. Customers also suffer if they receive a poorer service.



A WRITTEN ASSIGNMENT:

- Select four stakeholder groups that will be affected by the building of a power station in your region.
- Explain why each group will have different aims, how these aims could conflict and what steps the company could take to resolve them.
- It is important to give you the opportunity to consider how effective management can minimise stakeholder conflicts to the benefit of the business.
- 100-250 words ?