UNIT 1

Stakeholders in business and their relationships

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Learning objectives

In this chapter you will learn about:

1 Stakeholders in business
2 Co-operative and competitive relationships
3 Law of contract

Stakeholders in business

Business stakeholders

- Consumers
- Employees
- Employers
- Entrepreneurs
- Government
- Investors
- Producers
- Service providers
- Suppliers
- Trade unions

Interest groups

An interest group is an organisation that represents a particular group of people who have **similar needs or objectives.** An interest group may oppose or support the activities of a business.

Business associations

- Irish Business and Employers Confederation (IBEC)
- Irish Congress of Trade Unions (ICTU)
- Irish Management Institute (IMI)
- Institute of Public Administration (IPA)
- Chambers of Commerce

Trade associations

- Irish Travel Agents Association (ITAA) represents travel agents.
- Society of the Irish Motor Industry (SIMI) represents garages and motor car dealers.
- Irish Farmers' Association (IFA) represents farmers.

Other interest groups

- Consumers' Association of Ireland (CAI)
- Residents' associations
- Environmental and other special interest groups

Relationships between the people in business

- **Co-operative relationships:** Every business requires all the stakeholders to work together towards a common goal in order for the business to succeed (win/win).
- **Competitive relationships:** Although the business needs all the stakeholders to co-operate, the stakeholders are also in constant **competition** with each other as to what proportion each group gets of the wealth created by the business (win/lose).
- **Constant change:** The management task is made more difficult by the fact that the world of business is constantly changing.

Co-operative and competitive relationships between businesses

Normally **businesses compete** with each other, e.g. they may try to offer consumers something better than their rivals, whether in terms of price, quality or service. Competition is good for consumers, as every business is forced to try harder to satisfy them.

Businesses also co-operate with each other in many ways, e.g. milk producers may get together to advertise milk as a healthy drink in order to increase overall sales.

Causes of conflict between stakeholders

- **Different objectives:** Where there are differences between the objectives of stakeholders, conflict is likely to arise.
- **Negotiating style:** An aggressive style is likely to cause an aggressive reaction, leading to unnecessary conflict. An assertive style without intimidation is much more likely to produce a reasonable response and agreement.
- **Lack of trust:** Where trust is lacking, conflict is more likely to arise.

Top Tip!

Be able to discuss co-operative and competitive relationships between stakeholders, and the factors that change these relationships.

Resolving conflict

- **Non-legislative methods:** Using methods that are not based on laws or on institutions that are set up under laws
- **Legislative methods:** Using the force of law or some institution set up by law to resolve the conflict

The law of contract

Most relationships between the stakeholders in business are governed by **contracts.** A contract is a legally binding agreement between two or more parties, i.e. an agreement that a court will enforce.

Elements of a legally binding contract:

- Offer and acceptance (agreement)
- Consideration
- Intention to contract
- Consent to contract
- Capacity to contract
- Legality of form
- Legality of purpose

Termination of a contract

A contract may be ended in a number of ways:

- **Performance:** Each party does what they are contracted to do
- **Frustration:** Some event happens which makes it impossible to carry out the contract, e.g. the death of one party or bankruptcy
- **Agreement:** Each party agrees to end the contract
- **Breach:** One party breaks a condition (an important part) of the contract.

A **condition** is a clause in a contract that is so important that breaking this clause is the same as breaking the contract. A warranty is a less important clause. Breaking a **warranty** does not break the contract itself.

Remedies for breach of contract

- Sue for damages
- Rescind the contract
- Ask a court to instruct the other party to go through with the contract as agreed – **specific performance**

Exam question

1 Outline, using examples, the relationship that can exist between 'Investors' and 'Entrepreneurs' in business. *(2011, Section 3, Question 1A, 15 marks)*

Sample answer

Investors and entrepreneurs are stakeholders in the business. They rely on each other, with the entrepreneur dependent on the investor for finance and the investor dependent on the entrepreneur for a return on his/her investment.

Investors provide **finance** for the business (shareholders/banks/state bodies) and expect a return from their investment.

Entrepreneurs are the risk takers. They provide the **initiative** to start the business with the hope of making a profit.

Co-operative relationship – working together towards a common goal/acting in a mutually beneficial manner (win/win).

The relationship is **co-operative** when the entrepreneur gives open, transparent and honest information to the investor (e.g. accurate business plans and cash flow forecasts) and in return the entrepreneur receives finance at a reasonable rate from the investor.

Competitive relationship – both go after the same thing but only one gets it. Each tries to win out over the other (win/lose).

The entrepreneur and the investor compete with each other. The entrepreneur is prepared to take further risks to develop the business and to use the profits for expansion, while the investor may wish the profit to be paid out regularly (less risk/safety of investment).

Marking scheme

- Explain role of entrepreneur and investors as stakeholders *(3)*
- Explain and give example of competitive relationship *(3 + 3)*
- Explain and give example of co-operative relationship *(3 + 3)*

Questions

Higher Level long questions

1 A legal contract can be terminated by **breach**, **frustration** or **agreement**. Illustrate your understanding of these terms. *(2012, 20 marks)*

2 In relation to the law of contract, illustrate your understanding of **capacity to contract**. *(2010, 10 marks)*

3 Outline, using an example, the role of interest groups in the business world. *(2009, 10 marks)*

4 Describe a competitive relationship and a co-operative relationship between two producers in the same line of business. Use appropriate examples to support your answer. *(2008, 15 marks)*

5 Explain four methods by which a legal contract may be terminated. *(2005, 20 marks)*

Key-points!

- Stakeholder relationships are co-operative and competitive.
- Interest groups are organisations that represent a particular group of people who have similar needs or objectives.
- There are legislative and non-legislative methods of resolving conflict.
- The elements of a legal contract.

Key-definitions!

acceptance: Refers to the formation of a contract where the offer of one party to form a contract must be agreed by the other party (acceptance).

capacity to contract: An element of a contract that requires that the parties to a contract must have the capacity (ability) to make a legal contract, e.g. be over 18.

condition: Part of a legal contract that when broken causes the contract itself to be broken.

consideration: In order to have a legally binding contract, each party must give something of value to the other, called a consideration.

interest group: A group of people who share a common goal or interest and who work together to achieve their objectives.

investors: People or organisations that are willing to provide finance for a business, either by buying shares or by lending money to the business.

legality of form: Sometimes a contract must be in a particular form to be a legally binding contract, e.g. an insurance contract must be in writing.

offer: An element of a contract where one party sets out what they are willing to give to the other party as part of their agreement.

service providers: Firms that sell services to other firms in order to make a profit, e.g. transport firms.

stakeholders: All the individuals and organisations, both inside and outside the firm, who are affected by the decisions and actions of the firm, e.g. investors, employees, customers.

trade association: An organisation formed by all the firms in the same industry that will represent their interests, e.g. Society of the Irish Motor Industry (SIMI).

warranty: A clause or part of a contract which if broken does not break the contract itself.