BUSINESS AND ITS ENVIRONMENT (1.5)

(Chapter 5 - AS level 1.5)

Stakeholders in a business

A stakeholder is any person or group that is interested in or directly affected by the performance or activities of a business. These stakeholder groups can be external – groups that are outside the business, or they can be internal – those groups that work for or own the business.

Internal stakeholders (involved in the business)

- Owners/shareholders
- Workers
- Managers

External stakeholders - (affected by business activities)

- Customers
- Local communities
- Government
- Employees families
- Suppliers
- Lenders (banks etc.)

The **stakeholder concept** states that there are many other parties involved in business activity aside from shareholders. Other parties that are interested in and affected by business actions, therefore the interests of these groups should also be considered by business decision-makers.

More and more organisations have stopped making decisions solely based on the wants and needs of only shareholders, reasons for this may be :

- **Stricter legal controls over business decisions -** pollution levels, wage levels, product standards
- **Increasing expectations** that business activity should operate in wider interests of society
- **The negative publicity** that comes with making unethical business decisions for profit, disregarding its effect on the public

Stakeholder objectives :

(Internal stakeholders)

Shareholder/ Owners : these are the risk takers of the business. **They invest capital into the business** to set up and expand it. These shareholders are liable to a share of the profits made by the business.

Objectives of shareholders :

- Shareholders are entitled to a rate of return on the capital they have invested into the business and will therefore have **profit maximisation** as an objective.
- **Business growth** will also be an important objective as this will ensure that the value of the shares will increase.

Workers : these are the **people that are employed by the business** and are directly involved in its activities.

Objectives of workers :

- **Contract of employment** that states all the rights and responsibilities to and of the employees.
- **Regular payment** for the work done by the employees.
- Workers will want to benefit from **job satisfaction** as well as motivation.
- The employees will want **job security**– the ability to be able to work without the fear of being dismissed or made redundant.

Managers: they are **also employees but managers control the work of others.** Managers are in charge of making key business decisions.

Objectives of managers :

- Like regular employees, managers too will aim towards a **secure job**.
- **Higher salaries** due to their jobs requiring more skill and effort.
- Managers will also wish for **business growth** as a bigger business means that managers can control a bigger and well known business.

(External stakeholders)

Customers : they are a very important part of every business. They **purchase and consume the goods and services** that the business produces/ provides. Successful businesses use

market research to find out customer preferences before producing their goods.

Objectives of customers :

- **Price that reflects the quality** of the good.
- The products must be **reliable and safe**. i.e., there must not be any false advertisement of the products.
- The products must be **well designed** and of a perceived quality

Government: the role of the government is to **protect the workers and customers from the business' activities** and safeguard their interests.

Objectives of government :

- The government will want the business to grow and survive as they will bring a lot of benefits to the economy. A successful business will help **increase the total output** of the country, will **improve employment** as well as **increase government revenue** through payment of taxes.
- They will expect the firms to stay within the rules and regulations set by the government.

Banks: these banks **provide financial help** for the business' operations'. They are less likely to lend to businesses they deem 'risky'. (small businesses, new businesses, etc.)

Objectives of banks :

- The banks will expect the business to be able to repay the amount that has been lent along with the interest on it. The bank will thus have business liquidity as its objective.

Community: this consists of all the stakeholder groups, especially the third parties that are affected by the business' activities.

Objectives of community :

  - The business must **offer jobs and employ local employees**.
  - The production process of the business must in **no way harm the environment**.
  - Products must be **socially responsible** and must not pose any harmful effects from consumption.

Impact of business decisions/actions on stakeholders

The activities of a business will affect all stakeholders but some might be more affected than others. For example, **if a retail business makes the decision to expand by opening a new store,** this will have an impact on all the different stakeholders. They may be affected in the following ways :

- **Shareholders and owners -** may decide to grow the business and authorise opening new stores. They will expect to see sales increase over time. However, opening a new store will cost money, which may affect profits in the short term and could affect the amount of dividends they will receive.
- **Managers -** take on additional responsibilities and set new targets. They may have opportunities for career progression, and they could become demotivated if they are not given such opportunities.
- **Employees -** have increased job security as a business grows. They could also have opportunities for promotion to new roles. Some employees could feel resentful if they are not offered opportunities.
- **Customers -** will benefit from having more choice about where to shop, but they may remain loyal to existing businesses. Through good marketing activity by the business, some may be tempted to try the new store.
- **Suppliers** - benefit from increased orders to equip and stock the new store, which might lead to an increase in their profits. If they are unable to cope with the extra demand, there is a risk that the business will use other suppliers.
- **The local community -** will benefit as a new store is likely to bring new jobs. However, they may be unhappy with increased traffic or noise.
- **Pressure groups -** may protest against the new store if they feel their cause is adversely affected, e.g. if the store would increase pollution. This could deter other businesses from coming to the area.
- **The government -** may be pleased to see new jobs being created and may expect to see increases in tax revenues as a result. However, other businesses could lose customers, which would reduce their profits and the tax they have to pay as a result

How and why a business needs to be accountable to its stakeholders

Businesses have responsibilities to all of its stakeholders, not just in providing shareholders with revenue. They also have responsibilities to its employees, the local community, the government etc. Being accountable to these responsibilities come with benefits.

- **To customers** - businesses must provide customers with safe products at a reasonable price, in doing so will increase customer loyalty and avoid bad publicity

- **To suppliers -** businesses are expected to pay suppliers the agreed amount at the agreed upon time, this will encourage suppliers to be more reliable in return
- **To employees -** businesses should provide their employees with training opportunities, job security, fair pay and working conditions. This will encourage them to be more loyal and productive
- **To the community -** businesses are responsible for providing jobs, not over polluting or harming the environment, upholding this responsibility will mean they're more likely to get planning permission to expand the business in those areas they are benefitting
- **To the government** - businesses should follow government laws, pay their taxes and fill out any forms or publish documents when asked. Having a good relationship with the government means they are more likely to get subsidies and planning permission

Stakeholder conflict

Shareholders objectives often conflict, as it is often impossible for a business to satisfy all of its stakeholders needs and wants.

All important business decisions will therefore involve some stakeholders gaining and other stakeholders losing, which can lead to a compromise being needed. Business managers will therefore have to figure out who to prioritise in each instance - who is more important? Which decision will lead to the most profit, but the least negative response?

For example, workers will aim towards earning higher salaries. Shareholders might not want this to happen as paying higher salaries could mean that less profit will be left over for payment of return to the shareholders.

Similarly, the business might want to grow by expanding operations to build new factories. But this might conflict with the community's want for clean and pollution-free localities.

The business can however try to reduce it's negative impact in some ways :
- When closing a factory down, the business can pay a large amount in redundancy payments to the workers that have lost their jobs
- Plant many trees to support the environment to counteract the carbon emissions of a new factory

How changing business objectives might affect its stakeholders

1. **Economic recession** - business will need to cut costs in order to remain in business **but** this may lead to employees losing their jobs
2. **Business wanting to expand -** this will create more jobs for employees **but** may affect the environment if it is a manufacturing business opening a new polluting factory