

# *Cambridge*

## *AS - Level*

### *Business studies*

*CODE: (9609)*

#### *Unit 01- Chapter 05*

#### *Stakeholders in a business*



## Introduction

The **stakeholder theory** or **stakeholder concept** is that there are many other parties involved and interested in business activity and that the interests of these groups – local communities, the public, government and pressure groups, such as environmental lobbyists – should be considered by business decision-makers.

### KEY TERMS

**Stakeholders:** people or groups of people who can be affected by – and therefore have an interest in – any action by an organisation.

**Stakeholder concept:** the view that businesses and their managers have responsibilities to a wide range of groups, not just shareholders.

### Business stakeholders

The main stakeholders of a business – other than owners/ shareholders – are therefore:

- Customers
- Suppliers
- Employees and their families
- Local communities
- Government and government agencies
- Special interest groups
- Lenders.

### Impact of business activities on stakeholders

Business activities and business decisions can have both positive and negative effects on stakeholders. In fact, it might be rare for all stakeholders to be either positively or negatively affected by any one business activity.

### What are their roles, rights and responsibilities?

Before we consider a business's responsibility towards stakeholders, it is useful to analyse what role the stakeholder groups play in a business's performance or success, and what, if any, rights they have and the responsibilities they need to fulfil (see Table 5.2).

## Responsibilities to stakeholders – and impact on business decisions.

### 1. Responsibilities to customers

Benefits of accepting these responsibilities: consumer loyalty; repeat purchases; good publicity when customers give word of mouth recommendations to others; good customer feedback, which helps to improve further goods and services.

### 2. Responsibilities to suppliers

Benefits of accepting these responsibilities: supplier loyalty – prepared to meet deadlines and requests for special orders; reasonable credit terms more likely to be offered.

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	<ul style="list-style-type: none"> <li>■ more job and career opportunities</li> <li>■ disruption during building and more complex lines of communication after expansion</li> </ul>	<ul style="list-style-type: none"> <li>■ more jobs for local residents and increased spending in other local businesses</li> <li>■ disruption caused by increased traffic and loss of green fields for amenity use</li> </ul>	<ul style="list-style-type: none"> <li>■ better service provided by bigger business with more staff</li> <li>■ larger business could be less personal and therefore offer inferior customer service</li> </ul>
Takeover of a competing firm (horizontal integration)	<ul style="list-style-type: none"> <li>■ the larger business may be more secure and offer career promotion opportunities</li> <li>■ rationalisation may occur to avoid waste and cut costs – jobs might be lost</li> </ul>	<ul style="list-style-type: none"> <li>■ if the business expands on the existing site, local job vacancies and incomes might increase</li> <li>■ rationalisation of duplicated offices or factories might lead to some closures and job losses</li> </ul>	<ul style="list-style-type: none"> <li>■ the larger business may benefit from economies of scale, which could lead to lower prices</li> <li>■ reduced competition could have the opposite effect – less customer choice might result in higher prices</li> </ul>
Significant application of IT into production methods	<ul style="list-style-type: none"> <li>■ training and promotion opportunities might be offered</li> <li>■ fewer untrained staff will be required and those unable to learn new skills may be made redundant</li> </ul>	<ul style="list-style-type: none"> <li>■ local businesses providing IT services could benefit from increased orders</li> <li>■ specialist workers may not be available locally, so more commuting by staff in cars might be necessary</li> </ul>	<ul style="list-style-type: none"> <li>■ more efficient and flexible production methods might improve quality and offer more product variety</li> <li>■ IT reliability problems could cause supply delays</li> </ul>

Table 5.1 Impact of business activity on stakeholders

### 3. Responsibilities to employees

Benefits of accepting these responsibilities: employee loyalty and low labour turnover; easier to recruit good staff ; employee suggestions for improving efficiency and customer service; improved motivation and more effective communication.

### 4. Responsibilities to local community

Benefits of accepting these responsibilities: local councils will be more likely to give planning permission to expand the business; local communities are more likely to accept some of the negative effects caused by business operations if they provide financial support for community groups and projects such as children's playgrounds; local councils often only give contracts to businesses with a record of community involvement.

	<b>Roles</b>	<b>Rights</b>	<b>Responsibilities (not necessarily legally binding)</b>
Customers	<ul style="list-style-type: none"> <li>purchase goods and services</li> <li>provide revenue from sales, which allows the business to function and expand</li> </ul>	<ul style="list-style-type: none"> <li>to receive goods and services that meet local laws regarding health and safety, design, performance and so on</li> <li>to be offered replacements, repairs, compensation in the event of failure of the product or service – to at least the minimum levels laid down by law</li> </ul>	<ul style="list-style-type: none"> <li>to be honest – to pay for goods bought or services received when requested</li> <li>not to steal</li> <li>not to make false claims about poor service, underperforming goods or failed items</li> </ul>
Suppliers	<ul style="list-style-type: none"> <li>supply goods and services to allow the business to offer its products to its own customers</li> </ul>	<ul style="list-style-type: none"> <li>to be paid on time – as laid down either by law or by the service agreement agreed between the business and suppliers</li> <li>to be treated fairly by the purchasing business, e.g. not to have lower prices forced on them by a much larger and more powerful customer business</li> </ul>	<ul style="list-style-type: none"> <li>to supply goods and services ordered by the business in the time and condition as laid down by the purchase contract or supplier's service agreements</li> </ul>
Employees	<ul style="list-style-type: none"> <li>provide manual and other labour services to the business, in accordance with employment contract, to allow goods and services to be provided to customers</li> </ul>	<ul style="list-style-type: none"> <li>to be treated within the minimum limits as established by national law, e.g. minimum wage rate</li> <li>to be treated and paid in the ways described in the employment contract</li> <li>in most countries, to be allowed to join a trade union if desired</li> </ul>	<ul style="list-style-type: none"> <li>to be honest</li> <li>to meet the conditions and requirements of the employment contract</li> <li>to cooperate with management in all reasonable requests</li> <li>to observe the ethical code of conduct</li> </ul>
Local community	<ul style="list-style-type: none"> <li>provide local services and infrastructure to the business to allow it to operate, produce and sell within legal limits</li> </ul>	<ul style="list-style-type: none"> <li>to be consulted about major changes that affect it, e.g. expansion plans or changing methods of production</li> <li>not to have the community's lives badly affected by the business's activities</li> </ul>	<ul style="list-style-type: none"> <li>to cooperate with the business, where reasonable to do so, on expansion and other plans</li> <li>to meet reasonable requests from business for local services such as public transport (e.g. to allow staff to get to work) and waste disposal</li> </ul>
Government	<ul style="list-style-type: none"> <li>pass laws that restrain many aspects of business activity</li> <li>provide law and order to allow legal business activity to take place</li> <li>achieve economic stability to encourage business activity</li> </ul>	<ul style="list-style-type: none"> <li>businesses have the duty to government to meet all legal constraints, such as producing only legal goods, and to pay taxes on time</li> </ul>	<ul style="list-style-type: none"> <li>to treat businesses equally under the law</li> <li>to prevent unfair competition that could damage business survival chances</li> <li>to establish good trading links with other countries to allow international trade</li> </ul>
Lenders	<ul style="list-style-type: none"> <li>provide finance to the business in different forms</li> </ul>	<ul style="list-style-type: none"> <li>to be repaid on the agreed date</li> <li>to be paid finance charges, e.g. interest on loan</li> </ul>	<ul style="list-style-type: none"> <li>provide agreed amount of finance on agreed date for the agreed time period</li> </ul>


**Table 5.2** Stakeholders – their roles, rights and responsibilities

## 5. Responsibilities to government

Benefits of accepting these responsibilities: good relations with government might lead to success with expansion projects receiving planning permission; businesses are more likely to receive valuable government contracts; requests for subsidies to expand businesses are more likely to be approved by government; licences to set up new operations are more likely to be awarded to businesses that meet their responsibilities to the government and the wider society.

### Corporate social responsibility (CSR) – an evaluation

This is the modern term that is now widely used to sum up the stakeholder concept.

 **KEY TERM**

**Corporate social responsibility:** the concept that accepts that businesses should consider the interests of society in their activities and decisions, beyond the legal obligations that they have.

Critics argue that Corporate Social Responsibility (CSR) distracts from the main role of business activity, focusing on profit-making for owners. They argue that CSR can be seen as a form of public relations spin to make businesses appear society-friendly, but it can actually damage society's interests. Some argue that CSR is an attempt to get governments to impose fewer controls on powerful multinational firms. While meeting social responsibilities can be expensive and reduce profits in the short run, over time, the marketing, public relations, and employee motivation benefits could pay for themselves and generate higher profits. Society's view of business is expanding, and companies are expected to take a wider view of their role.

#### Conflicts arising from different stakeholder objectives

According to the traditional shareholder concept, any attempts to meet non-legally binding obligations to other stakeholders will conflict with the business's duty to its shareholders. Any non-essential costs reduce profits – so the argument goes. Taking the stakeholder, corporate social responsibility approach, we have seen how the objectives of different groups may be met in ways that result in benefits to shareholders in the long term.

### Impact on stakeholders of changing business objectives

The dynamic business environment often means that directors or senior managers might be forced to change corporate objectives. When this happens, the impact on stakeholders can be significant.

## Revision questions

Q1.9707/11/M/J/10/Q4

- (a) State two different stakeholder groups in a business. [2]
- (b) Briefly explain why one of the stakeholder groups you have identified in part (a) may be interested in the performance of a business. [3]

Q2.9707/13/O/N/13/Q4

- (a) Define the term 'stakeholder'. [2]
- (b) Briefly explain one way in which conflict may arise between different stakeholder groups in a business. [3]

Q3.9707/13/M/J/15/Q1

- (a) Define the term 'stakeholder'. [2]
- (b) Briefly explain two ways a public limited company is accountable to its shareholders. [3]

Q4.9707/11/O/N/13/Q3

Explain the rights and responsibilities of employees as a business stakeholder group. [5]

Q5.9707/13/O/N/14/Q3

With the aid of two examples, how the objectives of one group of business stakeholders could conflict with those of another group. [5]

Q6.9609/12/F/M/2019/Q3

Explain why there might be conflict between two stakeholder groups of a large mining company. [5]

Q7.9609/12/M/J/19/Q3

Explain how the interests of two stakeholders for groups could affect the decisions of a business. [5]

Q8.9609/21/M/J/2018/Q1 (d)

Analyses how the closure of the supermarket that you have recommended in your answer to 1 (C) could affect two stakeholders of CS. [8]

Q9.9609/22/M/J/2018/Q1 (c)

The redundancies at OT will affect the employees.

Analyses the effect on two stakeholders, other than employees, of the decision to make 20% of employees redundant. [8]

Q10.9609/11/M/J/17/Q5

(a) Analyses why a business needs to be accountable to its stakeholders. [8]

(b) Discuss how there could be conflict between the stakeholders of a fast food retailer. [12]

Q11.9609/13/M/J/2017/Q7

(a) Analyses the rights and responsibilities of employees as stakeholders in a business. [8]

(b) Discuss how the stakeholders of a public sector organization might be affected by a reduction in government financial support for the organization. [12]

Q12.9707/12/M/J/2011/Q7 (b)

Discuss the importance of published accounts to three stakeholder groups in assessing the performance of a company which is planning to expand. [12]

Q13.9707/13/M/J/2011/Q5 (b)

Discuss the extent to which businesses are accountable to their stakeholders. [12]

Q14.9707/11/O/N/2015/Q7 (b)

Discuss with examples, how ethical business behavior could damage the reputation of a company. [12]

Q15.9609/13/M/J/2019/Q5 (b)

Discuss the view that a public limited company should priorities the aims of its shareholders rather those of other stakeholder groups. [12]