

Stakeholders and ethics

Introduction

A stakeholder is any individual or organisation that is affected by the activities of a business. They may have a direct or indirect interest in the business, and may be in contact with the business on a daily basis, or may just occasionally.

The main stakeholders are:

- ▶ **Shareholders** (not for a sole trader or partnership though) – they will be interested in their dividends and capital growth of their shares.
- ▶ **Management and employees** – they may also be shareholders – they will be interested in their job security, prospects and pay.
- ▶ **Customers and suppliers.**
- ▶ **Banks and other financial organisations** lending money to the business.
- ▶ **Government** – especially the Inland Revenue and the Customs and Excise who will be collecting tax from them.
- ▶ **Trade Unions** – who will represent the interests of the workers.
- ▶ **Pressure Groups** – who are interested in whether the business is acting appropriately towards their area of interest.

Stakeholders versus Shareholders

It is important to distinguish between a **STAKEHOLDER** and a **SHAREHOLDER**. **They sound the same – but the difference is crucial!**

- ▶ **Shareholders** hold shares in the company – **that is they own part of it.**
- ▶ **Stakeholders** have an interest in the company **but do not own it** (unless they are shareholders).

Often the aims and objectives of the stakeholders are not the same as shareholders and they come into conflict.

The conflict often arises because while shareholders want short-term profits, the other stakeholders' desires tend to cost money and reduce profits. The owners often have to balance their own wishes against those of the other stakeholders or risk losing their ability to generate future profits (e.g. the workers may go on strike or the customers refuse to buy the company's products).

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Social Responsibility

Social responsibility is the duty and obligation of a business to other stakeholders.

Stakeholder	Example of responsibility to that stakeholder
Shareholder	Good return on investment
Employee	Fair pay and working conditions
Supplier	Regular business and prompt payment
Customer	Fair price and safe product
Local community	Jobs and minimum disruption
Government	Employment for local community
Environment	Less pollution

Social responsibility for one group can conflict with other groups, especially between shareholders and stakeholders.

Ethics

Ethics refers to the **moral rights and wrongs of any decision a business makes**. It is a value judgement that may differ in importance and meaning between different individuals.

Businesses may adopt ethical policies because they believe in them or they believe that by showing they are ethical, they improve their sales.

Two good examples of businesses that have strong ethical policies are The Body Shop and Co-Op.

Some examples of ethical policies are:

- ▶ Reduce pollution by using non-fossil fuels.
- ▶ Disposal of waste safely and in an environmentally friendly manner.
- ▶ Sponsoring local charity events.
- ▶ Trading fairly with developing countries.

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