

community can then become totally dependent upon one employer. This can be true of nations too. In Africa, for example, some small countries are highly dependent on single mining companies or oil companies.

- A few businesses play important roles in their communities by supporting local charities or getting involved with schools and colleges. In the past in the UK, and in some countries today, businesses have also built and owned the housing in which their workers live. The Rowntrees in York or the Cadbury's in Birmingham were examples.
- Some businesses, such as McDonald's or The Body Shop, have a very high media profile and, arguably, have had an important influence upon the way we live. McDonald's outside of the USA has been accused of being the face of American capitalism. In France, it has been accused of destroying traditional cuisine by encouraging people to eat fast food. The Body Shop, by its ethical stance, has arguably encouraged other businesses to be more ethical.

The environment and future generations In recent years, there has been a growing awareness that environmental issues are important to stakeholding. The stakeholders are sometimes human beings who are affected by the impact that a business has on the environment today. For example, a business might be responsible for noise or visual pollution. Some would argue that animals and plants are also in some sense stakeholders because business activity has an impact on them. Equally, future generations are stakeholders of today's businesses. For example, building a nuclear power plant today means, almost certainly, that future generations will be left clearing up the nuclear waste created. Taking a barrel of oil from the ground today means that it will not be available to people 200 years from now. Sending a lorry to deliver goods 100 miles away probably contributes to global warming, a problem that will be faced mainly by people living 50 to 100 years from now.

The conflicting objectives of stakeholders

Different stakeholders in a business have different objectives. They want different things from the business.

Owners When owners play no part in the running of the business, their objective is usually to maximise their returns. Typically, this occurs when the business is a medium to large sized company owned by shareholders. Shareholder returns come from being able to sell their shares for a higher price than they paid for them and from receiving dividends, a share of the company profits.

Directors and managers Directors and managers of large companies have a mixture of motives. On the one hand, they have been appointed to look after the interests of shareholders. Their job is, therefore, to maximise returns for shareholders. On the other hand, maximising returns to shareholders may not coincide with maximising their own returns. Top management work partly to maximise their own pay and remuneration

package. So there can be a conflict of interest between senior management and owners. This problem is often referred to as one which comes from the 'divorce of ownership from control'.

Workers Ordinary workers from middle management down have little interest in the objectives of the owners of the company. They come to work for a variety of motives including pay and job satisfaction. When it comes to agreeing the annual pay rise, their objective is to have the highest rise possible. But this could lead to lower profits. Improved working conditions could lead to higher costs again damaging profits. On the other hand, it is not in the workers' interests to see the business fail. There are many examples where too high labour costs have led to the closure of a business or a business operation. So workers have to be careful about pushing their claims too far.

Customers Customers want the best prices with the highest quality at these prices. They want good service. This may conflict with other stakeholders' interests. For example, spending more on research and development to create new products might lower the amount payable in dividends to

Question 1.

EADS, the European manufacturer of aeroplanes and maker of Airbus, in partnership with the US company Northrop Grumman, has won a \$35 billion contract to supply refuelling tankers for the US airforce. The deal is for 179 aircraft together with service and support. What's more, the group is now in a strong position to capture a large share of the remaining 400 aircraft tankers the US airforce needs to replace, a contract which could ultimately be worth \$100 billion.

A number of groups will benefit from the order. EADS plants in France, Spain and Germany will supply some of the parts. The wings for all the planes will be manufactured at the EADS plant at Broughton in Wales, which already employs 6,000 people. A number of British companies will also supply parts. For example, Cobham plc will produce equipment to transfer fuel between planes, a contract that will be worth \$1 billion in sales over the life of the programme.

To secure the deal, EADS and Northrop Grumman had to locate 60 per cent of the work by value in the United States. One of the main beneficiaries will be the city of Mobile in Alabama where the aircraft will be assembled. More than 1,000 jobs will be created.

The loser has been the US aircraft manufacturer, Boeing, which was the main rival to EADS. Not only has it lost sales and profits, but it will have to restructure some of its operations. The assembly line at its plant in Everett, Washington, is now likely to close by about 2012 because there will no longer be any work for it to do. Around 600 production workers and other support staff will lose their jobs, almost more will probably be offered jobs elsewhere in Boeing. But the area has lost out on 2,000 jobs that would have been created had Boeing won the order. A further 4,000 jobs elsewhere in the USA have also been lost due to Boeing's failure to win.

Source: adapted from *The Financial Times*, 3.3.2008, 4.3.2008.

- List the possible stakeholders in EADS and Boeing.
- Explain how the different stakeholders in EADS and Boeing have gained and lost because EADS won the contract to build refuelling tankers.

shareholders today. Improving quality might lead to higher costs and lower profits, adversely affecting shareholders. Sunday opening for banks or shops might be unpopular with workers but be very popular with customers.

Suppliers Suppliers want to charge high prices to the business so as to maximise their profits. On the other hand, the business wants to minimise the price it pays to suppliers, also to maximise profit. A whole range of other issues such as quality, delivery times and service may also lead to conflicting objectives between suppliers and the business.

The community and government The communities in which a business operates have a variety of objectives with regard to businesses. On the one hand, they tend to welcome the jobs, taxes and prosperity which businesses can bring to an area. On the other hand, they don't like the environmental damage that businesses can cause. These objectives can conflict with those of the business. For example, a business might want to put up a building as cheaply as possible in order to minimise cost. But the local authority may insist on a variety of 'improvements' which increase the cost of the build. Businesses in general tend to lobby against the introduction of new regulations by government because they tend to raise costs.

Environmental groups Environmental groups tend to see

Question 2.

Northumbrian Water Group (NWG) is a local water company in the North East and South East of England. It provides water and sewerage services, supplying clean water to businesses and to homes and treating their sewage waste.

On its website in 2008, it stated that 'NWG is a business with significant resources - notably employees, water and land. We believe it has a responsibility to use those resources for the benefit not only of customers and shareholders, but also for the wider community.'

'Our recognised stakeholders include customers, employees, investors, suppliers, Government and the wider local community. NWG tries to balance social, environmental and economic priorities to ensure that, whilst maintaining economic stability, the environment is protected and society is enhanced. Stakeholders expect a secure supply of water - a basic necessity for health - and they expect us to protect or enhance the environment when we return waste to that environment. Stakeholders also expect NWG to

- behave fairly and responsibly
- use resources wisely
- improve quality of life
- contribute to economic development.

Source: adapted from www.nwg.co.uk.

- (a) Compare the possible objectives of customers, investors and 'the wider community' in NWG.
- (b) Do you think that stakeholders apart from shareholders should have more influence over the running of a water company like NWG than an engineering company which manufactures parts for the automobile industry?

business as a necessary evil. Clearly businesses have to exist to provide human beings with goods and services. But every business damages the environment in some way simply by using energy or by occupying buildings which stand on land which was once populated by animals and plants. Businesses tend to want to see fewer environmental regulations and more spending on infrastructure like roads and airports. Environmental groups tend to lobby against business expansion.

Costs and benefits to businesses of adopting a stakeholder approach

In the UK, adopting a 'stakeholder approach' means giving less importance to the interests of owners and more importance to other stakeholders than the typical business. The costs and benefits to businesses of adopting such an approach tend to be measured in terms of their impact on profits, sales, revenues and accounting costs. The advantages include the following.

- Having good employment policies will tend to attract better applicants for posts and help motivate and retain existing staff. Improved motivation and retention should lead to increased profits.
- Effective customer care policies should lead to higher sales and hence higher profits.
- Working well with suppliers should enable the purchaser to get value for money. It should be much easier to sort out problems of late deliveries or defective work with suppliers with whom there is a good relationship.
- Putting something into the community, such as giving to local charities, taking on workers or backing training projects should give the business good public relations. This might help sell products or attract good applicants for jobs.
- Being environmentally friendly could lead to lower overall costs. For example, recycling heat in a boiler might cost money for new equipment but quickly save money because of the lower fuel inputs needed. Being seen as environmentally friendly may help sales of products and thus increase profit.
- For some high profile companies such as Shell or BP, becoming more socially responsible deflects the criticisms of pressure groups. As companies such as Monsanto (over GM crops) or Nike (over poor conditions of work in factories making Nike trainers in the Third World) have

KNOWLEDGE

1. List the major stakeholders in a typical business.
2. Explain two ways in which the interests of the owners of a large business might conflict with the interests of its workers.
3. Explain two ways in which the interests of the senior management of a large business might conflict with the interests of environmental groups.
4. Why might the owners of a large business benefit rather than suffer by (a) giving their workers a large pay rise and (b) spending £1 million on environmental projects?
5. How might (a) workers and (b) the owners of a large business exert pressure to influence decision making within the business?

found, bad publicity can affect sales. In the mid -1990s, Shell faced a consumer boycott of its petrol filling stations over its plans to dispose of a North Sea oil platform by sinking it in the middle of the Atlantic ocean. Spending money on becoming more socially responsible is a way of reducing the risks to sales and profits that would come from bad PR.

The main disadvantage of the stakeholder approach is that, in practice, it tends to add to costs and thus lower profits for most businesses. If this weren't the case, every employer would

increase the benefits given to workers, or give money to local charities or devote resources to pursuing environmentally friendly policies. Only some businesses benefit from a 'stakeholder approach'.

KEY TERMS

Stakeholder – an individual or group which is affected by a business and so has an interest in its activities.

Case Study: The Body Shop

On its website in 2008, The Body Shop stated: 'The Body Shop International plc is a global manufacturer and retailer of naturally inspired ethically produced beauty and cosmetics products. Founded in the UK in 1976 by Dame Anita Roddick, we now have over 2,100 stores in 55 countries, with a range of over 1,200 products, all animal cruelty free, and many with fairly traded natural ingredients.'

High Street beauty products retailer Body Shop has been taken over by French cosmetics giant L'Oreal in a deal worth £625 million. L'Oreal makes a wide range of cosmetics, including Ambre Solaire sun cream and Lancome lipsticks. Body Shop – with its ethically-sourced products – was one of the icons of the High Street in the 1980s. Its fortunes have been hit in recent years as rivals started making similar products. Body Shop will be operated as a stand-alone company by L'Oreal rather than being fully integrated into the L'Oreal business.

The sale has attracted criticism because L'Oreal is 26 per cent owned by the Swiss multinational Nestlé, which has long been embroiled in controversy about the sale of baby milk in Third World countries.

Source: adapted news.bbc.co.uk 17.3.2006; www.independent.co.uk 10.4.2006.

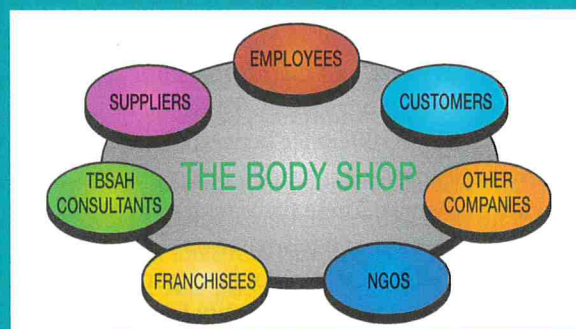
- Evaluate whether the objectives of the different stakeholders in The Body Shop must inevitably conflict with each. (40 marks)
- Assess the costs and benefits to The Body Shop of adopting a stakeholder approach to business. (40 marks)

In its 2007 Values Report, The Body Shop stated that: 'We are committed to running a commercially successful, sustainable business, and using resources responsibly with due regard for the needs of future generations. We do not believe that there is any conflict between commercial success and social or environmental responsibility. The greater our economic performance the more credible example we can set for other businesses, the wider ethical choice we can offer to consumers and the stronger our voice for the causes we champion.'

In its 2007 Values Report, The Body Shop stated that its stakeholders were:

- customers: 'We know from our customer surveys and focus groups that 80 per cent of our customers shop with us because of our Values';
- employees and consultants: 'The Body Shop International plc directly employs 10,034 people but there is a total of 31,000 people globally working in our stores, in offices and warehouse operations and as The Body Shop At Home™ consultants.
- NGOs (non-governmental organisations): NGOs are mainly charities such as Greenpeace, WWF (World Wildlife Fund), Friends of the Earth and local groups in countries in which The Body Shop operates;
- franchisees: 'Our franchisees are responsible for the largest part of our business and their contribution to building our brand and Values is significant';
- suppliers: 'Our engagement with suppliers takes a range of different forms. We visit each of our Community Trade suppliers at least every two years, and assess our product suppliers annually. For example, we have been in close contact with our packaging suppliers to increase the use of recycle, and work with other suppliers to use new natural ingredients or find alternatives to chemicals of concern.'
- Other companies and multi-stakeholder networks: 'We want to share what we have learned with other companies, as well as understand how others have made progress. We are therefore a part of a number of formal networks which include progressive companies, both within and outside our sector.'

Figure 1: The Body Shop: stakeholders



Source: adapted from www.thebodyshopinternational.com.