

Cambridge AS & A Level · Business 9609 · Notes

Stakeholders in a business AS

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Read first: [Business structure](#), [Business objectives](#)

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What you need to know

By the end of this topic you should be able to:

1. **Explain what stakeholders are:** individuals or groups with an interest in what a business does.
2. **Tell internal stakeholders from external stakeholders**, with examples of each.
3. **Explain the roles, rights and responsibilities** of each stakeholder group.
4. **Explain how business decisions affect stakeholders**, and how stakeholders are likely to react.
5. **Explain how stakeholders' aims affect the decisions a business makes.**
6. **Explain how and why a business is accountable to its stakeholders.**
7. **Explain how conflict can arise** because stakeholders have different aims and objectives.
8. **Explain how a change in a business's objectives can affect its stakeholders.**

Legal structures (who the owners are in a sole trader, partnership or company) are in the earlier topic, business structure; objectives, CSR and ethics are in business objectives. Here you need how those affect each stakeholder group.

Understand it

What a stakeholder is

A **stakeholder** is any individual or group that has an **interest in a business** because they **affect, or are affected by, its activities**. A business's decisions change their pay, jobs, prices, orders, taxes or surroundings, and in turn their actions (buying, working, lending, protesting, passing laws) change how the business does.

Do not confuse stakeholders with **shareholders**. Shareholders own shares in a company; they are just **one** stakeholder group. Examiners report candidates mixing the two words up in several sessions.

Internal and external stakeholders



- **Internal stakeholders** are part of the business: its **owners** (sole trader, partners or shareholders), **managers** and **directors**, and **employees**. Owners and shareholders are internal, even though shareholders of a big plc may never visit it.
- **External stakeholders** are outside the business (they do not own it or work for it) but still have an interest in it: **customers**, **suppliers**, **lenders** (banks), **government**, the **local community**, **competitors**, **pressure groups** and **potential investors**.

Roles, rights and responsibilities

Each group plays a part in the business (its **role**), can expect certain things from it (its **rights**, many set by law or a contract) and owes certain things to it (its **responsibilities**).

Stakeholder	Role	Rights (what they can expect)	Responsibilities (what they owe the business)	Typical aims
Owners / shareholders	Provide capital and take the risk	A share of profit (dividends), a vote at the AGM, accurate accounts	Provide finance; appoint directors who run it well	Profit, dividends, a rising share value
Managers / directors	Plan, organise and make decisions	Pay, status, the authority to manage	Act in the best interests of the business , honestly and legally; keep its information private	High pay, status, growth of the business
Employees	Do the work	Pay as agreed, a safe workplace, fair treatment, the contract's terms	Work to their contract and the business's policies; be productive, punctual and honest; keep trade secrets from competitors	Good pay, job security, safe conditions, training, a say in decisions

Stakeholder	Role	Rights (what they can expect)	Responsibilities (what they owe the business)	Typical aims
Customers	Buy the products	Safe products as described, fair treatment, refunds when goods are faulty	Pay in full and on time; be honest (no theft, no false claims)	Low prices, good quality, good service
Suppliers	Supply materials and services	To be paid on time as agreed	Deliver the agreed quality, on time , at a fair price	Regular orders, prompt payment, good prices
Lenders (banks)	Provide loan finance	Interest and repayment as agreed	Lend the amount promised, and not demand it back before the date set in the loan agreement	Interest, repayment, low risk
Government	Makes laws, collects taxes	Taxes paid, laws obeyed	Set and enforce fair rules (consumer, employment and pollution laws) so no group is exploited; help firms with roads, training and sometimes funding	Tax revenue, jobs, economic growth, safe products, a clean environment
Local community	Lives near the business	Not to be harmed by its noise, traffic or pollution	Treat the business fairly (no unfair campaigns); provide workers and customers	Jobs, a clean and safe local area

In an exam, a "responsibility" is something the **stakeholder owes the business**, not something the business owes the stakeholder. A responsibility of an **owner** of a small business is a duty they must carry out for it: plan it, keep track of its finance, make sure it obeys the law, hire, train and pay its staff, look after customers. An entrepreneur's personal **qualities** (being creative, a risk-taker) are not responsibilities and score nothing.

How decisions affect stakeholders, and how they react

Almost every big decision helps some stakeholders and harms others. Trace each decision to each group in turn, short term and long term.

Decision	Likely effects	Likely reactions
Automate or change production (more machines, mass production, mass customisation)	Employees must retrain or face redundancy; shareholders give up dividends now to pay for the machines but may gain from lower costs later; customers may get more choice or lower prices; suppliers may lose or win orders	Unions resist job cuts, staff motivation falls; shareholders accept if they trust the long-term plan

Decision	Likely effects	Likely reactions
Expand or open a new site	Jobs and incomes for the local community; more noise, traffic or pollution; more tax for government; more orders for suppliers	The community or pressure groups may protest; the government may give planning permission and grants
Stop selling a product or close a branch	Customers lose a product they used; employees may lose jobs; suppliers lose orders; competitors gain customers	Customers switch to competitors; bad publicity
Become more sustainable or ethical	Higher costs, so lower profit in the short run; better reputation; some suppliers lose orders and others gain them; the community gets a cleaner area	Ethical customers buy more; shareholders who want short-term profit object
Raise prices	Customers pay more; profit may rise if demand holds	Customers switch to rivals or complain; the government may investigate if the business dominates its market

How stakeholders' aims affect decisions

The influence also runs the other way: a business must take its stakeholders' aims into account, because each group controls something it needs (money, labour, sales, materials, permission). Some examples:

- **Employees** want higher pay, safe conditions, training or a say in decisions. To keep them (and avoid strikes, often organised by a **trade union**), the business may accept higher costs, raise prices to cover them, delay growth or cut dividends. If employees' aims **match** the business's (a productive, well-trained workforce), the business gains.
- **Shareholders** want dividends: the business may keep fewer profits for investment.
- **Customers** want low prices and quality: the business may choose cheaper inputs, or market research decides its products.
- **The government** sets laws (minimum wage, safety, pollution limits): the business must change how it operates.
- **The local community and pressure groups** can campaign and damage the brand: the business may choose a different site or a cleaner process.

How much influence a group has depends on its **power** (can it stop the business working?) and how much the business **depends** on it. Employees with scarce skills or a strong union, a customer that buys most of the output, a bank whose loan the business needs, and a government that can refuse permission all have a lot of influence. Employees who are easy to replace (high unemployment, low skills) have little.

Accountability: how and why

A business is **accountable** to its stakeholders when it must **explain and justify** what it does to them, and accept the consequences.

How it is accountable:

- **Shareholders:** a company must publish **annual accounts and a report** and hold an **annual general meeting (AGM)** where shareholders vote on directors and can question them.
- **Government:** it must pay taxes, file accounts and obey laws (consumer, employment, health and safety, environmental); regulators inspect it and can fine it.
- **Employees:** employment contracts and laws; consultation with trade unions.
- **Customers and the community:** consumer law, CSR or sustainability reports, and the media and pressure groups, who publicise what it does.

Why it needs to be accountable:

- It is **the law**: failing to report or obey brings fines, legal action or closure.
- Owners and lenders have trusted it with their **money**: without clear information they will not invest or lend again.
- **Reputation**: open reporting builds trust with customers, staff and investors; hiding bad behaviour risks a scandal that loses sales.
- It needs the **support of every group** to operate: staff to work, customers to buy, suppliers to supply, and the community and government to let it stay.

Conflict between stakeholders

Conflict arises because groups want **different things from the same business**, and money spent on one group cannot be spent on another.

Groups	Why they clash
Owners and employees	Higher pay and job security raise costs and cut the profit owners want
Owners and the local community	Expanding or cutting costs raises profit but may bring pollution, noise or job losses
Owners and customers	Higher prices raise profit; customers want low prices and better quality
Owners and suppliers	The business wants low prices for its supplies; suppliers want high prices and quick payment
Government and the local community	The government wants jobs and taxes from a new mine or factory; residents want a clean environment
Shareholders and managers	Shareholders want short-term dividends; managers want to reinvest for long-term growth (and their own pay and status)

Conflict can also happen **inside one group**: two owners with different aims (a social-enterprise founder who wants to give to charity against an investor who wants maximum profit), or employees in different departments.

Effects of conflict on a business: strikes or industrial action (lost output, late deliveries), demotivated staff and higher labour turnover, **slower decisions**, damage to its **reputation**, extra costs (higher pay, legal costs), and lower profit. A business usually has to **compromise**: negotiate, consult, or decide which group to put first.

Not all aims conflict. Many stakeholders gain when the business does well: more profit can mean higher dividends, secure jobs, more orders for suppliers and more taxes. Conflict is most likely when a decision **shares out a fixed amount of money**, or helps one group **now** at another's cost.

How changing objectives affects stakeholders

When a business changes its objectives (see business objectives), its stakeholders are affected in different ways:

- **From profit to growth**: shareholders get lower dividends now because profits are reinvested; employees gain promotion chances and job security; suppliers gain orders.
- **From profit to CSR or sustainability**: the community and environment gain; costs rise, so profit and dividends may fall in the short term; ethical customers and employees are attracted.
- **From growth to survival** (cutting costs in a recession): employees face pay freezes or redundancy; suppliers face pressure to cut prices; customers may see lower quality.
- **A new owner** (a takeover or new investor) brings new objectives, which can change everyone's position and start conflict with the old owners.

Key facts and formulas

There is no formula list for this subject in the exam. "Learn it" means you must remember it.

Formula or fact	Status
Stakeholder: an individual or group with an interest in the business, who affects or is affected by its activities	Learn it
Internal: owners or shareholders, managers, employees. External: customers, suppliers, lenders, government, local community, competitors, pressure groups	Learn it
Shareholders are one stakeholder group (internal), not another word for stakeholders	Learn it
Percentage change = $\frac{\text{new} - \text{old}}{\text{old}} \times 100$	Learn it
Accountability: annual report and accounts, AGM, laws and regulators, CSR reports	Learn it

How to do it

We have tagged 12 questions on this topic (2021–2025), across Papers 1 and 2. Four of them have parts of more than one type, so the counts add up to 16.

Question type	Questions
Define or identify stakeholders (internal vs external)	4
Explain or evaluate conflict between stakeholders' aims	4
Analyse or evaluate the impact of a business decision on stakeholders	3
Explain or analyse a stakeholder's responsibilities	3
Explain how stakeholder aims influence decisions, or judge which stakeholder matters most	2

The marks are for four skills: **K** (knowledge: a correct point or definition), **App** (application: using the business in the question or a real example), **An** (analysis: a chain of consequences) and **Eval** (evaluation: a supported judgement). Below, (K), (App), (An) and (Eval) after a sentence show the mark it earns.

1. Define or identify stakeholders (internal vs external) (4 questions)

"Define the term stakeholders / business stakeholders" [2] (Paper 1): two elements, one mark each.

1. An individual or group with an **interest in** the business (1)
2. who **affects, or is affected by**, its activities or decisions (1).

A list of examples alone earns 1 at most; an example counts only if you say how that group relates to the business.

"Define the term external stakeholders" [2]: individuals or groups **outside** the business, who do not own it or work for it (1), but who **have an interest in it or are affected by it** (1). "Stakeholders outside the business" alone earns 1. For **internal stakeholders**: people who own it or work in it (owners, managers, employees) (1), who have an interest in its activities (1).

"Identify one external stakeholder of [a business]" [1] (Paper 2 (a)(i)): one word is enough: customers, suppliers, competitors, government, the local community, banks. **Owners, investors and shareholders are internal** and score 0. Only your first answer is marked.

2. Explain or evaluate conflict between stakeholders' aims (4 questions)

"Explain two reasons why conflict might arise between different stakeholders" [3] (Paper 1): two reasons, each a pair of groups and why their aims clash. Both explained soundly earns 3; one sound and one partial, 2; a list of two, 1. "Shareholders want higher dividends, but employees want higher pay, and both come out of the same profit; the community wants the business to grow for the jobs, but not if it brings more pollution."

"Analyse one way in which conflict between stakeholders may affect a business" [5] (Paper 1): 1 K, 2 App, 2 An. Examiners report that many answers described the conflict at length and never reached its **effect on the business**. Plan:

1. **K**: name the effect: industrial action, demotivated staff, slow decisions, damage to reputation, lower profit.
2. **App** (twice): the situation that causes it, for example managers want to automate production to cut costs, so workers fear for their jobs.
3. **An** (two links): what follows for the business: "workers strike, so orders are delivered late, so customers switch to competitors and revenue falls."

"Evaluate the most likely reason for conflict between [the owners of X]" or "Evaluate possible conflicts between the aims of two of X's stakeholders" [11 or 12] (Paper 2): 2 K, 2 App, 2 An, 6 Eval.

1. **K**: the aims of each group involved (owners: profit; community: a clean area; employees: pay and security; government: jobs and tax).
2. **App**: the case's facts: who the stakeholders are, what the business plans, the numbers.
3. **An**: a chain for each conflict: what one group wants, why it hurts the other, the effect on the business.
4. **Eval**: say which conflict is **most likely or most serious for this business**, and why; what it depends on (each group's power, how big the decision is, whether a compromise exists, short term against long term). Examiners report answers that described the **impact on** stakeholders when the question asked about **conflict between their aims**: keep both groups' aims in every paragraph.

For a conflict **between owners**, reasons include different aims (social purpose against maximum profit), the speed of expansion, loss of control after a new investor joins, and personal or leadership differences.

3. Analyse or evaluate the impact of a business decision on stakeholders (3 questions)

"Analyse how two stakeholders of X might be affected by the decision to ..." [8] (Paper 2 (c)): for each stakeholder, K (name the group), App (who they are in this case), and a two-link chain (An): "the 26 workers in the packing centre (App) may have fewer hours as small-box orders stop (An), so their income falls (An)."

"Evaluate the impact on X's stakeholders of [a decision]" [12] (Paper 2 (d)):

1. **K**: define the key terms in the question (stakeholder, and the decision: sustainability, mass customisation).
2. **App**: name the case's stakeholders (its shareholders, its employees, its customers) and the facts of the decision.
3. **An**: one or two chains per stakeholder (see the table under "How decisions affect stakeholders"). Two analysis marks only: do not spend half the answer here.
4. **Eval** (half the marks): weigh **short term against long term**, **costs against benefits**, risk against reward; judge **which stakeholder is affected most** and what it depends on (how many jobs are at risk, the cost of the change, whether customers will pay more).

4. Explain or analyse a stakeholder's responsibilities (3 questions)

"Explain two responsibilities of a stakeholder group" [3] (Paper 1): two responsibilities **owed to the business**, each with why it matters: "employees must work to the terms of their contract, so the business can plan its output; suppliers must deliver on time and at the agreed quality, so production is not held up." Two groups, or two duties of one group, are both fine. Examiners report weak answers about what the business owes stakeholders instead.

"Analyse one responsibility to a business of an employee as a stakeholder" [5]: 1 K (work productively, follow policies, keep trade secrets, be honest), 2 App (a manager or a shop-floor worker; what it means in practice), 2 An (a chain ending in efficiency, competitiveness or profit): "an employee who keeps the firm's production methods from competitors (App) keeps its cost advantage (An), so it can keep prices low and keep its market share (An)."

"Evaluate the most important responsibility that [owner] has as the owner of X" [12] (Paper 2): K: two or three duties (plan, manage finance, obey the law, hire and train staff, look after customers); App: the case (a sole trader with unlimited liability, a business about to hire staff); An: a chain for each; Eval: choose one and say why it matters most **now** and what it depends on (the business's size and stage, its legal structure, the owner's own skills). Personal qualities score 0.

5. Explain how stakeholder aims influence decisions, or judge which stakeholder matters most (2 questions)

"Explain one way the aims of [employees] may impact on the decisions of a business" [3] (Paper 1): one aim (K: higher pay, safe conditions, training, a say in decisions) and two steps on how the business responds (App): it accepts higher costs, raises prices to cover them, delays growth, cuts dividends, or gains if the aims match its own.

"[Employees] are the most important stakeholder group in a [type of business]. Evaluate this view" [12] (Paper 1 Section B):

1. **K**: define stakeholders and say what the industry does.
2. **App**: why that group matters **in that industry** (skilled, dangerous work in oil and gas; staff who serve customers in a hotel).
3. **An**: a chain for the group (motivated skilled staff → safe, efficient production → revenue and profit; a strike → output stops) and for at least one rival group (shareholders provide the capital; communities and pressure groups can stop a project).
4. **Eval**: judge, and say what it depends on: how skilled and replaceable the staff are, how strong the union is, how risky the industry's effect on the environment is, the country. A strong conclusion often says the business must **balance** its stakeholders, and that the most important group can change with the decision being made.

Worked examples

Example 1

(a) Define the term internal stakeholders. [2]

(b) Explain two responsibilities of customers as a stakeholder group. [3]

(a) People who own or work for the business, such as its shareholders, managers and employees (1), and who have an interest in, and are affected by, its activities (1).

(b) Customers must pay for what they buy in full and on time, especially when buying on credit, so the business has the cash to pay its own bills (sound explanation). They must also deal honestly with the business: no theft and no false complaints or refund claims, which would raise its costs (sound explanation). Two sound explanations earn 3.

Example 2

CityLink Buses (CB) is a private limited company that runs 14 bus routes in a city. Route 9 carries 1,200 passengers a week, many of them elderly people travelling to the town centre. Its revenue is 3,100 dollars a week and its costs are 4,000 dollars a week. CB's directors have decided to close Route 9. Its 6 drivers will be offered work on other routes.

Analyse how two stakeholders of CB might be affected by the decision to close Route 9. [8]

Shareholders. CB's shareholders are its owners (K). Route 9 loses $4,000 - 3,100 = 900$ dollars a week, which is $900 \times 52 = 46,800$ dollars a year (App). Closing it removes this loss, so CB's profit rises (An), and the shareholders may receive higher dividends or see more profit reinvested in profitable routes (An).

Customers. The passengers who use Route 9 are external stakeholders (K). The 1,200 passengers a week, many of them elderly (App), will have to walk further to another route or pay for taxis (An), so their travel costs rise and some may be unable to reach the town centre at all, lowering their quality of life (An).

Each stakeholder earns $K + \text{App} + 2 \text{An}$, so $4 + 4 = 8$. (The drivers are another option: the offer of other routes protects their jobs, but they may lose shifts if other routes are full.)

Example 3

Hillside Stone (HS) is a private limited company that runs a stone quarry near a small town. Its directors plan to extend the quarry onto farmland next to the town. The extension would raise HS's annual profit from 2.0 million dollars to 2.6 million dollars and create 40 jobs in a town where 12% of workers are unemployed. It would also bring 80 extra lorry journeys a day through the town centre, and more dust and noise. A residents' group has started a campaign against the plan. The government must give planning permission.

Evaluate possible conflicts between the aims of two of HS's stakeholders. [12]

Knowledge. Stakeholders are groups with an interest in HS's activities. HS's shareholders aim for profit and dividends; the local community aims for jobs but also a clean, safe place to live (K).

Shareholders against the local community. The extension raises profit by $\frac{2.6 - 2.0}{2.0} \times 100 = 30\%$ (App), so shareholders want it to go ahead. But the 80 extra lorry journeys a day and the dust (App) make the town noisier, dirtier and more dangerous for the people who live there (An). If HS pays to reduce the harm (covered lorries, a new access road) its costs rise and part of the 30% profit gain disappears, so the two aims pull directly against each other (An).

The government against the local community. The government wants the 40 jobs in a town with 12% unemployment, and the extra tax on HS's profit, so it may give permission. Residents who are not looking for work bear the dust and traffic and gain nothing, so they campaign against both HS and the government's decision (An).

Judgement. The conflict between shareholders and the community is the more serious one for HS (Eval). The government can approve the plan, but an active residents' campaign can delay planning permission, add conditions that cost money, and damage HS's reputation with local customers and future employees (Eval). How serious it becomes depends on how many residents gain from the 40 jobs: the more local people who are hired, the more of the community has an interest in the extension going ahead, and the weaker the campaign (Eval). HS can reduce the conflict by compromise, such as hiring locally and building a road that takes the lorries out of the town centre, accepting a smaller rise in profit in return for the community's support; that is likely to be the best result for its shareholders too in the long term (Eval).

The marks: 2 K, 2 App, 2 An (a developed chain for each conflict), and 6 Eval for a judgement in context that says which conflict matters most for HS, what it depends on and how it might be reduced.

Common mistakes

- **Mixing up stakeholders and shareholders.** Examiners report this in several sessions. Shareholders own shares; stakeholders are every group with an interest in the business.
- **Calling shareholders or owners external.** They are internal, and score 0 when asked for an external stakeholder.
- **Half a definition.** "Stakeholders outside the business" or a list of groups earns 1 of 2: add "with an interest in, or affected by, the business".
- **Responsibilities the wrong way round.** "Explain two responsibilities of a stakeholder group" asks what the **group owes the business** (employees work to contract, customers pay on time), not what the business owes it.
- **Describing the conflict but not its effect.** In "how conflict may affect a business", examiners found answers that explained the stakeholders and their aims in detail and never said what happens to the business (strike, slower decisions, lower profit).
- **Writing about impact when asked about conflict.** In "conflicts between the aims of two stakeholders", examiners report answers about how a decision affects each group separately. Show the two aims pulling against each other.

- **Ignoring the business or stakeholder named.** If the question names a business or a group (the bank, the owners, the employees), every point must be about that business or group, with its facts.
- **Too much analysis in a 12-mark answer.** Only 2 marks are for analysis; 6 are for evaluation, so about half the answer should weigh and judge.
- **Owners' qualities instead of responsibilities.** "Being a risk-taker" is a quality, not a responsibility.

How to get the marks

- **Command words.** *Identify*: name one, and only your first answer counts. *Define*: the exact meaning with both elements. *Explain*: a point, then why or how, in context. *Analyse*: points developed into chains of cause and effect, no judgement. *Evaluate*: both sides, then a supported judgement.
- **[3] "explain two ..."** (Paper 1): two points, each with a reason. A plain list of two earns 1.
- **[5] "analyse one ..."**: 1 K, 2 App (a specific situation or stakeholder), 2 An (a chain ending in the effect on the business: output, costs, reputation, profit).
- **[8] "analyse how two stakeholders ..."**: exactly two groups, each with K, App from the case and a chain of at least two links.
- **[12] evaluate**: 2 K, 2 App, 2 An, 6 Eval. The top evaluation band needs a judgement **in context**: which stakeholder, conflict or responsibility matters most **for this business**, why, and what it depends on (power, timescale, cost, the case's numbers). A judgement that would fit any business stays below the top band.
- **Use the case's numbers**: the number of employees, the profit, the unemployment rate. A calculation (a loss removed, a percentage rise in profit) is strong application.
- **Short term against long term** is the quickest way to balance an answer about stakeholders: shareholders lose dividends now but gain later; the community gains jobs but suffers pollution.

Quick check

1. Sort these into internal and external stakeholders: shareholders, a bank, managers, a pressure group, employees, suppliers, a competitor.
2. Define the term stakeholders. **[2]**
3. Explain one way the aims of customers may impact on the decisions of a business. **[3]**
4. A restaurant's wage bill is 250,000 dollars a year and its profit is 40,000 dollars a year. Its employees ask for a 6% pay rise. If the restaurant agrees and changes nothing else, calculate (a) the extra wage cost, (b) the new profit and (c) the percentage fall in profit.
5. Give two ways a public limited company is accountable to its shareholders.

Answers

1. Internal: shareholders, managers, employees. External: a bank, a pressure group, suppliers, a competitor.
2. An individual or group with an interest in a business (1), who affects or is affected by its activities and decisions (1).
3. Customers want low prices (K). A business may therefore choose cheaper materials or a cheaper supplier to keep its prices down (App), even if this lowers quality, or it may decide not to raise prices when its costs rise, accepting lower profit to keep its customers (App).
4. (a) $250,000 \times 0.06 = 15,000$ dollars. (b) $40,000 - 15,000 = 25,000$ dollars. (c) $\frac{15,000}{40,000} \times 100 = 37.5\%$.
A small pay rise takes over a third of the profit, which is why owners and employees clash over pay.
5. Any two: it publishes an annual report and accounts; it holds an annual general meeting where shareholders vote on the directors and question them; it must follow company law on reporting, with its accounts checked by auditors.

Past questions to try

- 9609/12/M/J/23 Q4: one way conflict between stakeholders affects a business.
- 9609/11/M/J/23 Q4: one responsibility of an employee as a stakeholder.
- 9609/21/O/N/21 Q2: part (e), conflicts between the aims of two stakeholders of a tin mine.
- 9609/22/F/M/23 Q1: part (d), the impact on stakeholders of more sustainable operations.