Class – X 21/5/2020

Sub: Commercial Studies

1 STAKEHOLDERS IN COMMERCIAL ORGANISATIONS

Learning Objectives

After studying this chapter, you should be able to understand :

1.1. The Meaning of Stakeholders
1.2. Distinction between Stakeholders and Shareholders
1.3. Distinction between Stakeholders and Customers
1.4. Internal and External Stakeholders
1.5. Expectations of Stakeholders
1.6. Stakeholders Analysis

In the course of its functioning, a business enterprise or commercial organisation interacts closely with several social groups. Such interaction gives rise to a shared community of interest between the organisation and the social groups that surround it.

1.1. MEANING OF STAKEHOLDERS

The term 'stakeholders' has developed from the word 'stake' which means an interest or expected benefit. Stakeholders, therefore, mean all those individuals, groups and institutions which have a stake in the functioning and performance of a commercial organisation or a business enterprise. A person is said to be a stakeholder when that person has an interest in the organisation. The decisions and actions of the organisation influence the stakeholders directly or indirectly. These stakeholders may vary greatly from a few individuals to large institutions such as the Government. When a commercial organisation interacts closely with various groups in society, a community of interests develops between it and social groups. A commercial organisation must seriously consider the interests of its stakeholders. If it disregards them, the stakeholders can combine to block or delay its operations.

Stakeholders can have both positive and negative impact on a commercial organisation. On the positive side, stakeholders provide the necessary resources and support to business. A business enterprise gets finance, labour, raw materials, machinery, etc., from its stakeholders. It sells and distributes its products and services through them. In times of distress stakeholders (e.g., banks and Government) may provide the necessary support. On the negative side, stakeholders may block or interrupt the functioning of an enterprise when their expectations are disregarded. Therefore, stakeholders play a vital role in determining the success or failure of a business enterprise. A commercial organisation cannot survive and grow for long without taking care of the interests (stake) of its stakeholders. According to George Goyder, "industry in the twentieth century can no longer be regarded as a private management for enriching shareholders. It has become a joint enterprise in which workers, management, consumers, the locality, Government and trade union officials play a part. If the system which we know by the name of private enterprise is to continue, some way must be found to embrace many interests which go to make up industry in a common purpose."

1.2. DISTINCTION BETWEEN STAKEHOLDERS AND SHAREHOLDERS

Stakeholders is a much wider term than shareholders. In a joint stock company, the persons and groups who own the shares of the company are known as shareholders. They contribute the company's share capital and assume the risk of loss. In addition to shareholders, customers, creditors, employees, Government and others also have a stake in the company. These are all known as stakeholders. Thus, shareholders are one out of several stakeholders.

The term shareholders is used only in connection with a joint stock company but the term stakeholders is used in connection with all business enterprises — sole proprietorship, partnership, joint stock company, etc.

1.3. DISTINCTION BETWEEN STAKEHOLDERS AND CUSTOMERS

Customers are the individuals and groups who purchase the products or services of a business firm. They do not have a stake in the success of the firm and are, therefore, not stakeholders. Stakeholders is a much wider term than customers.

Customers are an important group. Business exists to earn profits through satisfaction of the needs and wants of its customers. Customer is known as the king. According to Drucker, there is only one purpose of business — to create a customer. The customer is the foundation of business and keeps it in existence. It is to satisfy the expectations of customers that society entrusts wealth producing resources to business. No business can survive and grow without satisfying the customers. In modern business the motto is to 'delight the customer' which means offering to customers more than what they expect. Customers are the suppliers of bread and butter (revenue) to a business enterprise. However, customer is not a stakeholder as he does not have a stake in the firm.

Basis of Distinction	***Stakeholders***	***Customers***
1. **Financial stake**	Stakeholders like shareholders and employees have a financial stake in a business firm.	Customers do not have a financial stake in a business firm.
2. **Supply of capital**	Stakeholders supply financial capital or human capital.	Customers do not supply any capital to the organisation.
3. **Buying goods and services**	Stakeholders do not buy goods or services from the organisation.	Customers buy goods or services from the organisation.
4. **Risk taking**	Stakeholders take risks of the organisation.	Customers do not take risks of the organisation.
5. **Product orientation**	Products are not manufactured according to the tastes of the stakeholders.	Products are manufactured according to the tastes of the customers.
6. **Market orientation**	Market orientation is not necessary for satisfaction of stakeholders.	Market orientation is necessary to satisfy customers.
7. **Sharing of profits**	Stakeholders share profits in the form of interest, dividend, wages and salaries.	Customers do not share the profits of the commercial organisations.
8. **Participation in management**	Stakeholders such as the owners participate in the management of organisation.	Customers do not participate in the management of the organisation.

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Distinction between Shareholders and Customers

Basis of Distinction	*Shareholders*	*Customers*
1. **Stakeholder**	Shareholders are stakeholders as they have a financial stake in the company.	Customers are not stakeholders as they do not have a financial stake in the company.
2. **Investment**	Shareholders invest money in the company by buying its shares.	Customers do not invest money in the company.
3. **Dividend**	Shareholders receive dividend from the company.	Customers do not receive dividend from the company.
4. **Risk**	Shareholders undertake risk of loss on the investment made in the company.	Customers do not undertake risk as they do not invest in the company.

Distinction between Shareholders and Creditors

Basis of Distinction	*Shareholders*	*Creditors*
1. **Type of Stakeholder**	They are internal stakeholders.	They are external stakeholders.
2. **Nature of investors**	They invest in the capital of the company.	They only give loan to the company.
3. **Degree of risk**	They assume greater risk of loss of capital.	They assume lesser risk of loss of loan.
4. **Profit-shaving**	They share in the profits of the company in the form of dividends.	They do not share in the profits of the company and receive only interest on their loan.
5. **Membership**	They are the members of the company, have voting rights.	They are not members of the company, no voting rights.

1.4. INTERNAL AND EXTERNAL STAKEHOLDERS

Stakeholders may broadly be classified into two categories as follows :

1. Internal stakeholders
2. External stakeholders

1. Internal stakeholders : Stakeholders who are involved in the business firms from within the organisation are known as internal stakeholders. They consist of owners/shareholders, employers and employees of the organisation. Shareholders as owners supply capital and have an important stake in the company. They assume the risks of business and participate in the profits and overall management of the company. Employer means one who offers employment to others. Employees (both managers and workers) provide the mental and physical efforts required for successful working of the enterprise. Their stake is also very crucial for the regular and smooth functioning of the enterprise. In case the firm does not succeed they lose their jobs. If the firm makes very little profits they get low salaries and wages.

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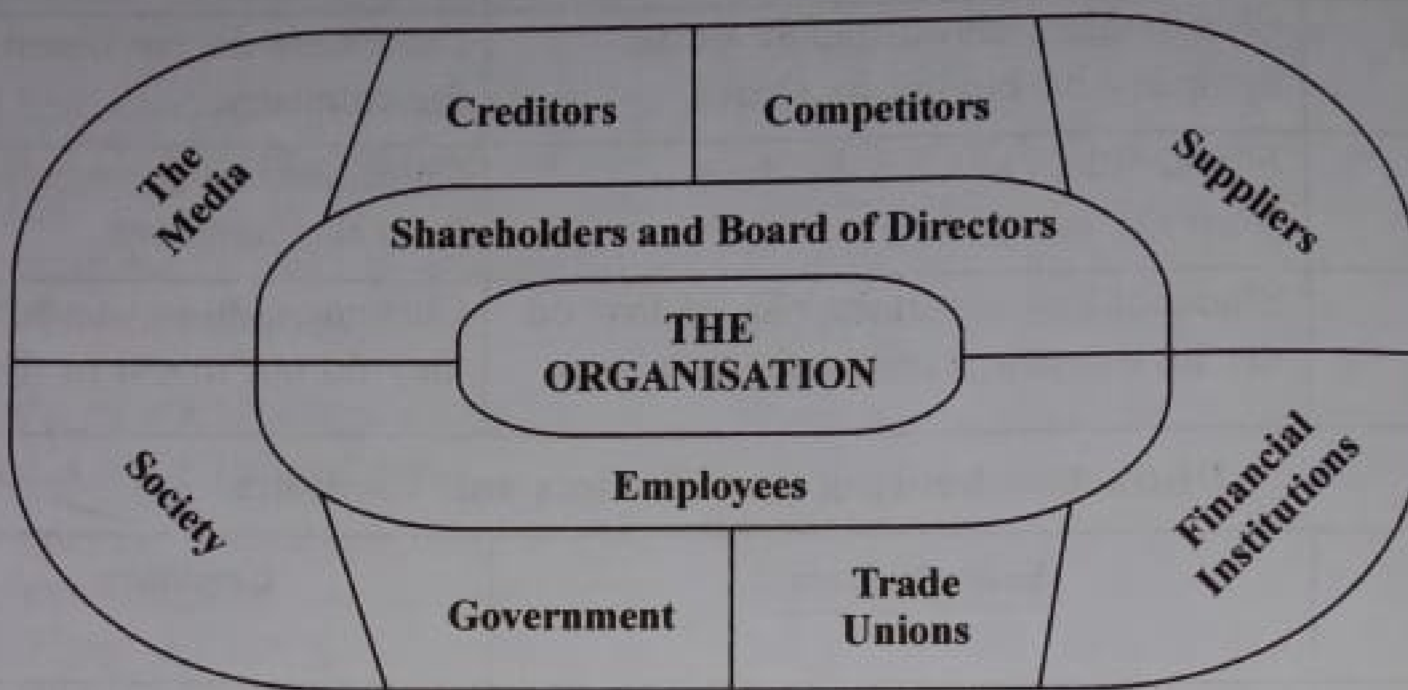
2. External stakeholders Stakeholders who are contributing to the business enterprise from outside the organisation are known as external stakeholders. They consist of creditors, suppliers, dealers, competitors, Government, local community, media and the society.

Stakeholders may be classified into primary and secondary. **Primary** stakeholders such as owners, employees, creditors, dealers, suppliers and competitors have more frequent and closer intractions with the enterprise than **secondary** stakeholders such as Government, media, local community and general public.



Internal and External Stakeholders

Basis of Distinction	*Internal Stakeholders*	*External Stakeholders*
1. **Position**	They operate from inside the organisation.	They operate from outside the organisation.
2. **Role**	They actively participate in the management and working of the organisation.	They do not participate actively in the management and working of the organisation.
3. **Constituents**	They consist of employers (owners and managers) and employees.	They consist of suppliers, customers, competitors, government and general public.

1.5. EXPECTATIONS OF STAKEHOLDERS

Every stakeholder group expects something from a business organisation. The expectations of different stakeholders are stated below :

Expectations of Employers (Owners, Shareholders and Managers)

Employers and Shareholders expect :

(i) safety of capital contributed by them

(ii) a fair and regular return (in the form of dividend) on their capital

(iii) capital appreciation in the value of their investment

(iv) accurate, up-to-date and regular information about the working and financial health of the company

(v) equal participation in policy decisions of the company

(vi) a public image of the company for which they can feel proud.

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Questions.

Q1. Define the following

a) Stakeholders.
b) Internal Stakeholders.
c) External Stakeholders.
d) Primary Stakeholders
e) Secondary Stakeholders.

Q2. Distinguish between Stakeholders and Customers

Q3. Distinguish between Shareholders and Customers

Q3. Distinguish between Shareholders and creditors.

Q.4. Distinguish between Internal Stakeholders and External Stakeholders.

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