Edexcel (B) Economics A-level

Theme 1: Markets, Consumers and Firms

1.1 Scarcity, Choice and Potential Conflicts

1.1.3 Stakeholders (economic agents) and their objectives

Notes

Stakeholders (economic agents)

A stakeholder is anyone with an interest in how a business is run. For example, the possible stakeholders of a firm could be:

- **The shareholder:** Shareholders want the firm to make a large profit, so the share price increases and the value of their dividend goes up.
- **Employees:** They aim for high wages and good working conditions.
- **Consumers:** They want goods of a high quality and a low price.
- **Managers:** They want to earn large bonuses and salaries, as well as personal benefits, such as leisure time and company cars.
- **Government:** Governments aim to earn tax from the firm's profits, such as corporation tax.
- **Suppliers:** Firms are the customers of suppliers. Suppliers want firms to remain in business so they still have customers.

Stakeholder objectives and conflicts

When there are many stakeholders, their objectives might conflict. For example, it is hard to make sure costs are kept at their lowest in order to maximise profits if employees are demanding higher wages.

The **principal-agent problem** can be linked to the theory of asymmetric information. This is when the agent makes decisions for the principal, but the agent is inclined to act in their own interests, rather than those of the principal. For example, shareholders and managers have different objectives which might conflict. Managers might choose to make a personal gain, such as a bonus, rather than maximise the dividends of the shareholders.

When an owner of a firm sells shares, they lose some of the control they had over the firm. This could result in conflicting objectives between different stakeholders in the firm. If the manager is particularly good, they might require higher wages to keep them in the firm. However, they also need to keep shareholders happy, since they are an important source of investment. It is not always possible to give both the manager a high salary and the shareholders large dividends, since funds are limited.

When a manager sells their shares, shareholders gain more control over the decisions of the firm. This could give rise to 'shareholder activism'. This could be to put pressure on the management of the firm or to try and get higher dividends. For example, Sainsbury's shareholders objected the decision to give the chairman a £2.3 billion bonus in 2004.

- **Corporate Social Responsibility (CSR)**

- This is a form of self-regulation where the firm makes sure their actions are good for society. This goes beyond what is expected of the firm, and it could result in a positive effect on the environment, on communities and on employees.
- In order to be more socially responsible, a firm might behave more ethically, perhaps by refusing to use cheap, exploited labour. It might involve investment in a community or donation to a charity, for example.
- The firm could also focus on reducing its carbon footprint, which will benefit society as a whole.