**P2 - Understanding the Implications of Businesses Operating Ethically**

All businesses have a number of stakeholder groups, each with different interests in what the business does. Business owners - perhaps the key stakeholders - want good financial performance from their investments. Business managers know that it is their first responsibility to deliver good financial results.

However, while it was always acknowledged that businesses exist in a diverse social, economic and political environment, today it is also accepted that a business should be managed with the interests of all stakeholders in mind.

**Look at the following stakeholders:**

Shareholders

Employees

Customers, Suppliers and Competitors

Citizens

Bankers, Stock Markets and Financial Commentators

1. How is each of these sets of stakeholders linked to ethical business practice?
2. How do they benefit and how do they suffer from ethical business practice?
3. Give examples of companies and stakeholders to support your answers.

Businesses today have to balance the aims of a number of stakeholders. This is sometimes difficult because the interests of stakeholder groups can conflict with each other.

E.g. shareholders have a financial interest in the business and want their shares to increase in value, whereas environmentalists look to protect the natural environment.

If a business successfully launches a new product and all is going well, the shareholders will be very pleased that their cash investment looks like returning a healthy profit.

If, however, an environmental group mounts a big campaign to prevent this business operating in the way it does, these two stakeholders are in conflict. Success for environmentalists may mean a loss for shareholders.

Consider the following stakeholder groups. Which ones might be in conflict with each other?

* employees
* managers
* customers
* suppliers
* citizens
* shareholders
* government agencies

**Adapting Business Behaviour**

We live in a world that is increasingly inter-connected. Communication is instantaneous. Is it any wonder, then, that business leaders now fear the consequences of unethical actions by their staff or being accused of an unethical practice?

Most large-scale businesses today take their ethical responsibilities very seriously. They are therefore prepared to adapt their behaviour to avoid accusations of doing wrong.

1. How does a business adapting to the following factors, affect the business and its stakeholders?
2. What conflicts of interest will it cause?

Responding to ethical pressures

Implementing ethical practices

Influence of stakeholders and pressure groups

Impact on competitiveness, reputation and public image

Ethical trade

Value added

Compliance - EU Law