Unit 1: Chapter 1

PEOPLE IN BUSINESS

Learning Outcomes from this chapter

On completion, you should be able to:

- List and explain the main stakeholders involved in business
- Describe the different relationships that might exist between different stakeholders that are affected by a business
- Analyse the relationships between stakeholders in a business
- Outline the elements of contract law
- Explain how a legal contract can be terminated
- Show how breaches of a contract can be resolved in court

The main stakeholders involved in business

Entrepreneur	Spots gaps in the market, takes personal/financial risk to make a profit
Investor	Gives capital to fund a business in exchange for a return on their investment
Employer	Hires employees to carry out work and pays them wages
Employee	Is paid a wage or salary to carry out work for their employer
Manager	Runs a business (or a department) for the entrepreneur
Producer	Manufactures goods from raw materials, combining the factors of production
Supplier	Sells goods (stock) or partly finished goods (raw materials) to a business
Service provider	Offers services to business (e.g. electricity, broadband, legal and banking)
Consumer	Buys goods or services for their own personal use
Government	Sets rules and laws, collects taxes, creates a suitable climate for businesses
Interest groups	Lobbies/negotiates decision-makers on behalf of a group with a common interest

Types of relationships

Co-operative relationship

A co-operative relationship exists when stakeholders work together towards a common goal. It is a **win-win** relationship,

e.g. purchasing manager and supplier.

A purchasing manager may ask for their credit period to be extended when they experience cash flow problems.

- If the **supplier** increases the credit period, the supplier **wins**, as they are building customer loyalty for future sales.
- The **purchasing manager** also **wins**, as they have time to raise enough cash to pay off their debts and will not face penalties or bankruptcy.

Types of relationships

Competitive relationship

A competitive relationship exists when one stakeholder benefits at the other party's expense. It is a **win–lose** relationship,

e.g. investor and entrepreneur.

- An investor will want a high return on investment.
- If they negotiate for a higher return from the entrepreneur, the investor will receive a higher share of profits and higher dividends (will **win**) at the expense of the entrepreneur (will **lose**), who has to give away a higher percentage of their profits from the business.

Benefits to stakeholders of competitive relationships

- Consumers can benefit from two producers who are competing on:
- Lower prices
- Increased choice
- Increased quality
- Better customer service/experience.

Elements of a legal contract

Agreement	Offer and acceptance must exist
Consideration	Something of value must be exchanged between parties
Legality of form	Some contracts must be in a certain format (e.g. written contract)
Consent to contract	Party cannot be forced to agree a contract through threats
Capacity to contract	Legal ability to agree: cannot be bankrupt, insane persons, ultra vires
Legality of purpose	Contracts for illegal activities (e.g. a drug deal) are not enforceable by law
Intention to contract	Awareness that the agreement is legal, not just social or domestic

Termination of a legal contract

Frustration	An event occurs (e.g. death or bankruptcy) that makes the contract impossible
Performance	Both sides carry out contractual obligations
Agreement	Parties decide to end the contract early by mutual consent
Breach	One party breaks an essential element (condition)

Specific performance	A court orders the party who broke the contract to fulfil its agreed terms and carry out its contractual obligations
Financial compensation	A judge offers damages in the form of money to the injured party
Rescind contract	A court orders parties to return to their initial starting position

Remedies for breach of contract