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Stakeholders

Introduction

In this chapter we will examine the groups who are affected by the activities of a business. We will see that some of these groups exist within the business while others operate outside it. We shall consider how stakeholders can be affected by what businesses do and will look at the responsibilities that businesses have to stakeholders beyond those required by the law, for example paying employees fairly and at least the minimum wage.

By the end of this chapter you should understand:

- the different groups of internal stakeholders
- the different groups of external stakeholders
- the impact of business activity on stakeholders
- the ethical responsibilities of businesses to stakeholders.

Types of stakeholders

Stakeholders are individuals or groups (such as other organisations) who have an interest or 'stake' in business's activities and performance. All businesses involve and affect many other people and groups by their activities. These individuals and groups are called stakeholders. Stakeholders include:

- the owners of a business such as the shareholders of a company
- the business's employees
- the business's customers
- the suppliers of goods and services
- the creditors, i.e. banks and other organisations who provide financial services
- the community, i.e. local residents and other businesses
- the government.

Key term

Stakeholders are individuals or groups within society who have an interest in an organisation's activities and performance.

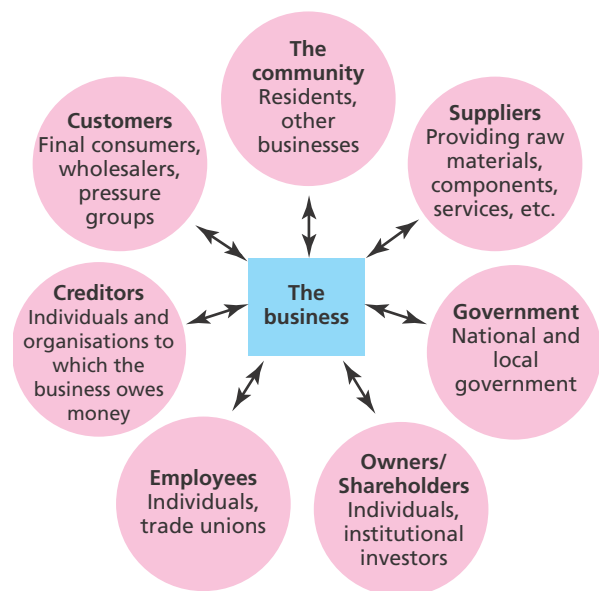


Figure 5.1 Examples of a business's stakeholders

Many stakeholder groups may not have formal authority over a business, but it is often in the business's best interests to take their needs into account when making decisions. It has become more common for businesses to attempt to meet the needs of as many of their stakeholders as possible to generate a positive image.

Over recent years, businesses have become much more aware of the differing expectations and objectives of their stakeholder groups. Previously, managers operated businesses largely in the interests of the shareholders. A growing awareness of business activities among the general public has complicated the task of the management team of a business. Many of today's managers attempt to meet the conflicting demands of a number of stakeholder groups.

Internal and external stakeholders

The stakeholders of any business can be divided into two categories: those who are part of the business (internal) and those who operate outside it (external).

Internal stakeholders include:

- the owners of the business, such as sole traders, members of co-operatives and shareholders
- the business's employees, such as managers and shop-floor workers.

External stakeholders include:

- suppliers, who are the individuals and other organisations that provide businesses with the goods and services they need to carry out their activities
- customers, who purchase the goods and services that the business produces
- the government, both local and national
- **creditors**, who are individuals or organisations, including suppliers, owed money by the business
- the community, including people who live close to any of the business's facilities and other businesses.

Key terms



Internal stakeholders are those that are considered to be a part of the organisation, such as employees and owners/shareholders.

External stakeholders exist outside the business, for example governments and suppliers.

Creditors are individuals or businesses to which an organisation owes money.

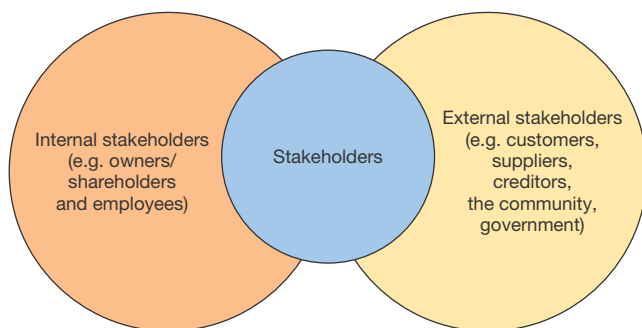


Figure 5.2 Internal and external stakeholders

What do you think?



Some managers in companies consider shareholders to be the most important stakeholder group. Do you think that they are right to believe this?

What stakeholders want

Any business has a number of stakeholder groups with interest in its affairs. Table 5.1 identifies some of the major groups and some of the needs that they might be expected to have.

Stakeholder group	Possible nature of stakeholders' needs
1 Owners/shareholders	<ul style="list-style-type: none"> ● Steady return on investment in form of dividends ● The survival of the business ● Investment that does not lose value ● Preferential treatment as customers – for example, lower prices
2 Employees	<ul style="list-style-type: none"> ● Steady and regular income ● Safe working conditions ● Job security
3 Customers	<ul style="list-style-type: none"> ● Reliable supply of goods ● Clear pricing policies ● Safe products ● After-sales service and technical support
4 Suppliers	<ul style="list-style-type: none"> ● Frequent and regular orders ● A sole-supplier agreement ● Fair prices
5 Creditors	<ul style="list-style-type: none"> ● Repayment of money owed at agreed date ● Profitable returns on investments ● Minimal risk of failure to repay money owed
6 The community	<ul style="list-style-type: none"> ● Steady and well-paid employment for people from the community ● Avoidance of environmental damage and noise ● Provision of facilities (e.g. parks or arts centres) for the community
7 Government	<ul style="list-style-type: none"> ● The provision of employment for people, including those who live locally ● Revenue from taxation for spending on public services ● Meeting all legal obligations, e.g. not harming the environment ● Support for other businesses, e.g. suppliers

Table 5.1 Stakeholders and some of their needs

The terms stakeholders and **social responsibility** are interrelated. Social responsibility is a business philosophy proposing that firms should behave as good citizens. Socially responsible businesses should not only operate within the law, but should avoid pollution, the reckless use of limited resources or the mistreatment of employees or consumers. Some businesses willingly accept these responsibilities, partly because their managers want to do so and partly because they fear a



negative public image. We consider social responsibility more fully later in this book.

Key term



Social responsibility is a term describing the duties a business has towards its stakeholder groups such as employees, customers and the government.

The impact of business activity on stakeholders

Any activity carried out by a business can have an impact on its stakeholders. Examples of this include the following:

- Owners and shareholders will be affected if the profits of a business decline sharply.
- Employees may be affected by a decision to reduce the size of a business. In recent years, a number of retailers have closed at least some of their shops and focused more on online selling.
- Customers may benefit from the launch of new products such as electric vehicles.
- Suppliers may be affected by an increase in orders and be able to grow their businesses.
- Creditors could be affected if a business faces financial problems due to falling sales.
- The community may benefit from the expansion of a business and more money being earned and spent in the area. It may also suffer from damage to the local environment or transport delays during any construction work.
- The expansion of a business may lead to the government being affected as a result of the creation of more jobs and increased receipts from taxation.



The construction of the high-speed railway line from London to Birmingham (HS2) will have had negative impacts on the local community.

What do you think?



Has the construction of HS2 only had a negative impact on stakeholders? Will the impact on stakeholders differ in the short- and long-run?

Positive and negative impacts of business activity on stakeholder groups

The impact of business activity on stakeholder groups can be positive or negative. Sometimes one group may suffer and another may benefit. For example, a decision to cut selling prices may be popular with customers, but the owners of the business may be concerned by the prospect of lower profits if sales do not increase sufficiently.

We saw above that stakeholder groups have different needs, which will at times conflict. Equally, on other occasions the needs of stakeholders may coincide. Table 5.2 summarises the possible effects on a selection of stakeholders arising from a range of business activities. The green text shows broadly favourable impacts for a stakeholder group while the red text illustrates when groups may be disadvantaged. You can see that some of these activities generally favour certain stakeholder groups and create disadvantages for others. For example, a decision to raise prices may not offer many benefits to customers, although the rise could be necessary in the light of improvements to the product. However, a price rise does offer shareholders the very appealing possibility of rising profits, dividends and share prices.

On the other hand, shareholders may be concerned about the launch of new products, especially if the decision is risky as it may damage the business's financial performance. Customers will generally approve, however, as they receive a greater choice of products and the new launch may be innovative and appealing. This decision may also have positive effects for employees if it increases the security of their jobs, or offers increased working hours or the prospects of promotion and/or higher pay rates.

It is important to note, however, that these effects depend on circumstances and the activities of the businesses as well as the reaction of relevant stakeholders. For example, a small increase in price may have relatively little impact on a business's stakeholders, especially if competitors are also increasing prices. The impact of a price increase on some stakeholders may be reduced to some extent if the product is a necessity and competitors are taking similar actions. The well-publicised decisions of many energy companies in the

Example of business activity	Owners/shareholders	Employees	Customers	Suppliers	Creditors	The community	Government
Expand production	Investment needed may cut short-term profits. Share price and long-term profits could increase.	More jobs available. Possibility of promotion and higher pay.	New products available. Increased production may reduce prices.	Possibility of larger or more regular orders. Expectation of reduced prices.	Borrowing increases, making repayment more difficult. Increased profitability.	More jobs and prosperity for local people and businesses. Disruption during any construction activity. Potential for negative environmental impact.	Possibility of providing more jobs. Other businesses may receive increased orders creating prosperity. Short-term profits may decline reducing tax payments.
Cut costs	May increase profits, dividends and share price. Customers may dislike job losses and reduced quality, reducing sales, revenue and profits.	Pressure to reduce wages. Longer working hours and less favourable conditions. Jobs may become less secure. More jobs may result if successful.	Lower prices possible. Quality of goods or services may be reduced.	Expectation of reduced prices. May seek alternative low-cost supplier.	Reduced need for borrowing from creditors. Need to borrow short term to finance cost-cutting programme.	Local employees may experience falling wages and employment. Local suppliers may be expected to cut their prices.	If profits rise the business may pay more tax on its profits.
Raise prices	Profits, dividends and share prices may increase. Sales may decline. Adverse publicity if this is an essential product, reducing share price.	Possibility of increased wages or improved working conditions. Sales decline, resulting in job losses.	Less value received. Products no longer affordable. Competitors raise prices too.	Possibility of receiving higher prices. Orders may fall if price rises reduce demand significantly.	Increased profits may support prompt repayment of debts. Falling sales may threaten repayments.	Wages and prices paid to suppliers may rise, increasing local prosperity.	Higher prices may increase costs for other businesses reducing the competitiveness of other UK businesses. May add to inflationary pressures.
Launch new products	Initial costs of launch may reduce profits. Risk of unsuccessful product may damage profits and share price. Increased sales, prices and profits could boost medium-term profits and dividends.	More jobs may result. Higher pay and better working conditions, if launch successful.	Greater choice of products. Improved products bringing greater benefits. Prices may increase to cover development costs.	Increased orders if product successful. New product may require different supplies resulting in loss of contract.	Increased need to borrow funds to finance launch. Rising long-term profits enhances ability to repay loans. May lead to further product launches, creating further need for borrowing.	Business may grow, increasing local prosperity. New product may be produced elsewhere if local facilities unsuitable or too expensive.	Sales and profits may increase in the long term providing more tax for the government. Employment opportunities may increase at the business. Conversely, employment opportunities may decrease if more technology can be used in production.
Use more technology in production	Initial investment may reduce profits and dividends. May lead to higher long-term profits and rising share prices. Business's image may suffer due to job losses, damaging share price.	Jobs lost as technology plays larger role. New higher-paid jobs created to manage technology.	Lower prices as technology more efficient. Services available for longer hours. Standardised products may be less likely to meet individual needs.	Orders received for new supplies or for the technology. Increased sales may result in larger orders. Lower production costs may reduce pressure to find cheaper supplies.	Increased need for borrowing to finance purchase of technology. If successful, enhanced ability to repay borrowing.	Sales may rise creating more demand for local suppliers' products. Job losses may occur leading to higher local unemployment.	May increase business's performance, profits and tax paid. Could reduce employment levels.

Table 5.2 Some possible negative (red) and positive (green) impacts of a range of decisions on stakeholders



easyJet's customers have benefited from cheap flights

UK to raise prices substantially for gas and electricity in recent years have created a public outcry. However, due to the nature of the products, the impact on the employees, shareholders, suppliers and creditors has been limited as demand has remained fairly constant, despite customers' attempts to reduce usage. In these circumstances, the conflict in stakeholder needs is between those of customers and many other stakeholder groups. Energy customers want lower prices, whereas other stakeholders benefit from higher prices.

Similarly, the launch of some new products in industries such as computer games or software may have a limited impact on stakeholders as this occurs regularly in such industries and can be essential as existing products become obsolete. This may result in the objectives of stakeholders overlapping as the decision fulfils those of a number of groups.

In contrast, the decision of some other consumer product businesses to launch a new product could have a notable impact on many of the company's stakeholders and may have the potential for conflict. A new product may offer consumers increased benefits but the associated price rise could be prohibitive for some. Shareholders may be content at the rise in share price and profits that may accompany a successful launch, while competitors may suffer declines in sales. Employees and suppliers could benefit from increased workloads but large rises in sales and revenue may reduce the company's need for creditors. For example, Apple has been subject to complaints by consumers that its computers, tablets and other products are overpriced.

Table 5.2 shows that certain decisions appear to benefit particular stakeholder groups and not others. However, this may depend on the objective on which the managers' decision was based. For many years, the so-called budget airlines such as easyJet have cut their operating costs whenever possible with the objective of increasing sales and revenue. This has been enormously successful. When easyJet was launched in 1995 it carried 30,000 passengers during the year; the equivalent figure for 2024 was over 91 million. The objective of the decision to operate with low costs per passenger or flight, and to subsequently reduce them, was to achieve a growth in sales rather than simply higher profits for the business. With this objective many of the company's stakeholders have benefited from more jobs, cheaper flights, increased orders for supplies, higher levels of tax paid on profits and rising share prices. A decision to simply cut costs to increase profits might be expected to create conflict in terms of stakeholders' needs. If successful, it could be expected to benefit shareholders, while other stakeholders such as customers and employees could be disadvantaged. This is less pronounced when cost reduction is associated with a policy of growth.

What do you think?



Do you think it is likely that a business which has managed to consider the interests of all of its stakeholders will have stakeholders that are more satisfied with the business's performance?

Business in focus: The controversy surrounding Thames Water

Water companies in England and Wales have been in the news regularly over recent years in relation to claims of insufficient levels of investment in upgrading water supply and waste treatment networks. They have also attracted criticism (and fines) for breaches of pollution laws.

Thames Water is the largest water company in England and Wales and supplies London and parts of South East England. Thames Water's debts were less than £1 billion in 1992 before rising to £3 billion by 2007 and then steadily to £14.3 billion in 2022. Its debts reached £17.9 billion by 2025. This debt is at one of the highest levels in the water industry. Interest rates on much of this debt are linked to the inflation rate, leaving Thames Water vulnerable to increased debt repayments. Thames Water paid £7,000 million to its shareholders between 1990 and 2023, with payments of over £650 million in some years, though they had fallen to around £45 million in 2023 and zero in 2024.

Meanwhile, the company is under pressure to invest billions to update its water and sewage infrastructure. It has been criticised for years of underinvestment. As part of a rescue plan Thames Water wants to raise consumers' water bills from £435 to as much as £627 a year to pay to improve its network, after promising to invest up to £21,900 million in its water and sewage network by 2030.

In 2023 it was revealed that Thames Water had pumped at least 72,000 million litres of raw sewage into the River Thames. Prosecutions of Thames Water by the

Environment Agency for pollution incidents have resulted in fines of £35.7 million between 2017 and 2023. In May 2025, Thames Water was fined £122.7 million, the biggest fine ever issued by the water industry regulator, for breaking rules on sewage spills and payments to shareholders.

The company is in a difficult position and the company's creditors are reported to have concerns over its future. In an attempt to reduce costs, Thames Water has announced the loss of 300 jobs from its workforce of around 7,000 people. In October 2025 the company submitted its latest plan to avoid financial collapse. A consortium of large financial institutions and investors have pledged to invest an initial £5.4 billion to stabilise the firm's finances. The consortium plans to rebuild the company without financial support from the UK government.

A-level questions

- 1 Analyse one reason why Thames Water's weak financial position means that it may struggle to meet its ethical responsibilities to its stakeholders in the future. (6 marks)
- 2 Evaluate whether Thames Water's activities have benefited its shareholders rather than its other stakeholders. (15 marks)

Additional AS-level questions

- 1 Define 'creditors'. (2 marks)
- 2 Explain why Thames Water's customers and its creditors might have conflicting needs. (4 marks)

Ethical responsibilities to stakeholders

Ethics can provide moral guidelines for decision making by businesses. **Ethical behaviour** means doing what is morally right; it is not a matter of merely calculating the costs and benefits associated with an action. Individuals' ethical values vary and are shaped by a number of factors including the values and norms of parents or guardians, those of religion, and the values of the society in which a person lives and works. Businesses can have very different stances on ethical behaviour: some attempt to be as ethical as possible in all behaviours, others seek to be seen to be ethical, while a third group pay little attention to ethical behaviour. Most actions and activities in the business world have an ethical dimension.

Key terms

Ethics are the shared moral principles held by individuals or the members of an organisation.

Ethical behaviour is behaviour that is thought to be morally correct, but may not be the most profitable for a business.

A business can have a responsibility to make sure that a number of ethical principles underpin its relationship with all its stakeholders. These can include the following:

- Communicating openly with all groups about the impact of its activities on all stakeholders.
- Making sure that all stakeholder groups have the opportunity to engage with the business as necessary.



- Treating stakeholder groups fairly and without any bias.
- Placing value on the contributions of stakeholders, particularly if they express opinions that differ from the views of the business itself.

In addition, businesses can have a range of ethical responsibilities to each of its stakeholder groups. These go beyond their legal obligations.

- **Owners/shareholders** – this aspect of ethical responsibility is probably of most relevance to public companies where the people making the decisions are unlikely to be the major owners of the enterprise. Efficient communication and engagement of important stakeholder groups (such as major shareholders) would be prime examples of fulfilling ethical responsibilities.
- **Employees** – these might include treating employees with honesty, fairness and respect, for example, by providing training to help them to develop their careers (and not only to improve productivity). Additionally ethical behaviour by a business may mean that employees are paid above the legal minimum, and that the business is proactive in ensuring a safe working environment. Ethical responsibilities to this stakeholder group may also include communicating ethical expectations of employees to them clearly and regularly.
- **Customers** – the law sets out the responsibilities that a business has to its customers. A business can have ethical responsibilities such as: totally transparent pricing policies so consumers understand exactly what they will have to pay; environmentally friendly practices (compostable packaging, for example); and effective, fair and speedy resolutions of problems such as faulty goods or poor customer service.
- **Suppliers** – placing regular orders with suppliers and communicating effectively with them to ensure they have adequate notice of changes such as alterations in specifications or quantities in a timely manner are examples of ethical responsibilities a business may have to its suppliers. Equally, not exploiting its power when it is a major customer of a small supplier but treating the other enterprise fairly and with respect would be ethical.
- **Creditors** – prompt payment of creditors (i.e. within the legal timescale) is an obvious example of fulfilling an ethical responsibility to this stakeholder group.

Some businesses deliberately delay payment to suppliers to retain the cash for use within their own business for as long as possible. This can be very damaging for small creditors, who may lack cash to settle their own debts.

- **The community** – effective and regular communication with the community through varied channels (meetings, social media, etc.) would be an important ethical responsibility for many businesses, especially during times of major change. Taking care to protect the environment to the fullest possible extent would be a highly ethical step, especially for a manufacturing business with significant potential to pollute.
- **Government** – producing transparent financial records and not taking part in tax avoidance schemes as some multinational companies do are key elements in meeting ethical responsibilities towards government. The tax revenues raised enable it to provide a range of public services to the benefit of the community.

Knowledge check



- 1 Distinguish between a 'stakeholder' and a 'shareholder'.
- 2 State two examples of internal stakeholder groups.
- 3 State two examples of external stakeholder groups.
- 4 What is meant by the term 'creditor'?
- 5 List two needs that a supplier might have from its relationship with a business.
- 6 State the possible impact of a business reducing its level of production on two of its stakeholder groups.
- 7 State the possible impact of a business using cheaper but more polluting raw materials on two of its stakeholder groups.
- 8 State the possible impact of a business seeking to maximise its profits on two of its stakeholder groups.
- 9 What is meant by the term ethical behaviour?
- 10 Give two ethical responsibilities that a business might have to its customers.