Name

Instructor

Date

Institution

Stakeholder definition

According to Rajablu, (2014), stakeholders are those people, groups or organizations that have a vital interest in a business or its activities, and would ordinarily be affected by the actions or the business. For Tesco group, we identify three categories of stakeholders including customers, shareholders, and suppliers.

Customers

Customers are some of the most important stakeholders of a business as they determine its profitability, market share and even survival. They participate in the business through consuming the goods and services that are offered to the market and pay a price for such goods and services from which the company makes a profit. As one of the largest retailers, Tesco's customers include individuals, families, institutions and governments, and Tesco ensures that it continues to be a champion of the customers, putting them first and also taking small actions that make a difference in the customer's lives (Annual report, 2016). Tesco Customers, as stakeholders, are interested in the long term survival and profitability of the company so that it can continue providing goods and services that are essential to the lives of the customers. They are also interested in the continued success of the business as they benefit from customer loyalty programs, as well as the Tesco’s CSR activities that benefit the wider community.

Shareholders

Shareholders are the forefront stakeholders in any business, as they are the owners of the business. These are people or institutions that have invested their money with the promise of returns in terms of profit sharing, dividends, and other payments. Shareholders, as owners of the business, are interested in various aspects of the business. Key among these aspects is the ability of the business to continue to operate and pay dividends, which are the rewards for their investment. They would also be interested in how their business is being run, by ensuring that they elect a board of directors and approve the appointment of the chief executive at the annual general meeting of the company. They are also interested in the corporate governance of their business in order to ensure that their investment and interests in the business are safeguarded.

Suppliers

Suppliers are other key stakeholders at Tesco. They provide their inventory to the company, and expect to be paid for their suppliers in a timely manner and as per the agreed terms of engagement. They are interested in the company's ability to settle their bills on time, and also to pay the agreed amounts as per the contracts of engagement. If the business performs well, then suppliers get paid on time, but if the business performs poorly, suppliers may experience delays in their payments, which may inform them to cut their supplies to the company. To this extent, suppliers, are therefore interested in the company's key financial metrics, statements, outlook and projections as they decide on whether to advance their inventory on credit or not. The business must also ensure that supplier issues such as payments are addressed in a timely manner for the smooth operations of the business, which is heavily reliant on credit supplies.

b) Environmental and social review and corporate governance report analysis

Tesco's environmental and social review is anchored on the company's values that ensure service to customers, colleagues and making the society and community a better place every day through the slogan 'every little help makes a big difference'. The purpose of the environmental and social review is to highlight the company's purpose to continually improve its service to customers and tackle the social and environmental challenges that affect the communities in which Tesco operates in (Wolfe & Putler, 2002). Through small things every day, Tesco expects that these little things will finally contribute to the larger global initiatives that the company is involved in such as food poverty, clean and sustainable supply chains.

The company's social and environmental review covers areas such as employee empowerment, environmental conservation, respect for human rights, health and food security. The customers and the society, in which they live, are some of the main stakeholders that are impacted by the company's social and environmental review. Though the various initiatives, Tesco ensures that it continues to support its workforce so that it can be more effective in service to the customers. Through employee training and empowerment, employees are more motivated and willing to go the extra mile to ensure that the needs of the customers are met. The business is also concerned about the health of its customers, workforce and the wider community. This is done through partnerships with leading experts such as Diabetes UK, and the British Heart Foundation, which combines Tesco's ability to reach the grassroots population with these charities health expertise to ensure that Tesco community is healthy.

The company has also ensured, through the various human rights declarations such as UN Universal Declaration of Human Rights, the International Labor Organization Core Conventions and the UN Guiding Principles on Business and Human Rights that all efforts are made to uphold human rights. Tesco makes efforts to ensure that customers buy great products that are produced in a safe and responsible environment. Through their socially responsible approach, the company is working towards a reduction in food waste, by ensuring that most parts of a crop, for instance, can be utilized. The company is also working on more effective forecasting methods that ensure that there is less wastage as what is produced is brought to the market. Though these initiatives, Tesco, in partnership with other businesses has a policy that ensures that food that could be eaten is never thrown, but is distributed to charities that can make use of such food. Finally, in the interest of the customers and the community at large, Tesco is at the forefront in reducing its carbon footprint. As a good corporate citizen, the company has reduced its gas emissions by at least 1.8% in the last one year, and by at least 41.7% in the last one decade. This effort towards environmental and social review also benefits shareholders through the long-term profitability and survival of the business through customer support.

Tesco's efforts to ensure good corporate governance is anchored on the principles of good corporate governance that incorporate a properly constituted board of governors, the Chief executive, external audit and audit committees and shareholders involvement through annual general meetings, code of business conduct and schedule of delegated activities so as to enhance trust and transparency (Annual report, 2016). At the center of the company's corporate governance is the board of directors that is comprised of both executive and non-executive directors. The selection of the board is such that each member of the board is an expert in his area and is, therefore, able to provide invaluable leadership in the business operations and strategy. As a part of the board of directors, are the board committees, which comprise of expert members of the board. These committees include the remuneration committee, the audit committee, and the corporate social responsibility committee among others. For independence, each board committee meets at least four times a year, in the absence of the main board of directors, to deliberate on matters that affect the business and make their input to ensure that the company is run in the best and most transparent manner.

The above corporate governance measures notwithstanding, Tesco reports that there are many avenues in which the shareholders who are the owners of the business are involved in the business operations. The CFO and CEO had several meetings with institutional shareholder and have subsequently updated the board on the happenings in that regard. The company also engaged in roundtable discussions, invitations to institutional shareholders to access full or half year financial results financials. Committee members also held meetings with major shareholders and had a clear discussion on strategy and business decisions, and finally, retail shareholders have their input at the Annual general meeting, where they ratify the decisions of the board or its committees.

The auditing function at Tesco is key to ensuring that there are sufficient checks and balances. The audit committee carries out various responsibilities, geared towards ensuring that the business has sound financial reporting processes (Valor, 2005) In doing this, the audit committee functions relate to the appointment of external auditors and consideration of such external auditors independence , review of the company's financial statements, monitoring and review of the company's internal control and risk management processes and discussions with external auditors on their nature and scope of work and finally, review of the company's engagement with employees and external contractors to ensure that there are no financial improprieties and that shareholders' funds are safeguarded. External auditors, Deloitte, Plc, play an important role in corporate governance at Tesco. They independently review the business operations and financial results to ensure that they reflect a true and fair view of the company's performance as well as financial position. This oversight role gives assurance to the shareholders that the management is dutifully carrying out its role of managing the business for the benefit of shareholders.

The corporate governance report, therefore, has demonstrated the company's actions towards safeguarding the interests of the shareholders, as well as the wider goals of customers and the community at large. Good corporate governance practices, such as those at Tesco, ensure that the shareholders' investment is safeguarded, which not only protect the welfare of such shareholders, but also those of other stakeholders in the business. Since good corporate governance practices directly impact on the shareholders' value, profitability and long-term survival of a business, it also ensures that the business is able to continue to provide its products and services to its customers. Greater checks and balances through a board of directors that is comprised of both executive and non-executive directors, a separate chief executive, independent board committees, annual general meeting and a strong audit function is a sure way to ensure that the interests of all stakeholders in the business are safeguarded.

Financial ratio analysis

Sultan (2014) defines Ratio analysis as a financial management tool that enables stakeholders to evaluate the performance of a business by comparing various metrics with previous periods and industry standards. Financial ratios are classified into five categories i.e. liquidity ratios, efficiency ratios, profitability ratios, activity and solvency ratios. Since different stakeholders are interested in different aspects of a business, each ratio plays a key role in informing the decision-making process of a particular individual or group of stakeholders. Below is a brief analysis of the financial ratios of Benedict limited.

Liquidity ratios

Liquidity ratios are a measure of the adequacy and ability of a company to settle its current and short-term debts using the available current assets. Generally, a company with sufficient current assets to settle its short-term financial obligations as and when they fall due is regarded to be in a strong financial position. Short term lenders and creditors are interested in the company's liquidity, and therefore its ability to pay off short-term debts. For this analysis, we analyze the current ratio and quick ratio.

Current ratio

This is a popular financial metric that measures the company's ability to meet its current obligations using its available current assets. It's calculated using the formula below

$$\boldsymbol{Current\ ratio = \ current\ assets/\ current\ liabilities}$$

The current ratio for Benedict co, Ltd is

20x1	20x0	Industry
1.19	1.25	1.6

Observation

Benedict's current ratio has declined, albeit slightly, from 1.25 in 20x0 to 1.19 in 20x1 which is still lower than the industry's current ratio of 1.6. The reduction in the current ratio is due to an overdraft facility taken in 20x1, which increased the company's current liabilities, effectively reducing the current ratio. It's, however, notable that in finance, a current ratio of >1 is deemed to be appropriate, as it's an indicator that the company is able to pay off its short-term liabilities if and when they fall due.

Quick ratio

It measures the ability of a business to meet its current liabilities using its most liquid assets. It's arrived at using the formula

$$Quick\ ratio\ =\ (Current\ assets -\ inventory)/\ Current\ liabilities$$

20x1	20x0	Industry
0.70	0.75	1.0

Observation and discussion

The quick ratio has deteriorated from 0.75 to 0.70 in 20x0 and 20x1 respectively. This is still lower than the industry quick ratio of 1.0.Just like the current ratio, the movement in the quick ratio is occasioned by the overdraft accrued in 20x1, which has increased the current liabilities of the company.

Profitability ratios

Just like the name suggests, profitability ratios measure the efficiency of the business in utilizing the available resources to generate profits and wealth to shareholders and investors of the business. Profitability ratios indicate the success or failure of the business and are useful in comparison over a period or industry. Strong profitability ratios indicate higher returns to equity owners through dividends, ability to pay principal and interest to lenders and other fixed charges and also the ability of the business to take advantage of the available opportunities for investment and expansion. Key profitability ratios include gross and net profit margins, return on equity and return on investment.

Gross profit margin

It’s a common profitability ratio that measures the company’s financial health by revealing the money that remains after the company has accounted for costs of goods sold. We use the formula below to calculate the ratio:

$$\boldsymbol{Gross\ profit\ margin\ =\ Gross\ profit/\ Sales}$$

20x1	20x0
0.48	0.42

Observation and discussion

The gross profit margin has increased over the period; from 42% in 20x0 to 48% in 20x1, indicating the business better efficiency in the management of its resources. The higher ratio in 20x1 reflects the company’s increased performance in terms of revenues in relation to the cost of goods sold.

Net profit margin

It’s a financial metric that measures how much of the revenue received is attributed to the shareholders. It’s calculated using the formula

$$\boldsymbol{Net\ profit\ margin\ =\ Net\ profit/\ sales}$$

20x1	20x0
21%	28%

Observation and discussion

The company’s net profit margin has reduced by 7%, from 28% in 20x0 to 21% in 20x1. Despite the much higher revenues in 20x1, the overhead expenses were also significantly higher, eroding the profit that is attributable to the company’s shareholders.

Return on Equity

Also referred to as return on net worth, it measures how much profit each dollar of equity has generated and generally measures the efficiency of the company in the utilization of equity funds to generate profit. It’s calculated as

$$\boldsymbol{Return\ on\ equity = Net\ income /\ shareholders'\ Equity}$$

20x1	20x0
0.24	0.27

Observation and discussion

The return on equity is on a declining trajectory, losing 0.03 between the two years. This means that the company was more efficient in the utilization of its shareholder's equity to generate profits in 20x0 as compared to 20x1.The reduced net income in 20x1 is responsible for the reduction in the ratio.

Activity ratios: (trade receivable ratios, trade payable days, inventory days)

These ratios are also referred to as turnover ratios and measure the efficiency of the revenues by converting its products in revenues. The better the company is in turning over receivables, payables, and inventory, the more profitable it becomes. While there are many activity ratios, they are best analyzed in conjunction with other metrics such as liquidity and profitability ratios, over a period of time or in relation to industry standards. Interested stakeholders for these ratios include creditors, who would want to know how long it takes for them to be paid, debtors who would want to plan on how and when to pay the business and also employees, who would be able to utilize the inventory turnover ratio to project the business inventory requirements and plan accordingly. Lenders are also interested in the activity ratios of the business as they explain how the companies cash flows in terms of debtors and creditors affect the business operations.

Inventory days

This metric measure the period taken to sale inventory held by the company, including work in progress. It, therefore, measures the efficiency of the company in the management of its inventory to generate revenues. It's calculated as

$$(\boldsymbol{Inventory/cost\ of\ sales})\ \boldsymbol{x\ 365}$$

20x1	20x0	Industry
119days	65 days	60 days

Observation and discussion

The company’s inventory days have increased significantly from 65 days in 20x0 to 119 days in 20x1, which is way higher than the industry average of 60 days. This tells investors that the company is less efficient in the management of its inventory as compared to other players in the industry.

Receivables days

Receivables turnover is an activity ratio that measures the number of times that business can turn its accounts receivables into cash in a particular period. Investors require this ratio to understand the business cash flows while lenders require this information to make a decision on the ability of a business to pay its debts from receivables proceeds. It's calculated as

$$Receivables\ days\ =\ (total\ debtors/\ annual\ sales)\ x\ 365$$

20x1	20x0	Industry
90 days	56 days	55 days

Observation and discussion

The company's receivables days have deteriorated from 56 days to 90 days, indicating that the company is taking longer to collect its debts. The current receivables days are much more than the industry average of 55 days. This is also an indicator of increasing inefficiencies in the company's credit management policies.

Payables days

This is a measure of the number of days a company takes to pay off its trade creditor invoices.

It's calculated as

$$Payables\ days\ =\ (Accounts\ payables/\ cost\ of\ sales)\ x365$$

20x1	20x0	Industry
155days	108 days	90 days

Observation and discussion

The company's payables days, just like the receivables have deteriorated from 108 days to 155 days, from 20x0 to 20x1, indicating that the company is taking longer to collect its pay trade creditor invoices. The industry average payables days are 90, indicating the extent of the company's delay in paying its creditors.

Solvency ratios

These are financial metrics that measure the stability of a company regarding its capital structure. Investors are interested in the ability of a company to pay off its debts, as well as the gearing of a company to determine whether it's a worthy investment or not. Lenders are also interested in understanding the current debt of the company in relation to equity, which determines the long-term existence of the company as a going concern. In this regard, we shall discuss the debt/ equity ratio and the debt ratio.

Debt to equity ratio

According to Goslin et al, (2012) this ratio measures the extent to which the company is utilizing debt to finance its operations, as compared to that which is equity financed. It's calculated using the formula

$$\boldsymbol{Debt/\ equity\ ratio = Total\ liabilities\ /\ total\ shareholders'\ equity}$$

Debt ratio

This ratio expresses the percentage of assets that are financed through debt financing and is calculated as:

$$\boldsymbol{Debt\ ratio\ = Total\ liabilities/\ total\ assets}$$

20x1	20x0
1.27	0.73

The company’s debt ratio has been rising over the period as shown by the ratios above. This means that the company has taken more debt in the current year as compared to the previous period. It’s important to note that the company, as denoted by the above ratio, is utilizing more debt than equity. Such ratio communicates to potential investors and lenders that the company has taken too much debt, and may, therefore, have challenges paying off some of these debts if the trend continues.

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Appendix 1: FINANCIAL RATIOS

LIQUIDITY RATIOS		
Current ratio (Current assets/current liabilities)	20*1 12800/10800 1.19	20*0 6400/5100 1.25
Quick ratio (current assets-inventory)/ current liabilities	(12800-5200)/10800	(6400-2600)/5100
	0.70	0.75
PROFITABILITY RATIOS		
Gross profit margin (Gross profit /sales)	14800/ 30800	10400/24900
	48%	42%
Net profit margin (Net profit/sales)	(6600/30800)	(7000/24900)
	21%	28%
Return on equity (net income/ shareholders equity)	(6600/28000)	(7000/25900)
	0.24	0.27
ACTIVITY RATIOS		
Inventory days (inventory/cost of sales)x365	(5200/16000)*365	(2600/14500)x 365
	119	65
Receivables days (Accounts receivable/ annual revenue)x365	(7600/30800)*365	(3800/24900)x365
	90	56
Payables days (accounts oayable/COS)*365	(6800/16000)*365	(4300/14500)*365

	155.125	108.2413793
SOLVENCY RATIO		
Debt equity ratio	(12000+10800)/18000 1.27	(8000+5100)/18000 0.73