

## 5.11: What Is a Stakeholder?

### Learning Objectives

- Define internal and external stakeholder
- Describe stakeholders' relationship with business organizations



Figure 5.11.1: Andrew's Stone.

A **stakeholder** is an individual or group that has a legitimate interest in a company, organization, or business. The Stanford Research Institute defines stakeholders as “those groups without whose support the organization would cease to exist.” Stakeholders can affect or be affected by the actions (or inactions) of a business, and they can exist both within and outside of a business.

The impact of a business on its stakeholders is a bit like the effect of dropping a stone into a pond. The decisions and actions of the business have a ripple effect that can extend beyond the pond and even reach those who are standing far away on the shore.

### Internal Stakeholders

**Internal stakeholders** are groups or people who work directly within the business, such as managers, employees, and owners. Managers and employees want to earn high wages and keep their jobs, so they have a vested interest in the financial health and success of the business. Owners want to maximize the profit the business makes as compensation for the risks they take in owning or running a business.

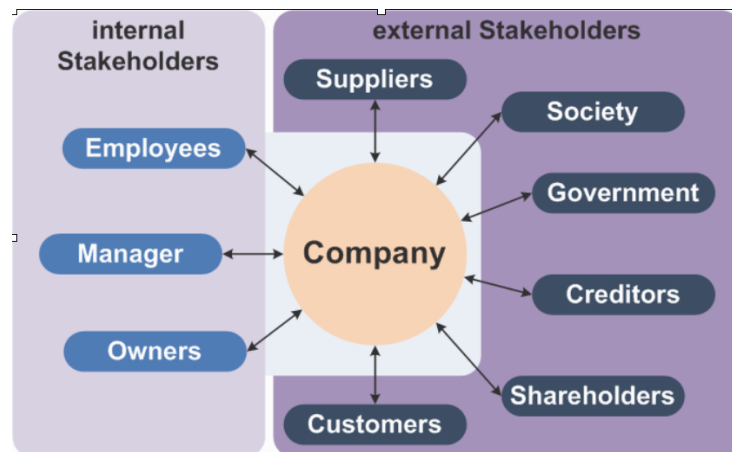


Figure 5.11.2: The picture shows the typical stakeholders of a company. The stakeholders are divided into internal and external stakeholders.

### External Stakeholders

**External stakeholders** are groups outside a business or people who don't work inside the business but are affected in some way by the decisions and actions of the business. Examples of external stakeholders are customers, suppliers, creditors, the local community, society, and the government. **Customers** want the business to produce quality products at reasonable prices.

**Shareholders** have an interest in business operations since they are counting on the business to remain profitable and provide a return on their investment in the business. **Creditors** that supply financial capital, raw materials, and services to the business want to be paid on time and in full. **Federal, state, and local governments** need businesses to thrive in order to pay taxes that support government services such as education, police, and fire protection. The **local community** has a stake in the business because it provides jobs, which generate economic activity within the community. **Society** as a whole (as well as the local community) is concerned about the impact that business operations have on the environment in terms of noise, air, and water pollution. Society also has an interest in the business with regard to the safety of the goods and services produced by the business. **Suppliers** need the business to continue to buy their products in order to maintain their own profitability and long-term financial health.

### ? Practice Questions

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