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EXTERNAL AND INTERNAL STAKEHOLDERS IN BUSINESS ENTITIES

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Abstract. The stakeholder theory has been advanced and justified in the management literature on the basis of its descriptive accuracy, instrumental power, and normative validity. These three aspects of the theory, although interrelated, are quite distinct; they involve different types of evidence and argument and have different implications. In this article, we examine these three aspects of the theory and critique and integrate important contributions to the literature related to each. We conclude that the three aspects of stakeholder theory are mutually supportive and that the normative base of the theory-which includes the modern theory of property rights-is fundamental.

Key words: shareholder, internal and external stakeholders, investors, owners, directors, managers, and employees, profit, customers and decision-making.

Outline. Stakeholders are individuals, businesses, or organizations that have some connection to your company. More specifically, they have various interests and influences in your company as they interact with it somehow, and the company's state affects them. Several documents outline stakeholder criteria.

This broad category includes employees, customers, suppliers, communities, the environment, and competitors. Stakeholders care about the company's overall performance and how its actions might impact them.

Shareholders are a specific type of stakeholder — they are individuals or institutions who own shares of a company's stock. Their primary interest lies in the company's financial performance, particularly the stock price and potential return on investment (ROI).

There are typically two types of stakeholders: internal and external. Let's below take a closer look at each of them and figure out their role in business.

Analysis of literature on the topic: The idea that corporations have stakeholders has now become com- monplace in the management literature, both academic and professional. Since the publication of Freeman's landmark book, Strategic Manage- ment: A Stakeholder Approach (1984), about a dozen books and more than 100 articles with primary emphasis on the stakeholder concept

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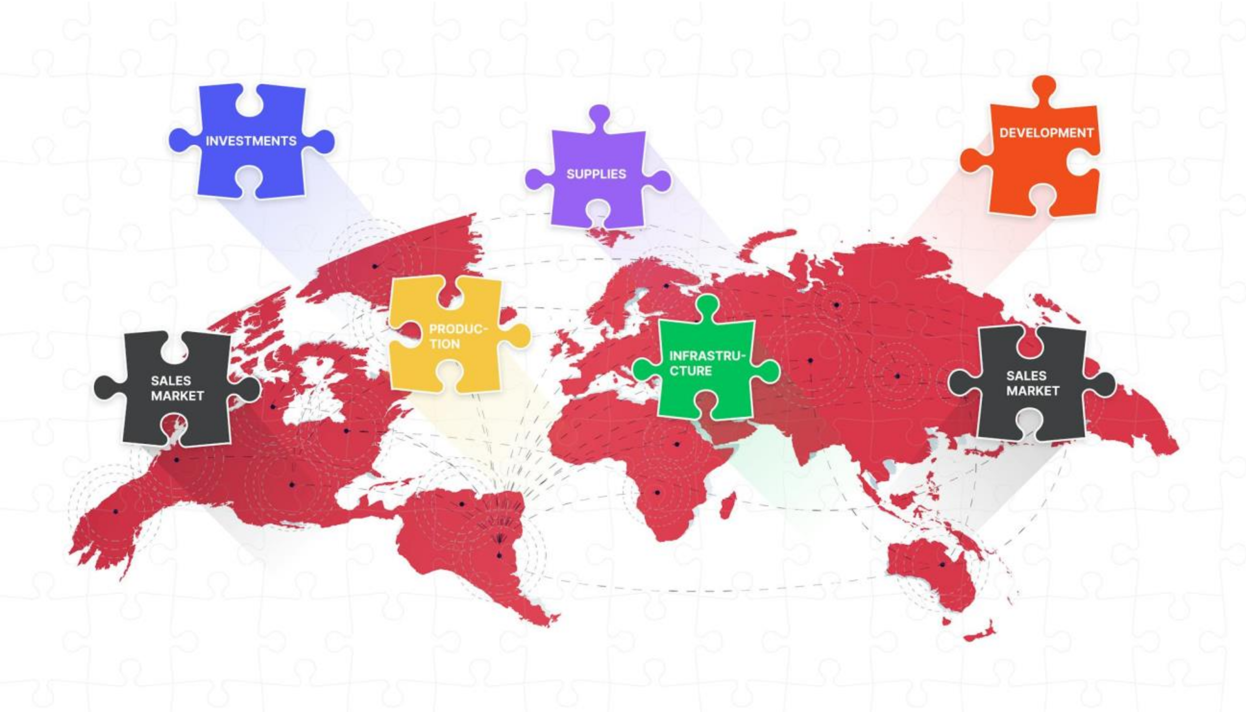
have ap- peared. (Significant recent examples include books by Alkhafaji, 1989; Anderson, 1989; and Brummer, 1991; and articles by Brenner & Cochran, 1991; Clarkson, 1991; Goodpaster, 1991; Hill & Jones, 1992; and Wood, 1991a,b; plus numerous papers by Freeman and various collaborators individually cited.) Stakeholder management is the central theme of at least one important recent business and society text (Carroll, 1989), and a diagram purporting to represent the stakeholder model has become a standard element of "Introduction to Management" lectures and writings.

Analyzes and results. One of the central problems in the evolution of stakeholder theory has been confusion about its nature and purpose. For example, stakeholder theory has been used, either explicitly or implicitly, for descriptive pur- poses. Brenner and Cochran (1991: 452) offered a "stakeholder theory of the firm" for "two purposes: to describe how organizations operate and to help predict organizational behavior." They contrasted this "theory," which they developed only in outline form, with other "theories of the firm," but they did not ask whether the various theories cited have com- parable purposes. In fact, different theories have different purposes and therefore dif- ferent validity criteria and different implications. For example, according to Cyert and March (1963), the neoclassical theory of the firm attempts to explain the economic principles governing production, investment, and pricing decisions of established firms operating in competitive markets. In contrast, their behavioral theory of the firm attempts to explain the process of decision making in the modern firm in terms of goals, expec- tations, and choice-making procedures. Aoki's (1984) cooperative game theory of the firm attempts to explain internal governance, particularly the balance between owners' and workers' interests.



1-Picture. The types of Stakeholders

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There are typically two types of stakeholders: internal and external. Internal stakeholders, also called primary stakeholders, are entities with a direct interest or influence in a company, as all the processes and results of the company's operations also affect them. An example of internal stakeholders are employees of a company and its owners or investors.

2-Picture. Internal Stakeholders

In business, the internal stakeholders are investors, owners, directors, managers, and employees. Obviously, different internal stakeholders have different roles in a company. This depends on their interest, degree of influence in decisions, and responsibility. So, to answer the question, it is necessary to divide them into several types.

Investors or shareholders

Investors or shareholders are internal stakeholders who are only responsible for the funds they invest in the company. Their influence on decisions is indirect, but their interests require a high priority because they must trust the company to invest their money. However, their interest is often solely financial, as the company regularly generates profit, and its capitalization steadily grows.

Owners

The owners are responsible for the company's foundation and existence, and their influence on the decision-making can vary greatly. If they are only interested in ensuring that the company is consistently profitable, then the influence and responsibility for decisions are transferred to the board of directors. However, the company owners may also directly influence decisions if they are interested in ensuring that its core ideas are consistent with all internal and external processes, products, and services.

Board of directors

The board of directors is responsible for making strategic decisions and directly influences all operational aspects of the company.They are also responsible for the company's market capitalization, which their decisions affect. Their main interest is to ensure that investors are happy with their investments and that the owners are satisfied with their choice of persons who have taken over the company's management and the extension of its products and services.

Managers

Managers are responsible for the quality of the employees and good performance, and they can also influence tactical decisions and the setting of goals. Their interest is in the no risk of downsizing, good working conditions, decent wages, and bonuses for good work in their departments.

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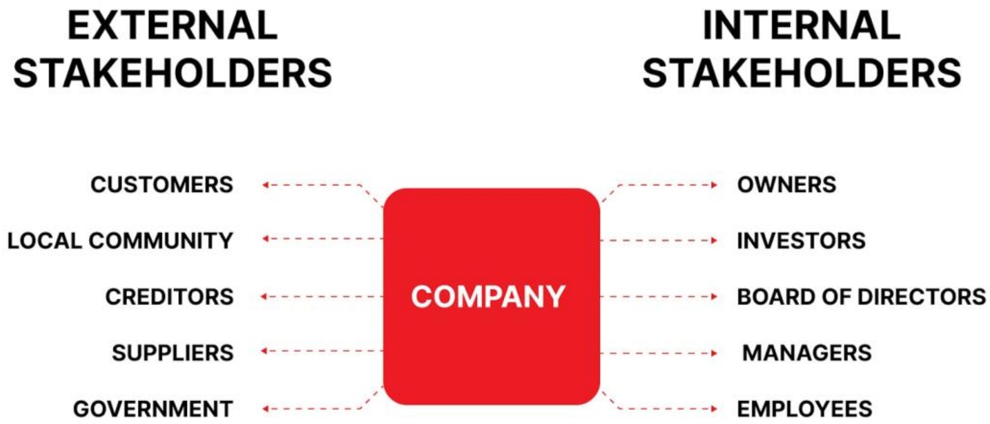
Employees

Employees are responsible for the quality of their jobs and can sometimes be influential in setting tasks. However, employees need to have confidence in their employer rather than check for open positions at other companies. Therefore the interest of employees is in the absence of risks of downsizing, good working conditions, stable pay, and bonuses.



3-Picture- Who are the External and Internal Stakeholders

Stakeholder management principles

Andrew L. Friedman and Samantha Miles have created original principles in the book Stakeholders: Theory and Practice (1991). There you can read in detail about their work and get even more information about the intricacies of analysis, models, and operating principles, and they are still relevant today:

- **Principle**
  Managers should acknowledge and actively monitor the concerns of all legitimate stakeholders and consider their interests in decision-making and operations.
- **Principle**
  Managers should listen to and openly communicate with stakeholders about their respective concerns, contributions, and the risks they assume because of their involvement with the corporation.

As Oleg Puzanov said earlier, world politics and economics have bound everyone, and now everyone depends on each other. Therefore, it is essential to understand how to manage stakeholders mutually and beneficially. This requires analyzing stakeholders on various aspects and setting appropriate priorities and actions. Here you will find the main steps which will let you do it properly.

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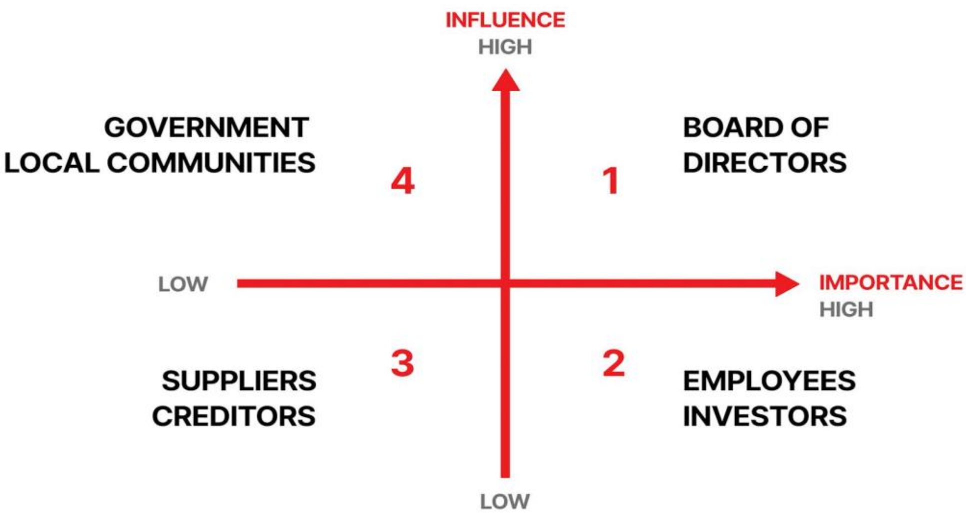
4-Picture. The influences of Stakeholders

Based on the early analysis, you can now build a stakeholder influence and importance matrix, which will help you to visualize their place in the hierarchy and choose the best model to interact with them.



5-Picture. The Matrix of Stakeholders

Summary

Now you know all the general information about the role, you will be able to build your hierarchy with much more understanding. Of course, much of this is highly individual and depends on internal company policies, legal relationships with various entities, etc. In some companies, the customers have more influence in decision-making than even the company owners. And this can work

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if it is not an accident and lack of order but a well-thought-out strategy and a distinctive feature that makes a company successful.

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