1.4 Stakeholders

Internal stakeholders

Introduction to stakeholders

An organisation is often thought of as a single unit making decisions as one entity. In reality, organisations are made up of different groups, called stakeholders, that often compete for influence and control. A stakeholder is any individual or group that affects, or is affected by, an organisation. Stakeholders can be classified according to whether they are considered to be inside the organisation (internal stakeholders) or outside the organisation (external stakeholders).

For example, the image below shows a variety of stakeholders, both internal and external, in a railway company.

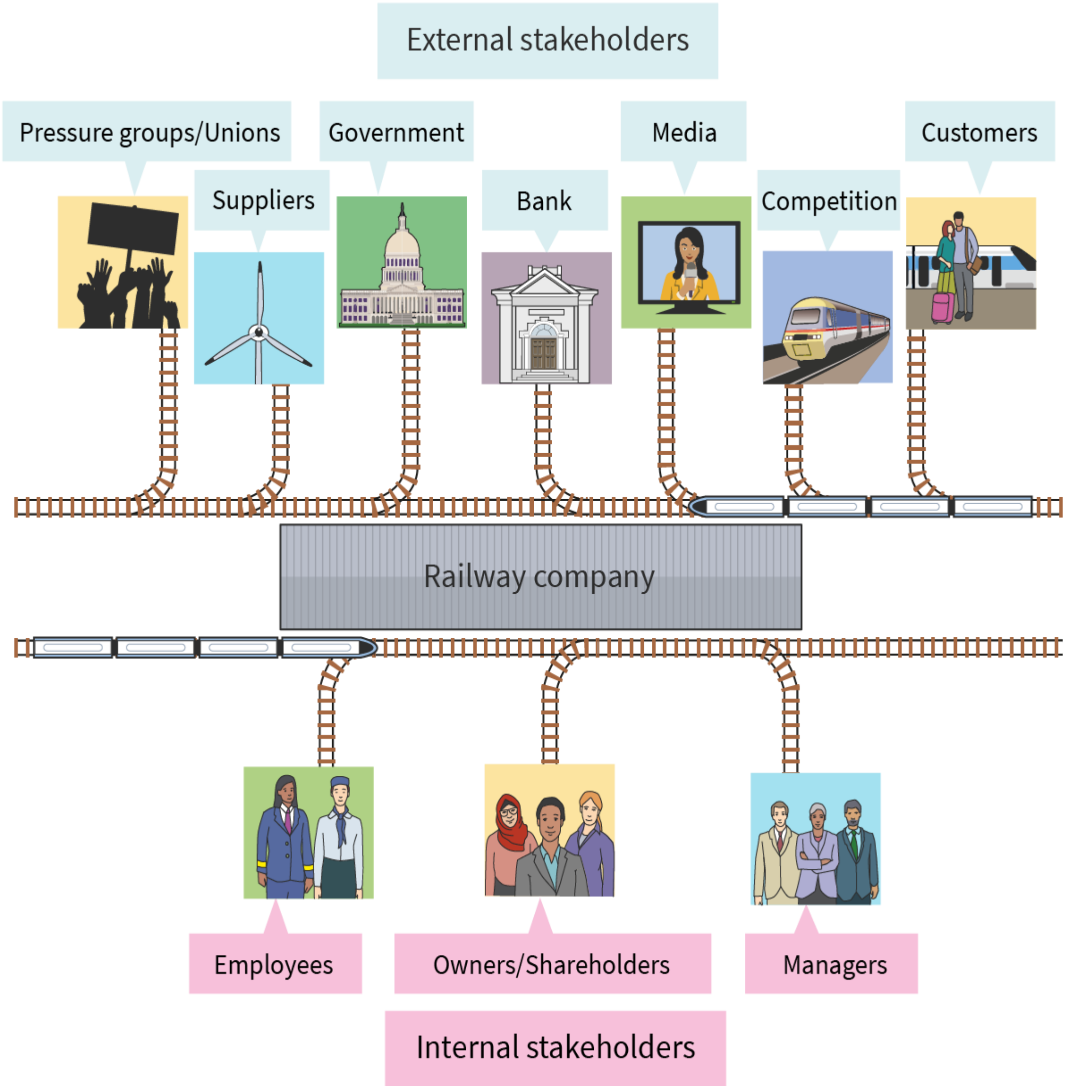

Figure 1. Internal and external stakeholders.

Exam tip

You should be aware that the distinction between internal and external stakeholders is not always very clear. For example, internal stakeholders such as employees are also part of the community and have a different view on business activities in their role as part of the community. As internal stakeholders, they might be interested in job security and work conditions, while as external stakeholders they might be concerned about the business damaging the natural environment.

Internal stakeholders

An internal stakeholder is an individual or group that affects, or is affected by, an organisation and is directly involved inside the organisation. Internal stakeholders include managers, employees and (usually) shareholders.

Managers are the individuals who run the organisation. They are responsible both for setting aims and objectives, and for making sure these aims and objectives are met. In order to be successful, managers must create an environment in which employees can work together to meet these objectives. Managers may have personal ambitions too, such as the advancement of their own careers, compensation, benefits, legacy and job security.

Employees are the individuals who work for the company. Like managers, employees are motivated by personal interests in compensation, benefits, job security and working conditions.

As many modern businesses have moved to empower employees, the distinction between managers and employees has become less clear. It is important to understand that in the real world people may have blurred stakeholder roles.

Figure 2. Many employees, such as engineers, may have both managerial and operations responsibilities, blurring their stakeholder roles.

Credit: TuiPhotoengineer, Getty Images

Shareholders are the owners of the company. Shareholders invest in a business in order to receive a return on their investment. They are therefore primarily concerned with the company's profitability. Profits will allow shareholders to receive a return on their investment in the form of dividends or an increase in the value of their ownership interest (capital gains).

Shareholders are sometimes considered to be external stakeholders because, in the case of large publicly held companies, they are generally not involved in the day-to-day running of the business. However, shareholders appoint a board of directors, which chooses a CEO to run the company in the shareholders' interest. This explains why most sources consider shareholders to be internal stakeholders.

Figure 3. Shareholders in a corporation elect a board of directors to act in their interest.

Credit: skynesher, Getty Images

Internal stakeholders, such as managers and employees, can also be shareholders of the company. This is the case if some of their compensation is paid out in shares or if they choose to purchase company shares. In June 2020, during the COVID-19 pandemic, Zoom paid its employees stock bonuses (http://www.protocol.com/workplace/-zoom-pandemic-employee-stock-reward), so its employees benefitted from the increase in stock price. Again, this shows that there can be significant blurring of stakeholder roles.

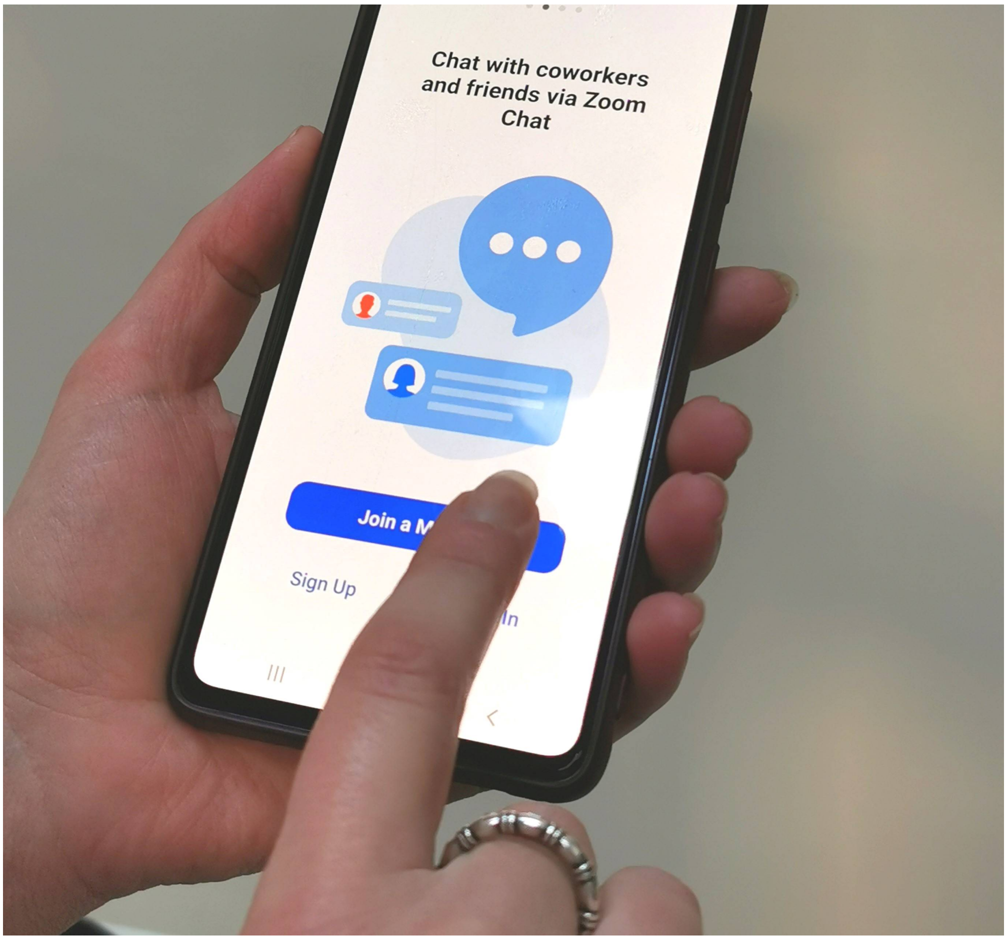

Figure 4. Zoom gave stock to their employees in the pandemic.

Credit: Paperghosts

You should note that discussions related to shareholders tend to focus on publicly held companies. As mentioned in Section 1.3.1 (/study/app/y12-business-management-a-sl-may-2024/sid-352-cid-174703/book/vision-and-mission-statements-id-36847), investors in these companies often look for short-term profits, placing them in conflict with the longer-term interests of some other stakeholders. One way in which governments try to align the interests of shareholders and other stakeholders in companies is by imposing a higher capital gains tax rate on short-term (speculative) investment and lower tax rates on long-term investment. This encourages long-term investment, aligning the interests of shareholders and other stakeholders of the company, with both focused on the long-term performance of the business.

In the case of sole traders, partnerships and privately held companies, there is no distinction between shareholders and managers. The individuals who own and run the organisation are the same, therefore their long-term interests are better aligned.

Exam tip

Do not confuse the terms 'stakeholders' and 'shareholders'. A shareholder is a part-owner of the company and is just one type of stakeholder.

Activity

Learner profile: Thinkers
Approaches to learning: Thinking skills (critical thinking)

Table 1 and **Table 2** below show data on long-term vs. short-term capital gains* taxes for a single person in the USA versus Japan.

*Long-term capital gains refers to gains on assets held longer than a year in the USA and held longer than five years in Japan.

Short-term capital gains refers to gains on assets held less than a year in the USA and less than five years in Japan.

Compare the tax rates based on the length of investment.

Table 1. US 2021 capital gains tax rates (up to $209 425).
Sources: NerdWallet (https://www.nerdwallet.com/article/taxes/capital-gains-tax-rates) (5 January 2022), Forbes (https://www.forbes.com/advisor/taxes/taxes-federal-income-tax-bracket/)(10 November 2021)

Personal income of taxpayer	Tax rate on short-term capital gains	Tax rate on long-term capital gains
$0 to $9950	10%	0%
$9951 to $40 400	$995 plus 12% over $9950	0%
$40 401 to $86 375	$4664 plus 22% of the excess over $40 400	15%
$86 375 to $164 925	$14 751 plus 24% of the excess over $86 375	15%
$164 925 to $209 425	$33 603 plus 32% of the excess over $164 925	15%

Table 2. Japan 2020 capital gains tax rates.
Source: Deloitte (https://www2.deloitte.com/content/dam/Deloitte/global/Documents/Tax/dttl-tax-japanhighlights-2020.pdf?nc=1) (January 2020)

Tax rate on short-term capital gains	Tax rate on long-term capital gains
30% (39.63% including national surtax and local inhabitants tax)	15% (20.315% including national surtax and local inhabitants tax)

Questions

1. Comment on how the tax structures outlined above could encourage long-term investment and how this would help to align the interests of shareholders with other stakeholders.

2. US President Joe Biden proposed a 43.4% capital gains tax on those taxpayers with personal incomes greater than 1 million USD. Japanese Prime Minister Fumio Kishida discussed the possibility of raising Japanese capital gains taxes in 2021.

   Discuss the extent to which a higher tax rate for higher earners is justified to promote **equity**. Identify arguments for and against such a tax from the point of view of different stakeholders.

Concept

Change

Why/how can change bring conflict among stakeholders?

Change in the external environment can alter stakeholder interests, either by aligning them or by putting them in conflict. Change can also reveal aligned or conflicting interests that were not evident before.

In the wake of the COVID-19 pandemic, many governments imposed vaccine mandates that required businesses to demand that all workers show proof of vaccination to continue to work in person, especially those working in the public sector or in medical fields.

Here are some examples of where countries imposed a vaccination mandate by the end of 2021:

- Austria made Covid vaccines compulsory for those aged 14 and over, and imposed fines for non-compliance. You can read more about the regulation in the following article: 'Austria plans to fine vaccine holdouts up to 3,600 euros a quarter (https://www.reuters.com/world/europe/austria-announce-details-planned-covid-19-vaccine-mandate-2021-12-09)'.
- Peru made it a requirement that all businesses with more than ten employees present proof of employee vaccination.
- Hungary required that all healthcare employees be fully vaccinated.

Such regulations have the potential to cause conflict in some organisations as well as with the government, due to some individuals' refusal to get vaccinated. On the one hand, managers were obligated to follow government regulations. On the other hand, if some of their employees chose not to get vaccinated, the company would lose talent, since those without the vaccine would not be permitted to work.

Figure 5. Internal stakeholders, such as workers, may choose to reject COVID-19 vaccines, while other internal stakeholders, such as managers, are expected to enforce national vaccine mandates.
Credit: Prostock-Studio, Getty Images