

3.2: Weighing Stakeholder Claims

Learning Objectives

By the end of this section, you will be able to:

- Explain why stakeholders' claims vary in importance
- Categorize stakeholders to better understand their claims

As we saw earlier in this chapter and in [Why Ethics Matter](#), the law only partially captures the ethical obligations firms owe their stakeholders. A particular **stakeholder claim**, that is, any given stakeholder's interest in a business decision, may therefore challenge the ethical stance even of an organization that complies with the law. For example, some community members may oppose the opening of a "big box" chain store that threatens the livelihoods of small-business owners in the area, while shareholders, creditors, employees, and consumers within the nearby neighborhoods support it as an additional opportunity for profit and quality goods at competitive prices. Conflicts like this illustrate how complicated prioritizing stakeholder claims can be, particularly when there are ethical pros and cons on both sides. A big box store may offer a wider selection of goods at lower prices, for example, and create jobs for teens and part-time workers.

A related theme to recall is that even though all stakeholder claims are important for a company to acknowledge, not all claims are of equal importance. Most business leaders appreciate that a company's key stakeholders are essential to its efficient operation and growth, and that its overall mission, goals, and limited resources will force its managers to make choices by prioritizing stakeholders' needs. In this section, we look at ethical ways in which business managers can begin to make those decisions.

The Ethical Basis of Stakeholders' Claims

Stakeholder claims vary in their significance for a firm. According to Donaldson and Preston,⁵ there are three theoretical approaches to considering stakeholder claims: a descriptive approach, an instrumental approach, and a normative approach. The **descriptive approach** sees the company as composed of various stakeholder groups, each with its own interests. These interests impinge on the company to a greater or lesser degree; thus, the main point of the descriptive approach is to develop the most accurate model and act on it in ways that weigh and balance these interests as fairly as possible. The **instrumental approach** connects stakeholder management and financial outcomes, proposing that appropriate management of stakeholder interests is important and useful because it contributes to a positive bottom line.

The **normative approach** considers stakeholders as ends in themselves rather than simply as means to achieve better financial results. According to Donaldson and Preston, in the normative approach "the interests of all stakeholders are of intrinsic value. That is, each group of stakeholders merits consideration for its own sake and not merely because of its ability to further the interests of some other group, such as the shareowners."⁶ This approach is the one that most appropriately represents ethical stakeholder theory, according to Donaldson and Preston, and it places an objective consideration of all stakeholders' interests ahead of fiscal considerations alone.

We can also view these three approaches to stakeholders as occupying levels of increasing comprehensiveness. At the lowest level is the descriptive approach, which merely sets the stage for consideration of stakeholder claims and concerns. The instrumental aspect combines a consideration for profit along with other stakeholder concerns and attempts to balance these interests with particular attention to the way the company and its shareholders might be affected. The normative approach takes the most comprehensive view of the organization and its stakeholders, putting the focus squarely on stakeholders. Although Donaldson and Preston stress that the descriptive and instrumental approaches are integral to stakeholder theory, they contend that the fundamental basis of stakeholder theory is normative.⁷

Of course, these are theoretical approaches, and the extent to which any of them is implemented in a given company will vary. But unfortunately, the decision to disconnect from stakeholders is both real and expensive for a corporation. A 2005 survey of customers of 362 companies is demonstrative: "Only 8% of customers described their experience as 'superior.' However, 80% of the companies surveyed believe that the experience they have been providing is indeed superior."⁸ Another study found significant links between levels of customer satisfaction and a firm's performance, including rates of retention, overall revenue, and stock price.⁹ Enlightened companies spend time and resources testing their stakeholders' concerns and eliciting their feedback while there is time to incorporate it into management decisions.

LINK TO LEARNING

This [article](#) discusses a recent video showing United Airlines removing ticketed, seated passengers from a plane to make room for four of its employees who needed to fly to another airport igniting debate over company policies and how they are implemented. This related [article about the United Airlines overbooking situation](#) provides some more information.

Upon being asked to deplane and take a later flight, should a customer who has booked the fare for the earlier flight have the right to refuse? Which stakeholder(s) do you think United valued more in this incident? Why?

Airlines overbook to ensure that despite any no-shows or cancellations, any given flight will have as many occupied seats as possible, because an unoccupied seat represents lost revenue. In terms of valuing stakeholders, does this strategy make sense to you? Why or why not?

A classic example of negative consumer reaction is the response that met Ford Motor Company's 1958 introduction of the Edsel (Figure 3.3). Ford had done extensive research to create a luxury family sedan aimed at an upper-income segment of the market then dominated by Buick, Oldsmobile, and Chrysler. However, the market did not identify Ford products with high status, and the Edsel did not last three years in the marketplace. Ford failed to serve the investors, suppliers, and employees who depended on the company for their livelihoods. Of course, the corporation survived that failure, perhaps because it learned the lessons of stakeholder management the hard way.



Figure 3.2.3: This Edsel Pacer was manufactured in 1958, the first year of production of the ill-fated Ford model, which ceased production in November 1959. (credit: modification of “Edsel Pacer 2-door Hardtop 1958 front” by “Redsimon”/Wikimedia Commons, CC BY 2.5)

Entertainers too (as well as their clubs, venues, and studios) are sensitive to the views of their stakeholders—that is, fans and the consuming public as a whole. Scarlett Johansson recently signed on to play the role of Dante “Tex” Gill in a biographical film (or “biopic”). Gill had been identified as female at birth but spent much of his professional career self-identifying as male. When the casting was announced in July 2018, it provoked a controversy among transgender rights groups, and within a few days, Johansson announced she had withdrawn from the role.¹⁰ “In light of recent ethical questions raised surrounding my casting as Dante Tex Gill, I have decided to respectfully withdraw my participation in the project. . . . While I would have loved the opportunity to bring Dante’s story and transition to life, I understand why many feel he should be portrayed by a transgender person, and I am thankful that this casting debate, albeit controversial, has sparked a larger conversation about diversity and representation in film,” she said.¹¹

Defining Stakeholder Categories

To better understand stakeholder theory and, ultimately, manage stakeholder claims and expectations, it may be helpful to take a closer look at categories of stakeholders. One way to categorize stakeholders is by defining their impact. For example, regulatory stakeholders including stockholders, legislatures, government regulators, and boards of directors are **enabling stakeholders** because they permit the firm to function. **Normative stakeholders** such as competitors and peers influence the norms or informal

rules of the industry; **functional stakeholders** are those who influence inputs, such as suppliers, employees, and unions, and those influencing outputs such as customers, distributors, and retailers. Finally, **diffused stakeholders** include other organizations such as nongovernmental organizations (NGOs), voters, and mass media organizations with less direct relationships but potential for meaningful impacts on firms ([Figure 3.4](#)).¹²

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