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Unpacking Stakeholder Capitalism

This research brief examines how stakeholder expectations of companies are rapidly shifting, and the implications this holds for corporate sustainability leadership.

“Unpacking Stakeholder Capitalism” was prepared by Canadian Business for Social Responsibility (CBSR) and EXCEL Partnership. Team members that contributed include Puninda Thind, Shruthi Sundar, David Photiadis, Leor Rotchild, and Ted Ferguson. CBSR and EXCEL are part of a constellation of sustainability organizations, which also includes GLOBE Series, The Delphi Group, and Leading Change Canada.

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Section 1: What? Unpacking Stakeholder Capitalism

A Brief History of Stakeholder Capitalism

In August 2019, nearly 200 CEOs, including leaders of Apple, Google, Walmart, and JP Morgan Chase signed a joint statement as part of the Business Roundtable. The statement announced that shareholder supremacy is no more and called for a new form stakeholder capitalism. Breaking with decades of long-held corporate orthodoxy, the Business Roundtable issued a statement on "the purpose of a corporation," arguing that companies should no longer advance only the interests of shareholders. Instead, the group said, they must also invest in their employees, protect the environment, and deal fairly and ethically with their suppliers.[1]

The idea of stakeholder capitalism first appeared in the 1932 book: The Modern Corporation, and Private Property by Adolf A. Berle and Gardiner C. Means. It proposed that firms should balance the claims from all stakeholders.[2] The concept also appeared in the 1973 Davos Manifesto: A Code of Ethics for Business Leaders, which outlined that corporations must serve not only their clients and shareholders, but also societies. Specifically, that "management [must] serve society. It must assume the role of a trustee of the material universe for future generations […] The management also has to make its own knowledge and experience available to the community."[3] The Davos Manifesto differed greatly from Milton Friedman's views at the time. Friedman believed that "there is one and only one social responsibility of business – to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game." [4]

In the space of time between the 1970s and 2010s, stakeholder capitalism existed but gained little traction. It was generally accepted that Friedman's view of the business world was the correct one. Shareholder capitalism flourished as corporations attempted to maximize shareholder value. Companies found that "if they abandoned their other stakeholders…they could deliver higher returns to their shareholders."[5]

In 2011, Michael Porter and Mark Kramer helped rejuvenate the idea of stakeholder capitalism when they released their article Creating Shared Value in the Harvard Business Review. They believed that "creating shared value is the practice of creating economic value in a way that also creates value for society by addressing its needs and challenges. Shared value is not corporate social responsibility or philanthropy – creating shared value is at the core of the business strategy." [6]

Stakeholder capitalism re-emerged in the broader cultural consciousness when the Business Roundtable updated its Purpose of a Corporation Statement in 2019. The "updated statement moves away from shareholder primacy, [to] include commitments to all stakeholders.[7] Even more recently, the World Economic Forum updated the Davos Manifesto. It now stands as the 2020 Davos Manifesto: The Universal Purpose of a Company in the Fourth Industrial Revolution. The Manifesto outlines that "the purpose of a company is to engage all its stakeholders […] not only its shareholders."

Capitalism isn't delivering the outcomes that society needs, but at the same time its innovative power and tremendous reach are essential if we are to tackle our toughest challenges. Capitalism in its current form is unsustainable, not only socially and environmentally, but also economically. We need to reinvent capitalism, shifting us towards a model that rewards true value creation – not value extraction as today's model does. Doing this will require us to internalize social and environmental costs and benefits and ensure these are reflected in the relative price of goods and services, and in companies' P&L statements, costs of capital and market valuations. This would lead to more companies innovating in ways that contribute to a flourishing society, to capital markets properly valuing and rewarding inclusive, sustainable business practices and, as a result, more capital being mobilized to deliver the SDGs and the transition to a 1.5°C world. [8]

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[8] WBCSD. (2020). Reinventing capitalism: a transformation agenda. WBCSD. https://www.wbcsd.org/Overview/About-us/Vision-2050-Refresh/News/Reinventing-capitalism-WBCSD-lays-out-a-transformation-agenda-for-business

Criticism of Stakeholder Capitalism

While stakeholder capitalism is gaining traction in the business community, there are many critiques of the ideology.

The ideology is a PR Stunt that creates no action

Stakeholder capitalism allows corporations to make statements without clear objectives or goals. They will have an appearance of social responsibility. All the while, firms can continue making money and passing it off to the shareholders and executives. In the 12 months since the Business Roundtable updated their purpose, it was hard to find any actions that undersigned companies took because of the new statement.[9] In fact, those who signed onto the "new and improved" purpose score the exact same as other businesses in employee health and safety, labor practices, access and affordability, customer privacy, human rights and community relations, and employee engagement, diversity, and inclusion.[10]

Too many stakeholders cause a company to lose its purpose

While trying to balance the needs of various stakeholders, companies will lose what their priorities are. Unable to make up their mind, the business struggles to move forward in any direction. Having to determine stakeholder needs on a case-by-case basis allows decisions to happen randomly, depending on who is present.[11] "If all stakeholders are essential, then none are."

Customer capitalism is the best model

Rather than focusing on shareholder vs. stakeholder capitalism, companies should shift towards a model of customer capitalism. Peter Drucker argues that the true purpose of any corporation is to generate a customer. By focusing on generating value for customers, you inherently create value for all stakeholders.[12]

Corporations can do nothing until policy is changed

This critique asserts that, ultimately, policy change is required to address these broader systemic issues. However, companies also have a role to play in influencing policies and regulations and reconciling short-term gains with long-term value creation objectives. For instance, Delaware is home to the registration of 60% of the current Fortune 500 companies – a state where corporate directors have a duty to act in the best interest of their shareholders. Legally, this policy requires companies who operate in Delaware to base their companies on the ideology of shareholder capitalism. Until policies like this change, it will be challenging for stakeholder capitalism to have any real value or meaning. [13]

New (internal & external) metrics for success are required

Organizations looking at defining success in stakeholder capitalism often refer to investor returns, yet it is not the point of stakeholder capitalism to reduce the importance of these returns. "Measuring the success of stakeholder capitalism by increased profits for investors undergirds the exact paradigm it is supposedly trying to undo." [14] The ESG reporting landscape is fragmented and continues to evolve rapidly as access to decision-useful, consistent, and comparable ESG information is moving from nice-to-have to must-have. [15] In many cases, regulation needs to catch up.

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[9] Makower, J. (2020, August 17). The Business Roundtable's statement of purpose, one year on. Retrieved October 21, 2020, from https://www.greenbiz.com/article/business-roundtables-statement-purpose-one-year

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[13] Makower, J. (2020, August 17). The Business Roundtable's statement of purpose, one year on. Retrieved October 21, 2020, from https://www.greenbiz.com/article/business-roundtables-statement-purpose-one-year

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DEEP-DIVE: Recent Stakeholder-relevant ESG Reporting Developments from Sept. 2020

- **New Metrics:** World Economic Forum and The International Business Council developed a set of common stakeholder capitalism metrics for companies. The metrics are based on the four key pillars of Governance, Planet, People, and Prosperity (see image). Each pillar has numerous metrics that have been organized to consolidate the overlap from GRI, EPIC, IR, TCFD, SASB, CDSB, GHG Protocol, WRI, IAS, US GAAP, Natural Capital Protocol, and the US EPA. This is one attempt of many to standardize the numerous ESG frameworks.

- **Alignment of standards**: CDP, GRI, IIRC, and SASB released a joint statement to formally work together (along with the Climate Disclosure Standards Board). The major sustainability reporting initiatives are seeking to demonstrate how their systems can not only work together, but also with existing financial reporting systems.

- **Emerging efforts:** The UK and Swiss governments and ten financial institutions, supported by WBCSD, are planning to create the Task Force for Nature-related Financial Disclosures (TNFD) by 2021. This framework aims to help financial institutions to shift finance from destructive activities and toward nature-based solutions.

- Initiatives like Value Balancing Alliance (VBA), a business-led effort focused on creating a global impact measurement standard for measuring and disclosing positive and negative impacts of corporate activity on environment and society in monetary terms, are emerging. BASF is a founding member of the Alliance.

- Mandatory climate reporting: TCFD recommendations have been endorsed and incorporated into reporting requirements by regulators in the EU, United Kingdom, Hong Kong, and New Zealand and this trend is expected to continue. If Canadian firms want to qualify for COVID-related economic relief called the Large Employer Emergency Financing Facility (LEEFF), companies must commit to publishing annual TCFD-aligned disclosures.

- Unilever's Sustainable Living Plan – In 2010, Unilever launched the Sustainable Living Plan (USLP). Using the UN Sustainable Development Goals as a framework, this strategy sets over 50 comprehensive targets across all aspects of the company's value chain – from sourcing to consumer use and disposal of products. The USLP plan is a multi-stakeholder value creation model serving a range of stakeholders – from consumers and customers, society, the planet, and shareholders and sets out to decouple growth from environmental footprint, while increasing positive social impact.

These developments related to the alignment of ESG reporting frameworks and standards suggest an eventual desire for standardization and convergence for the purposes of advancing stakeholder capitalism. However, as stakeholder interests increase in importance, confusion remains for companies regarding how best to communicate and engage them. Overall, despite its recent resurgence and 'buzzword' nature of the term – stakeholder capitalism – essentially means a commitment to all key stakeholders. A growing body of evidence showcases that a strong correlation exists between ESG performance and financial performance. The recognition that management of ESG risks is central to long-term value creation has reinvigorated the conversation on this topic.[16] Many organizations already claim to take a stakeholder-centric approach to decision-making. However, there is an intention-action gap when it comes to putting this into practice in a rapidly dynamic landscape containing many misaligned incentives. How can companies navigate scenarios where the interests of multiple stakeholders are seemingly at odds?

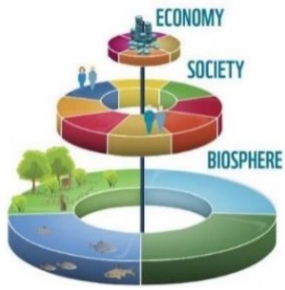
[16] Khan, M., Serafeim, G., & Yoon, A. (2015, March 11). Corporate Sustainability: First Evidence on Materiality. Retrieved October 23, 2020, from https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2575912

Section 2: Why? The Broader Context

There is a growing recognition that the current economic system is not only unable to respond to the world's most urgent challenges but that it has excluded many people from the prosperity that capitalism promises.

Gross Domestic Product (GDP) is a crude proxy for gauging economic wellbeing in that it essentially measures only national income. However, countries around the world are increasingly adopting new indices of wellbeing that measure economic income, plus a full suite of indicators such as the environment, culture, safety, leisure time, health, and education. People and countries around the world are actively questioning whether GDP's sole focus on only national income truly reflects what is important to our overall lives. There is a growing global trend to move beyond GDP, already being carried out by several countries. These countries have established new goal posts which, instead of focusing solely on national income, establish the aspirational measure that everyone in a society can potentially enjoy a good life. [17]

The need for purpose-driven businesses stems from the recognition that the current economic system rewards maximizing wealth over well-being and prioritizes individualism over interdependence. The business footprint on the planet has had an immense impact on the natural world with unequal negative impacts weighing heavily on the poor. This year has been characterized by some as the year of converging crises. Climate change, as a “threat multiplier”, exacerbates existing inequities, and the window to safeguard biodiversity and a healthy planet is narrowing at an alarming rate, while the cost of inaction is increasing.[18]



This section outlines some of these key issues and drivers and associated proof points.

Climate change remains the most pressing challenge globally.

According to [The Global Risks Report 2020] from the World Economic Forum, for the first time in the survey’s 10-year outlook, the top five global risks in terms of likelihood are all environmental. The sight of millions of young people across the world protesting inaction on climate change has spurned many businesses to take on climate targets. This is further proof of the influence stakeholder capitalism is having on companies.

Doughnut Model of social and planetary boundaries to guide inclusive economies

The cost of climate inaction is greater than the cost of climate action. In a recent study published in the journal Nature, researchers have found that if human beings fail to reduce GHG emissions to the levels designated in the Paris Agreement, the economic cost would range from $150 trillion to as much as $792 trillion by 2100.

Climate change poses a systemic financial risk and central banks and regulators are increasingly recognizing the financial risk of climate and developing tools for climate risk management. More importantly, the human cost of the climate crisis is projected to be unprecedented through impact on human health and forced displacement, both of which are already a reality and impact marginalized and racialized communities disproportionately. **Climate change is a defining economic issue. It is also, fundamentally, a social and racial justice issue.** For example, within the Canadian context:

- According to the Insurance Bureau of Canada, severe weather caused $1.3 billion in insured damages in 2019.
- Climate change is pushing increasingly dangerous levels of food poverty in First Nation communities across Canada.

The biodiversity crisis is looming.

According to the most recent UN report, one million species are threatened with extinction and animal populations have declined by ~60% on average since 1970. While investment in conservation has doubled since 2010, more funding is needed for nature-based solutions. **The benefits of addressing the biodiversity crisis are clear** – according to the World Economic Forum's Future of Nature & Business Report, transitioning to a nature-positive economy could generate up to $10 trillion in additional annual business revenue and cost savings and create 395 million new jobs by 2030.

There are structural flaws in the social contract.

These were already evident before 2020. The pandemic coupled with rising calls against anti-black racism and surging global economic inequality has brought these issues to the forefront. They have highlighted the existing structural inequities that already existed in our society and heightened the focus on the responsibility of businesses – especially in tackling issues such as workers' rights, diversity and inclusion, supply chain resilience, and impact on communities. **The pandemic and the movement for racial justice have served as a stress test for corporate pledges and practice of stakeholder capitalism.**[19] According to a study titled COVID-19 and Inequality: A Test of Corporate Purpose, being a Business Roundtable signatory in the United States has a small and negative effect on a company's response to the COVID-19 crisis.

- **Growing inequality:** Moreover, another American study conducted from 1978 to 2018 revealed that CEO compensation grew by nearly 1000% ; the compensation of a typical worker, meanwhile, rose by only **12%.** And nearly **90%** of CEOs in a recent UN Global Compact-Accenture survey state they agree that "global economic systems need to refocus on equitable growth." In Canada, the Canadian Centre for Policy Alternatives (CCPA) found the 100 highest-paid CEOs made 227 times more than the average worker made in 2018, up from 197 times the average worker pay in 2017.

- **Corporate influence on policy and lobbying:** Furthermore, given the influence that companies have over policy and regulation, discussion of stakeholder capitalism is incomplete without the exploration of companies' tax compliance, lobbying, and political spending activities. For example:

  - **Tax avoidance**: "According to the GRI, estimated financing gap for achieving the UN SDGs in developing countries is $2.5-3 trillion per year. Tax havens collectively cost governments $500-600 billion per year in lost corporate revenue. At the same time, corporate income tax rates have been falling steadily for 20 years around the world [20]."

  - **Lobbying against climate policies**: The recent 2020 Influence Map report, which looked at the impact of climate lobbying in response to the COVID-19 crisis, noted that select companies and industry associations across the U.S., Canada, and Australia actively lobbied to dilute or delay climate-related regulations. Certain studies show that companies' influence on policy and regulations may have a stronger impact on addressing climate change than the emissions associated with their operations or products. [21]

As a result of these urgent converging crises and issues, public expectations are rapidly shifting…

- 58% of global executives and investment professionals believe the current political environment makes ESG programs more important to meeting stakeholder expectations according to a 2019-2020 McKinsey survey.

- The majority of Canadians are demanding businesses step up on fairness and sustainability efforts according to a survey by Canadian Centre for Purpose of Corporations:
  - 65% of Canadians believe Corporate Canada is focused on making a profit more than looking after the welfare of stakeholders
  - 56% of Canadians are open to accepting a lower salary working for a company that cares about stakeholders, such as their employees, retirees, and consumers, and the communities where they operate.
  - 62% believe "if corporations in Canada do better, Canadians do better."
  - 78% think Canadian businesses should "contribute more to the betterment of society."

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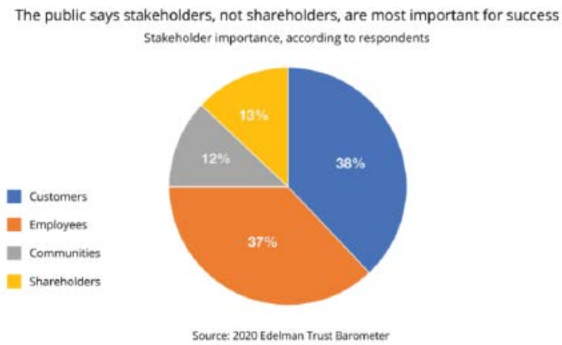
- Stakeholders are more important to companies' long-term success than shareholders according to 87% of respondents to Edelman's most recent Trust Barometer survey.



Moreover, the link between ESG risk management and financial performance has increased investor demand for decision-useful ESG information as they seek to incorporate these risks into their strategies and decisions in order to future-proof their portfolios.

- **Sustainable finance market is continuing to grow** surpassing $1 trillion globally and opening opportunities for companies to align financing with their ESG objectives. In fact, **social bonds** emerged as the fastest-growing segment of the sustainable debt market in 2020, according to S&P Global Ratings.

- Pandemic will spur ESG momentum over the coming years: a recent survey of investors representing $13 trillion in assets under management found that more than **70%** believe unforeseen events like COVID-19 will spark investor interest in tackling issues like the climate crisis. And more than **50%** said the pandemic would be positive for ESG momentum over the next three years.

- **ESG issues remain a priority for the majority of Canadian institutional investors**: a survey of Canadian Institutional Investors representing $2.3 trillion of AUM on Impacts of COVID-19 on ESG revealed:

    - 87% say climate change remains a priority.
    - 65% expect companies to enhance their ESG disclosure and to focus on the issues that are financially material to their business.
    - 85% say they have seen an increase in the availability of climate-related financial disclosures since 2017.

- **Risk and return and external pressure are key drivers behind investor focus on ESG considerations:** according to The Sustainable Financing Survey from HSBC, in 2019, 62% of investors said that they were focused on environmental and social issues because of their own or their company's values. But this year, risk and return and external pressures outweigh those values, with this driver falling to 38%.

- **Investors have, in a short time, also began articulating the importance of 'S' and what it should mean for companies.** For instance, as a result of increased public pressure and scrutiny, investors are being driven to tackling diversity and inclusion (D&I) within their portfolios:

    - Institutional investors managing over $2.3 trillion in assets have signed the Canadian Investor Statement on Diversity & Inclusion – a pledge for investors to promote D&I within their portfolios and their institutions.
    - In fact, three out of four Canadian retail investors want exposure to diverse and inclusive companies, and they want to be invested in funds that are engaging with portfolio companies on diversity and inclusion.

Calls for green and just recovery are setting the conditions to hold companies accountable to stakeholder capitalism: A green and just recovery to build back better will necessitate companies to rely on their stakeholders. A recent UN report estimates that within the next 6-18 months, $20 trillion USD will be spent to help push society through the fallout of COVID-19. The allocation of those funds will 10 shape how society works and how the economy operates for years to come. A top priority should be ensuring that investments are made into the green economy that supports a just transition [22.]

Moreover, research out of Oxford recommends a green recovery, suggesting that spending money on green policy initiatives could not only help shift the world closer to a net-zero emissions pathway, but could also offer the best economic returns for government spending." The call to repurpose and retool the economy to prioritize purpose and positive and equitable environmental, social, and economic outcomes are gaining momentum – some of these efforts include: EU' s European Green Deal, WEF's Great Reset, and Imperative 21 Campaign to RESET Capitalism.

The recovery process for companies poses a complex challenge to build back better: coronavirus, wealth inequity, racial injustice, biodiversity loss, and climate change are all risk factors for company prosperity[23]. As established in this section, there is a rapid convergence of trends, risks, and opportunities that are bringing the stakeholder-centric model to the forefront. The next section will explore how this concept of stakeholder capitalism can be operationalized, and the associated barriers and opportunities to doing so.

[17] British Columbia Assembly of First Nations. (2020). Centering First Nations Concepts of Wellbeing. British Columbia Assembly of First Nations.
[18] Yale Climate Connections. (2020, April 04). Why climate change is a 'threat multiplier' " Yale Climate Connections. Retrieved October 23, 2020, from https://yaleclimateconnections.org/2019/06/why-climate-change-is-a-threat-multiplier/
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[23] Lewis, S. (2020, June 08). Stakeholder Capitalism and the Pandemic Recovery. Retrieved October 23, 2020, from https://corpgov.law.harvard.edu/2020/06/08/stakeholder-capitalism-and-the-pandemic-recovery/

Section 3: How? | Translating Commitment to Action

The trends discussed in Section 2 underscore that even under short-term pressures such as pandemics, business leaders will need to view the company as operating within an integrated ecosystem, supporting a case for a stakeholder-centric model that calibrates and balances incentives. Although there is clearly the opportunity to rethink the purpose of business to address systemic problems, the way forward is often less apparent. Understanding where to begin can help us realize the more equitable promise of stakeholder capitalism [24]. As the global landscape continues to shift rapidly, and as demands on companies from both external and internal sources to treat stakeholders equitably grows:

- What role can business leaders credibly play to walk the talk?
- What is the role of corporate sustainability teams to put stakeholder capitalism into practice?

STAKEHOLDER GROUP	NOTABLE EVOLVING EXPECTATIONS
INVESTORS	• **Climate Change:** remains a key priority for institutional investors as indicated by growth in sustainable finance, enhanced investor expectations, growth in adoption of TCFD and SASB reporting. • **Diversity & Inclusion**: commitment to, and collection and reporting of diversity and inclusion metrics is a growing priority. For instance, investors coalitions like the Racial Justice Investing Coalition seek to amplify and include Black voices in investor spaces, taking direction and guidance from their lived experience.

EMPLOYEES	• **Health & Safety**: employees expect employers to safeguard health & wellness as a top priority, and expect them to modify operations to meet employee needs. • **Diversity & Inclusion**: in addition to commitment to sustainability, tangible commitments and action on building an inclusive and diverse workforce is a growing expectation from the next generation of talent
SUPPLIERS	**Resilience**: identifying risks and reconfiguring supply chains to quickly anticipate future disruptions to global supply chain dynamics, including diversification localization, is an emerging priority.
CUSTOMERS	• **Environmental Awareness**: recent research showcases that the pandemic has heightened environmental awareness among consumers. • **Transparency**: beyond price and quality, consumers value transparency and want companies to stand up for issues they are passionate about.
COMMUNITIES	**Investment**: the pandemic has heightened the strategic responsibility of business to the communities within which it operates. As community partners and groups face new challenges, it will be important to support them in new and sustainable ways. It is often marginalized groups like Indigenous groups that are forgotten about or fall through the cracks. Specific programs and policies need to be adopted to allow Indigenous peoples to be a partner in the transition. [25]

The "G" in the "ESG" is a key aspect of this entire equation that facilitates the implementation of the ideals of concepts like stakeholder capitalism. As the wider sustainability agenda also drives more rapid and fundamental change, the needs of key stakeholders are critical to understanding what is (and will be seen as) 'good behavior' that defines the responsibility of businesses within society [26]. To achieve long-term value, both companies and investors have expressed a need to look beyond the bottom line in quarterly financial reports. In June 2018, Business Roundtable, an association of nearly 200 CEOs of major US companies, announced support for companies to end quarterly earnings guidance as a way to shift investors and the financial markets away from an "unhealthy focus on short-term profits at the expense of long-term strategy, growth and sustainability."[27]

Corporate governance is essential for defining the role of stakeholders within a company to give some concrete meaning to stakeholder capitalism. [28]

As the mandate of corporate sustainability teams continues to expand, a key part of their role involves breaking down silos and enabling collaboration within different functional areas to ensure the business:

- ✓ Aligns corporate strategy and business decisions with sustainability efforts that generate long-term value for all stakeholders.
- ✓ Asks the 'tough questions' internally with the organization's various leaders – are we listening to outside voices and ready to learn and adjust our approach to business based on that feedback?
- ✓ Ensures that governance structures, including board and executive leadership, are inclusive, and consider the interests and perspectives of all.
- ✓ Establishes accountability mechanisms and external reporting to achieve and support long-term value creation.
- ✓ Integrates and advances justice, diversity, equity, and inclusion efforts.
- ✓ Pays fair share of taxes and reduces the earnings gap.
- ✓ Ensures lobbying and political contributions are consistent with sustainability and business strategy. A sense of broader responsibility would lead corporate leaders to work in good faith on strong regulations that protect the environment and enhance the health and safety of their employees.
- ✓ Discloses ESG performance and impact in a transparent manner by measuring what matters to stakeholders.
- ✓ Identifies, listens to, and continuously engages with stakeholder groups to understand priorities of each stakeholder group, thereby creating value, meeting expectations, and institutionalizing accountabilities.
- ✓ Defines and measures KPIs for stakeholder groups.
- ✓ Shifts the norms and showcases leadership through multi-stakeholder collaborations and by creating a coalition of partners around a tipping point problem (e.g., influencing through industry associations or initiatives such as BCorps).
- ✓ Pay taxes in a fair and transparent way
- ✓ Incorporate multi-stakeholder considerations into governance models, decision making and incentives
- ✓ Rigorously account for and report on ESG risks and impacts[29]

As Stakeholder Capitalism continues to evolve, meaningful partnerships with the community will prove to be essential. Companies that fail to develop positive Indigenous relations and partnerships face reputational risk, regulatory risk, litigation, project delays and disruptions, shutdowns, and operational and financial loss. Business reconciliation is an opportunity for companies to foster partnerships and investment opportunities. A deeper view of the nuances of forming these partnerships is covered in the Indigenous Engagement & Partnerships report. [30]

DEEP-DIVE: Shifting market conditions requires new corporate governance approaches, and greater capacity and transparency

- **B Corps are shifting the norms of the economic ecosystem:** B Corps are viewed as a model through which stakeholder capitalism can be operationalized. They are a form of corporate governance and legal structure that enables companies to commit to and be held accountable for incorporating the impacts of their decisions on all stakeholders rather than just their shareholders. B Corps recently proposed a policy agenda, titled From Shareholder Primacy to Stakeholder Capitalism, proposing benefit/stakeholder governance structure in both companies and institutional investors, so the capital markets look beyond individual company returns and take responsibility for the impact of businesses and investments practices on society and the environment as well as mandatory disclosures of ESG impacts to uphold accountability .[31]

- **Stakeholder representation on corporate boards**: Another example of operationalizing stakeholder capitalism involves providing seats on the board to include representation of stakeholders. This model of "codetermination", which has been prevalent in Germany, fills as much as half of a corporation's supervisory board's seats with rank-and-file employees [32]

- **Proxy voting is a lever for driving change, but gaps persist**: Proxy votes have drawn attention in recent years as a point of leverage for investors looking for companies to take more aggressive action on the environment or social issues. BlackRock, while considered a leader in setting the direction on sustainable investing, has been criticized for not supporting climate-related resolutions that call for greater transparency and climate governance [33]. Alignment of intention with action through governance mechanisms is key for integrating long-term change.

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Conclusion

This is more than another call for change – it is a transformation agenda. The WBCSD 2020 Report on Re-inventing Capitalism outlines that the reinvention of capitalism begins with three actions that business and investors can prioritize, and linked policies that they can support law-makers to implement:

- Rigorously account for and report on ESG risks and impacts
- Incorporate multi-stakeholder considerations into governance models, decision making and incentives
- Pay taxes in a fair and transparent way[34]

In conclusion, the concept of stakeholder capitalism has seen a resurgence over the last few years. The pandemic has heightened the focus on this concept as it has forced society to confront the interconnectedness of natural, social, and economic systems. However, understanding what the stakeholder capitalism roadmap to implementation looks like is still unclear. The concept forces companies to confront the tension between short-term returns vs. long-term value creation. Driving long-term value requires active engagement and prioritization of stakeholders in order for companies to maintain the social license to operate, trust of their stakeholders, and support the conditions necessary to manage ESG risks and leverage opportunities.

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Additional Resources

CERES: 2030 Roadmap for Sustainable Business
Harvard Law School Forum on Corporate Governance: Let's Get Concrete About Stakeholder Capitalism
WBCSD: Building Long-Term Business Resilience
Harvard Law School Forum on Corporate Governance: The Evolution of Trust in the Era of Stakeholder Capitalism
Harvard Law School Forum on Corporate Governance: Shareholder Value and Social Responsibility Are Not at Odds
GreenBiz: Rethinking the Role of Sustainability Reports
Putting Climate Change Risk on The Boardroom Table
CBSR: Indigenous Engagement & Partnerships