Moving From Shareholder Capitalism to Stakeholder Capitalism: Seeking Alignment Between Corporate Purpose and Corporate Practice

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With growing frequency over the past few years, numerous companies have issued statements expressing their broader social purposes. One of their motivations in doing so is to address public dissatisfaction with corporate norms. The Diligent Institute's new report, "*Stakeholder Capitalism: Translating Corporate Purpose into Board Practice*," explores recent trends in board members' attitudes and business leaders' practices regarding corporate purpose and stakeholder capitalism.

- Is this new focus on the non-shareholder stakeholders (employees, customers and local and international communities) an effective way to address public dissatisfactions with corporate behavioral norms?
- How are board practices changing in response to the idea that stakeholder interests matter to enterprise viability?
- Has greater consideration of stakeholder interests in business strategy translated into real change and real action?

The views in the report offer insights into how leaders are reacting to the notion that stakeholder interests matter to the success and viability of enterprises, perhaps even as much as shareholders' interests do.

Before turning to the results of the report, it's worth examining how the increase in stakeholders' ESG interests has been sparked by a number of global developments and events:

How a Global Financial Crisis Spurred Interest in ESG

This movement toward corporate purpose is a story driven by recent events. The purpose of corporations has been a focus of discussion since the 2008 financial crisis. As fiscal insecurity rose all over the world, stakeholders came to question corporate behavior regarding Environment, Society and Good Governance (ESG). Many shared a sense that businesses failed to service societal needs, and that companies emphasized shareholder benefits over the needs of other stakeholders. These concerns lingered even after markets began to improve.

Davos and ESG

An updated "Davos Manifesto" from the World Economic Forum in 2020 stressed the importance of serving stakeholder interests. As "a set of ethical principles to guide companies," the new Manifesto claimed that "A company is more than an economic unit generating wealth. Performance must be measured not only on the return to shareholders, but also on how it achieves its environmental, social, and good governance objectives."

COVID-19 and ESG

The Coronavirus (COVID-19) pandemic has impacted individuals and economies drastically around the world in recent months, raising new questions about potential disconnects between management's, investors' and stakeholders' interests, prompting more discussion regarding ESG.

Since the pandemic has come to influence all lives so strongly, many now feel that systemic change toward greater environmental and social responsibility could accelerate in today's COVID and tomorrow's post-COVID world.

Black Lives Matter and ESG

The killings of people of color at the hands of police in the United States this spring sparked renewed protests in support of the Black Lives Matter movement all over the world. The intensified focus on systemic racism spurred corporate leaders to issue statements condemning racial injustice.

How to Measure Trends Toward Shareholder Capitalism?

"Corporate purpose" is a term that holds multiple meanings today – a lofty goal, a guiding principal, a governance topic, a buzzword – but even as corporate leaders issue statements to condemn injustice and make contributions to good causes, will "corporate purpose" translate into real action and lasting change? How can a shift in leadership sentiment be measured?

Almost 5,000 registrants were invited to participate in a survey following Diligent Institute's "Measuring Stakeholder Capitalism" panel program last June. Over 400 respondents with knowledge of boards' stakeholder capitalism activities participated in the survey. Their organizations included public, private, nonprofit, government and other enterprises. Almost 300 respondents were board members, who answered director-specific questions regarding their attitudes. (Because respondents registered for a discussion on stakeholder capitalism, the report's results emerge from a self-selected population, and not the random selection a more formal study would entail.)

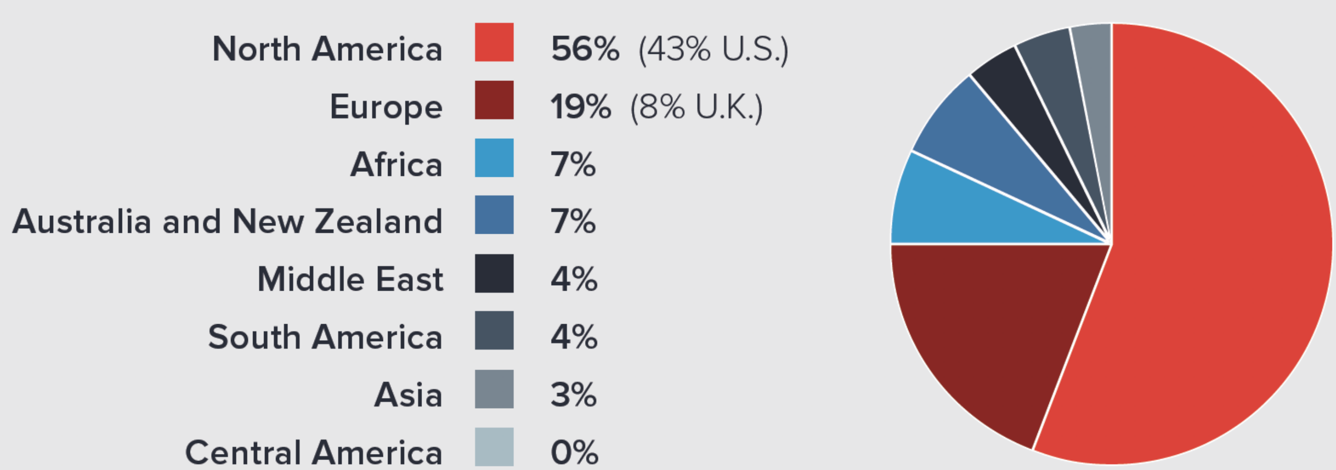
Business Demographics by Title

"Which of the following job titles describes your role as it related to your primary board?"

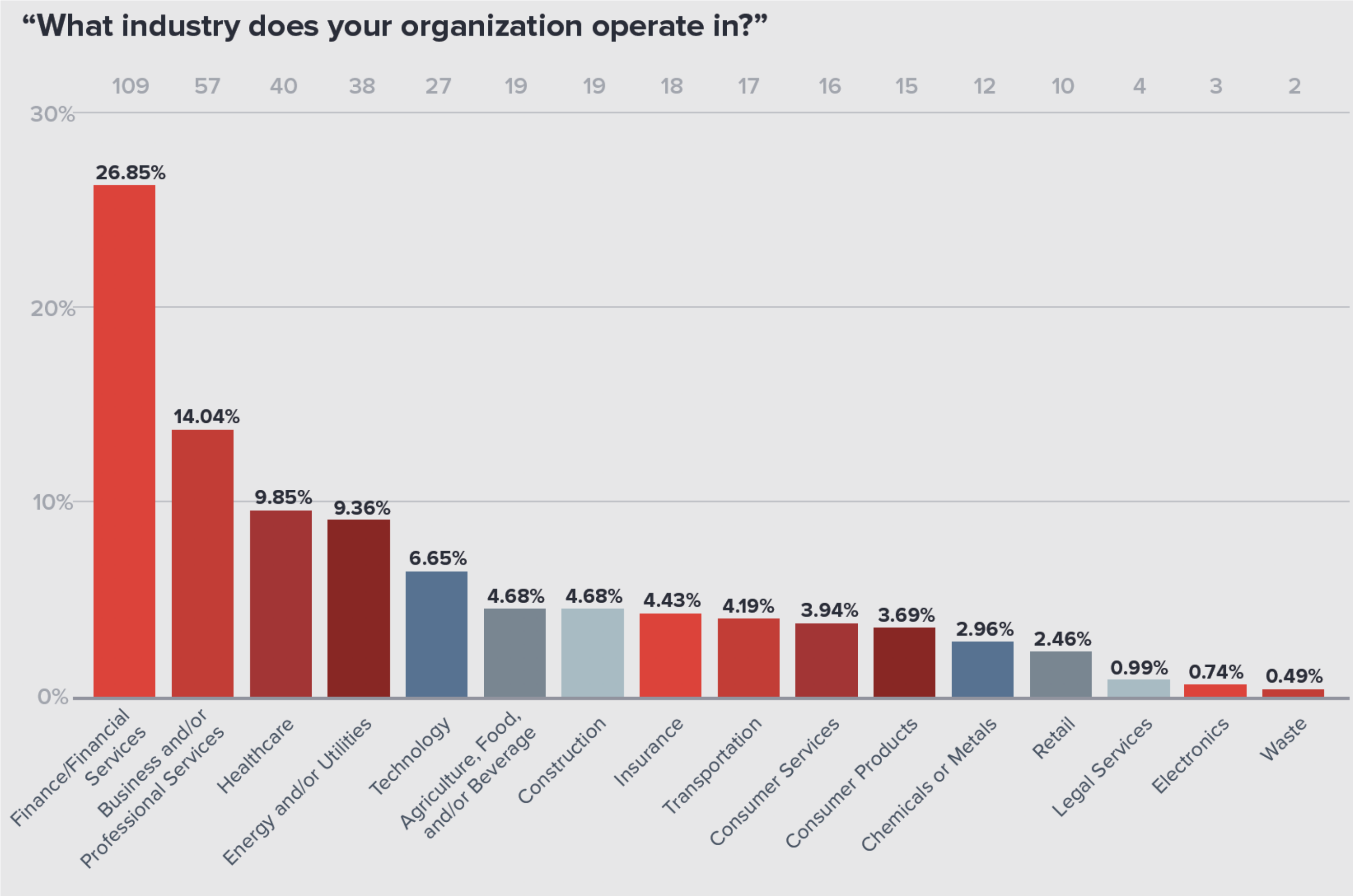
Non-Executive Director/Supervisory Board Member	58%
Senior Management (CEO, CFO, CHRO, CIO, etc.)	18%
Executive Executive Director/Supervisory Board Member	11%
Corporate Secretary/General Counsel	7%
Other – Non–C-Suite Management	3%
Other – Consultant/Advisor	2%
Other – Board Admin/Legal Function	1%

Business Demographics by Geography

"Which of the following regions is your organization's primary base of operations?"



Business Demographics by Industry



Note: In addition to selecting one of the above industries, 81 respondents provided further information in their response. Of those 81 additional comments, 12% specified that the organization was in "Education," and 10% specified "Mining."

Directors' Attitudes Toward Stakeholder Capitalism, Corporate Purpose and ESG

For this report, Diligent Institute was interested in how board behaviors are changing as a result of new emphasis on stakeholder capitalism and corporate purpose. There's a growing sense for some that capitalism is now changing in a fundamental way, but that feeling is not universal. While some say corporate purpose is critical to organizations' long-term success and viability, others hold fast to delivering shareholder value as the proven strategy.

Along with compelling statistics that highlight attitudinal differences around the world, the survey offered business leaders the opportunity to comment in their own words, which they did with some passion. Sentiments ranged from skeptical to eager to embrace the principals of stakeholder capitalism and corporate purpose:

- "These are political statements that folks make when times are good, but capitalism selects out the most efficient and effective companies and the others will go bankrupt."

- "The system is set up to incentivize short-term financial performance (or punish it) no matter how lofty the sustainability messaging."
- "… many companies still in denial of the change happening and even doubling down on implementing a very retrograde form of capitalism/using the excuse of the pandemic to do so, and very few companies are doing a significant amount of what's needed to actually bring about fundamental change."
- "In a world characterized by natural resource scarcity and radical transparency (the internet) you are simply not going to maximize financial wealth if stakeholder interests are not given due consideration."
- "Where the laws haven't caught up, societal pressure is there [to] force corporations to move the needle. In other words, just because you CAN excessively produce, pollute (within the context of the law), it doesn't mean corporations should and if they continue to think it's 'fair game' to do 'whatever' — well, good luck, those will not be the companies that succeed and win in the future."
- "You cannot have a long-term sustainable business if you ignore the non-shareholder constituencies."
- "Meeting stakeholder returns has always been a necessary condition for meeting economic goals. One cannot have a successful and viable business without satisfying employees, community, etc."

The full report reveals more directors' comments on their own experiences and provides revealing statistics, including how corporate leaders' views in the United States differ from those in other parts of the world. The report provides a meaningful basis for considering the implications of stakeholder capitalism and corporate purpose for any board.

This blog post is based on the latest Diligent Institute report, "*Stakeholder Capitalism: Translating Corporate Purpose into Board Practice.*" The Diligent Institute is the think tank and research arm of Diligent Corporation, tackling governance issues through a global lens. For more information and to subscribe to receive research updates from the Diligent Institute, please visit the website.

Ms. Fetherolf writes about the impact of new technologies and regulations on business strategy and operations. This second career follows several years consulting with business and technology leaders on program management and governance in regulated industries. Topics of interest include corporate governance, cybersecurity, data privacy, regulation, compliance, and digital transformation.

ARTICLE TOPIC: **CORPORATE STRATEGY, ESG, SHAREHOLDER/INVESTOR**

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