

**Stakeholder Capitalism in the
Covid-19 Era:
*The new environmental, social
and governance (ESG) agenda for
both business stakeholders and
investors.***

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Introduction

Today's climate and economic realities call for a drastic change of corporate governance and decision making. The COVID-19 crisis put front and center the debate about the role of companies that must consider societal needs and ethical standards, not just short-term profits. The new environment is characterized by an increasingly complex set of pressures and demands upon companies from various stakeholder groups, heightened expectations for societal engagement and corporate citizenship, and radical uncertainty about the future. Many companies around the world are grappling with supply chain disruptions, unsustainable debt, or insufficient capital to fund their operations. Critically, companies have been strapped for cash, saddled with debt, and therefore pre-crisis decision making needs to drastically change from a focus on "maximizing shareholder value" to making sure that their risk management and oversight systems are reinforced.

The role of business during the pandemic has come under scrutiny

and consumers all over the globe are making new demands on businesses, bringing to the front and centre the role humanity plays in business. In effect, the pandemic has highlighted concerns about workforce and customer health, the safety of secondary raw materials, and the accumulation of medical plastic waste. One of the practices that has received the sharpest criticism during the Covid-19 pandemic have been companies furloughing workers, while continuing to pay large salaries to executives. Furthermore, many economists and policy makers have slashed GDP forecasts and now portend a deep global recession (Harvard Business Review, 2020). So, what should businesses do in a moment of crisis such as this?

The way businesses are conducted need to change drastically. Businesses need to change their priorities, considering stakeholder expectations when developing recovery strategies - this requires diverse and lateral thinking. In the post-Covid era when businesses will emerge out of the crisis, leaders will have to ensure that the company's risk management and oversight systems encompass the risks arising from these large-scale societal problems. Seeing the world through a variety of lenses as business leaders determine best courses of action is vital. Engaging in dialogue with their customers, peers, employees, scientists, activists, and investors about what's happening and how it relates to their business is key.

Boards working alongside management should take on the responsibility to fully leverage corporate governance to manage the biggest risks and transform their

company's business model. Through detailed metrics and analysis most boards already have regular oversight of company safety considerations, including worker injuries or fatalities. This information should give board members visibility on the pandemic impact on both full-time and sub-contracted employee health and safety on a real-time basis. The pandemic has made it all too clear that the shareholder-centric model, which is based on what academics call "*agency theory*", appears to be giving way to a richer model of governance that puts the health and resilience of the company at its center (Harvard Business review, 2020).

Interestingly, the World Economic Forum (WEF) in its 49th anniversary, has updated its Davos Manifesto for the first time since 1973 to more clearly state that businesses must be stewards of the environment, uphold human rights throughout their global supply chains, and pursue sustainable shareholder returns that do not sacrifice the future for the present (Harvard Business Review, 2020). In this "*manifesto for a better kind of capitalism*," Klaus Schwab, Executive Chairman of the WEF, calls for stakeholder capitalism, which – in contrast to shareholder capitalism and state capitalism – "*offers the best opportunity to tackle today's environmental and social challenges*". Below we will discuss in more detail the vision of the so-called "Stakeholder Capitalism".

Stakeholder Capitalism: A new Paradigm of Corporate Governance

The World Economic Forum through its release of Stakeholder Principles in the COVID Era, has championed

the development of "Stakeholder Capitalism". Stakeholder Capitalism is a concept first coined in the 1950s and is now spurred by the alarming climate crisis and increasing social challenges such as rising inequality. The "Stakeholder Principles" were distributed by the World Economic Forum to 140 members of its "International Business Community" and presented to another 450 business leaders of the Forum's COVID Action Platform. "*This is a real test for the stakeholder concept which the Forum and its members are committed to since a long time,*" Klaus Schwab stated. "*If we do not pass it, the world will disintegrate, and be incapable to deliver on all the other challenges we have as an interconnected society, such as climate change and social inclusion. The objective of this global effort should not only be to fight the virus, but to alleviate its dire economic and social consequences*" (World Economic Forum, 2020).

Stakeholder Capitalism is not about favoring some stakeholders over shareholders, or pitting one stakeholder against another, as critics define it, but about aligning their interests to increase the pie for the benefit of all, as Professor Alex Edmans of the London Business School describes it in his recent book "*Grow the Pie*". There is an urgent need for the boards and management to lead a strategic and systematic approach to achieving the goals of any business practice or standard by involving and addressing the needs of all stakeholders. The focus should be on achieving goals with the support of all stakeholders, not on hoping that by focusing on all stakeholders, performance will follow.

A real vision of stakeholder management emphasizes the importance of a strategic and systematic approach to addressing the needs of all stakeholders, rather than reactively trying to resolve stakeholders issues after they arise. Business leadership should align these activities toward a common organizational brand, purpose, and objectives.

It is alarming that Stakeholder Capitalism has stayed largely below the public radar, even now as we are going through a devastating global health crisis. Many leaders persist in objecting to the idea and principles of stakeholder capitalism. Corporate Social Responsibility (CSR) is sadly in many cases a simple PR exercise. It is very telling that most prestigious organization of CEOs in the US, the Business Roundtable, announced an update to its statement of a purpose of a corporation, a move that was touted by prominent executives as a landmark in the evolution of corporate governance. But its signatories have so far done no better than other companies in protecting jobs, labor rights and workplace safety during the pandemic, while failing to distinguish themselves in pursuit of racial and gender equality, according to the study.

The maximization of shareholder value is still seen as the paramount duty of corporate executives. Under the model of Stakeholder Capitalism, executives would no longer serve as the agent of a single principal, the company's owners. They would instead serve simultaneously as an agent of various stakeholders and this is seen as threatening and harmful to business. Many prominent business leaders and authors

believe that conflicts and trade-offs would arise for companies seeking to satisfy multiple stakeholder interests.

Conclusion

We are evidently at a critical cross-road - we have to critically reassess the role and purpose of business in society. The key to business success and societal progress in our view lies in investing in sustainable development, increased corporate governance and oversight, and by engaging businesses in public dialogue about social wellbeing, prosperity and wealth. If the pandemic crisis has taught us one thing - it would be our individual and collective responsibility towards the environment, towards those who are weak and vulnerable, towards the young who are the future of humanity, and finally the responsibility we have towards each other. We can only prosper if we all work together for a better future.

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