

# STAKEHOLDER CAPITALISM STRATEGIES AND OPPORTUNITIES FOR CORPORATE GOVERNANCE

Hugh Grove<sup>\*</sup>, Mac Clouse<sup>\*\*</sup>, Tracy Xu<sup>\*\*\*</sup>

<sup>\*</sup> School of Accountancy, University of Denver, the USA

<sup>\*\*</sup> Reiman School of Finance, University of Denver, the USA

<sup>\*\*\*</sup> Corresponding author, Reiman School of Finance, University of Denver, the USA

Contact details: Reiman School of Finance, University of Denver, 2101 S. University Blvd., Denver, CO 80210, the USA



## Abstract

**How to cite this paper:** Grove, H., Clouse, M., & Xu, T. (2020). Stakeholder capitalism strategies and opportunities for corporate governance. *Journal of Governance & Regulation*, 9(4), 59-68.  
<http://doi.org/10.22495/jgrv9i4art5>

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**ISSN Print:** 2220-9352  
**ISSN Online:** 2306-6784

**Received:** 13.10.2020  
**Accepted:** 08.12.2020

**JEL Classification:** G3, G30  
**DOI:** 10.22495/jgrv9i4art5

Stakeholder capitalism is the notion that a company focuses on meeting the needs of all of its stakeholders: customers, employees, partners, the community, and society as a whole. In August 2019, 183 of the 206 Business Roundtable (BR) companies signed the BR Statement of the Purpose of a Corporation advocating stakeholder capitalism beyond the traditional shareholder capitalism. The major research question of this paper is whether companies who have committed to stakeholder capitalism are fulfilling their commitments and to provide some recommendations to their boards. We closely study the scrutiny from institutional investors and stakeholder capitalism report developed by KKS Advisors and TCP (2020). The findings show that the BR company signatories have failed to deliver fundamental shifts in corporate purpose to stakeholder capitalism (Bebchuk & Tallarita, 2020; Goodman, 2020). However, non-BR companies, primarily public benefit corporations (PBCs) and B corporations, have implemented stakeholder capitalism strategies and offer innovative stakeholder opportunities for corporate governance. The boards of BR companies should advocate for a more affirmative duty to stakeholders and consider converting corporate structures to develop stakeholder capitalism. Future research should continue to investigate this corporate governance opportunity.

**Keywords:** Stakeholder Capitalism, Corporate Governance, Public Benefit Corporation, B Corporation

**Authors' individual contribution:** Conceptualization - H.G.; Methodology - H.G. and T.X.; Resources - M.C.; Writing - Original Draft - H.G.; Writing - Review & Editing - M.C. and T.X.; Visualization - T.X.; Funding Acquisition - M.C.

**Declaration of conflicting interests:** The Authors declare that there is no conflict of interest.

## 1. INTRODUCTION

However, the COVID-19 pandemic put the 2019 pledge to test. The economic slowdown and job losses have exposed flaws in the implementation and development of stakeholder governance. It is important to examine whether the BR companies "walk their talks". Second, as we are searching and building the "new normal" of post-COVID life, it is the time to establish and advance the "new normal" of corporate governance. It is critical to help

companies and their boards identify and integrate the challenges and opportunities during their evolution toward true stakeholder governance. Third, stakeholder capitalism requires a fundamental transformation within a corporation. The public benefit corporations (PBCs) and B corporations provide a new and innovative model of business that can be accountable and transparent to stakeholders. Companies should consider adopting these new corporate structures and redefine their goals to be stakeholder centric.

The structure of this paper is as follows. Section 2 reviews the relevant literature. Sections 3 and 4 study the institutional investor scrutiny and stakeholder capitalism report card respectively to gain insight into the fundamental shifts in corporate purpose. Section 5 raises the key question for stakeholder capitalism. Section 6 discusses corporate structures to promote stakeholder capitalism. Section 7 summarizes and concludes the paper.

## 2. LITERATURE REVIEW

A fundamental movement toward shareholder capitalism is to align governance structure with stakeholders. A PBC is a new legal business entity that requires for-profit companies to focus on stakeholders in addition to shareholders when making decisions. It presents a unique opportunity to develop stakeholder capitalism as an evolving corporate governance structure and an ethical step toward empowering socially committed entities. The existing corporate governance literature has studied various types of governance structures but did not consider the PBC ownership form, which may not have been widely adopted by corporations. For example, Abu Haija and Alrabba (2017) studied the relationship between ownership structure (i.e., family, foreign, managerial, and institutional ownership) and Jordanian companies' financial performance. The results showed a positive relationship between managerial, institutional, and family ownership and financial performance but none for foreign ownership. They concluded that the existence of ownership forms was vital for company performance. Fortuna, Ciaburri, Testarmata, and Tiscini (2020) explored how Italian firms' corporate social responsibility (CSR) disclosure varied, according to their ownership structure (i.e., family firms, state-owned firms, and firms with dispersed ownership). Results showed that the first two concentrated ownership structures disclosed less CSR information than the third dispersed ownership structure.

Soliman, Ragab, and Eldin (2014) examined the relationship between board composition and ownership structure on the level of voluntary information disclosure of public Egyptian companies. They found that ownership concentration, institutional ownership, and managerial ownership were not associated with voluntary disclosures. Haddad, El Ammari, and Bouri (2020) examined the financial performance and ownership structure variables of conventional and Islamic banks in 16 countries located in Europe, Asia, and Africa. Results revealed that the ownership structure of conventional banks had an ambiguous impact on financial performance whereas Islamic banks had a positive effect. Using a sample of manufacturing firms in South Asian countries, Hunjra, Perveen, Li, Chani, and Mehmood (2020) investigated the impact of ownership concentration and institutional ownership on stock market liquidity. They found that stock market liquidity increases with more concentrated owners and a higher percentage of institutional ownership. However, the PBC structure was unexplored in these studies.

Several studies have examined the structure of corporate ownership and control in an international framework. Dai and Helfrich (2016) compared

the U.S. evolving stakeholder experiences with Germany where for years Germany has had a general concern about such issues and their courts, and regulators have implemented protective measures aimed at correcting the conflicts between individual shareholders and between shareholders and stakeholders. They concluded that despite the evolution of corporate governance in America and the great strides U.S. corporations have made with regard to shareholder rights, there remains no clear answer on how to reconcile this relationship and construct the right incentives so the interests of shareholders, management, and stakeholders can merge. Aminadav and Papaioannou (2019) provided an anatomy of corporate control around the world after tracing controlling shareholders for thousands of listed firms from 127 countries between 2004 and 2012. The analysis revealed considerable and persistent differences across and within regions, as well as legal families. Government and family control were pervasive in civil-law countries. Equity blocks in widely held corporations were commonplace, but less so in common-law countries for large, medium, and small listed firms. In contrast, the association between income and corporate control was highly heterogeneous. The correlation was strong among big and especially very large firms but absent for medium and small listed firms. Again, the PBC ownership structure was not considered in these international studies.

A growing strand of literature has explored stakeholder capitalism through a CSR lens. Velte (2020) reviewed the literature on the CSR-earnings management relationship. The results of 33 studies suggested that CSR related to decreased earnings management in line with the stewardship theory. Kostyuk, Kostyuk, Mozghoyvi, and Kravchenko (2013) analyzed the problem of CSR performance measurement for the Ukrainian banking institutions by developing a CSR index with 25 different indicators but no PBC indicator, which may not have been available. They compared results for Ukrainian banks with CSR results for Swedish banks and found the Swedish level of CSR was higher since Sweden is a socially directed developed economy, which could be an indicator for stakeholder capitalism. Yaftian, Wise, Cooper, and Mirshekary (2012) examined the relationship between CSR disclosure and four characteristics of Iranian public companies (i.e., size, profitability, financial leverage, and industry type). Among the five themes of social disclosure (i.e., human resources, environmental performance and policies, community activities, energy consumption, and customer satisfaction), the human resources theme was found to be the most common types of disclosure made. Although these five social disclosure themes can be considered as aspects of stakeholder capitalism, no PBC characteristics was included.

Similarly, Manzoni and Islam (2015) did an analysis of the capacity of people, process, and other resources to meet the expected social obligations to all stakeholders under Australian banks' promulgated corporate citizenship, which could be considered similar to a PBC focus. They found eleven behavioral characteristics for meeting social responsibility criteria. Sitorus and Sitorus (2017) studied Indonesian banks and found that CSR acted perfectly as a mediating variable for good

corporate governance and firm value. Nakpodia (2020) reviewed the corporate ownership and control literature in Africa's largest economy (Nigeria) by evaluating the relationship between corporate ownership and firm performance and emphasized that minority shareholders' rights needed additional protection. Rampersad (2017) investigated the South African business sectors involvement in stakeholder engagement and highlighted the value creation of CSR practices in a stakeholder governance model. However, none of these studies has incorporated the key components of PBCs. The CSR initiatives of many companies might not be accountable and cannot uphold high standards of true stakeholder capitalism.

The literature on social enterprises has focused on the value creation of B corporations. Several studies have employed the social impact assessment (SIA) model to evaluate the performance of these organizations and found the benefits of combining economic and social value creation (Boyd, Henning, Reyna, Wang, Welch, & Hoffmann, 2009; Nicholls, 2009; Le Ber, Bansal, & Branzei, 2010). Porter, Hills, Pfitzer, Patscheke, and Hawkins (2012) highlighted the role of the measurement process in unlocking social value and creating opportunities for growth. Grieco, Michelini, and Iasevoli (2015) developed a hierarchical cluster analysis of 76 SIA models to help social enterprises choose the best model to assess their social impact. Sharma, Beveridge, and Haigh (2018) derived a configural framework of how pro-social impact practices evolve over time. They found that B corporations undergoing assessment and reassessment changed their practices over time. The shifts in practice configurations were affected by the exogenous factors such as size and sector and endogenous factors such as the nature of practices and their interaction with the enterprise's unique context. Villela, Bulgacov, and Morgan (2019) conducted an exploratory study of four small and medium-sized B corporations in Brazil. The results revealed that although these companies achieved high scores in the certification assessment, they did not subsequently improve their social impact in the way, which the B corporation impact assessment process endorses as one of the benefits of certification. However, the literature on PBC structure is still very limited. Kurland (2017) investigated the oldest corporation to amend its governing documents as a PBC under Delaware law and suggested that PBCs can be held accountable for delivering requisite public goods.

Overall, this literature review has shown that additional research is necessary to see if corporate structure change can provide an opportunity to promote and develop stakeholder capitalism. This paper attempts to fill the research gap by analyzing and comparing the practices of BR companies, who have committed to stakeholder capitalism, and "B" entities, including PBCs and B corporations, who have created a material positive impact on stakeholder capitalism. In addition, the COVID-19 pandemic has put corporations with different purposes to an unprecedented test. We take this research opportunity to study corporate responses to the pandemic and investigate the role of corporate structure in advancing the journey to stakeholder capitalism.

### **3. INSTITUTIONAL INVESTOR SCRUTINY**

Over the last few years, such corporate purpose has been analyzed closely (Klemash, Smith, & Doyle, 2019; Peirce, 2018; Tapaninaho & Kujala, 2019). This scrutiny intensified in 2020 and shows no signs of abating, due to the coronavirus pandemic. It is coming from institutional investors who are integrating the consideration of environmental, social, and governance factors into their investment and voting decisions (Alexander, Ensign-Barstow, & Palladino, 2020). Scrutiny is also coming from other stakeholders, in particular, consumers, employees, and regulators (Hunt, Simpson, & Yamada, 2020; Samans & Nelson, 2020). PBC statutes provide an alternative for-profit corporate form that expressly takes corporate responsibility into account (Littenberg, Oldshue, & Pifer, 2020).

The world's two largest asset managers signed this BR Statement: Laurence Fink, CEO of BlackRock, with \$7.4 trillion of assets under management with 70 offices in 30 countries and clients in over 100 countries and Mortimer Buckley, CEO of Vanguard, with \$6.2 trillion of assets under management. However, the world's third largest asset manager, State Street Global Advisors with \$3.1 trillion of assets under management, is not a member of the Business Roundtable (BR). In January 2018, Laurence Fink sent a letter to all CEOs of publicly listed companies around the world urging them to start accounting for the societal impact of their companies and to focus upon economic growth that is sustainable and inclusive for the majority of people. There should be a purpose beyond profits (Fink, 2018). The former CEO of Vanguard, Bill McNabb, observed, "I welcome this thoughtful statement by BR CEOs on the Purpose of a Corporation. By taking a broader, more complete view of corporate purpose, boards can focus on creating long-term value, better serving everyone - investors, employees, communities, suppliers, and customers" (BR, 2019b).

In Fink's January 2019 letter to these chief executives, he elaborated linkages between purpose and profit by advocating for practices that will drive sustainable, long-term growth, and profitability. The purpose is a company's fundamental reason for being and not the sole pursuit of profits but the animating force for achieving them. When a company truly understands its purpose, it functions with the focus and strategic discipline that drives long-term profitability and unifies management, employees, and communities (Fink, 2019).

In Fink's January 2020 letter, he announced that BlackRock would make investment decisions with environmental sustainability as a core goal and that BlackRock would begin to exit certain investments that present a high sustainability related risk, such as those in coal producers. His intent is to encourage every company, not just energy firms, to rethink their carbon footprints. He wrote, "Awareness is rapidly changing, and I believe we are on the edge of a fundamental reshaping of finance. The evidence on climate risk is compelling investors to reassess core assumptions about modern finance. As I have written in past letters, a company cannot achieve long-term profits without embracing purpose and considering the needs of a broad range of stakeholders. Ultimately, the purpose is the engine of long-term profitability.

We believe that when a company is not effectively addressing a material issue, its directors should be held accountable” (Fink, 2020). Michael Mann, one of the most prominent climate scientists in the world, agreed with Fink’s emphasis on climate risk and commented, “If we are going to avert ever more catastrophic climate change impacts, we need to limit global warming below 1½ degrees Celsius, a little less than 3 degrees Fahrenheit, and the U.S. needs to do it within the next four years to avoid catastrophic climate breakdown” (Hertsgaard, 2020).

In 2019, BlackRock voted against or withheld votes from 4,800 directors at 2,700 different companies (Sorkin, 2020a). Fink stated, “We will be increasingly disposed to vote against management and boards of directors when companies are not making sufficient progress on sustainability related disclosure and the business practices and plans underlying them. Companies must be deliberate and committed to embracing purpose and serving all stakeholders - your shareholders, customers, employees, and the communities where you operate. In doing so, your company will enjoy greater long-term prosperity, as will investors, workers, and society as a whole” (Fink, 2020).

According to Moody’s Investor Service, 37% of all money invested in U.S. mutual funds and exchange-traded funds (ETFs) was passively invested as of 2018. Moody’s has predicted that 2021 will be the crossover point where the market share of passive investors increases to over 50%. It wrote that the trend of active versus passive investment is like the spread of technology. Passive investing is viewed as a cheaper and more efficient technology for investors. As more people learn about passive investing, it will spread over time (Chief Investment Officer, 2019). For example, Warren Buffett, CEO of Berkshire Hathaway, has recommended that investors just invest in index funds, like the Vanguard S&P 500 index fund.

#### 4. STAKEHOLDER CAPITALISM REPORT CARD

Financed by the Ford Foundation, a study was done by KKS Advisors, an environmental consultancy firm, and the Test of Corporate Purpose (TCP), a group of researchers whose advisory board includes a University of Oxford professor of management and senior executives from Morgan Stanley and Liberty Mutual, to assess how corporations have responded to the pandemic and the movement against racial injustice. These researchers explored the operations of 800 companies whose shares are included in the S&P 500 and the FTSEurofirst 300 and narrowed the survey to 619 companies for which they were able to get at least three years of data from trade publications, news reports, and other industry sources. They determined the degree to which companies were operating in accordance with the Sustainability Accounting Standards Board, a nonprofit that promotes standards on social and environmental issues. They examined how the companies performed in June and July 2020 on a range of indicators relevant to the pandemic, such as employee welfare (workplace safety, pay ratios, pay cuts and layoffs, bankruptcy versus furlough, racial and gender equality), capital allocation (stock buybacks and dividends), governance (board tenure, board recruitment requirements, and independent

board chair), lobbying and political spending, taxes, and havens, and environmental issues (land-use change like deforestation, carbon footprint, water usage, etc.). The report summarized company rankings by four quadrants (KKS Advisors & TCP, 2020; Goodman, 2020).

The report found that the company signatories to the BR’s Statement of the Purpose of a Corporation had 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. The report concluded that since the pandemic’s inception, the BR company signatories have failed to deliver fundamental shifts in corporate purpose in a moment of crisis when enlightened purpose should be paramount. The report’s conclusion enhances doubts that corporations can be depended upon to moderate their quest for shareholder profits to pursue stakeholder solutions to challenges like climate change, racial injustice, and economic inequality (KKS Advisors & TCP, 2020; Goodman, 2020).

The report also noted that very few companies that signed the BR Statement on the Purpose of a Corporation submitted it to their governing boards for approval, a fact cited by a law review article as evidence that the pledge was just an exercise in public relations and a serious corporate governance issue (Bebchuk & Tallarita, 2020). For example, the report singled out Wells Fargo (ranked into the lowest 4th quadrant in the report) for rejecting a shareholder proposal that sought to implement the BR pledge by exploring the possibility of converting the bank’s legal structure into a public benefit corporation, which would have allowed it to subordinate shareholder interests to other concerns. The study did not assess the extent to which BR Statement signatories have continued to pay dividends to shareholders while laying off workers, but some such companies did just that. Marriott International (3rd quadrant) is the world’s largest hotel chain and its CEO, Arne Sorenson, is co-chairman of a BR task force for addressing COVID-19. In March 2020, he announced that he was furloughing 2,700 of Marriott’s 4,000 corporate staff and then permanently laid off 675 of them in October 2020 while paying \$160 million in dividends to shareholders in April 2020. On a positive note, the report praised both BlackRock (2nd quadrant) for donating \$50 million for pandemic emergency services, including the delivery of vital medical equipment to hospitals and its CEO, Laurence Fink, for steering investments toward companies that limit climate change.

There are currently 206 companies in the BR. 130, or 63%, of them, were assessed in this report. Others did not have the requisite three years of data, such as the private partnerships of public accounting firms. Concerning the 130 companies, only 24, or 18%, were ranked in the best 1st quadrant with the rest of the companies spread almost equally into the 2nd, 3rd, and 4th quadrants, i.e., 37, 38, and 31 companies or a cumulative 82%. Notable BR signatory companies by quadrant were:

- 1st: Mastercard, SAP, Salesforce, Visa;
- 2nd: BlackRock, Dell, IBM, Procter & Gamble;
- 3rd: Coca-Cola, Johnson & Johnson, JPMorgan Chase, Microsoft;
- 4th: Amazon, Apple, Alphabet, Netflix.

The four BR companies in the 4th quadrant, joined by Microsoft in the 3rd quadrant, plus the non-BR company, Facebook (also a 4th quadrant company), are known as the FAANGM stocks in the U.S. market. These six companies currently represent approximately 25% of the total market capitalization of the S&P 500 public stocks (Jagerson & Hansen, 2020). Thus, although predominantly in the lowest 4th quadrant for stakeholder performance, they are in the top 1% (6/500) for stockholder performance which makes for an interesting tradeoff of values or perspectives. For example, U.S. executive pay has shifted from salary and bonus to mainly stock awards and options and stock buybacks have consumed most of the earnings of S&P 500 companies. This re-engineered system has the richest 10% of Americans having 84% of all stock shares while a ravaged pandemic economy has not impeded the U.S. stock market from being near an all-time high (Andersen, 2020).

Consistent with this report's findings, U.S. Senator, Elizabeth Warren, wrote a letter on September 17, 2020, to ten prominent BR signatories and concluded that the signers of the Statement of the Purpose of a Corporation have not kept those commitments and, in fact, the BR organization has been lobbying for its member companies' narrow, short-term shareholder interests, rather than the broad group of stakeholders named in the Statement. She wrote ten of the BR CEOs asking for tangible steps they planned to implement stakeholder principles. These CEOs headed the 4th quadrant companies: Amazon, AT&T, British Petroleum, Comcast, and Walmart; the 3rd quadrant companies: JPMorgan Chase and United Airlines; the 2nd quadrant company: General Motors; and the 1st quadrant company: Cigna. Only two of the ten companies even responded to Amazon and British Petroleum. Amazon did not discuss any tangible steps for stakeholders or any changes in corporate governance but just emphasized long-term shareholder value. British Petroleum's one-page response contained no indication that the company intended to make meaningful changes required to implement the BR Statement. Warren concluded to the BR, "Your 2019 commitment to promoting an economy that serves all Americans was an empty publicity stunt" (Warren, 2020).

## 5. KEY QUESTION FOR STAKEHOLDER CAPITALISM

Andrew Ross Sorkin, The New York Times business editor, raised the key question for stakeholder capitalism, "What exactly does it mean to be in favor of all stakeholders?" (Sorkin, 2020b). There remains an inconvenient truth for everyone seeking a more expanded version of shareholder capitalism: if a company is not making profits for shareholders, it is very hard to take care of its other constituents. Marc Benioff, the CEO of Salesforce, a 1st quadrant company, has long emphasized a broader stakeholder approach to governance but he still acknowledges that profits and growth must come first. In August 2020, Salesforce, which had reported record earnings, let go nearly 1,000 employees in a pandemic restructuring. When asked if that was hypocritical since he had often talked about employees as stakeholders, Benioff replied, "It's not a stakeholder nonprofit. It's stakeholder capitalism.

Ultimately, I have to serve the long-term interests of the company, which will best serve the interests of all stakeholders". Warren Buffett, CEO of Berkshire Hathaway, the 4th quadrant company, agrees that shareholders must first be served with a profitable company but wrote in his 2020 annual letter to shareholders, "In representing your interests, business-savvy directors will seek managers whose goals include delighting their customers, cherishing their associates, and acting as good citizens of both their communities and our country. Those objectives are not new. Who would have it otherwise?" (Sorkin, 2020d).

A September 2020 article advocated for a more affirmative duty to stakeholders and society. It was co-authored by Joey Zwillinger, co-founder and co-CEO of Allbirds, a New Zealand-American footwear company, and Leo Strine, perhaps the most influential judge in corporate America over the past decade (Strine & Zwillinger, 2020). Before retiring in 2019, Strine was the chief justice of the Delaware Supreme Court, which oversees more U.S. businesses than any other U.S. state because an overwhelming number of companies are incorporated in Delaware (Sorkin, 2020b).

This more affirmative duty requires tangible, publicly articulated goals, such as paying living wages to workers, respecting workers' right to join a union, promoting racial and gender inclusion and pay equity, enhancing safety protocols, and reducing carbon emissions. By committing to goals of responsible citizenship, companies allow stakeholders, institutional investors, and the public to hold them accountable to their inclusive ideals. By adopting a stakeholder-centric governance model, companies must also pay their fair share of taxes and stop using corporate funds to distort the nation's political process. That means ending corporate political spending without shareholder consent, not contributing dark money, and not contributing to political party committees (Strine & Zwillinger, 2020). For a contrarian example, the five major oil companies have spent \$1 billion on narrative capture and lobbying against climate change since the Paris Climate Agreement as follows: British Petroleum, the 4th quadrant company: \$270 million; Royal Dutch Shell, the 3rd quadrant company: \$220 million; ExxonMobil, the 4th quadrant company: \$210 million; Chevron, the 3rd quadrant company: \$150 million; and Total, the 3rd quadrant company: \$150 million (InfluenceMap, 2019).

In terms of economic equality, the United States has gone backward. From 1948 to 1979, worker productivity grew by 108% and wages grew by 93% with the stock market growing by 603%. By contrast, from 1979 to 2018, worker productivity rose by 70% but worker pay rose by only 12% while compensation for chief executives grew by an enormous 940% with the stock market growing by 2,200%. In contrast, America's economic allies in market economies, like Germany, the Netherlands, and Scandinavia, remained true to stakeholder capitalism. As a result, they have benefited from less economic insecurity, greater equality, and more effective response to the pandemic, showing that a stakeholder economy could work for many. Since there are fewer public company stock shares issued in Europe than in the United States, European public companies have generally had an easier time in

dealing with the challenging pandemic issue of laying off employees and/or cutting dividends and stock repurchases. European public companies have generally had to do none of these alternatives while United States public companies have often opted for laying off employee stakeholders while preserving shareholder dividends, like the previous Marriott example (Strine & Zwillinger, 2020).

For a positive stakeholder example, Allbirds, the New Zealand-American footwear private company, founded in 2014, uses a direct-to-consumer approach and is aimed at designing environment friendly footwear. It is a certified B corporation and has online operations in nine countries and retail stores in Berlin, Amsterdam, London, Auckland, Beijing, Guangzhou, Shanghai, Chengdu, Tokyo, and nine U.S. locations. Its shoes are made from castor bean oil and superfine merino wool. In March 2018, it began offering eucalyptus tree runners made primarily without wool, and in August 2018, it released flip-flops made from foam derived from sugar cane. In September 2018, it released a merino wool eye mask for Air New Zealand passengers and in November 2018, it released a high-top sneaker that combines eucalyptus tree fiber, wool, and sugar cane footwear materials ("Allbirds", n.d.). The co-CEO, Joey Zwillinger, said, "Institutional investors, who run pension funds on behalf of millions of Americans, should help encourage stakeholder capitalism. They should get together and advocate for companies to do things on behalf of workers, not just to create maximal profit but to create a just society that helps everybody" (Strine & Zwillinger, 2020).

Zwillinger also mentioned that these environmentally friendly shoes appeal to younger consumers, consistent with a Bocconi University study on values, based on a wide range of expert views from the World Economic Forum's Expert Network. Values are essential in times of crisis. As the fundamental beliefs that guide or motivate people, organizations, and communities, they provide a basis for social justice and belief in necessary institutions. They also express personal and collective judgments about what is important, influenced by culture, religion, and laws. Values can spur purposeful action aimed at increasing equality, decreasing harm to the environment, and improving global health (World Economic Forum, 2020).

## 6. CORPORATE STRUCTURES TO PROMOTE STAKEHOLDER CAPITALISM

If a company really is serious about committing to stakeholder capitalism and the commitments from the BR, its board should consider converting to a PBC or seeking certification as a B corporation. A PBC is legally designated as a for-profit corporation that is intended to produce a public benefit(s) and to operate in a responsible and sustainable manner for stakeholder capitalism. The public benefit to be promoted by the corporation must be specified in its certificate of incorporation. A public benefit is a positive effect (or reduction of negative effects) on one or more categories of persons, entities, communities, or interests (other than stockholders), including but not limited to effects of artistic, charitable, cultural, economic, educational, environmental, literary, medical, religious, scientific, or technological nature.

The board of a PBC is required to manage or direct the business and affairs of the PBC in a manner that balances the stockholders' pecuniary interests and stakeholder interests of those materially affected by the corporation's conduct and the public benefit identified in its certificate of incorporation. A board director will be deemed to satisfy his or her fiduciary duties to stockholders and the corporation if the director's decision is informed and disinterested and such that a person of ordinary, sound judgment would approve (Littenberg et al., 2020).

A PBC is required to provide stockholders with a statement as to the PBC's promotion of its public benefit and the best interests of those materially affected by its conduct. The statement, which must be provided at least every other year, is specifically required to include the following information from a stakeholder capitalism perspective:

- The objectives the board has established to promote public benefit and interests.
- The standards the board has adopted to measure the corporation's progress in promoting public benefit and interests.
- Objective factual information based on the standards the board has chosen regarding the corporation's success in meeting those objectives.
- An assessment of the corporation's success in meeting the objectives and in promoting the public benefit and interests.

Twenty U.S. states have PBC laws as do the United Kingdom, Canada, and Russia. The United Kingdom Health and Social Care law refers to PBCs and a Russian Noncommercial Organizations law describes a special form of a noncommercial partnership founded by the state to fulfill socially significant tasks. In addition to the Canadian PBCs, Via Rail in Canada, and the Canadian Broadcasting Corporation, the Canadian province of Ontario shares two international PBCs with the U.S. state of New York: the Buffalo and Fort Erie Public Bridge Authority and the Niagara Falls Bridge Commission ("Public-benefit corporation", n.d.).

The typical voting threshold for opting in or opting out of a PBC is a majority vote unless the certificate of incorporation provides otherwise. Most PBCs are smaller entities but larger, more established entities are showing more interest in PBCs. This interest is being driven by two principal factors:

1. The increasing popularity of environmental, social, and governmental (ESG) factors and impact-themed investment products.
2. The increasing focus on corporate purpose by stakeholders, in particular, consumers, employees, the community, and the environment.

A handful of large corporations already have PBC subsidiaries and, over time, there should be more, due to the emerging focus on stakeholder capitalism. For example, Danone North America (Danone NA), a subsidiary of Danone S.A., converted to a PBC in 2017. Its specified public benefit is to encourage dietary practices in bringing health through food to as many as possible and to promote a model of sustainable growth with a view to creating economic and social value in the interests of key stakeholders, such as employees, customers, and suppliers, and improving the impact of its activities on the environment. New Chapter Inc.,

a subsidiary of Proctor & Gamble, is a PBC and its specified public benefit is sustainably promoting public health by nourishing body and soul through its products, including, but not limited to, whole foods and herbal supplements, in an environmentally conscious and socially responsible way.

A very well-known PBC subsidiary is Ben & Jerry's, which was founded in 1978 and bought by the British-Dutch company, Unilever, in 2000. The company's founders, Ben Cohen and Jerry Greenfield rewrote the rules of how a for-profit enterprise engages in challenging political and social issues. In 2019, Cohen summarized, "We didn't just want to be a cog in the economic machine that was oppressing a whole lot of people. We wanted to alleviate some of the problems that business creates. We broke a lot of rules" (Stoll, 2020). For example, they instituted a CEO pay rule that it could not exceed 7 times the average worker's pay, but they had to abandon this rule when they retired from being co-CEOs and needed to attract an experienced CEO replacement in the 1990s (Grove, Marshall, & Schroeder, 1996). The average U.S. CEO pay was \$21.3 million in 2019, which if divided by 7, would be \$3 million for workers' pay. The 2019 ratio of CEO pay to the worker was 320 to 1 up from 293 to 1 in 2018 and up severely from 61 to 1 in 1989, contributing to the U.S. wealth inequality problem. In 2020, among other social endeavors, Ben & Jerry's supported the Black Lives Matter movement (Stoll, 2020).

Concerning another approach to stakeholder capitalism, companies can attempt to be certified as a B corporation for social and environmental performance, which is a private certification of for-profit companies, distinct from the legal designation of a PBC. It is conferred by B Lab, a global nonprofit organization with offices in the United States, Europe, Canada, Australia, New Zealand, and a partnership in Latin America. Examples include Ben & Jerry's, Patagonia, New Belgium Brewing, Danone NA, Stonyfield Farm, Cabot Creamery, and Natura Cosmetics SA. B Lab does an assessment review process, which covers company's entire operations and measures its impact in areas of governance, workers, community, the environment, and its products and/or services. Companies must integrate B corporation stakeholder commitments into their company governance documents, pay an annual fee to B Lab based on their annual sales, and be re-certified every three years. As of April 2020, there were over 3,300 certified B corporations across 150 industries in 71 countries ("B corporation (certification)", n.d.).

## **7. CONCLUSION**

Stakeholder capitalism has gained heightened traction among the world's most powerful companies, symbolized by the signing of the new BR Statement on the Purpose of a Corporation in 2019. The main research question of this paper is whether these companies are fulfilling their commitments to stakeholder capitalism and to provide some recommendations to their boards. An in-depth report done by KKS Advisors and TCP affirmed that BR companies did not outperform S&P 500 peers in more than a dozen categories,

including employee safety, labor practices, job security, and COVID-19 policies.

Stakeholder capitalism skeptics have said they will be watching for companies to offer the same level of rigorous data reporting and transparency on non-financial performance metrics, like workplace safety, employee diversity, gender pay data, greenhouse gas reduction, and governing boards, as they do with financial performance metrics in order to achieve the commitments to stakeholders in the new BR Statement. These critics argue for regular external audits on non-financial metrics, just like the public companies' requirement for external audits on their financial statements. Accordingly, some companies have already chosen to have non-financial data monitored by an outside party (Grove, Holcomb, Clouse, & Xu, 2020). PBCs, like Ben & Jerry's and Danone NA, and B corporations, like Patagonia and Allbirds, have emerged to implement such strategies and offer stakeholder opportunities for corporate governance. BR companies and their Boards should consider converting to these new corporate structures and make deliberate movements to embrace stakeholder capitalism.

In addition, the following guidelines can be expanded beyond just climate pledges to become reportable goals and actions for other areas of stakeholder capitalism and related to the BR Statement on the Purpose of a Corporation. Mandel (2020) studied the opinion of climate experts and suggested four guidelines to assess a company's pledge to tackle the climate crisis, similar to Larry Fink's 2020 letter to all public company CEOs urging them to rethink their carbon footprints:

1. Caution should be exercised toward the solutions to offset the negative impacts. Bill Wehl, executive director of the grassroots campaign group ClimateVoice, voiced the concern of all experts that, "We're not going to offset our way out of this problem. We actually have to reduce emissions."

2. To determine whether companies are fully accountable for their promises, it is important to employ different levels of assessment and evaluate the whole eco-system. For example, the climate pledge can be dissected by looking at "whether the company is talking about emissions just from its own direct operations ("scope 1" emissions), or if it's also tackling the indirect emissions that come from generating the electricity it uses ("scope 2"), as well as all those other indirect emissions associated with the materials and services it uses ("scope 3")."

3. Companies that have political influence should advocate for governments to do more. Their pledges would be more meaningful and sounder when businesses have called on lawmakers to tighten the clean energy standards.

4. It is critical to create and maintain transparency in the process. Companies should release regular reports that outline what they have achieved so far and how much they are emitting.

Various CEOs and academics have offered hopeful quotes for the future of stakeholder capitalism and related corporate governance opportunities. Harold Schultz, the founder and emeritus chairman of Starbucks, the 3rd quadrant company, emphasized Starbucks' mission statement, "We wish to be an economic, intellectual, and social asset in communities where we operate. We would

do this not at the expense of profits, but to grow them". Eric Karp, CEO of Cornerstone Capital Group, an investment and wealth management firm, commented: "Investors and corporations have learned a better and more holistic way to serve our shareholders for the long term. That is free market economics for the 21st century". Ken Langone, a founder of Home Depot said, "A company can make goodwill expenditures that are entirely justified in its own self-interest. I see that as an extension of the most fundamental truth in capitalism, that in any voluntary exchange both parties' benefit" (Sorkin, 2020c).

Joseph Stiglitz, a professor of economics at Columbia University and economic Nobel Prize winner in 2001, said, "In the presence of imperfect risk markets and incomplete information - that is, always - firms pursuing profit maximization did not lead to the maximization of societal welfare. It is good that the business community has awakened. Now let us see whether they practice what they preach". Glenn Hubbard, professor of economics at Columbia Business School, commented, "Embracing maximizing shareholder value over the long run, short-term gains at the expense of stakeholders - who might decide not to work for, supply to, or buy from the firm - makes little sense. Some problems - like climate change, for example - are arguably more complex than shareholder profit maximization and public policy changes are required" (Sorkin, 2020c). Hopefully, the BR Statement of the Purpose of a Corporation advocating stakeholder capitalism will be more than just a publicity stunt.

This paper is limited to the fundamental base of knowledge on the development of stakeholder capitalism and related corporate governance challenges. Our work opens promising avenues for future research. First, an empirical study of BR companies' CSR policy may provide new perspectives on companies' transition to stakeholder capitalism and bring added value to the literature. One approach is to employ the corporate social performance rating of MSCI ESG STATS (formerly KLD Research & Analytics Inc.) and examine the changes of BR companies' ratings over time. This ESG rating analyzes eight dimensions of corporate social responsibility: environment, employee welfare, community involvement, corporate governance, diversity, human rights, product quality, and exclusionary screens. Second, as an innovative and new form of business entity, the evolution of PBCs should be closely monitored and its effect on the shift of corporate purpose should be studied. One direction is to conduct a case study of the leading PBC adopters, which can shed light on why they may decide to incorporate as a PBC and how corporate decisions may be affected. Another direction is to conduct an event study to empirically examine the CSR policy pre- and post-adoption of the PBC structure. Third, the COVID-19 pandemic has created both disruptions and opportunities for stakeholder capitalism, which calls for more research to study the impact and implications on corporate governance transformation during and after the crisis.

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