CLAIRFIELD INTERNATIONAL

We're All in This Together: Stakeholder Capitalism and Social Responsibility

We're all in this together: stakeholder capitalism and social responsibility

Müge Tuna is executive director at Clairfield International in Istanbul and an advisory board member of TUYID (Turkish Investor Relations Association).

Stakeholder capitalism

If there is one lesson to be learned from the pandemic and recent natural disasters, it is that the private sector must participate alongside government institutions in addressing today's pressing social and climate issues. Considering the enormous financial and social impact of these issues, they can be resolved only by sharing the burden. Institutions such as the IMF, OECD, and World Bank recognize that governments and the private sector should take joint actions to help navigate difficult times and prepare for a prosperous future open to all.

I'll start on a high note with a high-profile example of corporate responsibility. At the height of the pandemic Marriott International CEO Arne Sorenson waived his annual salary and other senior management members took 50% pay cuts. Their actions showed that management cared about the social good. I see the leadership of the Marriott executives as a much-needed example toward integration of all stakeholders, not just shareholders, proving that we can move away from a system where shareholder benefits are the only business consideration.

Klaus Schwab, the founder of the World Economic Forum, in his book *Stakeholder Capitalism*, says that the most effective approach for a sustainable, resilient and inclusive economic order is to adopt a stakeholder model involving government, business, and individuals working together to create long-term benefit for all rather than short-term profit for shareholders. In 2019, Business Roundtable launched an updated "Purpose of a Corporation" with these aims that was signed by almost 200 CEOs. The CEOs committed to taking management decisions responsibly and to the benefit of all stakeholders, looking out for the interests of their employees, suppliers, customers, and all partners related to their business. The initiative aimed to create more employment, support creativity, strive for healthy nutrition, care for the environment, increase renewable energy investments, and protect the principles of business conduct for the benefit of all stakeholders without compromising the implementation of ethical and fair rules. The jury is still out on the results of the initiative, but it succeeded in making the concept of "stakeholder capitalism" a stated goal of many corporations and investors.

Events since 2019 have brought new risks and challenges. Demand for many goods and housing prices have surged throughout the world, pushing up inflation. This problem is compounded by tensions in supply chains, higher shipping and commodity prices, and labor shortages caused by the "great resignation" phenomenon, causing a slowdown in growth during the third quarter of 2021. The pandemic has shifted workers' priorities and workers today prioritize a healthy work-life balance. These changing societal needs and business opportunities all come together to transform the way companies craft strategy, drive performance, and report results. Building back better, to borrow a phrase, will mean making structural and systemic changes to tackle earlier weaknesses, as well as those arising from the pandemic and its aftermath.

What about governments?

The pandemic catalyzed the reconsideration of many economic models and the role of the state in economic life indisputably expanded in parallel. While impactful infrastructure packages were announced, notably in the United States, packages including significant social subsidies have been a cornerstone of pandemic recovery. MIT professor Daron Acemoğlu has underlined that the pandemic revealed several long-standing problems, including inequality and the question of where the economy is headed with such imbalances. Consequently, the role of the state becomes increasingly important.

The influence of the state on the course of the economy has many historical examples. After the first and second world wars, state expenditures rapidly increased. Acemoğlu predicts that a similar process will unfold post-pandemic. He expects high government expenditures and large infrastructure investments in the United States and Europe to increase and even become permanent. In addition, as has become crucial during the pandemic, states need to play a central role in matters such as the regulation of relations between corporations and society.

Inequality has increased to disturbing levels in the United States over the last 30-40 years with mainly the middle class losing their jobs and income. A similar situation is seen in Europe as well. Some attribute this to the process of increasing productivity, but the reality is different. Despite rapid developments in computers, robotics and artificial intelligence in the last 20 years, Acemoğlu claims that productivity of the American economy is still too low and the same is true for Europe as well as for Turkey, where I live. Although implemented economic policies are categorized as productive policies, they are in fact far from increasing productivity. Instead, these policies have been increasing inequality as income and wealth have been accumulating in limited socioeconomic groups.

ESG obligations and net-zero emission commitments

In a survey conducted by Fortune magazine in August 2021, respondents were asked "What events had the greatest impact in the past year?" Among the responses of the vaccine, diversity and mental health, was the "rise of "stakeholder capitalism" and an increase in companies' awareness of ESG (environmental, social and governance)." At the same time, records show that fires, floods, glacier melt, and air pollution are increasing all over the world due to environment and climate change. The National Oceanic and Atmospheric Administration recorded July 2021 as the hottest month in 142 years of record-keeping. As a result, expectations from companies that all their stakeholders (employees, customers, and corporate partners) act within the framework of ESG obligations increased. Companies are expected to show maximum attention and care to protect the entire ecosystem.

In this context, the hundreds of cities and thousands of companies responsible for 25% of the carbon emissions in the world initiated the "Race to Zero" campaign. Announced in 2020, these non-state actors committed to approaching zero carbon emissions over the years with a net-zero emission target by 2040. Heineken provides an example with the announcement that the company was preparing to link salary and bonus payments with environmental goals in the near future.

Societal needs and business opportunities are coming together to transform company strategy and performance analysis.

When you look at the Heineken, it can be observed that 90% of the emissions that the group creates originate from suppliers, packaging, storage and transportation activities, while only 10% is created during production. Reducing emissions through the supply chain poses challenges and Heineken has declared its willingness to cut ties with suppliers that are not rapidly decarbonizing their operations. In addition, Heineken has announced its commitment to reduce its emissions by 35% before 2030 to set short-term climate targets, as endorsed by the Science-Based Targets initiative. This is also in line with the Paris Agreement's goal of keeping global warming below two degrees Celsius. Climate change problems, being one of the outcomes of poorly managed globalization, force humanity to recognize the true cause of the major problems that will otherwise result in a hazardous failure of our current system.

Companies should carefully review their positions to check if they are truly ready for the ESG revolution, which PwC termed a "strategic reinvention." Making reporting requirements binding would convince companies to make progress against new metrics such as those introduced by the "Purpose of a Corporation" initiative. ESG reporting is about not only environmental issues but social and employee issues as well, forcing management teams to grapple with the difficult strategic trade-offs in response to both new opportunities and external pressures about social concerns, including health, inclusion, and inequality. Companies would begin to report against broader non-financial metrics to define objectives and to drive change—indeed, a transformation—to achieve these objectives. Thus, companies that claim high social responsibility are expected to put together new metrics for their businesses to measure the value created by addressing societal challenges.

Technology, artificial intelligence, and increasing inequality

COVID-19 accelerated the move to digital-first. The retail experience is now omnichannel with mobile applications, electronic payments, and the ability to order from anywhere. The rise of technology, including artificial intelligence, is another trend with huge implications. Klaus Schwab writes that our global economic system is broken and the primary way to replace global upheaval and unsustainability is by eliminating rising income inequality in societies where productivity and wage growth has slowed. Secondly, we must reduce the dampening effect of monopoly market power imposed by large corporations on innovation and productivity gains. While technological progress is realized and significant growth is achieved in the economies, the main problem since the 80s still lingers: growth is being shared less and less.

Increasing inequality in the industrialized world is the result of the gradual decline of safe and high-paying jobs. In 2019, Acemoğlu drew attention to the fact that as a result of wage decline and unevenly shared growth, class gaps widened, and unrest increased. Acemoğlu's research with Pascual Restrepo in 2019 states that automation, globalization, and the gradual loss of power of the workforce against capital are the main reasons behind this ever-increasing "not getting an equal share of growth" result.

It is not realistic to expect all problems to be solved quickly. However, individuals, companies, and governments must urgently establish and act on what their priorities are before it is too late. Investing in environmentally friendly projects, prioritizing job creation, making commitments for carbon emission reductions, and serious sanctions if these commitments are not seen through, must be present and future practice. Clearly recognizing our challenges and the real causes of our system's shortcomings, be they climate or inequality-related issues, is the first step. Solutions can then be achieved only through the cooperative efforts of corporations and governments.

Adapted from an article originally published in *Visionary Focus*, November 2021.

Clairfield International SA

Head office
11 Rue du Conseil-Général
1205 Geneva
Switzerland

Tel: +41 22 518 0242
info@clairfield.com

www.clairfield.com