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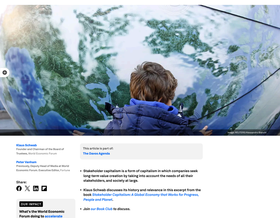
What is stakeholder capitalism?

Jan 22, 2021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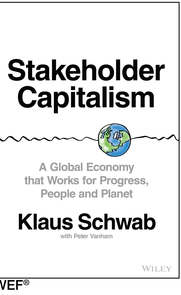
- **Stakeholder capitalism is a form of capitalism in which companies seek long-term value creation by taking into account the needs of all their stakeholders, and society at large.**
- **Klaus Schwab discusses its history and relevance in this excerpt from the book *Stakeholder Capitalism: A Global Economy that Works for Progress, People and Planet*.**
- **Join our Book Club to discuss.**

These days, a lot of political and business leaders debate whether "stakeholder capitalism" would provide us with a better way to organize the economy than the "shareholder capitalism" model. The concept, first originated in the 1 by, adapted from our book *Stakeholder Capitalism: A Global Economy that Works for Progress, People and Planet*, we take to tackle this question, and provide the reader with a clear answer.



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History

The stakeholder concept goes a long way back: more than 50 years. I first wrote about it in 1971, when I was a young business academic. But its roots go even further: in the 1950s and 1960s, it was quite natural for a company and its CEO to consider not just shareholders, but everyone who as a "stake" in the success of a firm.

That is the core of stakeholder capitalism: it is a form of capitalism in which companies do not only optimize short-term profits for shareholders, but rather, they take into account the needs of all their stakeholders, and society at large.

This approach was common in the post-war decades in the West, when it became clear that one person or entity could only do well if the entire community around them was also doing well. Relations between companies and their community in Germany, for example, where I was born, it led to the representation of employees on the board, a tradition that continues today. And, as everyone knows, when a company does well by loyally or at least regionally, there was a connection with suppliers and clients as well.

This fostered a strong sense that local companies were embedded in their communities. Over time, this sense of mutual responsibility between local institutions such as government, schools, and health organizations, led to a constellation of stakeholders that I visualized in my 1971 book Modern Company Management in Mechanical Engineering.

The company at the center, part of the stakeholders. Image: Schwab, Modern Company Management in Mechanical Engineering, 1971

In subsequent years, the stakeholder concept was adopted most prominently in the social democracies of Northern and Western Europe, including Sweden, Denmark, Finland, the Netherlands, Belgium, and Germany.

It led there, among other effects, to a bipartite system of collective labor representation, with both trade unions and representatives of the employees. And it contributed to the welfare state in which companies and employers paid their fair share of taxes to fund public education, health care and social security.

This system did adapt as decades went by, and it lives on to various degrees in these countries.

But as a global organizing principle for business, the stakeholder concept competed head-on with Chicago University economist Milton Friedman's notion of "shareholder primacy". A belief that "the business of business is business" (as he liberally wrote. The social responsibility of company is to make profits") – and the stakeholder approach ultimately lost out.

Shareholder capitalism became the norm across the West as companies globalized, lowering their ties with local communities and national governments, and focusing instead on maximizing short-term profits for shareholders in competitive global markets.

At the same time, labor unions, governments, and other civil society stakeholders lost a lot of their power and influence, further weakening the ties between companies and their communities. Moreover, the rise of these trends meant that companies and their shareholders were, in principle, free to pick and pick wherever, as companies, and specifically those who prospered in the First and Fourth Industrial Revolutions, got stronger.

The Stakeholder Model today: People and Planet at the center

Today, the stakeholder concept is ready for a comeback, albeit in an updated, more inclusive version. Climate change, the COVID-19 pandemic, and other health crises, and the basic response to these challenges, would be for all actors in society to consider more than their narrow and short-term self-interest. So what could stakeholder capitalism look like today? It does matter, it differ from the stakeholder management theory, or Japanese stakeholder capitalism, or the Rhine and Nordic capitalism?

The most important characteristic of the stakeholder model today is that the stakes of our system are now more clearly global. Economies, societies, and the environment are more closely linked to each other now than 50 years ago. The Fourth Industrial Revolution has fundamentally global in nature, and the two primary stakeholders are as well.

This is a true first and foremost for the planet. The planet's health, we now know, is dependent not just on individual or national decisions but on the sum of decisions made by actors from around the world. It also sets its aegis for future generations, every stakeholder will therefore need to take responsibility for its part in it.

What was once seen as externalities in national economic policy making and individual corporate decision making will now need to be incorporated in international in the operations of every government, company, community, and individual. **The planet is thus the center of the global economic system, and all other stakeholders must be optimized in the decisions made by all other stakeholders.**

The same interconnectedness can be observed for the people who live on the planet. **The well-being of people is one society affects that of human another, and it is incumbent on all of us as global citizens to optimize the well-being of all.** Failing to do so will inevitably come back to haunt us.

COVID-19 was just one reminder of this global inter-connectedness, and the fact that no one is safe and well, until everyone is. When the SARS-CoV-2 virus spread around the planet, it devastated the livelihoods of hundreds of millions of people and led to deaths in several illnesses for many millions. With the exception of a few island nations, no border closure was stringent enough to prevent the spread of the disease.

The extreme spread of **Internet technology** also makes people around the world more interconnected than ever before. Everyone can now pay close attention to global equity, making it an important objective, perhaps for the first time in history. Indeed, people are social animals, and their absolute well-being is less important than their relative well-being.

Wherever you are in the world, there is thus an increased consensus that the well-being of people –whenever they live– and the planet as a whole matter to all of us. These two elements are natural stakeholders, with people being simply all human individuals and planet being the natural environment we all share. It leads to a new stakeholder model where those two are at the center.

The simplified stakeholder model. Image: "Stakeholder Capitalism", Klaus Schwab and Peter Vanham, 2021

The Key Stakeholders and Their Objectives: Profits, Purpose, Prosperity and Peace

To ensure that both people and the planet prosper, four key stakeholders play a crucial role. They are **governments** (of countries, states, and local communities), **civil society** (from unions to NGOs, from schools and universities to action groups) **companies** (constituting the private sector, including multinational companies, small and medium-sized companies) **international community** (including all international organizations such as the UN as well as regional organizations such as the European Union or ASEAN).

All these stakeholders in society consist of people and make up of the planet. It is no surprise, then, that they should want to optimize the well-being of all of us as well as that of the environment. But equally, it should be clear they have specific objectives that make them distinct organizations in the first place.

- Governments focus on creating the greatest possible **prosperity** for the greatest number of people
- Civil society exists to advance the interest of its constituents and to give a meaning or **purpose** to its members
- Companies focus on creating economic surplus, measurable in **profits** in the short run, and **long-term value creation** in the long run
- And the overarching goal for the international community is to preserve **peace**

It leads to the stakeholder model as we know it today, solid anywhere in the world. When the well-being of people and planet are at the center of a business, the four remaining key groups of stakeholders contribute to their respective goals. The model, which we first laid down given an interconnected One cannot succeed if the other is fail.

The Global Stakeholder Model Image: "Stakeholder Capitalism", Klaus Schwab and Peter Vanham, May 2021

The model is simple, but it immediately reveals why stakeholder primacy and shareholder primacy are not equivalent. Shareholder primacy is a very granular and exclusive objectives of profits or prosperity in a particular company or country rather than the well-being of all people and the planet as a whole.

By contrast, in the stakeholder model, neither of the more granular objectives is set aside, but the interconnectedness of the overarching well-being of people and the planet are central, ensuring a more harmonious outcome over time.

If you would like to learn more about the stakeholder model, I invite you to read our book, "Stakeholder Capitalism".

This text is adapted from "Stakeholder Capitalism: A Global Economy that Works for Progress, People and Planet, by Klaus Schwab and Peter Vanham.

The book is available at bookstores globally, including Barnes & Noble (US), Waterstones (UK), Fnac (Germany), Fnac (France), Amazon (Worldwide), Bookspot, the independent bookshelves of Bookshop.org, and the Amazon and Kindle e-book stores in the Americas, Europe, and Asia.

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