




CLIENT ADVISORY

FEBRUARY 23, 2021

LIVING THE PROMISE OF STAKEHOLDER CAPITALISM



A roadmap for corporate decision-makers on how to accelerate adoption of stakeholder capitalism principles and navigate increasing scrutiny of purpose leadership.

Early 2021 has seen stakeholder capitalism and purpose front and center in public conversations. Stakeholder capitalism, for example, was one of the main themes of this year's World Economic Forum's The Davos Agenda.¹ Around the world, the business case for corporate action on consequential environmental, social and governance (ESG) issues is growing, especially as citizens increasingly look for private sector leadership at a time of heightened societal and political polarization.

This advisory shares the context of what is driving this new approach to business in society and outlines a roadmap for corporate decision-makers on how to accelerate adoption of stakeholder capitalism principles and navigate increasing scrutiny of purpose leadership.

CONTEXT

From managing through a global pandemic to weathering an economic downturn, navigating through a reckoning on racial equity, enduring a polarizing U.S. election and experiencing the growing impacts of climate change, recent challenges have dramatically increased the private sector's awareness of its responsibility to build long-term and sustainable value for a wider set of stakeholders beyond customers and shareholders.

We witnessed an object lesson on this trend in the hours and days following a violent riot at the U.S. Capitol on January 6, 2021. The business community acted swiftly to condemn the mob and those in power who perpetuated a false narrative about the 2020 election, including the President and members of Congress. Groups as varied as the U.S. Chamber of Commerce, the National Association of Manufacturers and the Business Roundtable joined a swell of individual companies in a common response. Many companies moved beyond statements of condemnation by suspending political contributions.

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The reactions to the Capitol Hill riot are a continuation of general trends in corporate activism. CEOs and other executives are under greater pressure to speak up on societal issues important to employees, customers and communities where they operate, especially when it is authentic to the leader, aligned with corporate values, and the right thing to do for the company and its stakeholders – including society at large. Public trust in governments to act is waning, providing an opportunity for CEOs to shape policy changes.² Furthermore, doing so can be good for business. Evidence suggests that companies have more to gain by speaking out – provided the stance is aligned to stated values – when it comes to employee engagement, customer retention and meeting investor expectations.³

¹<https://www.weforum.org/stakeholdercapitalism>

²https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2742209

³<https://www.futurity.org/corporate-activism-stakeholders-2398342-2/>

IMPLICATIONS

The private sector has a vital role to help address growing disparities that manifest in unequal health outcomes, widening income gaps, rising social unrest, and general angst and anger among people who feel they are being left behind.

The pandemic has only accelerated calls for a greater adoption of stakeholder capitalism and a commitment by the private sector to help reverse course and rebuild to a more equitable and just society. This is especially true in the U.S., where President Biden has asserted strong support for a stakeholder capitalism mindset and a moral obligation of corporations to their workers, customers, and communities. Globally, there will be more emphasis on the role of the private sector to help respond to the pandemic, drive economic recovery, accelerate progress against climate change and heal social divisions.

AREAS FOR ACTION

While every company must align on the specific issues that are material to its business, there are several themes that will dominate the stakeholder capitalism conversation this year. We advise companies to reflect on key questions, mapping how their purpose strategy and core commitments align with and help solve these macro challenges:

- + **CLIMATE CHANGE:** how is your company promoting carbon neutrality, environmental justice and end-to-end supply chain sustainability?
- + **INCLUSIVE CAPITALISM:** how is your company helping to address income and wealth inequality, promote equal access to opportunity and enact inclusive wage, diversity and labor practices?
- + **ESG TRANSPARENCY:** is your company prepared to respond to activist investors and new exchange rules that may mandate ESG disclosures and reporting?
- + **DISINFORMATION:** how is your company ensuring it does not contribute to the spread of disinformation in communications, advertising and political and philanthropic giving?
- + **RACIAL EQUITY:** how is your company addressing racial equity, first within your board and employee base, as well as demonstrating social progress on commitments or statements made in the wake of racial justice protests?
- + **LEADERSHIP DIVERSITY:** how is your company empowering diversity in the C-suite and at the board level? Are you prepared to respond to activist investors and new exchange rules that may mandate ESG reporting?

Above all, 2021 is a critical year for companies to demonstrate they are “walking the talk” of their commitments and acting with consistency and transparency across values, policies and practices. There is more scrutiny than ever on the private sector and employees, customers and activists will be quick to call out companies that fail to connect the dots across their purpose-related efforts.

As companies prepare to engage with stakeholders on their corporate responsibility, sustainability and diversity, equity and inclusion (DE&I) priorities, here are a few principles to keep in mind:

- + **CLEARLY ARTICULATE YOUR AUTHENTIC PURPOSE AND VALUES.** Stakeholders want to know what your company stands for and how you are intentionally operating to have sustainable business growth and positive social and environmental impact.
- + **DEMONSTRATE HOW STAKEHOLDER CAPITALISM INFORMS STRATEGY.** Show shareholders how you are mitigating long-term risk and maximizing economic benefit, while driving better outcomes and impact for employees, customers, partners, and communities.
- + **SHOW EVIDENCE OF PROGRESS AGAINST TANGIBLE GOALS.** Transparency is critical for credibility and trust, and stakeholders want to understand not only the impact, but how you are failing forward and the learning journey your company is on to transform your business. Companies must go beyond merely publishing annual reports on their progress.
- + **BE WILLING TO PARTNER TO ACCELERATE SOLUTIONS.** It is more common today to tackle systemic challenges through coalitions working across sectors and industries to demonstrate collective commitments and action, drive innovation and create impact at scale.
- + **DECIDE IF AND HOW YOU WILL DEMONSTRATE CORPORATE ACTIVISM.** Determine how you will engage employees on consequential issues and developments and plan for when it is appropriate to speak out externally, including when to deploy the CEO and align with partners and peers.

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
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