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DECONSTRUCTING: STAKEHOLDER CAPITALISM

IPR RESEARCH BRIEF

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INTRO

In the past 15 years, *stakeholder capitalism* has grown significantly as a business philosophy, influencing the communication and public relations industry. But what exactly does “stakeholder capitalism” mean? Is it a one-off campaign, or should it be a holistic approach embedded in the guiding principles of an organization? In this edition of [Deconstructing](#), an IPR series devoted to building a better understanding of commonly-used but not widely understood terms, we explore the history and tenets of stakeholder capitalism, how leaders should think about stakeholder capitalism, and the criticisms of the approach.

THE HISTORY OF STAKEHOLDER CAPITALISM

While the term “stakeholder” has existed for a few hundred years, one of the first appearances of the term in business literature was in 1963 in an internal memo from the Stanford Research Institute.¹ The stakeholder-centric approach took off in 1984 when Dr. R. Edward Freeman, a professor at the University of Virginia Darden School of Business, published a seminal book focused on stakeholder theory, *“Strategic Management: A Stakeholder Approach.”* Founded on pragmatic and libertarian theoretical lines, stakeholder theory² was created after current business theories did not respond well to rapid changes and other evolutions occurring in the business environment. Since then, [Dr. Freeman](#) has authored or edited more than 100 volumes and 200 articles in stakeholder management, strategy, and ethics. Nearly all scholarly articles about stakeholder theory or stakeholder capitalism trace back to Freeman.

WHAT IS A **STAKEHOLDER-CENTRIC** APPROACH?

A stakeholder-centric approach is a management process that considers all those who have a stake in the company, who can be affected by the company, or who can impact how an organization achieves its objectives.³ This is different from the traditional *shareholder primacy* approach that focuses on maximizing company earnings to increase financial value and gains for the shareholder.

Being stakeholder-centric is not an easy task. For example, dealing with stakeholders may be more challenging than ignoring them.⁴ Freeman and McVea (2001) said that stakeholder management is “a never-ending task of balancing and integrating multiple relationships and multiple objectives”⁵ and promoting shared interests in an ever-changing business environment.

A stakeholder-centric approach is grounded in four theories that explain the basis for this approach: corporate planning, systems theory, corporate social responsibility (CSR), and organizational theory. Grounded by systems theory, a stakeholder-centric approach recognizes the interconnectedness of stakeholders and says that successful strategies “integrate the interests of all stakeholders, rather than maximize the position of one group within limitations provided by the others.” Within a CSR lens, stakeholder theory focuses on relationships with some groups who companies have traditionally ignored because of a perceived adversarial relationship.⁶

Dr. Parmar and his colleagues (2010) published a paper about how this line of “stakeholder thinking” emerged to help correct three interconnected business problems that revisit how capitalism is approached⁷:

The problem of understanding how value is created and traded

The problem of connecting ethics and capitalism

The problem of helping managers think about management such that the first two problems are addressed.

WHAT IS STAKEHOLDER CAPITALISM?

In 2019, the Business Roundtable (BRT), an association of American CEOs, published a widely-lauded [statement](#) moving away from shareholder primacy to a stakeholder-capitalistic model. The statement said, “While each of our individual companies serves its own corporate purpose, we share a fundamental commitment to all of our stakeholders.” This statement has allowed companies to plant their flag in support of stakeholder capitalism.

Since its circulation as a business theory, businesses have adopted (or claimed to have adopted) an approach to stakeholder capitalism. In its [FY22 Stakeholder Impact Report](#), Salesforce defined stakeholder capitalism as:

A commitment to serve all stakeholders, including shareholders, customers, employees, partners, the planet, and the communities in which we work and live. We believe that the business of business is improving the state of the world.

The Salesforce logo, which consists of the word "salesforce" in a white, lowercase, sans-serif font, centered within a blue, cloud-like shape.

In 2007, Dr. Freeman and colleagues offered six principles of stakeholder capitalism that “build a framework for our value creation and trade that infuses ethics at the foundations, respects the complexity of human beings, fosters innovation, and can help us move beyond the problems outlined” in other approaches.⁸



THE **SIX TENETS** OF STAKEHOLDER CAPITALISM

BY: DR. R. EDWARD FREEMAN AND COLLEAGUES

1. THE PRINCIPLE OF *STAKEHOLDER COOPERATION*

Value can be created, traded, and sustained because stakeholders can jointly satisfy their needs and desires by making voluntary agreements with each other that, for the most part, are kept.

2. THE PRINCIPLE OF *STAKEHOLDER ENGAGEMENT*

To successfully create, trade, and sustain value, a business must engage its stakeholders.

3. THE PRINCIPLE OF *STAKEHOLDER RESPONSIBILITY*

Value can be created, traded, and sustained because parties to an agreement are willing to accept responsibility for the consequences of their actions. When third parties are harmed, they must be compensated, or a new agreement must be negotiated with all those parties who are affected.

4. THE PRINCIPLE OF *COMPLEXITY*

Value can be created, traded, and sustained because human beings are complex psychological creatures capable of acting from many different values and points of view.

5. THE PRINCIPLE OF *CONTINUOUS CREATION*

Business as an institution is a source of the creation of value. Cooperating with stakeholders and motivated by values, businesspeople continuously create new sources of value.

6. THE PRINCIPLE OF *EMERGENT COMPETITION*

Competition emerges from a relatively free society so that stakeholders have options.

Very few public relations and communications scholars study stakeholder capitalism. One of the few, Dr. Marcia DiStaso, professor and associate dean of research at the University of Florida, said, “While success is still measured through long-term profitability, value is created and sustained through reinvention, having a consistent voice, a clear purpose, a coherent strategy, and a long-term view.” Distaso spoke with IPR about the [May 2022 announcement](#) from the World Economic Forum Annual Meeting at Davos, where 70 companies are now using stakeholder capitalism metrics. These include non-financial disclosures for people, planet, prosperity, and principles of governance to create data points for comparison across companies around the globe.

LEADERSHIP AND STAKEHOLDER CAPITALISM

In March 2022, Professors Freeman and Todnem By published five ideas of stakeholder capitalism that have implications for how companies should think about leadership; each must be included in a stakeholder capitalist mindset. While most are self-explanatory, some of the five tenets include additional details:⁹

1

Purpose AND profits

2

Stakeholders AND shareholders

3

Business as a societal AND market institution: Businesses must address both societal and market issues as many societal problems cannot be solved without them

4

People as fully human AND economic: Humans can be concerned with their self-interests and economic interests, rather than reducing behavior to focus on only one or the other

5

Putting together business and ethics: Ethics should be at the core of all business, embedded within and throughout, so they cannot be separated.



The scholars also offered what is needed in a stakeholder mindset requiring some critical shifts in management thinking. These include:

STAKEHOLDER CAPITALISM MINDSET



- 1 "Giving" up dualistic thinking and the tyranny of the 'or.'
- 2 Embracing the definition of problems and solutions rather than ideologies.
- 3 Opening up to nontraditional solutions including non-business sector stakeholders.
- 4 Embracing difficult societal issues that require time, coalitions, co-creation, creativity, and perhaps a loss of control."

Dr. DiStaso also noted how important purpose is in a stakeholder capitalism mindset but more work needs to be done to embody it. She said,

"A company's purpose is essential. Most stakeholders want to understand, connect and share company values. Clearly, the benefits are here, but how to authentically execute in the best interest of employees, customers, communities, and shareholders is largely undetermined for many companies."

CRITICISMS OF **STAKEHOLDER CAPITALISM THEORY**

As with all theories, stakeholder capitalism theory does have its critics. Dr. James A. Stieb of Drexel University said that the theory fails to follow the money in that "stockholders are the primary beneficiaries of corporate effort and dividends."

¹⁰ Also, to what extent are the concerns of the stakeholder considered, and how much should they influence decision-making? The theory may also be seen as corporate paternalism, which means companies are making decisions that they perceive to be beneficial for others but fail to give agency to those stakeholders

(and begs the question of who should decide what is best for others). Ethics is also critically important, as is the “ethic of care”—do companies always support stakeholders or only when it’s to the organization’s advantage?

Stakeholder capitalism has also been accused of being politically motivated to further a progressive agenda. In his [annual letter](#) to corporate leaders, BlackRock CEO Larry Fink reaffirmed the importance of capitalism and the mutually beneficial relationships of stakeholder capitalism. He added, “[It] is not about politics. It is not a social or ideological agenda. It is not ‘woke.’”

STAKEHOLDER-CAPITALISM WASHING?



Most criticisms of stakeholder capitalism are not with the theory itself, but how companies claim they follow the stakeholder capitalist model when their actions do not support this. Some call this “purpose-washing” (as “stakeholder-capitalism washing” may be too big of a mouthful) and say that stakeholder capitalism is a [“PR stunt” or a “toothless pledge.”](#) Also, some companies equate ESG efforts with stakeholder capitalism. However, stakeholder capitalism is not a one-off application from one function of the organization or a case study. It’s a holistic subscription at the hub of an organization’s purpose that radiates through all the spokes of the organization’s wheel.

In September 2020, KKS Advisors and TCP issued a report, [“COVID-19 and Inequality: A Test of Corporate Purpose,”](#) based on their constructed metric assessing a company’s commitment to purpose by actions, how they have performed historically in a crisis with consideration to stakeholders, and how quickly they respond in crises. The research found that since the pandemic, BRT signatories did not outperform their counterparts on tests of corporate purpose. The report concluded that purpose-washing is still a trend.

Strategist and author Andrew Winston also [wrote](#) about the rhetoric of BRT signatories and how many have “fought any action on climate, even while making public statements in support of a price on carbon.” Also, some companies lobby or influence legislation or support PACs that violate their organization’s values or purpose.

Others believe that shareholders and the company will always be the priority. Former dean of the Rotman School of Management Roger L. Martin said in an [HBR article](#) that when the priority shifts from shareholder to the customer, even in the right culture, “the siren call of shareholder value maximization is ever present.” Professors Vijay Govindarajan and Anup Srivastava said in an [HBR article](#) that we are “nowhere near” stakeholder capitalism as leaders continue to be evaluated by financially-driven metrics such as revenues, profits, or share prices. The *Fortune 500* list also demonstrates this, as well as the metrics of success that businesses promote.

CONCLUSION

Whether stakeholder capitalism is a model, theory, or approach, there is no question that how this infiltrates a company can have significant effects on all stakeholders, both internal and external. One of the important takeaways, though, is that this is a holistic organizational approach theory and cannot survive as a one-off case study. If adopted, stakeholder capitalism must live in the heart of the organization, providing support to the many stakeholders that affect a company’s wellbeing. Therefore, having a solid understanding of the basis and tenets of a stakeholder capitalistic approach is critical for communicators to help piece the puzzle together on behalf of their organizations.

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