‘PROTECTING THE VULNERABLE IS THE LITMUS TEST FOR STAKEHOLDER CAPITALISM’

The human toll of Covid-19 is growing daily, and the burden is falling disproportionately on the people least able to bear it: those in low-paying jobs, exposed to health risks on the frontline of the pandemic response; losing those jobs altogether in western workplaces and overseas supply chains; or cooped up in worker dormitories far from home and without protection. Against this backdrop, the reactions of business to the pandemic are under as much scrutiny as those of governments. Even the Financial Times is keeping a log of the sinners and saints.

One clear rule of thumb is emerging as to which companies are getting their response to the crisis (at least mostly) right: those that focus first on the most vulnerable. Vulnerability is the essential lens we must apply if a new stakeholder capitalism is to succeed: It marks the difference between how our economies have worked in the past and how we need them to work going forward.

Before the pandemic hit, there was already a growing movement away from Milton Friedman’s idea that business should focus on maximising shareholder returns. It called for business to respond to the interests of stakeholders beyond shareholders alone. We saw nearly 200 CEOs...
espouse the idea of “stakeholder capitalism” in last year’s Business Roundtable statement; the head of the world’s largest asset manager, BlackRock, urged company leaders to take it seriously; and the Davos Manifesto from January’s World Economic Forum identify it as essential to “shared and sustained value-creation”.

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Take “employees”. The term includes those generously compensated in safe jobs as well as those whose pay, security and benefits are vulnerable to cost-cutting initiatives. It excludes altogether contractors and the nominally self-employed. The category of “suppliers”, meanwhile, blurs the line between large, strategic partners and small or more remote businesses whose cash flow is fragile and whose workers’ wages are the first to give under pressure.

Similarly, “customers” are, by definition, those who can afford to access a company’s products or services; yet the term does not call out those who are stretched to do so, and excludes, of course, those who simply can’t. Meanwhile, “communities” can continue to be viewed as the beneficiaries of corporate philanthropy rather than groups who may be directly affected by company actions and decisions.

With all this flexibility in interpretation, the new “stakeholder capitalism” built a church that was broad enough to accommodate not just those companies working to address business practices that put people at risk, but also those companies hoping for little more than marginal adjustments to usual practice, including those with business models that embed risks to people at their core.

Yet this pandemic, with all its awful consequences, is fast removing any ambiguity about what matters. At least in the Global North, it is showing the lens of vulnerability to be essential for businesses to determine how they should act, and a guide for how popular opinion will react. This
focus on vulnerable people, once seen by many as idealistic, is becoming a primary expectation from investors, public figures, civil society and business commentators alike.

Companies are increasingly calling on employees to take pay cuts at the top to preserve jobs at the bottom. Some quickly committed to keep paying the hourly workers who provide canteen, cleaning or other services in their facilities; a growing number have increased sick leave and benefits to workers in gig economy roles, whose finances and health are often most at risk.

We see the same expectation to focus on vulnerability in supply chains. Companies from H&M to Unilever and Heineken to L’Oréal have to ease cash flow for businesses in their value chains, whose viability and workforces are at risk by paying smaller suppliers first and fastest, or extending loans or deferred payment terms to customers in need.

Meanwhile, companies are identifying and prioritising those customers who are most exposed to harm, with grocery stores offering earlier hours to the elderly, and some key service providers prioritising the vulnerable over those who can better cope. And we see businesses thinking afresh about impacts on communities. Some that can afford to make new hires are drawing from local, hard-hit populations; others are collaborating with government to address systemic risks to those most in need.

Of course, many companies have genuinely little latitude in how they can respond, lacking both resilience and options. And far too many that are not so constrained have nevertheless defaulted to protecting their shareholders and leaders at the expense of the vulnerable.

But the tally that is now being kept of which companies are rising to the occasion and which are failing is not a blip that will be forgotten, it is an acceleration and proliferation of an idea whose time had already come.

The same Milton Friedman who spawned the “shareholder primacy” theory that stakeholder capitalism now proposes to replace, ironically also wrote: “Only a crisis, actual or perceived, produces real change. When that crisis occurs, the actions that are taken depend on the ideas that are lying around. That, I believe is our basic function: to develop alternatives to existing policies, to keep them alive and politically available until the politically impossible becomes politically inevitable.”

The idea that business must look beyond generic categories of “stakeholder” to hone in on the people who are most vulnerable is embodied in the UN Guiding Principles on Business and Human Rights: a ready blueprint for governments and business to reorient capitalism to protect and respect those most at risk.

Companies that have led the way in putting the UN Guiding Principles into practice have shown a more natural reflex to get it right while others have fumbled. Yet it is the crisis itself that is now taking the lens of vulnerability to scale. It can no longer be viewed as impossible to make it the “new normal” once we emerge from the pandemic. We just need to make it inevitable.

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