DILIGENT INSTITUTE

STAKEHOLDER CAPITALISM

Translating Corporate Purpose into Board Practice

AUGUST 2020 | DILIGENTINSTITUTE.COM

We are Diligent Institute

Diligent Institute provides publicly available, industry-leading research on global board governance. Today's increasingly dynamic world presents a dizzying array of economic opportunities and challenges. As companies navigate that environment, high-quality governance is more important than ever to ensure effective oversight, protect and create jobs, and positively impact the economy. The Institute equips board directors and corporate leadership teams at organizations around the globe with the information to make forward-looking decisions that leave a meaningful mark on the world.

Diligent Institute was founded in 2018 to offer a global perspective on the complex and disruptive board governance topics that directors and leadership teams are tackling today. The Institute serves as the global governance research arm of Diligent Corporation, the pioneer in modern governance. Diligent® empowers leaders to turn governance into a competitive advantage through unparalleled insight and highly secure, integrated SaaS applications, helping organizations thrive and endure in today's complex, global landscape. The Diligent Institute is solely funded by the Diligent Corporation and functions as a think tank and research arm.

Please visit **diligentinstitute.com** to learn more and subscribe to stay updated on our research.

Background

“Corporate Purpose” — Buzzword, Belief, or Behavior?

Over the past few years, “corporate purpose” has held multiple meanings — it’s a hot governance topic, a buzzword, a guiding principle, a lofty ideal, a political alignment, a concrete vision, or all of the above. In the wake of the 2008 financial crisis, as widespread fear and fiscal insecurities rose, skepticism about corporate behavior rose right along with it. In the subsequent years, even as the markets rebounded, public dissatisfaction in corporate “norms” continued. Throughout the 2010s, many had the sense that businesses not only had fallen short of serving societal needs and expectations, but that companies were placing too much value on short-term gains for shareholders and investors at the expense of the long-term well-being of all stakeholders.

Interestingly, this belief was not only held by activists, employees, customers and politicians; it was shared by many corporate leaders. The sentiment began to grow and appear in business publications, in executive meetings and conferences, and in investors’ annual letters, and it captured the minds of directors globally.[1] In 2019, the Business Roundtable in the United States put out a statement[2] – signed by hundreds of the CEOs — abandoning strict shareholder primacy and embracing stakeholder interests. In 2020, the World Economic Forum updated its “Davos Manifesto,” which explicitly called on companies to establish a clear societal purpose and serve the interests of stakeholders.

Then a global pandemic hit. Millions of people were infected, hundreds of thousands died, and economies around the world slowed or shut down while governments, businesses, and overwhelmed healthcare systems scrambled to respond. In the face of such an unprecedented crisis – impacting every organization, workforce, customer base, supplier, and regulatory authority on Earth – the idea that companies have a broader responsibility to create positive change for society has gained momentum. Conversations began to take place broadly on the need for a “new kind of capitalism,” one that places a premium on the environment, society, and good governance at its core.

In the middle of U.S. pandemic shutdowns, the brutal killings of George Floyd and Breonna Taylor, two incidents in a long list of people of color killed at the hands of police, prompted widespread Black Lives Matter protests globally. Corporate leaders across industries and countries began issuing statements condemning racism and systemic injustice and making contributions to causes promoting racial equity.

Despite the many statements by corporate leaders supporting the idea of a broader corporate “social purpose” and condemning racism, a central question remains: **Will these positive sentiments by corporate leaders translate into action and systemic change?**

1. For example, see Larry Fink’s 2019 letter to CEOs: https://www.blackrock.com/americas-offshore/2019-larry-fink-ceo-letter
2. https://opportunity.businessroundtable.org/ourcommitment/

Purpose of This Report

The Diligent Institute set out to learn how corporate directors are handling these complex issues, and what specific board behaviors are changing as a result. This report provides a glimpse into how corporate leaders are acting on the sentiment that stakeholder interests are critically important to long-term business viability. The findings indicate that boards expect to discuss stakeholder interests with high and increasing frequency in the coming years, and that directors' guidance to management concerning stakeholders is changing in 2020.

Methodology

To better understand how boards are thinking about stakeholders in the wake of the COVID-19 outbreak, Diligent Institute surveyed **406 directors and corporate leaders**. See page 12 for full respondent breakdown.

The survey was distributed in connection with promotion for a virtual panel discussion on June 16, 2020, called "Measuring Stakeholder Capitalism," featuring panelists from the World Economic Forum, EY, Bank of America, and Diligent Corporation. Over 4,900 directors and senior executives registered for the event and were invited to participate in this survey. It is worth noting that this report represents the input of a self-selected from a group of corporate leaders with an interest in the topic of "stakeholder capitalism," as evidenced by their having registered to attend a panel discussion on the subject.

The report includes responses from 406 corporate leaders who have direct knowledge of their boards' activities around stakeholder capitalism and related issues. However, the results on the first two questions — which represent directors' attitudes — is limited to the 282 respondents who identified themselves as board directors.

Key Findings

How Do Corporate Directors Think about "Stakeholder Capitalism"?

The World Economic Forum's "2020 Davos Manifesto" stated:

"A company is more than an economic unit generating wealth. Performance must be measured not only on the return to shareholders, but also on how it achieves its environmental, social, and good governance objectives."

of directors agree & of directors strongly agree

We asked directors if they think that:

"We are in the midst of a fundamental change in capitalism from a primary focus on shareholder return towards a system in which corporations must have a societal purpose and serve all stakeholders (sometimes referred to as 'stakeholder capitalism,' 'conscious capitalism,' or 'accountable capitalism')."

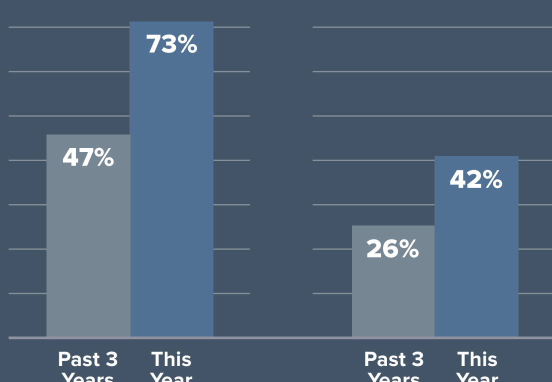
of directors agree & of directors strongly agree

How Are Directors' Thoughts Translated into Action?

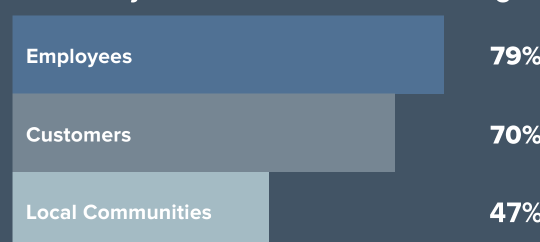
Boards expect to discuss the impact of their decisions on non-shareholder stakeholders with very high frequency in the three years following the COVID-19 outbreak.

Expect this discussion at least quarterly

Expect this discussion every meeting



Which stakeholder groups do boards most commonly consider in decision-making?



In 2020, boards have changed their guidance to management in several key areas. The top choices were those most heavily impacted by the COVID-19 pandemic.

45% Employee Health, Safety, and Welfare

44% Crisis Management and Preparedness

40% Cyber Risk

3. Results for this question are limited to the 282 director/board member respondents.

4. See note 3 above.

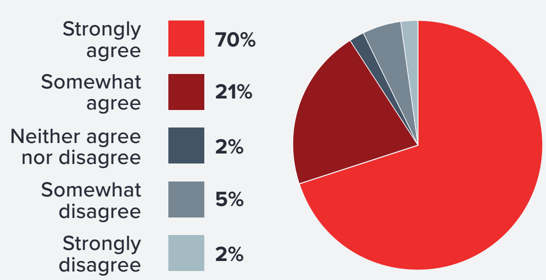
Director Attitudes

From "Corporate Purpose" to Board Practices

There is a strong consensus among directors that companies must incorporate stakeholders in their decision-making, and that "corporate purpose" is about more than short-term profit.

Do you agree with the following statement from the World Economic Forum's "2020 Davos Manifesto"?

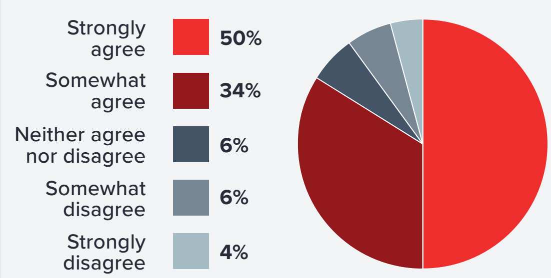
"A company is more than an economic unit generating wealth. Performance must be measured not only on the return to shareholders, but also on how it achieves its environmental, social, and good governance objectives."[3]



There has been a sense that a fundamental change in capitalism could be underway – a shift away from shareholder primacy toward a broader corporate "social purpose," incorporating stakeholder interests explicitly in business strategy. The survey provided a statement to this effect and sought directors' reactions.

Do you agree with the following statement?

"We are in the midst of a fundamental change in capitalism from a primary focus on shareholder return towards a system in which corporations must have a societal purpose and serve all stakeholders (sometimes referred to as 'stakeholder capitalism,' 'conscious capitalism,' or 'accountable capitalism')." [4]



While directors overwhelmingly agreed with both statements, the data show directors are more comfortable with the "2020 Davos Manifesto" statement on corporate purpose than with a statement describing a "fundamental change in capitalism."

Agree	
"2020 Davos Manifesto"	Change in Capitalism Statement
91%	84%

Strongly Agree	
"2020 Davos Manifesto"	Change in Capitalism Statement
70%	50%

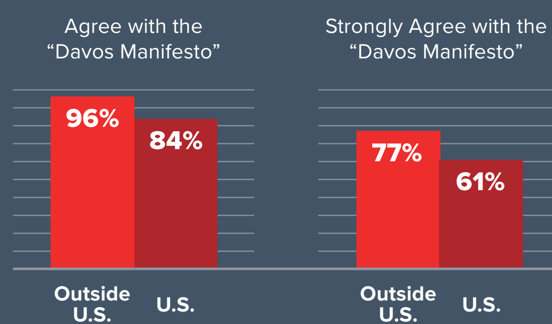
3. Results for this question are limited to the 282 director/board member respondents.

4. See note 3 above.

U.S. Out of Step with Rest of World

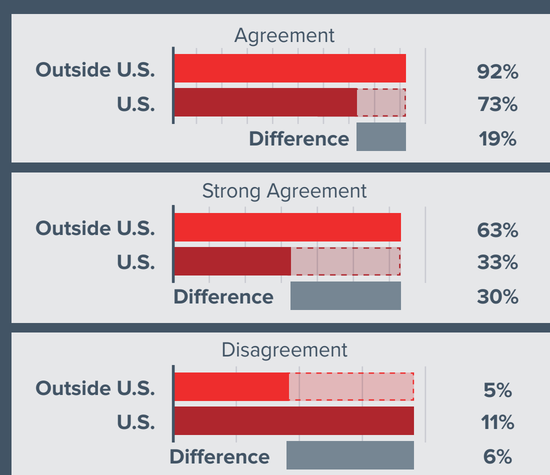
Directors who identified their primary board as located in the United States are significantly less likely to agree with both the “Davos Manifesto” and the “Change in Capitalism” statement.

Where 96% of directors in the rest of the world agree with the “Davos Manifesto,” only 84% of U.S. directors do. They are also less likely to strongly agree — 77% of directors outside the U.S. strongly agreed, and only 61% of U.S. directors said the same.



Turning to the “Change in Capitalism” statement, the differences become even more stark.

There was a nineteen percentage-point difference in agreement **(92% vs. 73%)**, and a thirty percentage-point difference in strong agreement **(63% vs. 33%)**. Meanwhile, the level of disagreement among U.S. directors relative to their counterparts around the world was even more significant: In the rest of the world, only **5%** of directors disagreed with the statement, but in the U.S., **11%** disagreed with it.



“‘Societal purpose,’ ‘stakeholder capitalism,’ ‘conscious capitalism,’ and ‘accountable capitalism’ are ideological terms that vary in interpretation with individual, specific groups, and the changing times. Good governance includes responsibility and accountability to the law, regulators, equity shareholders and employees in accordance with laws, regulations, and company governance policies and procedures. Such terms are imprecise as ‘sweet’ and ‘sour,’ varying with tastes.”

In Their Own Words…

While the director consensus was strongly behind both of the above statements, the thinking behind that agreement varies a great deal. The survey asked directors to share any further thoughts they may have about these two statements; eighty directors responded. Below is a sample of quotes representing the wide range of views they shared:

"Lofty" Sentiments Bow to Market Pressures

"Although many thought leaders and pundits espouse the inevitability of stakeholder capitalism, the market continues to react and reward only financial performance."

"The system is set up to incentivize short-term financial performance (or punish it) no matter how lofty the sustainability messaging."

"These are political statements that folks make when times are good, but capitalism selects out the most efficient and effective companies and the others will go bankrupt."

Skepticism About Systemic Change

"I believe that sentiment is heading in this direction but remain concerned of 'corporate speak' that is not sincere and simply buzz words. Measurement on different aspects needs to enable apples to apples comparisons."

"We are not in the midst of it but at the very early stages with some companies embracing the concept and speaking about change but not acting on it. Many companies still in denial of the change happening and even doubling down on implementing a very retrograde form of capitalism/ using the excuse of the pandemic to do so, and very few companies are doing a significant amount of what's needed to actually bring about fundamental change."

Stakeholder Interests Are Already Part of Good Business

"You cannot have a long-term sustainable business if you ignore the non-shareholder constituencies."

"Meeting stakeholder returns has always been a necessary condition for meeting economic goals. One cannot have a successful and viable business without satisfying employees, community, etc. The statement may add clarity around foundational success requirements, but the concept is nothing new."

"In a world characterized by natural resource scarcity and radical transparency (the internet) you are simply not going to maximize financial wealth if stakeholder interests are not given due consideration. The debate between 'shareholder primacy' vs. 'stakeholder' schools of corporate governance is now moot."

Directors Are Feeling Pressure on ESG Issues

"Project finance and funding is increasingly linked to good ESG performance."

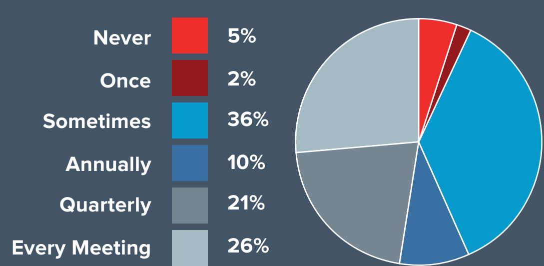
"Where the laws haven't caught up, societal pressure is there [to] force corporations to move the needle. In other words, just because you CAN excessively produce, pollute (within the context of the law), it doesn't mean corporations should and if they continue to think it's 'fair game' to do 'whatever' — well, good luck, those will not be the companies that succeed and win in the future."

Discussion Frequency

Boards have already been discussing the impact of board decisions on non-shareholder stakeholders over the past three years before the COVID-19 pandemic.

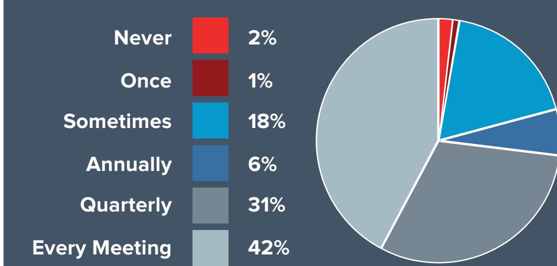
Boards expect to discuss the impact of board decisions on non-shareholder stakeholders with a very high frequency in the coming three years after the COVID-19 pandemic.

"How frequently did your board discuss the impact of board decisions on non-shareholder stakeholders over the three years BEFORE the COVID-19 pandemic?"



- Almost all respondents **(95%)** discussed at least once.
- A majority of respondents **(57%)** discussed at least annually.
- Almost half **(47%)** of respondents discussed at least quarterly.
- A quarter of the respondents **(26%)** discussed every meeting.

"How frequently did your board discuss the impact of board decisions on non-shareholder stakeholders over the three years AFTER the COVID-19 pandemic?"



- Almost all respondents **(98%)** expect to discuss at least once.
- The vast majority of respondents **(79%)** expect to discuss at least annually.
- Almost three quarters **(73%)** of all respondents expect to discuss at least quarterly.
- Nearly half of respondents **(42%)** expect to discuss every meeting.

Expectations for board discussion frequency in the coming years after the COVID-19 outbreak far outpace the behaviors of the past three years.

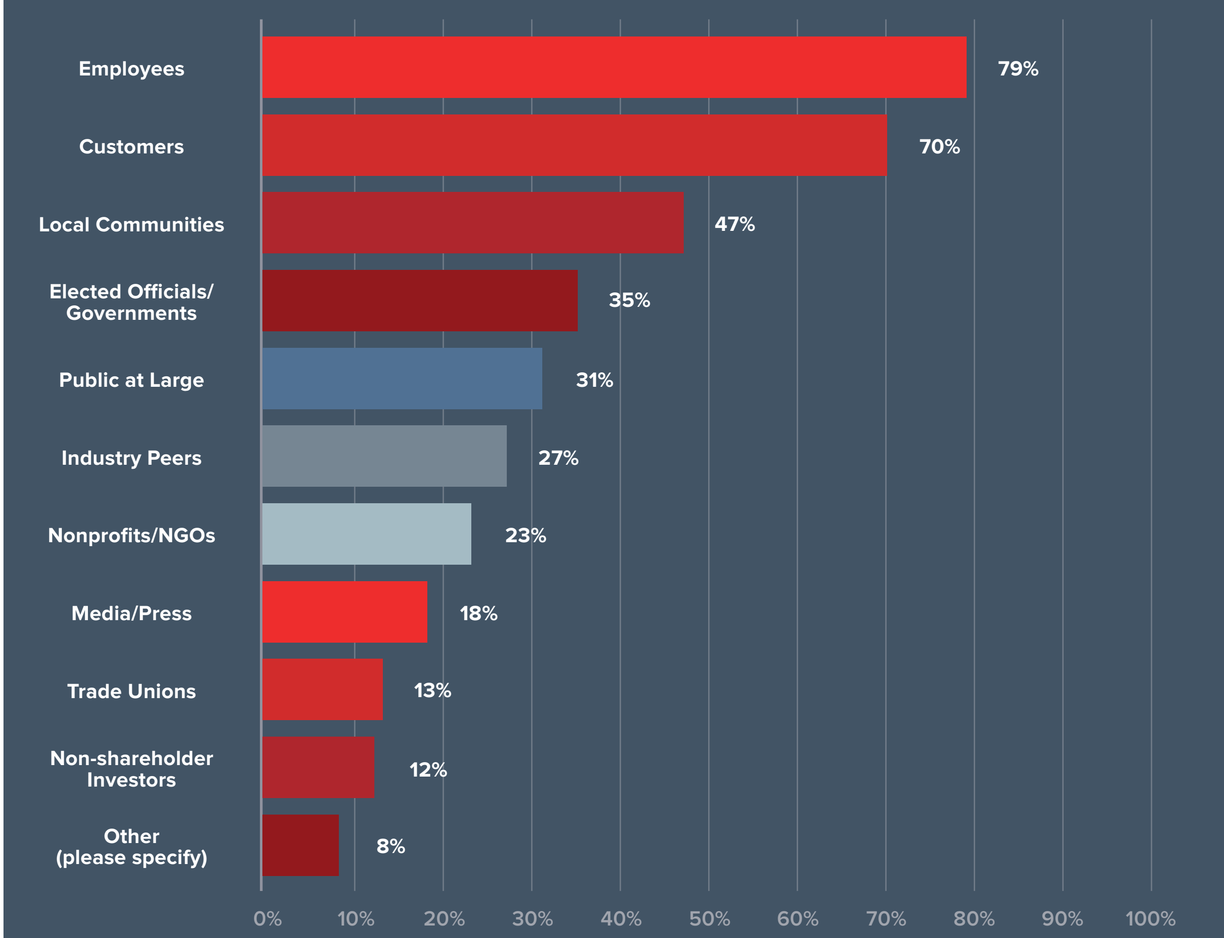
How frequently do boards discuss the impact of their decisions on stakeholders?

	Before COVID-19	Difference	After COVID-19
At least once	95%	+3 ⬆	**98%**
At least annually	56%	+23 ⬆	**79%**
At least quarterly	47%	+26 ⬆	**73%**
At every meeting	26%	+16 ⬆	**42%**

Stakeholder Prioritization

Employees and customers are the two non-shareholder stakeholder groups most likely to be included in board discussions, with the vast majority of respondents (79% and 70% respectively) reporting considering these two groups. Almost half of all respondents (47%) included local communities. Meanwhile, almost a third of respondents (31%) included the public at large, suggesting that even as problems become more global, company focus remains local. It's also worth noting that while employees are the most commonly included stakeholder group, trade unions were only selected by 13% of the respondents.

"In 2020, which groups of non-shareholder stakeholders have been included most often in board discussions? Please check all that apply."[5]

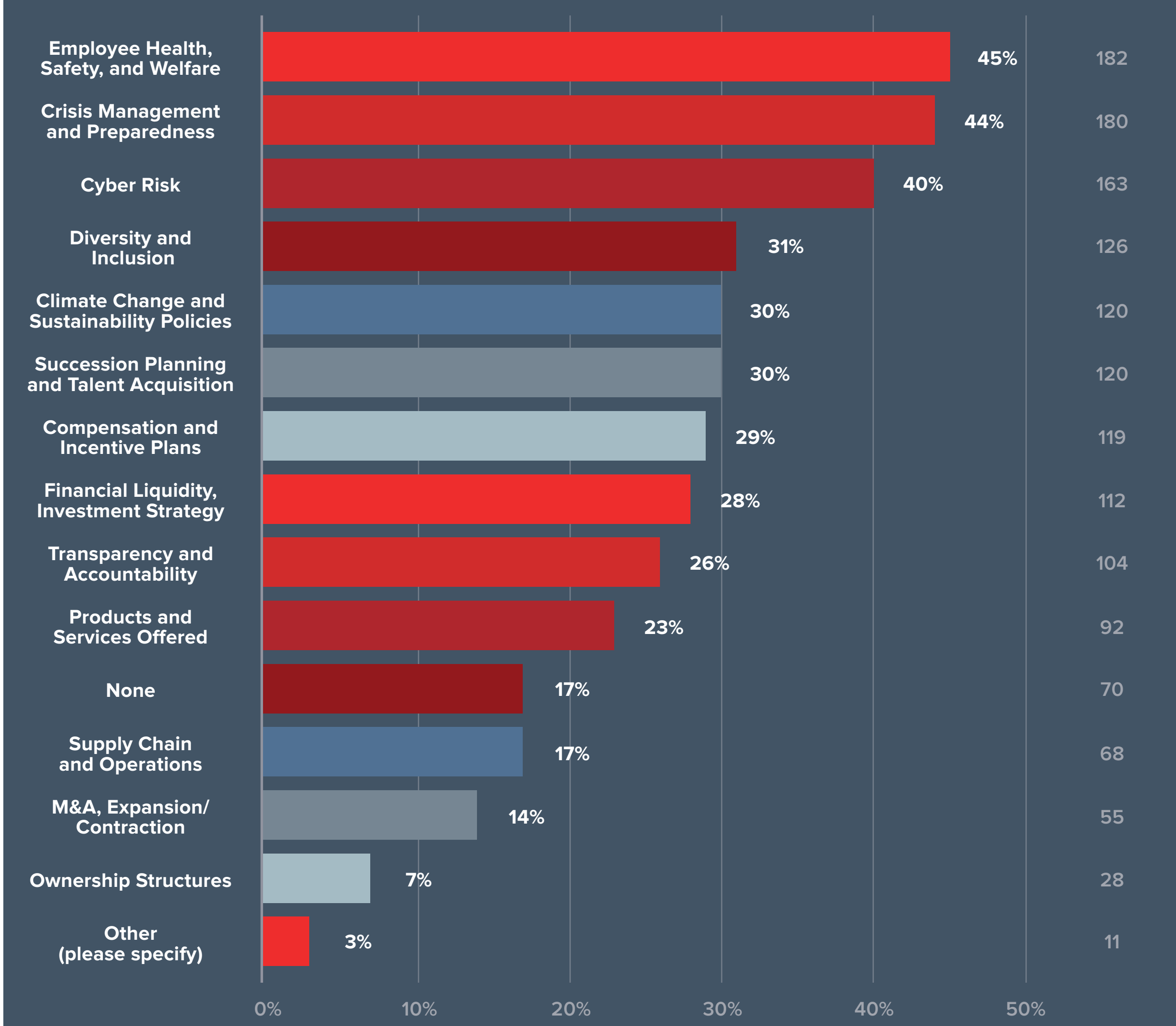


5. Only 393 of the 406 total respondents chose to answer this question.

Board Guidance

It is no surprise that the most common areas of board guidance to management changing in 2020 are areas heavily impacted by the pandemic: employee health, safety, and welfare; crisis management and preparedness; and cyber risk. The next most common board guidance changes reflect a more traditional set of topics impacting stakeholders, with diversity and inclusion and climate change and sustainability policies immediately following. Only 17% of respondents indicated no 2020 changes to their guidance to management regarding non-shareholder stakeholders.

"In 2020, has your board changed its guidance to management regarding non-shareholder stakeholders in any of the following areas? Please check all that apply."



Where Do We Go From Here?

Diligent Institute seeks to tackle big topics, and to wade into ongoing debates armed with data and corporate directors' stories — always with an eye toward establishing how directors and boards are currently thinking and acting on the issues. But identifying ways to provide quantitative data on a topic as complex as stakeholder capitalism has its obstacles, to say the least.

This report sought to measure some specific board practices related to corporate purpose and stakeholder capitalism, and some of the related beliefs of directors and corporate leaders. The respondents to this survey were self-selected from close to 5,000 organizational leaders who registered to attend a panel discussion on "Measuring Stakeholder Capitalism," indicating their interest in the topic. That panel session featured — among others — the head of the World Economic Forum, which published a working paper on turning the principles of stakeholder capitalism into action: "Toward Common Metrics and Consistent Reporting of Sustainable Value Creation."[6] Our hope was that by surveying this highly motivated, self-selected group, we would learn more about specific actions boards and leaders are taking.

There are many examples of high-level company statements and narratives and CEO and director quotes on boards' commitment to corporate purpose and relationships with stakeholders. But measuring the impact of these statements remains challenging. That said, progress is so rarely perfect, and especially coming out of the COVID-19 crisis, there has been a palpable "feeling in the air" that systemic change is possible. For companies, ESG measurements, disclosures, and setting clear targets are the first steps toward making that change a reality. Those steps are worth taking, even before universal agreement on standard measures fully coalesces. For researchers, measuring corporate actions around stakeholder capitalism — however imperfect — may still provide helpful insight on evolving board practices that can help companies improve faster.

6. http://www3.weforum.org/docs/WEF_IBC_ESG_Metrics_Discussion_Paper.pdf

Respondent Demographics

Total Respondents: 406

Role/Board Function

"Which of the following job titles describes your role as it related to your primary board?"

Non-Executive Director/Supervisory Board Member	58%
Senior Management (CEO, CFO, CHRO, CIO, etc.)	18%
Executive Executive Director/Supervisory Board Member	11%
Corporate Secretary/General Counsel	7%
Other – Non–C-Suite Management	3%
Other – Consultant/Advisor	2%
Other – Board Admin/Legal Function	1%

Organization Size

"How many employees does your organization have?"

Up to 499	45%
500 to 999	11%
1,000 to 4,999	19%
5,000 to 19,000	14%
20,000 or more	11%

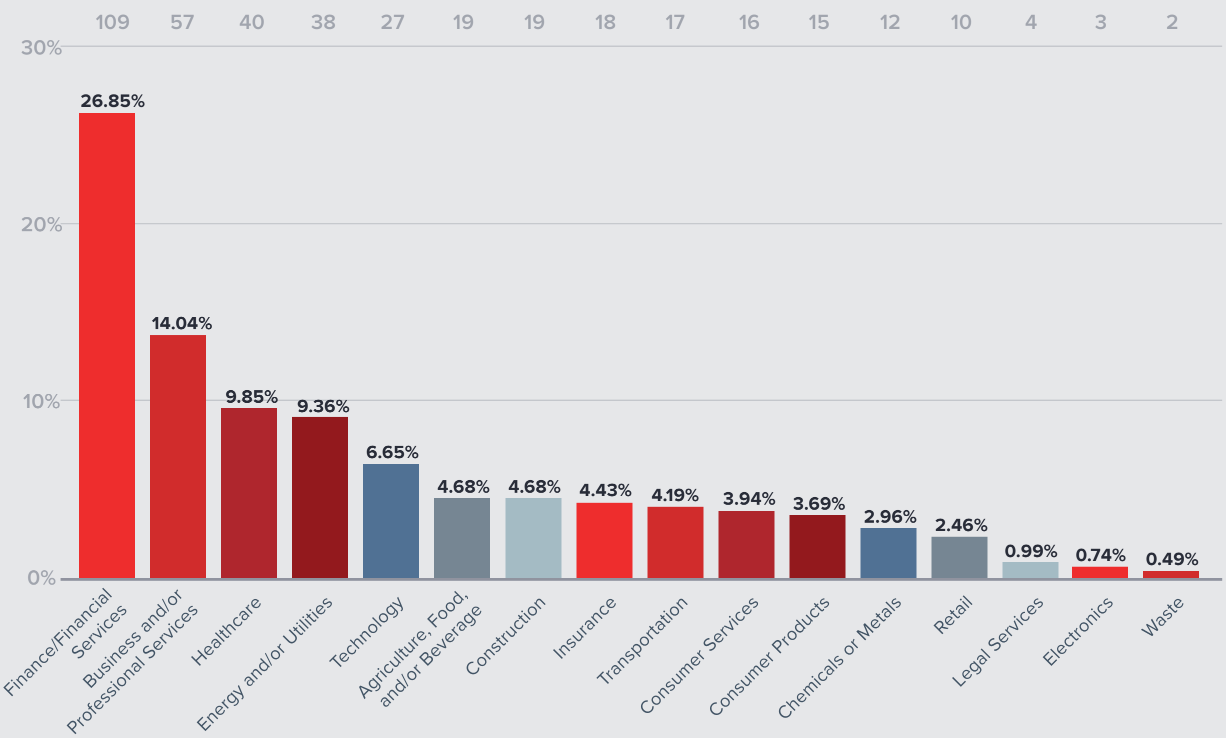
Organization Type

"What is your organization type?"

Public/Listed	39%
Private/Unlisted for-profit	29%
Not-for-profit	16%
Government	6%
Other	5%
Subsidiary/Public listed	3%
Subsidiary/Private unlisted	2%

Industry

"What industry does your organization operate in?"

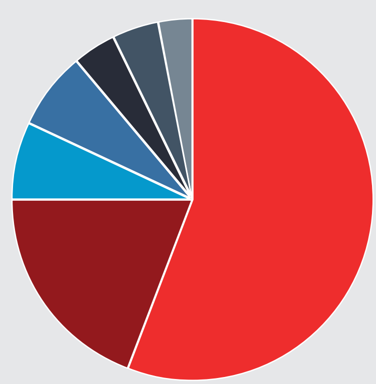


Note: In addition to selecting one of the above industries, 81 respondents provided further information in their response. Of those 81 additional comments, 12% specified that the organization was in "Education," and 10% specified "Mining."

Geographic Regions

"Which of the following regions is your organization's primary base of operations?"

North America	**56%** (43% U.S.)
Europe	**19%** (8% U.K.)
Africa	7%
Australia and New Zealand	7%
Middle East	4%
South America	4%
Asia	3%
Central America	0%



Acknowledgements

Institute Advisory Board

- Rahul K. Bhardwaj
- Susan Forrester
- Peter Gleason
- TK Kerstetter
- Susan Kilsby
- Dr. David Larcker
- Lothar Schröder
- Brian Stafford
- Anddria Clack-Rogers Varnado

Editor

- Dottie Schindlinger, Executive Director, Diligent Institute

Author

- Annie Kors, Lead Researcher, Diligent Institute

Designer

- Mike Petite, Senior Graphic Designer, Diligent

Contact Us

diligentinstitute@diligent.com

111 W 33rd St, 16th Floor
New York, NY
10001

Subscribe to stay updated at
diligentinstitute.com

DILIGENT
INSTITUTE