

Can 'Stakeholder Capitalism' - as shared in Davos 2020 - be the solution?

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The message coming from the World Economic Forum in Davos this year is nothing new, only the jargon being used is new: Stakeholder Capitalism! What does that mean?

'Stakeholder' is a concept that relates to all parties involved in and affected by a business or organization, they could be any individual, entity or organization. Stakeholder Capitalism is an upgrade to what we called traditional capitalism which was only focused on shareholders' benefits. Historically we are taught in business schools that a business's sole objective is to generate profit for shareholders. We should be beyond this right now.

Several movements that emerged strongly in the beginning of this century already addressed the idea that capitalism is an unbalanced system, and that it needs to consider the other stakeholders in the quest to generate results. For instance, we have **Conscious Capitalism**, of which I lead the practical application through the publication of the Conscious Capitalism Field Guide (HBR Press 2018) in which we explore "stakeholder integration". Michael Porter's **Shared Value** also highlights the need to generate value for everyone involved and not only for shareholders. **Circular Economy** rethinks capitalism to the extent that it includes the environment as a major stakeholder in a systemic way in its approach to generating value. Even the **Triple Bottom Line** that emerged in the last century already addressed this idea in a more simplistic way - only 3 stakeholders: shareholder-Economy, social-community, and the environment.

In any case, the idea that a company should just generate profit for shareholders, an idea defended by Milton Friedman (Nobel Prize for Economics) is outdated and defeated. Through the research presented in the book *Conscious Capitalism Field Guide*, we demonstrate that when an organization focuses on generating value for all interested and affected parties, the financial results are up to 7 times greater than the market's average performance in the long term (15 to 20 years).

Although this idea seems new, it is nothing new in economic circles like Davos - World Economic Forum. These practices of conscious capitalism are longstanding. We can even say that it has always existed since the human being started to undertake business activities. The entrepreneurial activity is an act of serving, of intending to improve something. Improving a service, a product or our life or even for the most altruistic, improving the world.

What happens then during this journey, one that is born with a good intention and ends up focusing only on financial results?

This is not exclusive to the few, it is very easy to get lost on this entrepreneurial journey. A decision to achieve short-term results, puts us in a vicious circle of running after the next shortcut. Another shortsightedness is when we focus on the "ego-system" instead of the ecosystem. When leaders work for the bonus, the appreciation of his shares or options, naturally they lose the eye to improve something for the community but remain only to improve their bank account balance.

The idea of focusing on stakeholders is a step forwards from the shareholder approach, but it is not sustainable in the long run, when in isolation from other basic foundations of good capitalism.

This brings us back to the five principles of more conscious capitalism.

- Every organization needs to have a clear purpose and practice in relation to different stakeholders. This higher purpose needs to be present in all decisions, in the development of innovations, and in all internal processes and external interactions.
- Every organization needs to have a leader who works to serve, to expand the contribution, the value creation and not to expand the balance of their bank account. The systemic approach of the leader ensures that the purpose is being applied in order to leverage the generation of value for all stakeholders.
- Every organization needs a responsible culture so that values and rituals perpetuate the intention of the leader who created the organization and its purpose, making all stakeholders behave in favor of this greater cause.
- Every organization needs to recognize the interdependence of the system, because without customers, suppliers, employees, communities, the environment, shareholders and others, no company would exist. How can a business succeed when nature, when the ecosystem is dying? The fact that we recognize this interdependence and create communication channels between the different stakeholders, allows us to innovate more efficiently, grow in a more structured way and generate value in multiple dimensions and multiple connections. We call this a 'win6' (win-win-win-win-win-win), where transactions stop being utilitarian relationships to become systemic value creation, enhancing the connections and interdependence of the system.

And finally...

- Every organization needs to generate different forms of value. Financial value is the fuel that drives the entire system, but social, emotional, cultural, environmental, spiritual, technological values and so on, need to be generated constantly. These non-financial values are like accumulated potential energy to help you go through difficult times. And this energy can be converted into financial value whenever possible (more sales, more profit, better efficiency, greater effectiveness, more innovation and so on).

These five fundamentals are, what ensure that Stakeholder Capitalism remains standing in the long run. The evidence that we need to change the way we operate comes from afar, but recently it is even more evident.

In **2017**, BlackRock CEO Larry Fink, in his year-end letter to CEOs of publicly traded companies, highlighted the need for companies to have long-term sustainable plans, since BlackRock customers have been with them for a long time, more than 20 years, and should continue for much longer - not just until the end of the next quarter. (Black Rock controls approximately \$7 billion in assets)

In **2018**, we published an update on the performance of companies that apply the fundamentals of Conscious Capitalism, demonstrating that maximizing shareholder results is to leave value behind, as companies that optimize value for all interested parties through the five fundamentals of conscious capitalism generate value 7 times higher financial results than the average of companies on S&P500 in periods of 15 to 20 years.

In **2019**, 181 CEOs of the largest companies in the United States signed a manifesto that they would be focusing on generating value for all stakeholders instead of remaining focused exclusively on generating financial results for shareholders.

Only at the end of last year, 2019, these messages were accentuated. Larry Fink's year-end letter already highlights an even stronger demand. Companies must focus on regenerating, not just on producing financial results.

And early in **2020** the theme raised by the World Economic Forum in Davos began highlighting the need for a differentiated approach that they called Capitalism for Stakeholders.

The reality is that the idea will not stand nor is it sustainable without the other 4 fundamentals.

We can focus on all stakeholders, but the idea loses momentum when there is no greater cause behind it - it cannot be just making more money for longer.

What is the cause of your organization?

We can focus on all stakeholders, but if leaders are still only concerned with the quarter's results or their bonuses, the ego will stand out from the ecosystem and the process will fail.

What cause does your leadership serve? Their own cause or a collective cause?

We can focus on stakeholder but still live in the transactional and utilitarian relationship with them, or we can awaken a powerful purpose and through our business create multiple dimensions of value in a systemic approach to doing business.

If you sell service or products, you are not an ecosystem, your purpose and your culture can transform your organization in an ecosystem, in a movement where all stakeholders engage for a greater good.

What are the values that guide the culture of your organization? What are the rituals that engage and celebrate the development that your organization is creating?

We can focus on generating financial results for everyone involved, but life guarantees that we will pay taxes and will die one day; but, it is also guaranteed that we will go through yet another crisis. Only non-financial values accumulated during the boom periods ensure us an easier journey through the stormy moments of crisis.

Can you see values different from the financial ones being generated by your organization and the relationships it creates?

Finally, we can focus on all stakeholders, but effectively not doing the right thing.

How are you listening to your stakeholders? What are the channels to listen to them? How do we respond to stakeholder concerns and ideas?

So, Stakeholder Capitalism is yet another great idea that may not stand alone. It is more of an idea without mechanisms for implementation and practice. It is another important idea in the process of bringing this mindset of changing the operating system of capitalism to mainstream.

We have so far rather operated as an extractivist form of organization and we need to move forward to a more cooperative and collaborative model.

The intention is that somehow, those of you who are reading this will have a moment of epiphany, have a *Click*© (*C-cause, L- leadership, I-interdependence, C-culture and K-value*) and start the journey to make your business more conscious to improve your chances of being in operation 10 or 20 years from now.

We are in a pivotal moment of humankind history. Socialism has taught us how to distribute wealth but failed in producing it. Capitalism has taught us how to produce wealth but failed to distribute it.

We need a system that produces and distributes wealth fair and effectively and at the same time regenerates our world. Stakeholder Capitalism is a piece of the puzzle, as well as Socialism and Capitalism itself.

We need people to come together, bring their own special pieces of the puzzle and build the new solution with no ego, but with the intention to serve and build the humankind legacy.

Are you convinced you need to change? Are you ready for this change? Do you know where to start?

Learn more through the book *Conscious Capitalism Field Guide*, as many of the answers are detailed in this Conscious Business Journey proposed by the book.

Literature: **Conscious Capitalism Field Guide: Tools for Transforming Your Organization**, Raj Sisodia (Autor), Timothy Henry (Autor), Thomas Eckschmidt (Autor), (English), Paperback, 10. April 2018, Verlag Harvard Business Press Books; ISBN: 9781633691704

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