COMMENT

Responsible capitalism is not a dream, it's a necessity

Boardrooms must take up the challenge that Covid has brought to end the primacy of shareholders

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A year ago the Business Roundtable at Davos made a commitment to shift from shareholder to stakeholder capitalism. This summer, BlackRock's chief executive Larry Fink stated stakeholder capitalism is set to become even more important in a post pandemic world.

And yet a recent study by A Bird's Eye View in partnership with the FT Board Director Programme members found only 50pc surveyed believe the crisis will "accelerate" the shift to stakeholder capitalism, and the majority believe a transition will take up to 10 years to achieve.

The pandemic has revealed the limitations of today's economic model. It has highlighted the interconnections between business and society across all sectors but has also accentuated social inequity. Indicators from the World Economic Forum raise fears the economic fallout from lockdown will only widen this gap. Many associate businesses as central to the system which has contributed to this injustice.

Leaders who are connected with the world they operate in and conscious of their organisation's impact on society, stand a better chance of navigating the uncertainty and leading the transition to a new and more inclusive economy.

How can boards get ahead of the movement to help shape the future? Eight in ten board members surveyed are aware they need a better level of engagement with stakeholders to govern more effectively.

In an effort to raise attention to issues requiring change, stakeholder actions often manifest themselves through punishing behaviours. Examples include the consumer rejection of Brunei-owned hotels, the advertiser boycott of Facebook, divestment by banks in coal companies, BlackRock's vote against ExxonMobil for failure to make progress on climate change targets, and an employee walkout against unsafe work conditions at Target.

Under the 2006 Companies Act, UK listed companies are now required to detail how directors engage with a wide range of stakeholders, and by 2022 will need to report material information on climate change, risks and metrics in line with the Task Force on Climate-related Financial Disclosure. While there is growing concern about the threat of government regulation, the study found that only 15pc of board member's views on stakeholder capitalism were influenced by this.

The crisis is revealing important issues with far reaching consequences that need to be tackled. And yet the current methods of pressure are not creating the scale, speed or urgency of change needed.

Encouragingly 80pc surveyed believe business has a growing responsibility to increase the wealth of society and not just shareholders. However, just under half are convinced there will be a shift from shareholder primacy to a stakeholder capitalism model. Almost two-thirds think it could take up to 10 years for the principles of stakeholder capitalism to be embedded into their organisation's governance model and practice.

The research found there are three lines of thought – 50pc of board members believe the crisis will accelerate the shift to stakeholder capitalism, 30pc are undecided and 20pc believe the shift will not happen. While a number of respondents felt the transition would vary by sector and organisational size, board members on listed and family owned companies are more likely to lead the change. Internationally based board members are more supportive of this shift, as are female board members.

The findings reinforce the benefit diverse attitudes and values as well as experience can bring to boards. They also raise the question about the commitment, pace and breadth of multi-dimensional change required by boards to shape the future.

We are about to embark on far-ranging changes to how society, government and private enterprise collaborate. No one individual, organisation or state can do this alone.

The board of the French conglomerate Danone, enabled by legislative changes, recently created a new stakeholder capitalist resolution and shareholders voted to legally embed environmental, social and governance goals in the company's bylaws. Last year Capita elected two employees to the board to bring an employee perspective and increase diversity of thought.

The challenge for boards should not be how long change should take, but how boardrooms collaborate more effectively to bring together new skills, ways of thinking and working to speed up change.

Only 9pc of FTSE All-World companies currently link executive pay to environmental, social, and governance criteria, according to Sustainalytics.

The majority of board members surveyed felt new definitions and clear criteria are essential and could be embedded into existing remuneration policies to reward the creation of stakeholder value.

The stakeholder appetite for change is already there and growing. To effectively support and guide their organisation's transition into a new economic model, boards need to be more in sync with this movement. How businesses work together with governments and civil society for the common good is critical if the shift to stakeholder capitalism is to be accelerated.

Now the challenge is for boards to step forward to support management to ensure that employees, customers, suppliers and communities are protected as much as profits; greater priority is given to more equitable wealth distribution; and to ensure their organisation's environmental impact is embedded in its valuation. Responsible capitalism isn't just a long-term ambition. It's a necessity for today.

The coronavirus crisis has placed companies' social contracts far higher up the agenda in the boardroom. The transition is here and happening at speed, and it's not just Larry Fink who thinks so. And it can't take 10 years.

Helena Wayth is chief executive of A Bird's Eye View