

Shareholder Value and Stakeholder Capitalism – Bridging the Divide

A growing body of opinion asserts that the current model of capitalism has failed because of an excessive focus on shareholder interests without sufficient regard to other stakeholders. Its proponents advocate an alternative form of capitalism – stakeholder capitalism.

Investors can, and should, use their position of influence to bridge the perceived divide in the evolving debate about the role of shareholders and the expectations of stakeholders claims a new report ([view here](#)) from The Investor Forum and London Business School’s Centre for Corporate Governance (CCG).

What does stakeholder capitalism mean for investors?

A year-long collaboration between the Investor Forum and the CCG, recognises the urgent need to restore confidence in the behaviour of companies and investors, and the challenges involved in reconciling stakeholder and shareholder interests.

The authors present a framework to address these challenges at a time when attitudes towards business are rapidly evolving, systemic risks such as climate change are crystallising, and expectations of what constitutes responsible corporate behaviour have radically changed.

This report incorporates a rigorous review of the competing models and does not find a compelling case to replace the current model of shareholder value with a stakeholder model of governance. Instead, it offers practical insights to guide investors in how best to evaluate and address stakeholder considerations.

The report calls for action in two areas:

- a systematic approach to review, prioritize and respond to stakeholder issues; and
- client mandates that align interests and make it clear when and how investors will act on those issues.

The mandate for action

“Investors are privileged to have the opportunity to exert significant influence over corporate priorities. At a time of huge economic and social change, it is essential that this influence is used wisely and with legitimacy, in accordance with client mandates and fiduciary duty, to support the creation of sustainable value and to rebuild confidence across the breadth of society” said **Andy Griffiths**, Executive Director of The Investor Forum.

Investors can play a key role in addressing stakeholder issues provided their decisions and actions are rooted in client mandates and fiduciary duty, which in turn should inform a transparent prioritization of stakeholder perspectives.

The ‘triple test’

Based on rigorous academic research and input from senior investors from the Investor Forum community, the authors have developed a ‘triple test’ for investors to use in their decision-making on stakeholder initiatives. To decide which stakeholder issues to prioritise:

- the impact should be ‘material’ in its widest sense, which could extend well beyond financial materiality;
- there should be a reasonable prospect that investor action can be effective; and
- the investor should be well placed to act relative to other parties.

“Just because investors can act on an issue does not mean that they should. Investors may not have a client mandate to do so, or some other parties may be much better placed to have an effective impact” said Dr **Tom Gosling**, Executive Fellow of the CCG.

The report provides detailed frameworks to help shareholders prioritise stakeholder issues, taking into account the impact a company has on a stakeholder as well as the impact of a stakeholder on a company.

The authors counsel that investors need to be rigorous and evidence-based in how they apply the frameworks laid out in the report. There is an ever-present risk of being seen to over-reach into the political realm or of pursuing social goals that conflict with the investor’s fiduciary duty to clients.

“Everybody wants their issue to be promoted. But one person’s essential priority is another person’s fundamental error” warned Dr. Gosling on the need for investors to objectively assess the issues they are presented with.

Conclusion

The report concludes that the investor community has a legitimate role in addressing stakeholder issues, both within individual companies and when dealing with market-wide, systemic risk. However, investors need to be extremely clear on their mandate for pursuing such issues and on the likely overall effectiveness of their actions.

“Establishing a foundation to address the challenges to the model of shareholder value is a major undertaking. But only on this foundation will investors have a sound basis for determining how they will reconcile responsiveness to stakeholder issues with adherence to fiduciary duty. And through that process create the circumstances for shareholder value to be recognised as part of the solution rather than part of the problem” said Mr. Griffiths.

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What does stakeholder capitalism mean for investors? is published by The Investor Forum and London Business School’s Centre for Corporate Governance (CCG) and can be downloaded [here](#).

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Notes to editors:

The Investor Forum

- The Investor Forum is an independent, not for profit organisation founded in October 2014. At the end of 2021, 56 organisations are Members, including asset managers, insurance companies, pension funds, and endowments.
- Members have ~£24trn in Global assets under management, and £805bn invested in UK equities, which represents ~33% of the FTSE All-Share market cap.
- The purpose of the Investor Forum is to position stewardship at the heart of investment decision making by facilitating dialogue, creating long-term solutions and enhancing value.
- The Investor Forum has built a unique public record of 43 comprehensive collective engagements with the Boards of UK-listed companies since its inception, covering issues from succession and governance to the direction and execution of strategy.
- The executive team comprises senior investment professionals with international experience in portfolio manager, asset owner, governance, board positions and investment banking sales and research roles.

The Centre for Corporate Governance, London Business School

The business world is suffering from a lack of trust with citizens around the globe believing that companies pursue short-term profit and enrich their executives at the expense of long-term growth and wider society. Effective corporate governance is critical to ensure that companies focus on the long-term benefits of both their shareholders and stakeholders.

The Centre for Corporate Governance's mission is to use rigorous research to influence the practice of corporate governance. It provides a platform for two-way debate and the sharing of ideas between academics and practitioners.

The Centre focuses on the following overarching themes:

- Responsible business
- Firm responses to crises
- Executive pay
- Investor stewardship
- Shareholder payouts
- Short-termism
- Common ownership
- Boards
- Investor rights
- Blockholders