Stakeholder Capitalism Check: Have We Accounted for *All* Stakeholders?

by Joanne Bauer, CoFounder, Rights CoLab

The August 2019 stakeholder capitalism manifesto of the Business Roundtable has been widely criticized as all talk and no action. While we may not see many concrete changes in corporate conduct yet, the Business Roundtable statement is a manifestation of real attitudinal shifts among consumers, millennial and Gen Z job seekers, and, yes, even shareholders, which will drive significant corporate governance reforms in the near future. The fallout from the COVID-19 pandemic has only reinforced the necessity of these reforms.

But there is another cause for caution about the revolutionary potential of "stakeholder capitalism." Is the shiny brass ring of a new capitalism that we are reaching for looking out for *all* stakeholders -- or only some?

This is just another expression of an inherent problem with the concept of corporate social responsibility, a problem that also applies to "ESG investing" – who decides what responsibility entails? When there are no clear standards, even if it is citizens rather than businesses who decide, we are left only with what can be called "discretionary CSR."

It was this "business decides, anything goes" version of CSR that gave rise in the 1990s to the call for mandatory standards. The field of business and human rights (BHR) was born in response, pointing to international human rights law as the hard benchmark against which corporate conduct should be assessed. In contrast to CSR, which focuses on the benevolent intentions of the corporation, the BHR corrective trained our attention on the impact of corporate conduct on vulnerable people and communities – the neglected stakeholders of CSR.

The danger inherent in the emerging stakeholder capitalism debate is that they remain neglected stakeholders. This is not a problem that can be fixed by civil regulation, which takes place in ways that favor consumers with purchasing power and employees who have a voice, at the expense of politically and economically marginalized members of society. The hazard of civic regulation is that it replicates the inequities within society so that the results will skew away from the interests of those affected.

If stakeholder capitalism is to redress systemic racism and structural economic inequality, it must get its stakeholders right. It must attend to the rights of the most vulnerable people, who are most impacted by each corporation's business activities, especially in times of crises.

The Test of Corporate Purpose (TCP) project has made a start on this project by teaming up with the big ESG data provider, TruValue Labs (TVL). TVL distinguishes itself from the growing marketplace of ESG information providers by purveying "alternative data" that capture signals of "sentiment" – in other words, data derived through natural language processing and machine learning processing of written sources generated by civil society, including social media and NGO reports. In this way, TVL offers a corrective to a CSR ecosystem that has long relied solely on corporate self-reporting.

But for a project focused on reducing inequality, it is essential to ask: Do the sources upon which TVL relies capture the experience of the right stakeholders and capture it fully? Do these sources fully reflect the experiences of child laborers in the agricultural fields in the U.S., or workers in the factories in Bangladesh, Vietnam, and Cambodia supplying the big brands? Do they tell us about communities displaced by a mining project in Guinea that supplies bauxite to the companies that make our cars and soda cans?

Sometimes they do. Abuses may be brought to light through civil society organization (CSO) reports that data science can then pick up. But extremely sensitive issues, such as land rights or abusive working conditions of migrant laborers, often do not appear in media or CSO reports because the victims are afraid or unable to report, or because advocates who know the facts must proceed carefully, knowing that publicity can bring further harm to the community or the worker. As a result, investors often receive only spotty or outdated information.

There is no easy fix for this hole in our data, but we must expand our efforts to redress it. To avoid replicating societal inequities in our efforts to revise the role of corporations in society, investors, corporations, and data providers must bring more human rights expertise in house and engage meaningfully with human rights defenders who have access to the facts.