



Stakeholder Capitalism and ESG as Tools for Sustainable Long-term Value Creation

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Recent high profile investigations into greenwashing, the ongoing war in Ukraine and soaring energy costs have prompted questions as to the purpose and value of ESG, and more broadly, stakeholder capitalism. Some have criticized stakeholder capitalism and ESG as “woke” politics, a threat to shareholder interests and a distraction for boards and management. Others have questioned whether stakeholder capitalism and ESG can straddle “doing good” and “doing well.” Uncertainty also abounds as to what ESG truly means.

We believe stakeholder capitalism and ESG are fundamentally frameworks to enhance the sustainable long-term value of a corporation. Both are tools for boards and management to guide business strategy, risk management and capital allocation in a manner that best serves the financial well-being of a business, and in turn, the interests of shareholders. Time and again, stakeholder and ESG considerations have driven positive societal outcomes (climate and DEI being among the examples). But stakeholder capitalism and ESG, as we and many investors understand them, do not lead with a political or moral agenda. The north star of stakeholder capitalism and ESG is driving sustainable long-term value creation.

Stakeholder capitalism is neither new nor a niche view. Since the Great Recession, acceptance of and reliance on the Friedman doctrine of shareholder primacy has been widely eroded, as a growing consensus of business leaders, economists, investors, lawyers, policymakers and important parts of the academic community have embraced stakeholder capitalism as the key to sustainable, broad-based, long-term global prosperity.

Stakeholder capitalism recognizes that corporations do not exist in a vacuum, but rather each relies on a multitude of stakeholder contributions and interests from employees, customers, suppliers, communities and, more broadly, society and the environment at large in order to operate effectively and create value. Since the adoption by the International Business Council of the World Economic Forum of [The New Paradigm of Corporate Governance](#) in 2016, stakeholder capitalism has been adopted in the [2020 Davos Manifesto](#), the [Business Roundtable](#), the [British Academy's Future of the Corporation Project](#), the [Enacting Purpose Initiative](#), the [UK Financial Reporting Council](#) and the [Investor Stewardship Group](#).

To reiterate, we summarize stakeholder capitalism as follows:

The purpose of a corporation is to conduct a lawful, ethical, profitable and sustainable business in order to ensure its success and grow its value over the long term. This requires consideration of all the stakeholders that are critical to its success (shareholders, employees, customers, suppliers and communities), as determined by the corporation and its board of directors using their business judgment and with regular engagement with shareholders, who are essential partners in supporting the corporation's pursuit of its purpose. Fulfilling this purpose in such manner is fully consistent with the fiduciary duties of the board of directors and the stewardship obligations of shareholders.

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