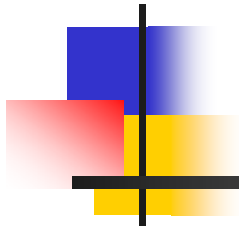


Stakeholder Capitalism

The Case For and the Case Against



Alex Edmans

LBS Centre for Corporate Governance and ECGI

December 2020



Introduction

- Assume that companies should be run in the interest of shareholders
- Define stakeholder capitalism
- “Stakeholder capitalism seeks to create shareholder welfare only through creating stakeholder welfare”



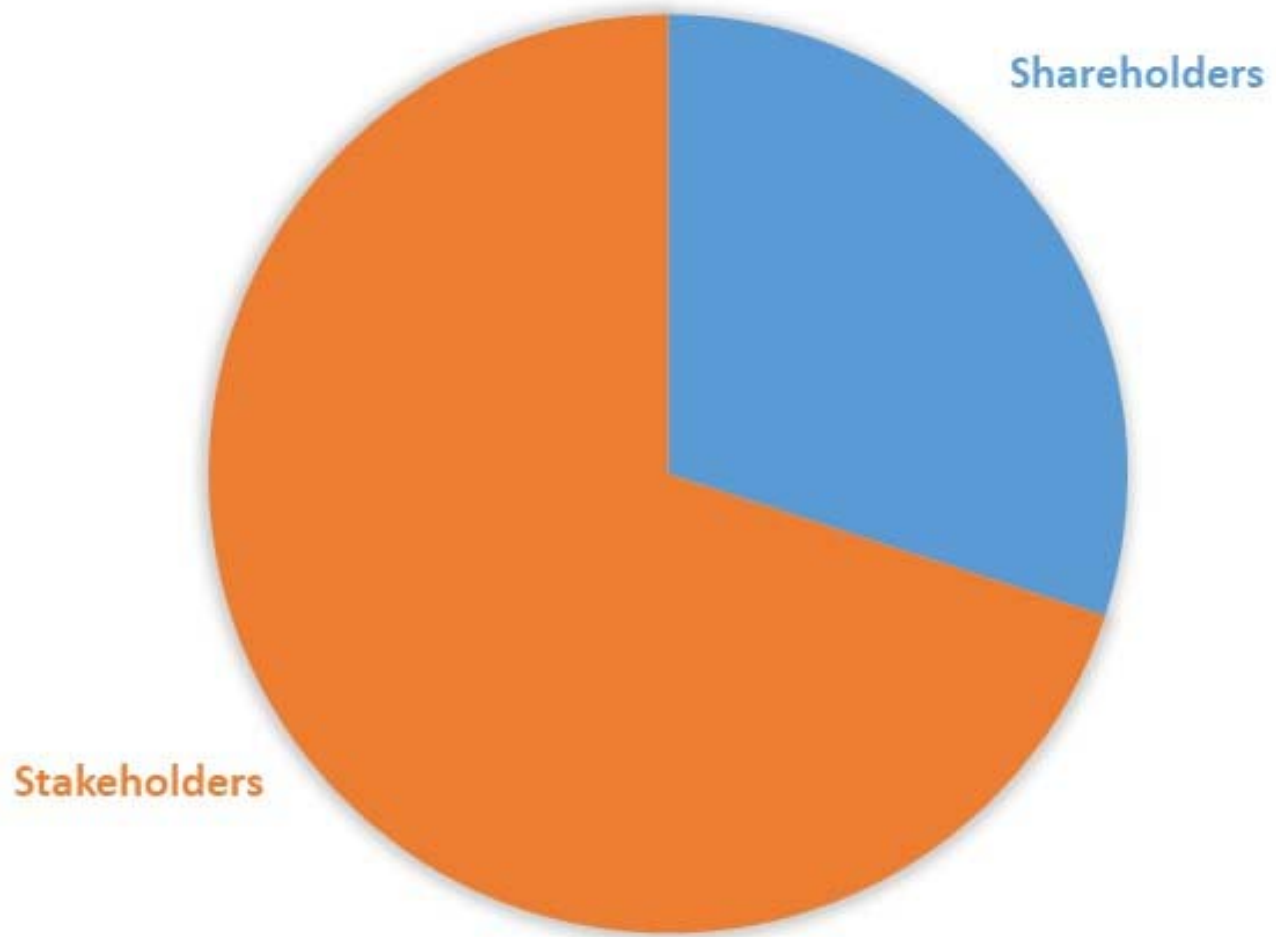
Introduction

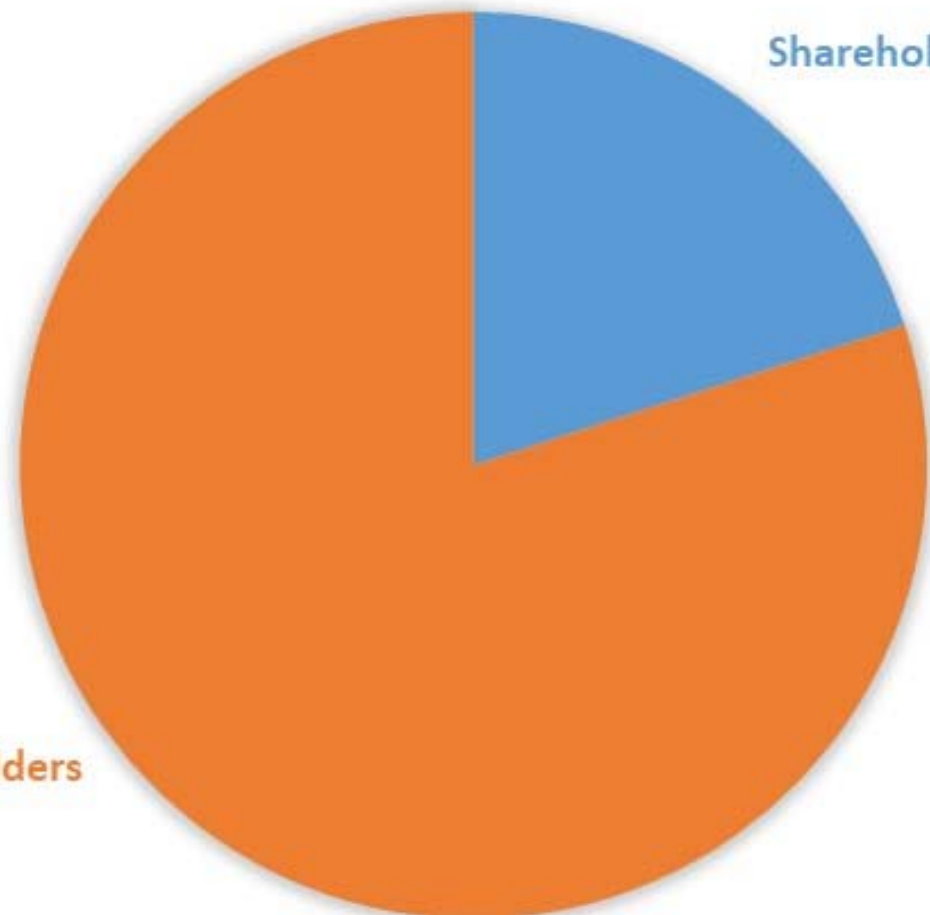
- Assume that companies should be run in the interest of shareholders
- Define stakeholder capitalism
- “Stakeholder capitalism seeks to create shareholder welfare only through **creating stakeholder welfare**”



Introduction

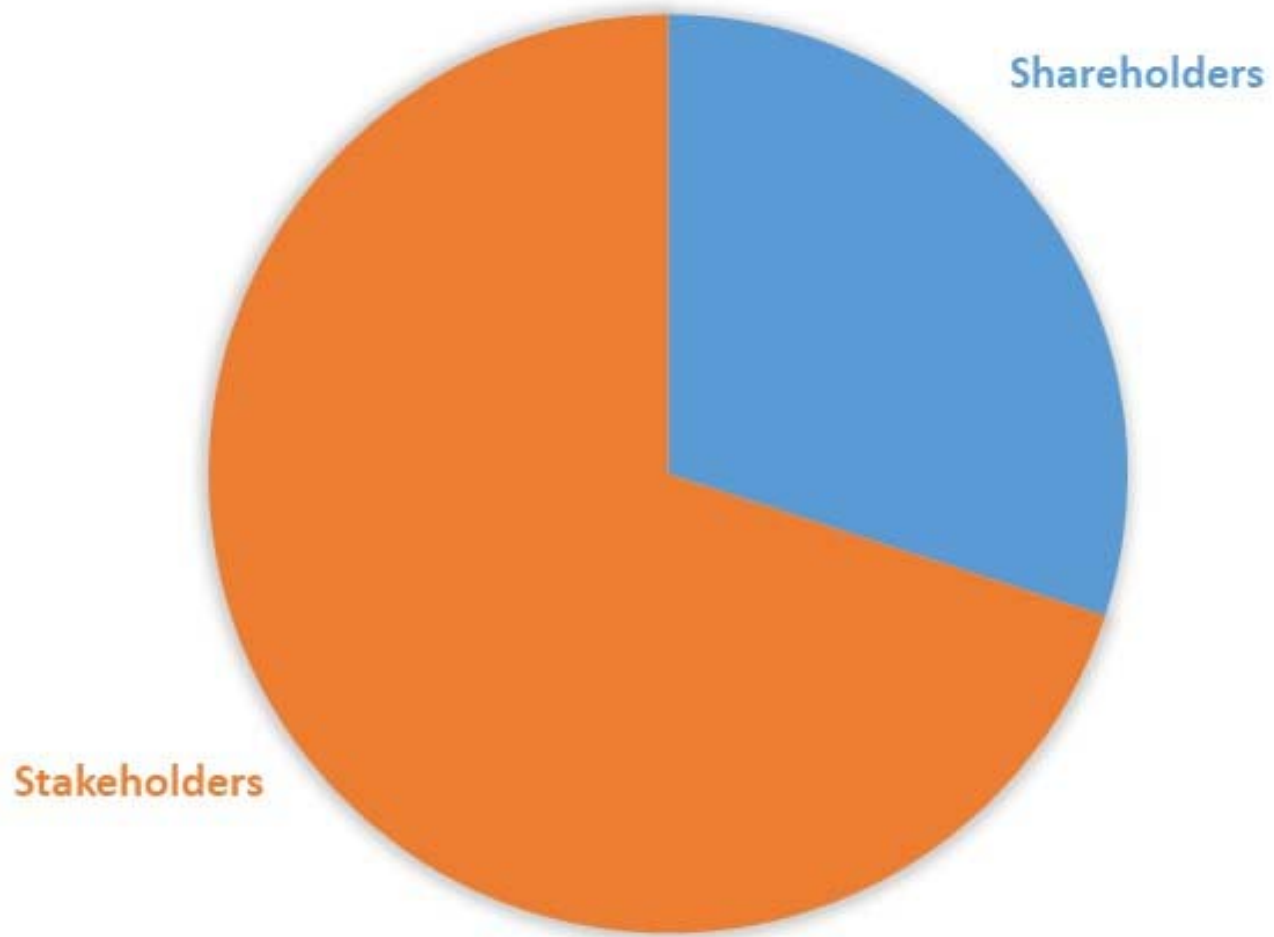
- Assume that companies should be run in the interest of shareholders
- Define stakeholder capitalism
- “Stakeholder capitalism seeks to **create shareholder welfare** only through creating stakeholder welfare”

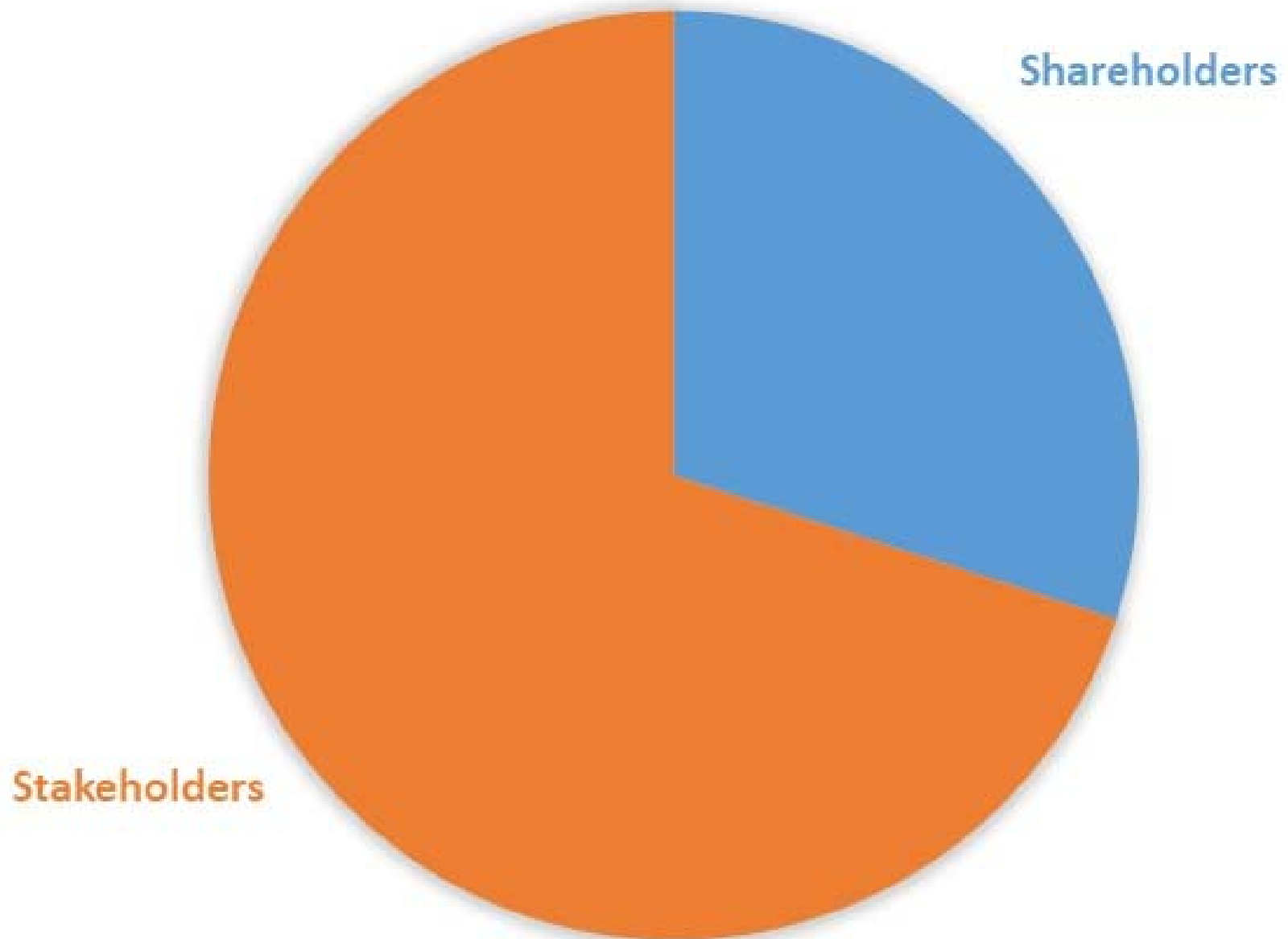




Shareholders

Stakeholders







Introduction

- Assume that companies should be run in the interest of shareholders
- Define stakeholder capitalism
- “Stakeholder capitalism seeks to create shareholder welfare **only through** creating stakeholder welfare”



1. Stakeholder Capitalism Can Increase Shareholder Wealth

- Shareholder capitalism: profits are the end goal; stakeholder value is an *instrumental* way to create profits
- Stakeholder capitalism: stakeholder welfare is the end goal, pursued *intrinsically*; profits are a by-product
- In a world of uncertainty, stakeholder capitalism is practically more useful
 - Vodafone: “to build a digital society that enhances socioeconomic progress”

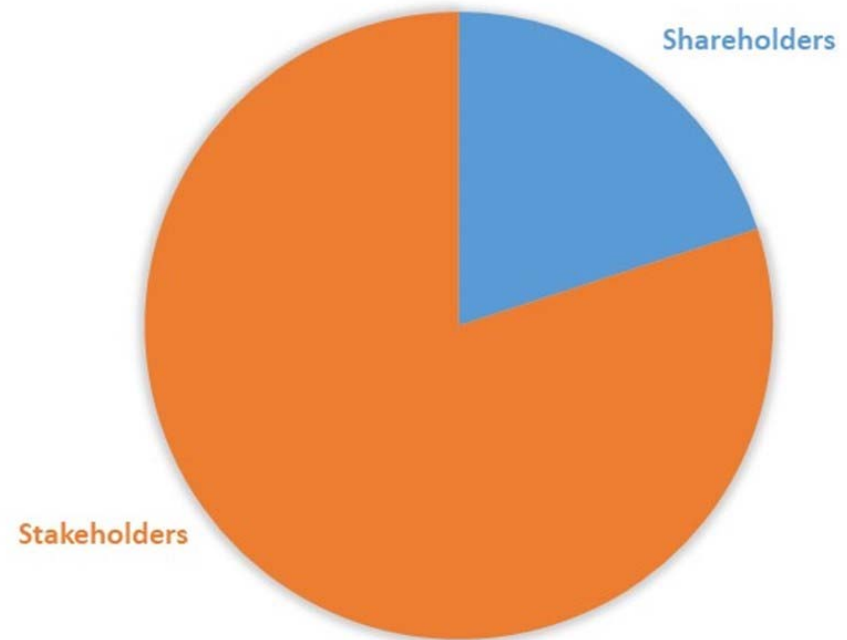
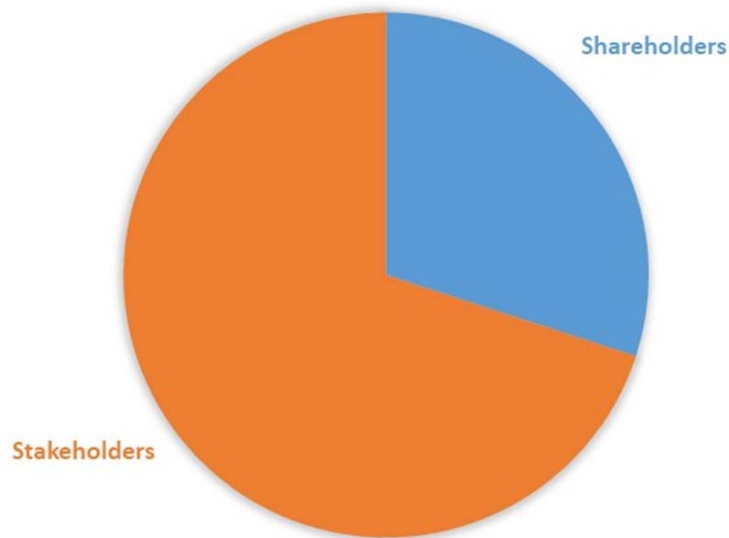


1. The Practical Value of Stakeholder Capitalism

- Evidence that the stock market misvalues intangibles:
 - Edmans (2011, 2012) on employee satisfaction
 - Khan, Serafeim, Yoon (2016) on material stakeholder issues
 - Chan, Lakonishok, Sougiannis (2001) on R&D and advertising
 - Banker, Huang, Natarajan, Zhao (2019) on SG&A
- Bennett, Erel, Stern, Wang (2020) on paid family leave
- Still need a decision rule, but one based on principles
 - “Grow the Pie”: multiplication, comparative advantage, materiality
 - No rules doesn’t mean ambiguity or no accountability

2. Stakeholder Capitalism Can Increase Shareholder Welfare

- Shareholder wealth \neq shareholder welfare
 - Hart and Zingales (2017)





2. Say-on-Purpose

- Bebchuk and Tallarita (2020): only 2% of companies that signed the BRT statement ran it past the board
- “How to Give Shareholders a Say in Corporate Social Responsibility” (with Tom Gosling)
 - A way for companies to legitimately take stakeholder interests into account while retaining shareholder accountability



Conclusion

- Stakeholder capitalism is not
 - Anti-shareholder capitalism
 - Managerial capitalism
- Stakeholder capitalism, correctly defined:
 - Has practical value in increasing shareholder wealth
 - Allows companies to increase shareholder welfare