

## The GRI Perspective

# Towards stakeholder capitalism: how we can get there

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When BlackRock's CEO Larry Fink stated in *his annual letter*: "*stakeholder capitalism is not woke, its capitalism*" – we at GRI were in firm agreement. Twenty five years ago, we were established on the basis that transparency and mutually beneficial relationships between organizations and their stakeholders is good business. We call this the multi-stakeholder approach.

It is easy to say that companies should move away from a shareholder/investor focussed strategy towards a stakeholder-oriented model. Yet what does this mean in practice and how can we ensure that the promises companies make on issues such as net-zero, social inclusion, equal pay, diversity, or ethical tax behaviour are kept?

## What stakeholder capitalism really means

The widely supported neoliberal economic view, especially popular since the 1980s, entails that a company is accountable only to the shareholders and investors. In this context, 'profit maximalization' is the company's principal duty. Social matters are the responsibility of the government. At present, there are many who believe *this view* (in its extreme form) is no longer tenable.

The objective of value creation by the company (purely) for the benefit of shareholders is moving towards a broader view, which takes account of social engagement and the impact on climate and society for a larger group of stakeholders. Why? Because not considering these topics will hurt your reputation and brand, your ability to hire staff, mitigate and manage environmental risks (within the value and supply chain) and your access to capital markets, to name a few.

Recent milestones in this movement include *The New Paradigm of Corporate Governance* from the International Business Council of the World Economic Forum (WEF), the subsequent *2020 Davos Manifesto*, as well as the adoption of stakeholder governance by the *American Business Roundtable*.

## Understanding your stakeholders

An interest (or 'stake') is something of value to an individual or group, that can be affected by the activities of an organization. So, there are many individuals and groups that have the potential to be affected, for example: business partners, civil society organizations, consumers, customers, employees, governments, local communities, NGOs, shareholders and investors, suppliers, trade unions, and vulnerable groups. Together we call them *stakeholders*.

The balancing act businesses face in a stakeholder centric economic model is to remain attractive to investors while taking into account the interests of your stakeholders. Alas, that is not an easy thing to do. First of all, you cannot please everyone. Secondly, you need to make money to stay competitive. Some business decisions may conflict with certain stakeholder's interests.

Explaining to stakeholders your actions to become (more) profitable while (trying to) safeguard their interests is a powerful tool to show the world your contribution to the economy, environment and society. That is where financial reporting standards and GRI's sustainability reporting standards come into play.



## BlackRock's 'missing link'

Larry Fink rightly states that *“through effective stakeholder capitalism... capital is efficiently allocated, companies achieve durable profitability, and value is created and sustained over the long-term”*. However, his assessment fails to endorse sustainability reporting outside the provision of financially material information for investors.

BlackRock's recommendation to report under TCFD covers a single issue – being climate – focused only on investors and the financial impact of sustainability issues on the reporting entity itself. As relevant as TCFD disclosures are, this does not reflect the true definition of stakeholder capitalism.

The good news is that there are standards available that takes business impact on environment, socio-economic and governance issues into account for a multi-stakeholder audience: **the GRI Standards**. Already voluntarily used by over 10,000 companies – including 73% of the world's 250 largest companies – they are the *most widely adopted sustainability reporting standards in the world*. It is no surprise that in 2020 when the WEF published their paper called *“Measuring Stakeholder Capitalism: towards common metrics and consistent reporting of sustainable value creation”* on a core set of common ESG metrics, *17 of the 21 metrics were based on GRI disclosures*.

The needs of the world's economy, its people and environment go beyond climate metrics or investor interest alone. The topics of the top-10 most downloaded GRI Standards in 2021 clearly reflect this.

### GRI 306: Waste 2020

33,486 ↓

### GRI 403: Occupational Health & Safety 2018

27,191 ↓

### GRI 305: Emissions 2016

24,685 ↓

### GRI 303: Water and Effluents 2018

20,237 ↓

### GRI 302: Energy 2016

18,800 ↓

### GRI 201: Economic Performance 2016

14,682 ↓

### GRI 405: Diversity & Equal Opportunity 2016

14,379 ↓

### GRI 401: Employment 2016

12,723 ↓

### GRI 301: Materials 2016

12,621 ↓

### GRI 404: Training & Education 2016

11,535 ↓

These numbers prove that there is broader interest in sustainability issues. Moreover, companies around the world are not all impacted by environmental issues to the same extent, with many organizations facing relatively higher-pressure levels on social and governance matters. Furthermore, only looking at the financial impact companies face due to climate change is precisely the type of short-termism that the stakeholder capitalism model tries to dispel.

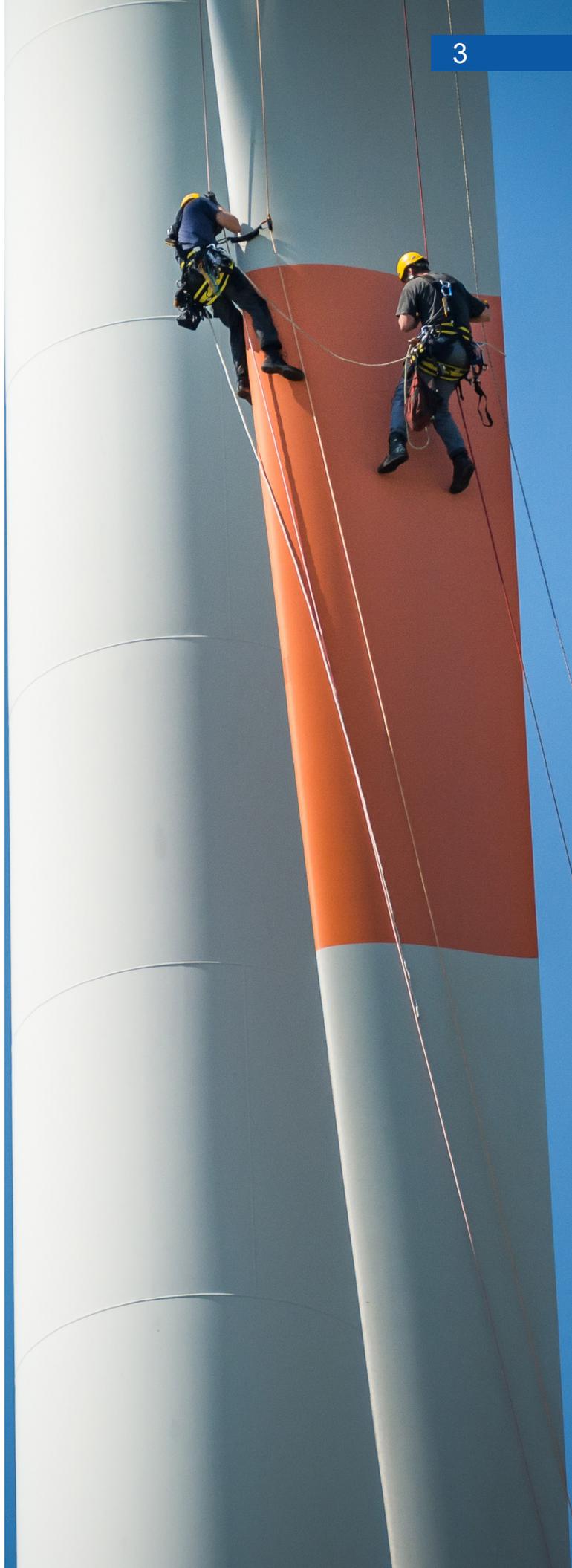
## GRI: bringing stakeholder capitalism into practice

The objective to generate profit should not be dismissed given that companies play an essential role in the creation of jobs and developing and scaling innovative technologies, which are crucial as the world seeks to shift from fossil to renewable energy.

However, companies also need to set targets that are aligned to their sustainability impacts, including the Sustainable Development Goals (SDGs). Applying comprehensive sustainability reporting and financial reporting means the company, asset manager, asset owner or rating agency can legitimately respond to calls for an approach that reflects both their profit-making mandate as well as responsibilities to the environment and society.

As Larry Fink put it, “*capital is not a right. It is a privilege*”. Therefore, let us reward those that are fully transparent about their impacts on environmental and socio-economic cohesion. That is why GRI is a firm supporter in the creation of a comprehensive corporate reporting system based on a **two-pillar structure** - for financial and sustainability reporting - with each pillar on an equal footing and mandated.

Shareholder capitalism without corporate reporting that incorporates the impacts of sustainability issues on value creation on behalf of investors makes little sense. But stakeholder capitalism without sustainability reporting on behalf of society makes no sense either.





## How we can help

We encourage all organizations to use GRI Standards, which we provide as a public good. Recognizing that to effectively apply sustainability standards requires support, we offer a range of products, tools and services to help.

Our **GRI Community** is a peer-to-peer platform for sharing and learning. While the **GRI Academy** has a training curriculum to enhance professional development on sustainability reporting.

## Our ask

Our standards are free to use but not free to develop. Creating and maintaining standards is time and resource intensive. To enable us to keep up the good work and stay on the leading edge of corporate sustainability reporting **we need your support!**

We are the international non-profit organization that reflects multi-stakeholder interests by developing and maintaining world-class sustainability reporting standards. If you would like to help us to remain so, we are happy to discuss other services you may require.

[Get in touch →](#)



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