DEVELOPMENTS THAT MATTER

Why Stakeholders' Concerns Depend on Long-Term Corporate Success

Last week, I took part in a conversation at the Bipartisan Policy Council on stakeholder capitalism and corporate governance.

Why this matters: Stakeholder concerns including Environmental, Social, and Governance (ESG), among others, have forced the attention of companies and investors.

Looking at long-term success: Stakeholders, investors, employees, consumers and others are a critical part of the corporate governance landscape, but companies must not lose sight of the long-term success of their businesses at the expense of well-intentioned but misplaced initiatives.

Flexibility needed: Take sustainability and diversity. Individual companies operate with a unique set of circumstances and it is up to each company to identify the best course to achieve sustainability and diversity goals. Mandating a one-size-fits-all approach will hinder progress.

There's a saying that when "everyone is responsible, no one is responsible." There's a corollary here with stakeholder capitalism: If companies are supposed to be responsible for everything and everyone, that can undermine their responsibility to individual parties–especially their shareholders.

The best way for corporations to be sustainable is through sustained profits, and the only way to achieve sustained profits is to operate under the rules of law and the norms and expectations of society–i.e. stakeholders.

Companies that aren't responsive to stakeholders' (and society's) concerns won't be profitable for long. Good ideas can come from both stakeholders and shareholders, but the ideas need to make sense for the sustained productivity of a company.

Ultimately, if a company can't focus on long-term gains, there won't be stakeholder initiatives to discuss in the future because there won't be a company there to execute them.

Read more:

- The Role of ESG in the Business Community

–Tom Quaadman, Executive Vice President, Center for Capital Markets Competitiveness