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Thank you,
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Real stakeholder governance requires a counter-weight to the power of wealth

22/1/20 - Nathan Schneider, Open Society Fellow, Assistant Professor of Media Studies at the University of Colorado Boulder

Stakeholder democracy should be the norm for corporations, writes OSF's
Nathan Schneider

This article is part of our Rethinking Corporate Governance blog series

On the other side of the world from the Washington DC headquarters of the Business Roundtable, I attended a social-enterprise conference where the Roundtable’s recent “Statement on the purpose of a corporation” was the talk of the convention centre.

With this call for stakeholder-minded governance, it seemed there was finally license for business to embrace social benefit as a goal equal to profits, and a new harmonious order was sure to ensue.

This was November 2019, and I was in Hong Kong, where pro-democracy protesters across town were being tear gassed by police. One night I caught a late dinner with one of the protesters, a street medic who told me the fight for democracy was probably futile, but it had to be fought. (The elections a few days later gave many activists a boost of confidence.)

Meanwhile at the conference, the organizers mourned the shortage of foreign speakers after many of them decided not to risk travelling through the protests. Our hosts longed for tranquility so they could get back to their social enterprising in peace.

Even we few foreign speakers who did attend got the message. If we said anything about current events we intoned sympathy for the city, but never support for the activists putting their bodies on the line in a global struggle for democracy’s future.

Yet there was something the protesters understood that the entrepreneurs did not: In nations, just as in companies, talk of stakeholder governance is empty if stakeholders have no power—power to be heard, to co-create, to disrupt.

As Paul Rissman has argued in this series, the Business Roundtable statement may serve to actually undermine the power of stakeholders by insulating companies from shareholder-activist pressure. And it is true: the statement contains nothing about how stakeholder voices will influence behavior, or how they will counter the self-interest of more powerful stakeholders—large investors and executives.
Stakeholder governance doesn’t happen through elite beneficence. It happens through stakeholder power. Where there is leverage, governance will follow suit. If business claims to be accountable to its more vulnerable stakeholders, the rest of us should ask: How can they force you to be accountable?

In the 20th century, the answer to that question was labour unions. Unions gave workers the power to exact fair wages and community benefits from their employers. Managers didn’t always like this, though they should have. The heyday of trade unionism was also the golden age of industrial business. But in many parts of the world today, labour has lost its leverage. Globalization, automation, and concerted anti-labour policies have ensured this.

Meanwhile, as many of the world’s most powerful companies are more like platforms than producers, relying on the employment relation for stakeholder leverage is no longer enough. These companies typically employ fewer people than the largest companies a generation earlier.

In addition to reclaiming lost labour power, we need to adopt strategies to ensure that multi-stakeholder corporations have to contend with multi-stakeholder counter-weights. As in the last century, effective counter-power will mean healthier economies.

Fortunately, we’re living in a time when momentum is building for radically rethinking the nature of the corporation, with US presidential candidates employee co-ownership and co-governance models.

There is also the new generation of ‘platform cooperatives’, where multi-stakeholder ownership structures are common, such as with distinct share classes for founders, employees, users, and investors. As with labour unions in the past, mechanisms such as these build counter-power into the core processes of the corporation.

For platform companies that directly employ a relatively small number of largely well-paid, highly-skilled executives and engineers, true accountability requires governance levers outside employment alone.
such as worker-directed pension funds, public banks, and withdrawable shares for stakeholder groups.

As with US government programmes that enable middle class homebuyers, rural cooperatives, and credit unions to access financial markets, under-capitalized stakeholders should be able to wield the power of finance just as the wealthy do.

An old proposal from Louis Kelso, the lawyer who also developed the successful Employee Stock Ownership Plan, would see a federal insurance pool encourage banks to help groups of people buy shares in the businesses and infrastructure projects they rely on.

If the rules of business finance were organized around stakeholders at least as much as around gambler shareholders, start-ups might someday see an “exit to community” as more attractive than selling shares to casino capital markets.

Democracy would not be a troublesome annoyance for business but a matter of course. We would no longer need elites deigning to endorse stakeholder governance. They would have no choice but to accept it.

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