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From principle to practice: Making stakeholder capitalism work

Just as with other business priorities, stakeholder capitalism is a matter of execution. Here are five steps to get it right.

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At a time of change—which means all the time—resilient companies do better, getting hurt less during downturns and then coming out stronger compared with the competition.[1] Resilient companies are prepared for bad times, are relentless about improving performance, and make decisions skillfully. An additional element can knit all of these attributes together into a stronger whole—“stakeholder capitalism.”

The principle of stakeholder capitalism requires business leaders to define their mission as creating long-term value not only for shareholders but also for customers, suppliers, employees, communities, and others. Profits and returns matter, of course; indeed, they are essential. But stakeholder capitalism defines “value” in broader terms. For example, creating a safe and healthy work environment above and beyond the minimum might save money in the form of reduced workers’ compensation payments. But it may also create more subtle benefits, such as greater employee security, well-being, and loyalty.

Embracing an ethos of stakeholder capitalism is not easy. Many companies, McKinsey included, don’t always get it right. There is evidence, however, that doing so can be good for companies regarding not only their reputations but also their performance. In a study that looked at 615 large- and mid-cap US publicly listed companies from 2001–15, the McKinsey Global Institute concluded that those with a long-term view—something that is essential to stakeholder capitalism—outperformed the rest in earnings, revenue, investment, and job growth. Other McKinsey research found that companies with strong environmental, social, and governance (ESG) norms recorded higher performance and credit ratings; other research has found that such companies perform better during crises.[2]

In a previous article, we explained the principles of stakeholder capitalism.[3] In this one, we set out a five-step approach to help companies put those principles into practice.

Step 1: Understand who the stakeholders are

Several years ago, a researcher found 435 different definitions of “stakeholders.” At the risk of adding a 436th, we suggest thinking about three broad categories (Exhibit 1):

— stakeholders who are inside the company, including employees, executives, the board, and shareholders

— those who are outside the company but interact directly with it, such as customers, suppliers, and non-shareholder investors, such as banks

— entities that are outside the company but are critical to its operations, such as governments, communities, and the environment

Admittedly, the categories are not as clear-cut as this suggests. Governments can be customers, too. An employee can also be an investor, a consumer, and a resident of the local community. And the environment is everywhere. That said, these categories provide a useful way to think about the subject; moreover, understanding the varying roles that stakeholders play can give deeper insight into their needs.

[1] Chris Bradley, Martin Hirt, Sara Hudson, Nicholas Northcote, and Sven Smit, “The great acceleration,” July 14, 2020, McKinsey.com.
[2] Mary Johnstone-Louis et al., “Business in times of crisis,” *Oxford Review of Economic Policy*, 2020, Volume 36, Number S1, pp. S242–55, academic.oup.com.
[3] Vivian Hunt, Bruce Simpson, and Yuito Yamada, “The case for stakeholder capitalism,” November 12, 2020, McKinsey.com.

Exhibit 1

Stakeholders can be placed into three broad categories, which depend on and connect and overlap with each other.

Not all stakeholders will be equally relevant for all companies, so it is important to decide where to start, based on the company's business model and values. A financial-services company might choose to prioritize financial-capability building because it is embedded in that sector and has expertise. An oil refinery, on the other hand, might decide to prioritize operational impact and therefore choose to address the local environment, such as air quality, traffic, or emissions.

Stakeholder groups are rarely homogeneous. Understanding the segments within each group can help companies to better understand their needs.

For example, employees can be segmented in many different ways: by demographic characteristics, such as ethnicity, gender, and age; by type of job (manufacturing or office work), or by their position in the organization (frontline or executive). In addition, employees have nonwork characteristics, such as health, debt, or family and caretaking responsibilities, that are vital to their well-being and productivity at work. Not everyone will want to disclose such personal details to a company, particularly if the level of trust is low. Those who choose to share will hold companies to a high bar for safeguarding that information and using it responsibly. And some stakeholder needs aren't within a company's remit to address. But understanding stakeholders in all their complexities is the first step to knowing what *can* be done.

The use of powerful analytics can help companies negotiate this complex and shifting territory. For example, while it is important to respect privacy and other ethical concerns, by using big data, artificial intelligence, and natural-language processing, companies can analyze and better understand what stakeholders are thinking.[4] McKinsey's research on diversity in the workplace used a natural-language-processing algorithm to discern employee sentiment—positive, negative, or neutral—as well as indicators of equality, openness, and belonging. Sources included employee reviews about the companies they work for on US-based public forums such as Glassdoor and Indeed. In an entirely different context, researchers applied this approach to gauging attitudes toward gold mines and found a positive correlation between positive stakeholder sentiment and financial-market valuation.[5]

Step 2: Understand stakeholders' needs and build trust

Creating change requires listening to stakeholders. At this stage, it is important to be open to all ideas and not to be constrained by feasibility considerations; that will come later. Listening is not a one-off exercise; needs may change over time, and companies will want to keep up. And understanding what stakeholders want or need doesn't mean companies have to act on all of those needs. For those they do choose to address, there will be many options.

In all cases, however, listening is critical to building trust—and without trust, stakeholder capitalism is impossible to achieve. According to the January 2021 Edelman Trust Barometer, business is the most trusted of the four institutions considered (business, nongovernmental organizations, government, and media) and is the only one seen as both competent and ethical—something that was not the case in 2020. Moreover, among employees, trust in their company rose in 18 of 27 countries; on the other hand, 56 percent of those surveyed believe business leaders sometimes are purposely misleading. Finally, stakeholders want to be more involved: 68 percent of consumers and 62 percent of employees surveyed believe they should have a say in corporate decision making.[6]

Internally, listening means understanding the experiences, expectations, and concerns of employees, executives, and members of the board. For example, Japanese electronics company OMRON encourages employees to share and develop their ideas for solving social challenges through the OMRON Global Awards (TOGA) program.[7] External stakeholders, such as government leaders and community members, also need to be heard, such as through conferences, summits, and town halls. Companies can also learn from what other companies are doing, such as by looking at the work of companies who rank highly on ESG scoring lists.

Supplement the listening tour with data. For employees, this could include items such as diversity metrics and satisfaction surveys. For example, Microsoft uses an internal sentiment analysis called the Inclusion Index[8] to understand whether employees feel a sense of belonging at work.

For consumers, analyzing buying behavior, price elasticities, relationship networks, and click-through rates are possible options to use. Update this information regularly to measure changes. The point is to get a baseline reading of the company's reputation and performance—for better or worse—and then to prepare to take action.

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[4] *USAPP*, "A new measure to assess companies' external engagement," blog entry by Witold Henisz, Dhruv Malhotra, and Robin Nuttall, January 12, 2019, blogs.lse.ac.uk.
[5] Sinziana Dorobantu, Witold J. Henisz, and Lite J. Nartey, "Spinning gold: The financial returns to stakeholder engagement," *Strategic Management Journal*, December 2014, Volume 35, Number 12, pp. 1727–48, onlinelibrary.wiley.com.
[6] *2021 Edelman Trust Barometer*, Daniel J. Edelman Holdings, March 2021, edelman.com.
[7] "Initiatives to support practice of the OMRON principles," OMRON, omron.com.
[8] *Official Microsoft Blog*, "The Microsoft Diversity and Inclusion report reveals momentum and learnings for the future," blog entry by Lindsay-Rae McIntyre, November 12, 2019, blogs.microsoft.com.

Step 3: Define and measure ways to serve stakeholders

Now it's time to size up the ideas generated on the listening tour, determining what kind of measurable benefit they could have both on different stakeholders and the company's bottom line.

Our analysis shows that serving all stakeholders is an ethical good and that companies should seek to maximize their stakeholder impact. And to do so, companies must be financially sound. The goal is to find balance. A high-cost idea that does not bring a return to the company can be destabilizing. On the other hand, not taking on low-cost, good-value ideas can create cynicism and erode trust.

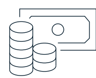
Serving stakeholders, if done correctly, can be a source of competitive advantage. For example, early in the COVID-19 pandemic, many companies laid off workers to cut costs and preserve cash. This was, in some cases, a necessary decision to survive. However, as consumer demand recovered, companies that avoided or limited layoffs found that they were in a much better position to restore production.[9] They are primed to pick up market share while their competitors train new workers and try to catch up. Thus the stakeholder principle—protecting employment—could translate into bottom-line performance.

McKinsey has identified five major ways for companies to create stakeholder impact (Exhibit 2): financial and operational, satisfaction level, health (both organizational and personal), capability building, and environmental. The foundation for all such efforts is the financial soundness of the company. Companies that are doing well will have more room to maneuver.

For each type of impact, companies should consider what the priority stakeholder needs are and which of the ideas generated in step 2 could meet those needs. When possible, identify and use metrics to measure where the company is now and what benefits improvements could bring.

Exhibit 2

There are five major dimensions of stakeholder impact.

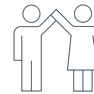


Financial and operational
Improvements in long-term financial performance for the company and in individual stakeholder's financial circumstances

Environmental
Improvements in the natural environment through company operations

Health and well-being
Improvements in organizational health and personal well-being

Capability building
Improvements in stakeholders' relevant skills



Satisfaction
Improvements in experiences for different stakeholders, not just customers

Foundation: The financial soundness of the company, which includes corporate financial and operating strength and executive leadership

[9] Bob Tita and Austen Hufford, "Consumer demand snaps back. Factories can't keep up," *Wall Street Journal*, February 22, 2021, wsj.com.

Financial and operational impact refers to improving the stakeholder's long-term financial well-being. Shareholder capitalism has long focused on this, in the form of dividends and stock prices. For other stakeholders, financial impact could come in the form of increasing employee wages or providing scholarships for local students. Employee wages in particular have become a focus. In recent years, a number of major retailers and other companies have raised entry-level wages well above local mandates; they report seeing more employee engagement and less turnover.[10] For the economy as a whole, it can mean greater purchasing power.

While improving the financial state of stakeholders could represent a direct cost to the company, it can also have valuable effects on the business while literally enriching society. In 2019, PayPal committed to improving its employees' financial wellness and net disposable income; it did so by increasing pay for many employees, lowering the cost of healthcare for hourly workers, and giving restricted stock units. Although this was expensive, CEO Dan Schulman has no regrets: "I believe it's worth every dollar and every resource and that it's been essential to making our workforce more resilient in the face of COVID-19."[11] In the year after implementation, PayPal found that its employees were four times more engaged and three times less likely to leave the company, and profitability grew 28 percent.[12] One can't assert cause and effect. Correlation is not causation—but the correlation is at least intriguing.

Environmental impact takes into account a company's waste, pollution, emissions, land use, consumption of natural resources, and other ways its operations affect environmental health.[13] Many companies are already capturing this type of impact through their ESG reporting. Investing in positive environmental impact can boost revenue growth by helping companies tap new markets and expand into existing ones. For example, Swedish electric-vehicle-battery manufacturer Northvolt, founded in 2015, has raised $1 billion in financing and recently received a $14 billion order from Volkswagen.[14] Investing in environmental impact can also decrease costs by increasing resource efficiency. For example, all major US delivery companies are converting their fleets to electric vehicles, which reduces the total cost of ownership by cutting the cost of fuel and maintenance.[15] Reducing the risk of regulatory interventions is another possible benefit. McKinsey analysis suggests that one-third of corporate profits are typically at risk from government intervention. Getting ahead of the environmental curve can certainly translate into shareholder value. Tesla, the electric-vehicle manufacturer, for example, has a market capitalization that makes it one of the most valuable automakers in the world, even though it sells fewer cars than other automakers and only made a profit for the first time in 2020.[16]

Health has two dimensions: the organizational health of the company and the personal well-being of the individual. Organizational health is defined as the ability of companies to create common goals, to execute them, and to adapt in response to market trends. It is closely associated with core management practices. For example, improving market focus boosts organizational health by strengthening external orientation toward customers, competitors, business partners, regulators, and the community.

[10] Kate Taylor, "Retail giants like Walmart, Amazon, and Kroger are firing shots over rivals' minimum wages. Here's who actually pays $15 an hour," Business Insider, February 20, 2021, businessinsider.com; Courtney Connley, "Amazon, Facebook and 8 other companies that have committed to raising their minimum wage," CNBC, May 25, 2019, cnbc.com.
[11] *Ted Ideas*, "How can you ensure your workers are not just surviving—but thriving? A CEO shares a new approach," blog entry by Dan Schulman, May 29, 2020, ideas.ted.com.
[12] Minda Zetlin, "PayPal grew its profits 28 percent—by raising workers' wages," *Inc.*, January 10, 2021, inc.com; Jeff Kauflin, "PayPal CEO Dan Schulman explains his strategy for investing in employees' financial health," *Forbes*, October 15, 2020, forbes.com.
[13] Witold Henisz, Tim Koller, and Robin Nuttall, "Five ways that ESG creates value," November 14, 2019, McKinsey.com.
[14] Jonathan Shieber, "Swedish battery manufacturer Northvolt receives a $14 billion order from VW," TechCrunch, March 15, 2021, techcrunch.com.
[15] Camila Domonoske, "From Amazon to FedEx, the delivery truck is going electric," NPR, March 17, 2021, npr.org.
[16] "Tesla overtakes Toyota to become world's most valuable carmaker," BBC, July 1, 2020, bbc.com.

Culture can be the ultimate competitive advantage in a world where business models can be replicated—and it can be the difference between doing well enough and doing really well.

Companies that rank in the top quarter of McKinsey's Organizational Health Index deliver returns to shareholders that are almost triple those of companies in the bottom quarter.[17] The same research found that the benefits of good organizational health show up quickly—in as little as six months. Culture can be the ultimate competitive advantage in a world where business models can be replicated—and it can be the difference between doing well enough and doing really well.

Human health is complex and is affected by a range of social and economic conditions. Approximately 40 percent of an individual's health status can be attributed to underlying factors such as income, employment, education, food, housing, transportation, social support, and safety. In addition, factors such as race, ethnicity, gender and sexual orientation, disability, and age can also influence health status.

Addressing both individual and systemic barriers to health is critical to meet the healthcare needs of stakeholders. This can mean investing in employee healthcare, creating inclusive work environments, or contributing to the development of healthy communities.[18] Globally, the link between healthy people and healthy economics is clear. By adding up all the ways that better health lifts the economy, McKinsey found that better health could increase global GDP by $12 trillion in 2040—an 8 percent boost, or 0.4 percent faster growth a year.[19]

Such investments can also pay off for companies. During the COVID-19 pandemic, some manufacturing plants that invested in health protocols which went beyond public-health guidance have been able to minimize shutdowns.[20] A public-sector employer in Britain used health-assessment questionnaires to understand the needs of staff and codeveloped a health-promotion toolkit. The program, which included family days, team-building days, and health walks, led to a 44 percent reduction in absences due to sickness.[21]

Capability-building impact refers to improving stakeholders' abilities and skills and has been a longtime corporate priority for employees. In a November 2020 McKinsey survey of global businesspeople, 78 percent said that they considered building their employees' capabilities important for long-term growth.[22]

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[17] Chris Gagnon, Elizabeth John, and Rob Theunissen, "Organizational health: A fast track to performance improvement," September 7, 2017, McKinsey.com.
[18] Jaana Remes and Shubham Singhal, "Good health is good business. Here's why," July 9, 2020, McKinsey.com.
[19] For more, see "Prioritizing health: A prescription for prosperity," McKinsey Global Institute, July 2020, on McKinsey.com.
[20] Christopher F. Schuetze, "On factory floors, a chime and flashing light to maintain distance," *New York Times*, January 12, 2021, nytimes.com.
[21] *Local action on health inequalities: Workplace interventions to improve health and wellbeing*, Public Health England, September 2014, assets.publishing.service.gov.uk.
[22] "Rethink capabilities to emerge stronger from COVID-19: McKinsey Global Survey results," November 23, 2020, McKinsey.com.

That much is clear and pretty much uncontested. What may be less obvious is that companies can also benefit from building the capabilities of other stakeholder groups. For example, working with suppliers to share expertise can increase productivity and cut waste—and thus reduce costs. Since 2009, Walmart has applied what it learned from its internal sustainability programs to help its supply chain to decarbonize. Not only has this effort successfully reduced emissions—by more than 230 million metric tons of CO_2 equivalent avoided since 2017[23]—it also cut energy use and manufacturing costs for both parties.[24]

Sharing with suppliers can be especially powerful when new technology is involved. IBM and Maersk developed TradeLens, an open supply-chain logistics platform for shipping. By providing a comprehensive view of shipment data and digitized document handling, the system reduces administrative costs and minimizes delays and disruptions. As of November 2020, more than 175 organizations have joined and more than 30 million container shipments have been tracked this way.[25]

Different links in the supply chain can also achieve outcomes together that they might not be able to separately. For example, in 2011 Unilever's largest food brand, Knorr, set up the Knorr Sustainability Partnership, which works with its suppliers and growers to foster agricultural sustainability. The partnership monitors farms to ensure they comply with guidelines on factors such as soil quality, water and fertilizer usage, animal welfare, working conditions, and biodiversity. The highest-performing farms are given "landmark" status, and Knorr packaging features a logo when more than half the ingredients are sustainably sourced.[26]

Satisfaction impact means improving the stakeholders' experience of interacting with a company or its products and services. The idea of customer satisfaction is well known, but the concept can be extended to other stakeholders, too. For communities, it could mean being part of an effort to improve traffic around the company's buildings or subsidizing a local service. For employees, it could be by asking them about what they do and don't like about their jobs and seeking ways to improve the latter.[27] For suppliers, it could be about helping them through a rough patch by extending credit or payment terms or offering new technology.

Studies show employee engagement is directly linked to customer satisfaction and business results.[28] In companies with a high level of employee satisfaction, research shows there is lower turnover and that workers are more productive.[29] They are also more likely to raise issues when things don't go well, leading to problems being fixed faster. Firms with high employee satisfaction outperform peers by 2 to 4 percent a year in long-run stock returns.[30] Offering satisfying experiences also encourages loyalty, which has all kinds of benefits—less employee turnover, more repeat customers, and longer-term investors.

Step 4: Define and execute a stakeholder-capitalism strategy

To create a plan, start by using three attributes to rank the identified ideas: the extent to which the idea matches the company's strengths, how well it addresses a specific stakeholder need, and how it captures long-term shareholder value.

[23] "Creating shared value," Walmart, corporate.walmart.com.
[24] *2020 Walmart ESG Report*, Walmart, 2020, cdn.corporate.walmart.com.
[25] "TradeLens container logistics solution," IBM, ibm.com.
[26] "Knorr Sustainability Partnership," Unilever, unilever.com.
[27] Tera Allas and Bill Schaninger, "The boss factor: Making the world a better place through workplace relationships," *McKinsey Quarterly*, September 22, 2020, McKinsey.com.
[28] Ibid.
[29] Christian Krekel, Jan-Emmanuel De Neve, and George Ward, *Employee wellbeing, productivity, and firm performance*, Centre for Economic Performance, CEP discussion paper number 1605, March 2019, cep.lse.ac.uk.
[30] Alex Edmans, "28 years of stock market data shows a link between employee satisfaction and long-term value," *Harvard Business Review*, March 24, 2016, hbr.org; ForeSee Experience Index: 2014 U.S. Retail Edition, ForeSee American Employee Study, foresee.com.

An idea matches well with a company's strengths if it's aligned with a company's purpose and is a source of competitive advantage. For example, when the 2014 Ebola virus epidemic came to West Africa, a Canadian research team had developed a promising vaccine but needed a pharmaceutical-company partner to produce it. Merck had experience producing vaccines with the types of cells the vaccine was made in and also had the facilities to scale production, making it better positioned than many other companies to produce the vaccine.[31] They came together and were able to create a solution. Merck may never recoup its financial investment, but regards the effort as positive in stakeholder terms, allowing it to advance its mission (better human health), improve capabilities (in vaccine development), and build a sense of pride and mission among its employees.

How well the idea addresses a specific stakeholder need depends on the value of the idea to the stakeholder. This can be monetized when there are clear metrics; there may also be research that establishes a link between stakeholder impact and value. For example, an affordable-housing developer could calculate how much that affordable housing adds to the purchasing power of families. For some ideas, monetized value can't be readily calculated. For example, preserving a local wetland is surely positive, but there's no line item into which it fits. In this case, impact can be measured through other metrics, such as the number of bird species present. For community-health initiatives, it might be possible to measure the number of hospitalizations or deaths prevented.

Shareholder impact is the financial value of the idea to the company, taking into account the cost, the returns, and the implementation risks. Where possible, that value should be translated into monetary terms to enable comparison. For example, an idea that attracts new customers with sustainable products could increase revenue.

Once ideas are measured according to these three attributes, they should be ranked relative to one another. Given that not all ideas may have monetized value, which makes direct comparisons difficult, there are several ways to rank them. One is to ask stakeholders to rank them in comparison with other ideas. Another is to look at what similar organizations are doing. Get enough information to be comfortable making decisions, and then take action.

Once the ranked list of ideas has been created, cluster them into themes, such as community health or financial well-being. Use a portfolio mindset; while every idea doesn't need to score highly on all three attributes, in aggregate, each theme should. Concentrate on implementing the themes that fit best. Few, if any, companies can do everything, and ranking the ideas will help them to make the inevitable trade-offs. Finally, make commitments with timelines. This builds credibility and gives people a goal at which to shoot.

An idea matches well with a company's strengths if it's aligned with a company's purpose and is a source of competitive advantage.

[31] Helen Branswell, "'Against all odds': The inside story of how scientists across three continents produced an Ebola vaccine," STAT, January 7, 2020, statnews.com.

Step 5: Build an operating model that can sustain long-term value creation for all stakeholders

Sustaining value creation requires accountability, communication, and updating. It is a process, not a result. For stakeholder capitalism to take root, think years, not months.

Companies foster accountability by being clear and open about their goals and progress. Publish commitments to stakeholders, communicate implementation plans and metrics, and acknowledge and discuss progress and setbacks. Make the case for the company's choices, underpinning them with data and tying them to value. For example, Enel, an Italian electricity provider that has made long-term stakeholder value a core component of its strategy, communicates its sustainability goals in its annual reports.[32]

Stakeholder reporting still lacks standardization, although there are several efforts under way. The World Economic Forum has defined Stakeholder Capitalism Metrics that can be used to align a company's regular reporting against ESG indicators.[33] EU rules[34] require large companies to report on social and environmental indicators, with a variety of national, regional, and international guidelines from which to choose. In Japan, the Social Impact Management Initiative was established by a group of nonprofits, businesses, and others in 2016 to promote social-impact measurement.[35] In 2020, the Hong Kong and Shanghai stock exchanges both announced ESG reporting requirements.[36]

Accountability also requires companies to make their governance and stakeholder strategies work together. Today, government regulations, company bylaws, and financial-reporting requirements often reinforce the idea of the shareholder as the sole stakeholder. Depending on the jurisdiction, however, it may be possible to incorporate other stakeholders into governance documents; it's certainly possible for companies to formally differentiate between short-term and long-term value.

One model is that of John Lewis. Founded in 1864, the British household-goods retailer is owned by a trust on behalf of its employees (known as "Partners"). Through a network of elected councils and committees, Partners participate in the decision-making process not only for how the business is run but also for key governance decisions such as choosing trustees and changing the company's constitution.[37] In July 2020, when John Lewis faced a sharp decline in in-store shopping due to pandemic-associated lockdowns and the long-term trend toward online retail, those relationships helped the company navigate the difficult decision to close some of its stores.

Simply embedding a stakeholder ethos in a company's statement of purpose can help to ensure that a wider range of stakeholders is kept in mind. Finally, nonfinancial stakeholders can be given an official voice, such as via board seats or executive roles. Compensation could be tied to stakeholder metrics. Half of all FTSE 100 companies link executive compensation to ESG targets,[38] while a number of private oil majors are doing the same regarding climate targets. Beginning this year, Starbucks will link executive compensation to diversity and inclusion initiatives.[39]

Work closely with stakeholders to implement initiatives, getting as much feedback as possible. Unlike a stock price, there are no real-time indicators of broader stakeholder sentiment—although some companies are trying to change that using big data and artificial intelligence to infer sentiments in near real time. Work with shareholders in particular to encourage them to stay focused on the long term—and warn them that there could be short-term challenges. In crises, companies may need to pivot quickly, so ensure that there is spare capacity to be able to respond.

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[32] *Capital Markets Day: Strategic plan 2020–22*, Enel, November 2019, enel.com.
[33] *Measuring stakeholder capitalism: Towards common metrics and consistent reporting of sustainable value creation*, World Economic Forum, September 22, 2020, weforum.org.
[34] EU non-financial reporting directive (NFRD): Directive 2014/95/EU, European Commission, October 22, 2014, ec.europa.eu.
[35] Social Impact Management Initiative (SIMI), simi.or.jp.
[36] Nian Liu and Patrick Temple-West, "Chinese companies get to grips with tougher ESG disclosures," *Financial Times*, January 13, 2020, ft.com.
[37] "How we share power," John Lewis Partnership, johnlewispartnership.co.uk.
[38] Daniel Thomas, "Half of FTSE 100 companies link executive pay to ESG targets," *Financial Times*, March 16, 2021, ft.com.
[39] Heather Haddon, "Starbucks ties executive pay to 2025 diversity targets," *Wall Street Journal*, October 14, 2020, wsj.com.

Finally, iterate, iterate, iterate. Repeat this five-step process regularly and whenever a major shock happens.

Stakeholder capitalism is rife with trade-offs, and any missteps—even inadvertent ones—can become painfully public. Because of these very real risks, companies may prefer to keep things simple, focusing strictly on shareholders. But that may not be possible. Employers, customers, and investors may want more than a strong dividend history.

We believe that stakeholder capitalism is the future of business; indeed, many companies that have led the way stand out for long-term value creation and increased resilience as a result. The direction of change is clear—and those who resist may well find themselves not only out of step but also at a competitive disadvantage.

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