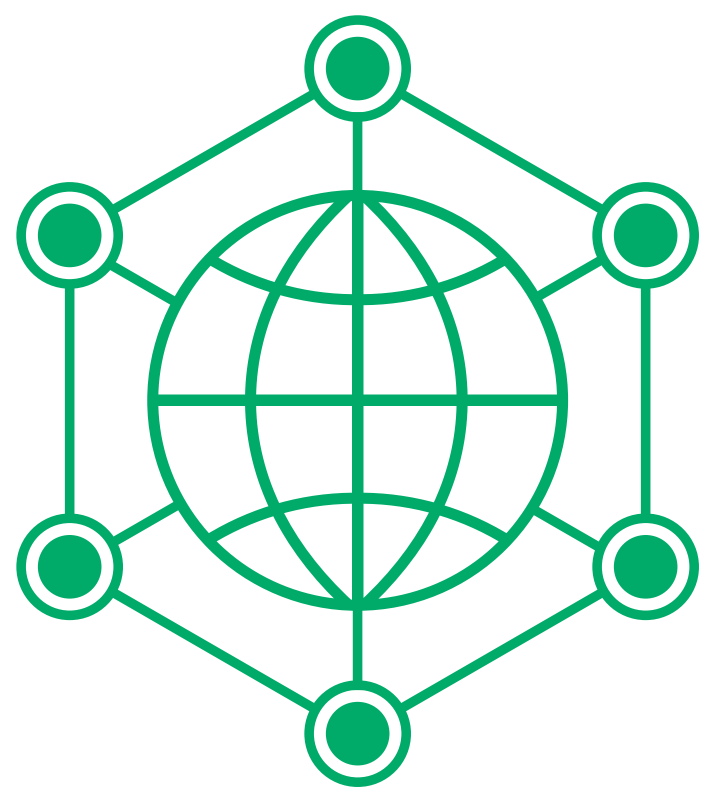

TOOLKIT

Walking the Talk: Multi-stakeholder Capitalism in Practice

MARCH 2022

Focusing capital on the long term to support a sustainable and prosperous economy.

Millions of people around the world are saving money to meet personal goals – funding a comfortable retirement, saving for someone's education, or buying a home, to name a few.

The funds to support these goals are safeguarded by institutional investors – pension funds, sovereign wealth funds, insurers, and asset managers – who invest in companies for the prospect of growth and security. These savers, their communities, and the institutions that support them make up the global investment value chain, and each benefit from long-term decisions in different ways.

Data shows that long-term-oriented investors deliver superior performance, and long-term-oriented companies outperform in terms of revenue, earnings, and job creation. But despite overwhelming evidence of the superiority of long-term investments, short-term pressures are hard to avoid. A majority of corporate executives agree that longer time horizons for business decisions would improve performance, and yet half say they would delay value-creating projects if it would mean missing quarterly earnings targets.

Today, the balance remains skewed toward short-term financial targets at the expense of long-term value creation.

FCLTGlobal's mission is to focus capital on the long term to support a sustainable and prosperous economy. We are a non-profit organization whose members are leading companies and investors worldwide that develops actionable research and tools to drive long-term value creation for savers and communities.

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Executive Summary

Expectations of companies are changing rapidly. Those expectations originate from a list of stakeholders that go beyond shareholders – including the labor force, suppliers, communities, and governments – whose needs increasingly demand careful consideration. Over time, the evolving expectations of various stakeholders can become the responsibilities of a company. Failure to fulfill these responsibilities creates long-term risk for the firm – including distraction of staff, interruption of strategy, and leadership turnover – alongside missed opportunities to generate returns in more durable ways.

Time bridges the perceived divide between shareholders and other stakeholders. As Baillie Gifford Partner Stuart Dunbar has observed, "Taking a very long-term approach to investing – basically ignoring stock markets most of the time – embeds the interests of society alongside the interests of investors. The essential belief is that companies that abuse the environment, treat staff poorly, or damage the fabric of society will, within a relevant investment horizon, be regulated out of profitability or deserted by their customers."[1]

In response, companies increasingly recognize the importance of considering a range of stakeholders in business decisions, but are struggling to consistently implement practices that support long-term value in a multi-stakeholder context. That lack of consistency has left many investors – and other stakeholders – skeptical of firms' pursuit of this approach to business.[2]

What does it take to earn a return from implementing a multi-stakeholder strategy and offer a rebuttal to skeptics? Working with the ESG Analytics Lab at the Wharton School, University of Pennsylvania, we analyzed the annual reports of over 3,000 global companies (drawn from MSCI's All Country World Index) to look for stakeholder-oriented language and compared the presence of that language with financial performance as well as environmental, social, and governance (ESG) outcomes.[3] The firms that paired strong stakeholder-oriented language ("the talk") with strong performance on material ESG measures ("the walk") generated superior returns over a three-year period, as measured by return on invested capital, and produced those returns with lower volatility. **In short, if all firms performed like companies in the top "walk/talk" tercile, they would combine to generate $3.2 trillion in additional firm value over the last decade.**[4]

How do multi-stakeholder-oriented firms ensure they are consistently walking the talk? In conversations with working group members and other subject matter experts we found long-term companies take five steps after confirming their purpose to operationalize their multi-stakeholder responsibilities:

1. Take inventory of current responsibilities
2. Anticipate emerging expectations
3. Process emerging expectations
4. Fulfill new responsibilities
5. Communicate about responsibilities

These five steps must be taken in order and repeated regularly to be effective. As Unilever CEO Alan Jope explained, "If a business wants to deeply embed a multi-stakeholder, long-term value creation model with sustainability at its heart, no one lever is adequate."[5]

Using corporate purpose – the reason that a firm exists – as the reference point for deciding which stakeholder expectations matter to the corporation helps put a multi-stakeholder approach into practice more consistently. Firms that connect their purpose to their stakeholder responsibilities, and do so systematically across the organization, are better able to sustainably deliver long-term value – the goal of any corporation.

Walking the Talk: Multi-stakeholder Capitalism in Practice

Introduction

Expectations of long-term companies have expanded well beyond usual notions of their core business objectives to include their broader impact on markets, society, and the planet. Recognizing this evolution, many companies are taking multi-stakeholder capitalism seriously and speaking up. As Tricia Griffith, CEO of Progressive Corporation, noted, “CEOs work to generate profits and return value to shareholders, but the best-run companies do more. They put the customers first and invest in their employees and communities. In the end, it’s the most promising way to build long-term value.”[6]

Companies can think of the evolving landscape of stakeholder responsibilities and expectations as navigating in uncertain waters.

These responsibilities are not static; stakeholders’ expectations evolve over time. Existing responsibilities and new expectations intersect in complex (both dynamic and iterative) ways – creating choppy seas. That dynamism means executives can’t rely on the checklists that many find most comfortable. Instead, the task of navigating evolving expectations requires perpetual management attention and focus. Maintaining that long-term focus involves navigating these waves of evolving expectations in ways that create opportunity, anticipating where the next wave might form – or even creating opportunity by making their own waves to ride.

In contrast to riding the waves, neglecting responsibilities to stakeholders creates distinctive risk for the firm over the long term, and sometimes in the near term too. This risk contributes to fragility. Fragility manifests itself in different ways across companies but generally becomes apparent when neglecting responsibilities prompts an event that distracts staff, interrupts strategy, causes leadership turnover, or hastens a firm’s failure – capsizing the boat.

Ronald O’Hanley, CEO of State Street Corporation, emphasized this point during an FCLTGlobal panel: “Whether you are sitting as a CEO or an investor, what you are thinking about over the long term is risk and opportunity.”[8]

INVESTOR SKEPTICISM AT DANONE

Danone’s ouster of CEO Emmanuel Faber is perhaps the most prominent recent case of investor skepticism derailing a multi-stakeholder approach. Faber had led Danone to become the first public French company to adopt the “purpose-driven company” framework, putting a multi-stakeholder approach at the center of the company’s business model. However, after several quarters of underperformance, investors became skeptical and ultimately called for his removal.[7]

Defining Responsibilities

Many important responsibilities for companies are not new or evolving; they are already formalized in law, regulation, or contract. These legal, regulatory, and contractual responsibilities are beyond the scope of this research because companies generally do not have discretion relative to these issues.[9] Instead, throughout our work on this topic, we focus on analysis of new and evolving circumstances, using the terms *purpose, expectations, responsibilities, stakeholders, and resources.*

Purpose

Purpose is the reason that a firm exists; it is the market demand or societal needs that a company strives to meet. The terminology varies by jurisdiction and sometimes by firm type, but the goal is the same. Whether a mission statement, statement of the purpose of the corporation, or corporate philosophy or credo, such a statement crystallizes the ultimate goal of the company and its core reason for being. For a stakeholder-oriented firm, Colin Mayer's definition of the purpose of business seems most appropriate: "producing profitable solutions for problems of people and planet, and not profiting from creating problems."[10]

Corporate purpose statements can be simple and straightforward, like Walmart's, "We save people money so they can live better,"[11] or Unilever's, "To make sustainable living commonplace."[12]

Or they can be more specific and include not only the reason for a firm's existence but also the strategy it will pursue to deliver on that vision, like this statement from Schroders: "Our purpose is to provide excellent investment performance to our clients through active management. By serving clients, we serve wider society. Channeling capital into sustainable and durable businesses accelerates positive change in the world. Funding the future is a privilege: we use it wisely and responsibly."[13]

Importantly, purpose is not a financial metric. Neither "maximizing shareholder value" nor achieving some required return threshold is an example of corporate purpose. Financial projections are often why investors opt to buy a firm's securities, but they are not why the firm exists. Each purpose statement is unique and defines the ultimate North Star for the organization – a guiding light to use when navigating the uncertain waters of stakeholder expectations and responsibility.

UPDATING CORPORATE PURPOSE STATEMENTS:

Since 2015 Robert Eccles and Tim Youmans have called for boards to have an effective statement of purpose as a guiding north star for companies. Along with Leo Strine, they have recently updated their research demonstrating that legal foundations exist for directors to consider stakeholders other than shareholders in making resource allocation decisions for creating value over the long term. These decisions are based on directors' judgement about the company's material issues and relevant time frames. Companies can then communicate on their strategies and report on their performance in both financial and nonfinancial terms. The authors outlined key criteria to guide companies updating their purpose statements.[14] Statements should be:

1. Short, but not too short: Board issued statements of purpose should be around a page or two, framed in the language of director fiduciary duty.
2. Led from the top: Boards need to own purpose, and as purpose should transcend management tenures. (See the "SCORE Framework")
3. Drive strategy and disclosure: Key stakeholders (as opposed to "all stakeholders") are identified that drive value creation, thus pushing forward capital allocation policy and concise integrated reporting.
4. Time-bound: Timeframes identified to deliver on stakeholder centric forward looking capital allocation and strategy disclosure.
5. Lead to action: Beyond shiny rhetoric, truly long-term value-driven boards will consider meaningful changes to their corporate governance structures.

The SCORE Framework: The Enacting Purpose Initiative, Report #2, Directors & Investors: Building on Common Ground to Advance Sustainable Capitalism", The Enacting Purpose Initiative, July 2020, page 42.

Expectations & Responsibilities

Expectations are the broadest possible set of behaviors or outcomes for which stakeholders will try to hold a company accountable. The most important distinction between an "expectation" and a "responsibility" is whether actual accountability has been accepted. Just because a stakeholder expects something of a company does not necessarily make that expectation a company's concern. Responsibilities are those expectations for which a company has accepted accountability.

Companies have choices about whether to drive, accept, decline, or defer expectations as responsibilities.

- Companies ***drive*** a new responsibility through active leadership.
- They ***accept*** a responsibility when they recognize the expectation and shoulder accountability for fulfilling it.
- They ***decline*** responsibility when they feel an expectation is not relevant.
- They ***defer*** responsibility when they agree on the root expectation but currently lack the conditions or resources (either internally or externally) to act on it.

Stakeholders

Corporate performance can include all of the value created for a firm's various stakeholders, not just financial performance. Alan Jope, CEO of Unilever, made the case for corporate performance that is both long-term and stakeholder-minded: "When we do the right thing for society and do business in a planet-friendly way, it is to make Unilever a stronger, more future-fit company with the overall objective being to improve shareholder value creation."[15]

Stakeholders are the people and organizations outside of the company's executive management or board of directors that may be able to hold it accountable for fulfilling its purpose. Stakeholders can serve in a "governance" or "supervisory" capacity, exerting a degree of control or influence that can put constraints on the way the company operates – policymakers and regulators, lenders and creditors, and shareholders all can act as "supervisors" of a company, with various levers to pull to exert their influence (e.g., regulation, debt or loan covenants, and proxy voting, respectively).

Other types of stakeholders play a more "supporting" role. They lack the clear levers a governing or supervisory stakeholder can use to wield influence, but their support is essential to the firm's success as a going concern. Customers are the source of demand that a company serves and also the way the company earns its revenue, providing the raw capital to fuel business growth objectives. Suppliers serve in a supporting role by providing inputs required for a firm's products or services. Similarly, companies cannot exist without the support of their workforces. Its only through a company's labor force that it can deliver on its value proposition.

Finally, "amplifying" stakeholders have no direct means of influencing a company but can use their voice to draw meaningful attention to an expectation. The media chooses which stories to broadcast at scale, and that can determine which issues get attention from other stakeholders. Peer corporations can lend legitimacy and momentum to expectations when they accept them as new or evolved responsibilities, indirectly (or sometimes directly) pressuring other companies to follow suit. And communities can influence the corporations that operate in their jurisdictions through local representative governments, amplification of supporting stakeholders' concerns, and advocacy or media campaigns.

(For a more complete description of the various stakeholders see Appendix A: Stakeholder Definitions.)

VALUING A MULTI-STAKEHOLDER ORIENTATION

Valuing a multi-stakeholder orientation is oftentimes easier said than done. The notion that corporate performance is both long term and stakeholder-minded has been met with skepticism, often stemming from the perceived gap between words and actions, and the lack of clarity on what to expect from firms pursuing such an approach.

What does it take to earn a return from implementing a multi-stakeholder strategy and offer a rebuttal to skeptics? To answer this question, we turned toward empirical analysis, comparing the characteristics and performance of companies pursuing various stakeholder-oriented strategies. Partnering with the ESG Analytics Lab at the Wharton School, University of Pennsylvania, we analyzed the annual reports of over 3,000 global companies (drawn from MSCI's All Country World Index) to look for stakeholder-oriented language, and we compared the presence of that language with financial performance and environmental, social, and governance (ESG) outcomes.[16] Controlling for sector-specific effects, we found firms that paired strong stakeholder-oriented language ("the talk") with strong performance on material ESG measures ("the walk"): [17]

- Generated **4 percent higher returns** over a three-year period as measured by return on invested capital (ROIC);
- Were more likely to meaningfully invest in **research and development (R&D), investing twice as much in R&D as a percentage of sales;** and
- Were **50 percent more likely to issue long-term guidance.** [18]
- Delivered **higher sales growth** over longer periods of time **(1.5 percent higher over three years);**
- Delivered more stable returns, resulting in **9 percent lower predicted ROIC volatility over three years;** [19]

At the highest level, if all firms performed like companies in the top walk/talk tercile, they would combine to generate $3.2 trillion in additional firm value over our 11-year study period. [20]

That's not to say that strategies which prioritize a single group of stakeholders don't pay off. In the short run, firms that focus primarily on their shareholders perform well. But the positive effects of an approach to business that over-indexes to a single group of stakeholders (to the exclusion of other stakeholders) appear to fade over longer periods of time. Those over-indexed firms also produce more volatile performance (as measured by the standard deviation in ROIC) compared with multi-stakeholder-oriented firms, making firms with a narrow focus less resilient in a rapidly evolving operating environment. In essence – while there is often a natural gravitational pull to prioritize one set of stakeholders over another (shareholders in many cases), prioritizing one group continuously is not a winning long-term strategy.

True multi-stakeholder approaches (high talk/high walk) may take time to yield benefits. Our study shows that high talk/high walk firms had higher sales growth in the long run (over more than three years), but initially, in the short run (zero- and one-year periods), the firms that had high talk and low walk scores did better. Essentially, there is some meaningless stakeholder talk: firms high on talk but low on walk underperform on many metrics of success over time. But talk can also be a leading indicator of improving returns. Firms that start using more stakeholder-oriented language, and then back that up over time with improving walk metrics, also do better. Separating the empty talk from the talk of companies that may be earlier in their journey is a challenge for stakeholders – especially investors – one that companies can address with more consistent communications about their multi-stakeholder strategies. For more on this research, please see Walking the Talk: Valuing a Multi-stakeholder Strategy.

Resources

Resources include not only financial but also natural resources – the raw materials of production – and human resources – the labor, talent, and creativity required to deliver on the company's purpose. Resources are not just the raw inputs but also the value that the corporation creates through its business and allocates to maintain and grow that business. (For a more complete description, see Appendix B: Resource Definitions).[21]

At their most practical, stakeholders' expectations center on the creation and allocation of resources – with particular attention to how value is created. But the resources a company allocates to fulfilling one responsibility cannot be allocated toward fulfilling another. While resources might be scarce, the way a firm creates value for one group can cause externalities that either harm or benefit another group.

As Carine Smith Ihenacho, chief governance and compliance officer for Norges Bank Investment Management, explained during a 2021 FCLTGlobal panel discussion, "what one company does may directly hurt ... society at large."[22]

Operationalizing Multi-stakeholder Responsibilities

We know from our analysis that just talking and not following through is not a winning long-term strategy. Similarly, just walking, and not communicating about that process, is also insufficient. How do multi-stakeholder-oriented firms ensure they are consistently walking and talking? We learned from our conversations with working group members and other subject matter experts that long-term companies take five steps after confirming their purpose to operationalize their multi-stakeholder responsibilities:

1. Taking inventory of current responsibilities
2. Anticipating emerging expectations
3. Processing emerging expectations
4. Fulfilling new responsibilities
5. Communicating about responsibilities

These five steps must be taken in order and repeated regularly to be effective. These steps are also very much akin to an enterprise risk management (ERM) process. The more they incorporate multi-stakeholder responsibilities into their ERM processes, the better companies are positioned to identify emerging risks and opportunities, and address them in systematic and consistent ways. As Jope explained, "If a business wants to deeply embed a multi-stakeholder, long-term value creation model with sustainability at its heart, no one lever is adequate."[23]

INVENTORYING STAKEHOLDERS

The Global Reporting Initiative (GRI) framework was the first to call for the inclusion of key stakeholders in corporate reporting. GRI reports have an "inclusiveness principle," whereby all internal and external stakeholders that can be impacted by the firm must be listed.[24] Each firm uniquely prioritizes its stakeholders through evidence-based criteria that adequately capture the influence each stakeholder has on the business.

Several other sustainability frameworks and standards also now strive to put stakeholders front and center. The International Sustainability Standards Board's recently proposed Prototype Sustainability Standards rely on the idea of a multi-stakeholder mindset, detailing how the response to stakeholders such as customers and employees, along with the natural world, can create or erode the enterprise value of a firm and the accompanying financial returns to investors.[25]

Taking Inventory

Every organization will have preexisting responsibilities, so the process starts with taking inventory of current obligations to key stakeholders. Accepting new responsibilities involves trade-offs – stakeholders might be either encouraged or upset by changes to the status quo. This means companies benefit from keeping this inventory very clear and regularly updated so they can use it in communication with both internal and external audiences.

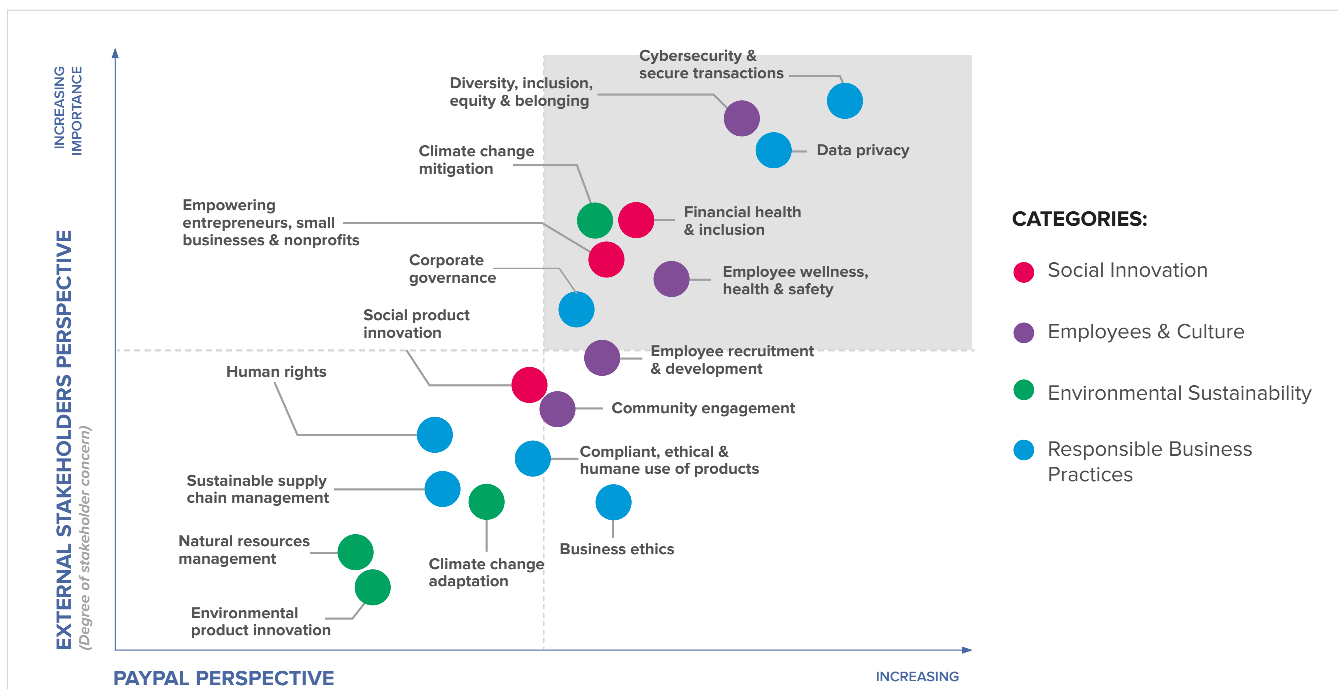
Our working group developed a worksheet for inventorying stakeholder responsibilities (see Tools beginning on page 16), but other frameworks also tackle this topic. Firms reporting under various sustainability frameworks will likely be familiar with this process.

CASE STUDY: Inventory

PayPal Holdings, Inc.

PayPal Holdings, Inc., the US-headquartered multinational financial technology company, annually refreshes its assessment of material ESG considerations for which stakeholders may hold the company accountable. This assessment (reproduced in the figure below) is compiled following stakeholder engagement with more than 130 internal and external parties, including employees, executives, customers, investors, regulators, and nongovernmental organizations. In addition to providing an inventory of responsibilities, the assessment furthers the inventorying approach by plotting the results in a matrix depicting the importance of different expectations from the perspective of the firm and its external stakeholders.[26]

Figure 1: PayPal Matrix of Stakeholder Expectations



Anticipating

Since a company can't choose when new expectations will arise, anticipating emerging stakeholder expectations is an ongoing activity for long-term organizations. Companies can be proactive about engaging with stakeholders but won't necessarily have the luxury of controlling the timing of new or emerging expectations. Nonetheless, the effort to anticipate expectations as early as possible pays off – by allowing long-term firms to prepare to drive, accept, decline, or defer them as responsibilities, and communicate those decisions in a timely fashion.

Part of anticipating expectations is knowing the boundaries or trade-offs that would be acceptable to the company and aligned with its purpose and growth strategy. Thinking critically about those boundaries won't necessarily reveal new expectations before a company is confronted with them, but it will allow a company to respond more nimbly when they do arise – having clearly defined the boundaries in advance.

CASE STUDY: Anticipating

PepsiCo, Inc.

At the outset of the COVID-19 pandemic, PepsiCo, the US-headquartered multinational food, snack, and beverage corporation, found itself assessing how to support its frontline workers in ways that would enable continuing operations. According to interviews with PepsiCo,[27] management was able to identify groups of workers most at risk from the impacts of the pandemic, and plan accordingly to accommodate them. This advance planning was enabled, in part, thanks to an understanding of the existing potential vulnerabilities of on-the-ground operations that had been identified as part of the company's annual human rights report.[28] Because initial data on the pandemic appeared to indicate that vulnerable groups overlapped with some groups identified by PepsiCo through the stakeholder engagement and analysis illustrated in the report, the company was able to anticipate (and later, act on) its responsibilities – in this case, identifying specific cohorts of employees that would likely be more impacted by the conditions of the pandemic, requiring the company to adjust operations.

Processing

Processing emerging stakeholder expectations comes after anticipating them – once they have confronted the organization with a decision. A sequence of four key questions can help a company determine whether a new expectation indeed constitutes a responsibility of the firm:

1. Would accepting this expectation as a responsibility advance our purpose?
2. Is this expectation relevant to our strategy?
3. Is it possible for our company to meet this expectation?
4. Does our company have the resources to meet this expectation?

By beginning with purpose, companies can eliminate expectations that are clearly not aligned with the organization's reason for being. But that's just a starting point; not all expectations aligned with purpose are relevant to a company's long-term strategy – and many may imply a wholescale rethinking of the business model. Such expectations are unlikely to be true responsibilities of a company – even if some stakeholders may want them to be.

From there, companies need to be realistic about which expectations it is truly possible to meet and whether the appropriate resources are available to commit to those responsibilities. Processing responsibilities can be integrated into a firm's ERM approach – including its financial analysis of the risks and opportunities presented by various expectations. Thinking critically and strategically, up front, about allocating resources to new responsibilities helps companies (and their stakeholders) acknowledge that new commitments aren't made in a vacuum.

CASE STUDY: Processing

Hermès

France-headquartered international luxury goods brand Hermès carries out regular analysis to inventory the expectations of its stakeholders[29] (framed as "challenges"), which inform the firm's ERM processes. As identified in the firm's corporate social responsibility (CSR) strategy, resource management appeared to be highly important to stakeholders, aligning with a key enterprise risk related to the availability and proper use of natural resources.[30] Hermès understands that accepting this stakeholder expectation to be a good steward of valuable natural resources (such as rare leathers, furs, and precious metals) advances its purpose of creating luxury goods in alignment with its strategy (from both a CSR and an economic risk perspective). The company has also acknowledged that, based on its risk management approach, this responsibility to treat precious resources with care is possible for the firm to meet within budgetary constraints.

Fulfilling

Fulfilling a new stakeholder responsibility is an obligation after the company has decided to either drive or accept it. Companies tend to struggle the most with consistent and systematic implementation of this step. That's because fulfilling a stakeholder responsibility in a standard way is difficult. Companies are complex, heterogenous organizations with idiosyncratic responsibilities – no two responsibilities are exactly alike, and no two companies tackle them in the same way.

Other challenges to fulfilling stakeholder responsibilities can come at the staff level. Staff may be burdened with the trade-offs and resourcing demands required to meet a commitment, but not in a position to see firsthand the responsibility that requires them. This lack of direct experience can lead to internal conflict as one part of an organization commits to a responsibility but delegates its fulfillment to others.

Long-term companies acknowledge trade-offs up front by considering relationships, strategy, staffing, risk management, success metrics, and time horizon, as well as asking questions like these:

1. What degree of responsibility do we have in this case?
2. How do we address this responsibility in our overall strategy?
3. How do we integrate this responsibility into staff metrics?
4. What risk management ramifications do we expect from actions to fulfill this responsibility?
5. How will we judge our overall success in fulfilling this responsibility?
6. Over what time horizon will we evaluate our fulfillment of this responsibility?
7. How do we adjust our strategy, risk management, and individual accountability when we are surprised?

Thinking through and documenting not just the commitment but the investments required to fulfill that commitment can better empower staff to address a responsibility appropriately.

CASE STUDY: Fulfilling

Microsoft Corporation

In 2020, US-headquartered international software and hardware technology firm Microsoft announced plans for steering the company to be carbon negative – a commitment that exceeded many stakeholders' expectations for addressing climate emissions. The plans expand the company's existing efforts to achieve net zero emissions (Microsoft has been carbon neutral since 2012 through the help of offsets) to include accounting for Scope 3 emissions, as well as using various means of carbon removal to neutralize emissions from its supply chain to deliver on the goal to achieve net negative carbon emissions by 2030. The plan includes a strategy to remove the entirety of the company's historical carbon emissions by 2050. Fulfilling this responsibility hinges on complex coordination between business units across regions, suppliers, and customer networks.[31]

It also requires a portfolio of solutions, including increasing the price of carbon used internally, leveraging existing technology to help customers and suppliers reduce their footprints, funding new development to accelerate carbon reduction and capture/removal technologies, establishing new procurement processes explicitly analyzing carbon, and finally, communicating and advocating for these efforts in company reporting as well as with public policymakers.[32] In making this net negative commitment, Microsoft acknowledged up front the resourcing and coordination required to meet this new obligation, and planned accordingly to fulfill it.

Communicating

Communicating about stakeholder responsibilities is an essential component of fulfilling them for many long-term companies. Above all, as our research demonstrates, walk is not sufficient on its own to generate the superior long-term returns bestowed on firms that pursue a multi-stakeholder approach. Talk must go hand in hand with walk – and in some cases, talk leads to more meaningful action (walk). Firms that fail to communicate about their stakeholder responsibilities are missing a vital element in this process. Strategic engagement on topics of material importance to key stakeholders contributes to the long-term success of the business by driving stakeholders' alignment with and support for the long-term strategy.

Communicating about responsibilities can also add value in other ways. Many companies find they need to communicate with stakeholders because they need support from both internal and external collaborators to successfully fulfill those commitments. And the stakeholders that originated particular responsibilities will want confirmation of progress. This progress is often best demonstrated by communicating regularly.

Finally, investors require ongoing communication on stakeholder responsibilities to earn and keep their support. As Ihenacho explained, what investors really need to support a multi-stakeholder approach from companies is "more exact information from the companies – better disclosures."[33]

To effectively communicate, companies need to answer the question, "Who communicates our stakeholder responsibilities, to which audiences do they communicate, and in what ways?"

Companies must have the right leaders ready to communicate about responsibilities relevant to their roles. The audience for these communications depends to some extent on the behavior of supporting stakeholders, on one side of a decision, and supervisory or governance stakeholders on another – as well as on the behavior of other organizations that may share the responsibility. Finally, how companies communicate impacts how others respond, and there is a clear distinction between telling and showing. Telling an audience about a responsibility and how a company intends to fulfill it involves a general declaration of intent (that may be unsubstantiated), while showing that audience the resources, trade-offs, risks, and opportunities it presents, and the ways in which the responses to a new responsibility are being operationalized, involves more specific and structured interactions in relevant settings.

CASE STUDY: Communicating

Walmart Inc.

US-headquartered multinational retailer Walmart provides a leading example of effective communications about its responsibilities to its various stakeholders. Alongside the annual report and regular press releases, the firm provides a platform via its website, organized thoughtfully by theme, covering important stakeholder issues and relevant corporate initiatives related to key business risks and opportunities.[34] Content is organized and communicated to different stakeholders using multiple forms of media, catering to different stakeholders requiring varying levels of detail. Communication is tailored for different stakeholders and subcategories within stakeholder groups through infographics and text, as well as guided explanations via webinars and video content. Priority stakeholder themes for the company, such as sustainability, have their own dashboard (i.e., showing),[35] and key initiatives that are not updated in real time, such as allocations from green bond proceeds, are slated to be published annually[36] (i.e., telling).

Conclusion

Expectations of companies have expanded well beyond traditional notions of maximizing immediate shareholder returns. But behaving responsibly by implementing a multi-stakeholder approach is a complex and ongoing challenge – one that requires both resources and regular communication to deliver value in the long term. This report is designed to help companies by developing the concept of multi-stakeholder responsibilities and providing a tool kit for navigating these circumstances, including tools for taking inventory of, anticipating, processing, fulfilling, and communicating multi-stakeholder responsibilities. The landscape of corporate expectations is ever changing; responsible long-term companies develop processes to consistently evolve their approach to be responsive to key stakeholders while remaining true to their corporate purpose.

IMPROVING THE DIALOGUE

The research demonstrates that walking the talk adds value over time, but companies can't lose sight of their shareholders. Prior FCLTGlobal research demonstrates that a robust investor-corporate dialogue contributes to better alignment over the long term, attracting shareholders that are supportive of the long-term growth objectives of the business. Potential Tools for Strategic Engagement offers ideas and suggestions for both companies and investors to improve the conversation, and A CEO Guide to Long-term Roadmaps offers executives a guide for communicating on topics of strategic importance.

Worksheet: Inventory and Anticipate Responsibilities

Companies process responsibilities in the context of their purpose and existing responsibilities. One part of this worksheet (i.e., the "inventory worksheet") affords companies a view of all their current commitments, as well as important details about them, in one place. Companies also anticipate expectations that may become commitments for them through the lens of their relationships with the stakeholders that influence them. The second part of this worksheet (i.e., the "anticipation worksheet") allows companies to view all of the stakeholders that influence them, as well as ways that they are changing and the parameters of each relationship, in one place. We present both parts of this worksheet together because purpose is the long-term frame of reference for both inventorying and anticipating stakeholder responsibilities.

Inventory Worksheet

PURPOSE OF THE COMPANY: ______________________________

Existing Commitments	*Stakeholders*	*Trade-offs*

Anticipation Worksheet

Stakeholders	*Pressures on Stakeholders*	*Emerging Expectations of Our Company*	*Trade-off Boundaries*

Worksheet: Processing Expectations

Because a wide array of stakeholders can hold expectations of organizations, companies require a process to determine which of those expectations to accept as commitments. FCLTGlobal has created a process to guide executive teams in their processing of expectations.

Stakeholder expectations connote an internal responsibility if the corporation answers "yes" to each question on the worksheet or if accepting the trade-offs associated with each question would make the organization more purpose-oriented. Accepting a set of trade-offs means that the process can advance to the next question and leaves open the possibility that this expectation will connote a responsibility.

Conversely, expectations do not connote a corporate responsibility if the answer to any question is "no" or if declining the expectation on the basis of trade-offs helps to preserve the company's purpose.

		*Trade-offs**
Would accepting this expectation as a commitment advance our purpose?	☐ *Yes* ☐ *No* ☐ *Perhaps*	*List:* • *Drive* • *Accept* • *Decline* • *Defer*
Is this expectation relevant to our strategy?	☐ *Yes* ☐ *No* ☐ *Perhaps*	*List:* • *Drive* • *Accept* • *Decline* • *Defer*
Is it possible for our company to meet this expectation?	☐ *Yes* ☐ *No* ☐ *Perhaps*	*List:* • *Drive* • *Accept* • *Decline* • *Defer*
Does our company have the resources to meet this expectation	☐ *Yes* ☐ *No* ☐ *Perhaps*	*List:* • *Drive* • *Accept* • *Decline* • *Defer*

An external expectation connotes a commitment if all questions are answered "yes" or the trade-offs associated with answers of "perhaps" are accepted.

** Long-term corporations will accept trade-offs that result in the organization being more purpose-oriented overall and decline those that do not.*

Conversation Guide: Fulfilling Responsibilities (For Boards and Executives)

FCLTGlobal has created this conversation guide to facilitate discussions between boards and executive management about fulfilling stakeholder responsibilities. We have provided illustrative answers to the questions, but they are not intended to be exhaustive or comprehensive.

What degree of responsibility do we have in this case?

- Sole
- Primary
- Secondary
- None

How do we address this responsibility in our overall strategy?

- Corporate purpose and beliefs
- Capital allocation constraints or opportunities
- Supply chain selection
- Engagement / advocacy

In what ways does our governance structure need to change based on our stakeholder commitments?

- Inclusion of stakeholder representatives on the board
- Addition of a board committee focused on stakeholder commitments
- Update to the skills and experiences matrix used to shape board composition
- Adjustment of oversight metrics reported to the board
- None

How do we address this responsibility in our overall strategy?

- Diversity of workforce
- Integrity of supply chain
- Long-term returns
- Systemic / structural adjustments
- Geopolitical strategies

How will we judge our overall success in fulfilling this responsibility?

- Specific outcomes
- Absence of negative recognition (controversy)
- Market movements attributable to specific outcomes
- Positive recognition from others

Over what time horizon will we evaluate our fulfillment of this responsibility?

- Less than one year
- One to three years
- Three to five years
- More than five years

How do we adjust our strategy, risk management, and individual accountability when we are surprised by the outcomes?

- Experimenting
- Workshopping with peers
- Bringing in outside advisers
- Elevating to board for feedback
- Other (specify)

Worksheet: Communicate Responsibilities (For Boards and Executives)

Long-term organizations communicate deliberately about their responsibilities to key stakeholders, including sharing an understanding about who communicates with whom and in what ways. This chart helps boards and executive management visualize this division of labor. To chart these decisions, identify the members of your organization who communicate about responsibilities (left) and the external partners and constituents (right) to whom they communicate. Use a dotted line to indicate communicating by telling and a solid line to indicate communicating by showing. Leave blank if your organization does not communicate externally about its stakeholder priorities. Note that more than one member of your organization may communicate with the same constituents, such as, for instance, in the likely case of a CEO and governing board both communicating to the shareholders.

Government
Lenders & Creditors
Shareholders
Customers
Suppliers
Workforces
Peers
Media
Communities

Board Directors
Chief Executive Officer (CEO)
Executive Management (C-Suite)
Business Unit Head
Public Relations, Public Affairs, or Communications
Investor Relations
Other Staff

Appendix A. Stakeholder Definitions

Supervisory or Governing Stakeholders

Supervisory or governing stakeholders have the capacity to exert a degree of control or influence that can put constraints on the way a company operates – "supervisors" of a company have various levers they can pull to exert their influence directly (e.g., regulation, debt or loan covenants, electing the board). Examples include:

1. **Governments** make legislation and regulations that apply to corporations broadly. This authority gives governments decisive influence, but it is not always entirely direct – corporations may have some room for interpretation and discretion about how an expectation translates to a responsibility. Governments are also occasionally the sponsors or savers that finance investment institutions that form part of a firm's shareholder base, and they can sometimes raise expectations through investor-corporate dialogue.

2. **Lenders and creditors,** such as banks, financing institutions, and bondholders, have a direct financial claim on the assets or resources of the company. Lenders or creditors can impose terms and covenants that constrain the behaviors of companies and can directly influence a company's cost of doing business.

3. **Shareholders**, including asset owners, asset managers, and individual investors, hold securities that companies issue and correspondingly enjoy the rights that those securities entail, ranging from residual claims on the firm to controlling votes for board directors. Shareholders exercise direct influence on corporations as a result, but that influence is decisive typically only when the size of an investor's security holding is very large. Shareholders care about companies performing well financially and in a responsible manner, as APG Asset Management CEO Ronald Wuijster observed: "As a pension fund investor, it is also about good pensions, and good pensions mean good returns.... We need to be careful with the balancing."[37]

Supporting Stakeholders

Supporting stakeholders lack the clear levers a governing or supervisory stakeholder can use to wield influence, but their support is essential to the firm's success as a going concern. Examples include:

1. **Customers** are the source of demand that the corporation serves and the way the corporation earns its revenue. Customers can influence corporations directly and decisively when they act together. Yet collective-action challenges make it difficult for customers to act in the aggregate, so their influence can be too indirect, or even disjointed, for an expectation to become a responsibility.

2. **Suppliers** are other business with which the corporation has economic relationships to provide the inputs for its products, whether goods or services. Suppliers can influence the price and availability of resources for the firm in concept, but like customers, they are limited in acting by collective-action challenges and their own economic interest.

3. **Workforces,** in this context, are the people who work for corporations. It is only through these people that corporations create value. Many workers can choose the activities in which they are willing or unwilling to take part, and they can pressure their employers to enshrine their expectations as responsibilities.

Amplifying Stakeholders

Amplifying stakeholders have no direct means of influencing a company but can use their voice to draw meaningful attention to an expectation. Examples include these:

1. **Peer corporations** lend legitimacy and momentum to expectations when they accept them as new or evolved responsibilities. This effect may or may not be intentional. When it is intentional, peer corporations (who are often also competitors) can directly encourage a corporation to join them in an effort. Even when peer corporations do not have a goal of influencing others, the stakeholder that raised an expectation can learn from the circumstances that led to success with a particular institution and seek out others in similar circumstances in an attempt to repeat that success.

2. **Media** chooses which stories are told at a broadcast scale, and this often determines which issues get attention from other stakeholders. Fact-based journalists do not advocate for their own expectations of corporations, but the issues that they choose to cover, or not cover, shape the expectations of other stakeholders. This is a very influential role, even though it is indirect, and expectations often emerge or evolve in response to media reporting or "headline risk."

3. **Communities** are the places in which corporations operate either directly or indirectly. They extend beyond the governments that supervise a corporation and the specific customers, suppliers, and workforce that support it. Communities include – but are not limited to – advocacy organizations and groups of individuals who bear externalities created by the corporation. Community members influence the corporation indirectly, including through representative governments, amplification of supporting stakeholders' concerns, and media campaigns.

Appendix B. Resource Definitions

Resources are the value that the corporation creates through its business and allocates to maintain and grow its business. Note that resources, as discussed here, closely resemble economists' "factors of production," but we frame them more broadly in order to highlight the implications for a company's stakeholder responsibilities.

1. **Financial resources** (money) can be a focus of expectation and a tool for fulfilling responsibilities such as participating in a public-private partnership, negotiating benefits with labor organizations, returning capital to shareholders, or maintaining important price levels for consumers.

2. **Natural resources** include the raw materials of production but also the quality water, air, soil, ecology, and climate that make production possible. For instance, communities expect to remain livable, shareholders expect increasing economic opportunity in the future, and governments expect that they will be able to continue to support a prosperous society.

3. **Human resources** include labor, talent, and creativity available to the company. People are the most essential tool of the corporation, but people are also ends in themselves, not mere means to ends. Every corporation's purpose is about people in some way. The same people who form a corporation's workforce also form the constituency of representative governments, the saver base for sovereign asset owners, the demand for the corporation's products, and the backbone of any community.

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