Opinion **Coronavirus**

Coronavirus poses big test of capitalism's stakeholder conversion

Outbreak will show whether there is substance behind pledges to manage for the long term

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Andrew Edgecliffe-Johnson MARCH 3 2020

How stakeholder-friendly will companies feel in a falling market? The corporate consensus has shifted remarkably quickly to the idea that executives must manage for the long-term benefit of employees, consumers, suppliers and the planet — rather than focus only on meeting investor expectations for the next quarter.

Yet this rebuke to the old doctrine of shareholder-primacy has come during a long bull market. Record profits have made it easier for chief executives to think magnanimously about constituents who have no power to oust them if they miss forecasts.

The coronavirus outbreak offers a stark reminder that such benign conditions will not last. As stock prices whipsaw and global supply chains seize up, capitalism's recent conversion faces its biggest test. Central banks have moved quickly to cushion the economic impact of the outbreak, and most CEOs still hope that their profits will rebound. But the coming weeks will be fraught with unfamiliar risks for companies that have come to define themselves by their socially responsible credentials.

This heavily marketed support for a new way of doing business has raised expectations among staff and customers to a point that many of the belt-tightening moves that executives have deployed in past crises could do lasting brand damage. A sustained downturn would also leave them with tougher choices than in previous reversals.

Harsher conditions always prompt CEOs to cut the nice-to-have: 61 per cent of executives would cut discretionary spending to avoid missing their profit forecast, according to a survey by FCLTGlobal, a group formed to encourage corporate long termism.

When choosing between addressing a long-term environmental crisis and more imminent supply chain upheavals, many companies will shelve the less pressing demand. But doing so now will expose executives who have embraced the environmental, social and governance demands of a growing universe of "ESG" funds to uncomfortable scrutiny.

"We always get that question: in a downturn, does ESG keep going?" says Martin Whittaker, the CEO of Just Capital, which ranks companies by how they treat stakeholders. "In a riskier world, some people are . . . not going to think long-term," he warns, predicting a shake-out that will expose "those that are in it for the marketing". WeWork's claim to be dedicated to "the energy of we", for example, has rung hollow since it outsourced 1,000 cleaners' jobs.

Even business as usual can look callous when conditions change as sharply as they have in recent weeks. Raising the prices when in-demand products are in short supply is rational in normal times; in a crisis it looks like gouging. Amazon this week deleted thousands of product listings that flouted its fair pricing policy, and a New York state senator proposed penalties for retailers hiking the price of face masks.

Similarly, disparities in the benefits companies offer different workers pose unexpected reputational risks. It is one thing to tell office dwellers they can stay home with their laptops, but minimum-wage staff at Walmart and McDonald's and the gig economy workers on which DoorDash and Uber depend do not have that choice.

As infection concerns boost remote working, "everybody in New York thinks they'll sit at home and get takeout, but nobody who delivers takeout or Amazon parcels gets paid sick leave," points out Alison Taylor, executive director of NYU Stern's Ethical Systems centre. An ethical business should extend such benefits to contract and gig economy workers, she argues: "Do I think there's a hope in hell they'll do that? No way."

The case for companies staying focused on multiple stakeholders' long-term interests — even in a crisis — is getting stronger. Deloitte estimates that half of all actively managed funds will have ESG mandates by 2025, and a growing body of research suggests that companies which manage to longer horizons outperform regardless of the economic cycle.

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"The numbers show that acting in a long-term fashion can shield a company from the lasting effects of a market downturn," says FCLTGlobal CEO Sarah Williamson. Companies such as PayPal which have improved benefits for people at the bottom of their org charts have won investors' backing.

So what companies should do is clear. What they choose to do will determine which ones emerge strongest.

Even with support from longer-term ESG investors, CEOs face intense pressure to put shorter-term shareholders' demands first. If they yield to it by slashing jobs, short-changing suppliers or backing away from environmental commitments, their actions risk being seen not as inevitable responses to hard times but as corporate hypocrisy, shattering the public's already shaky trust in business.

In 1963, the Stanford Research Institute defined "stakeholders" as "groups without whom the organisation would cease to exist". It took decades for executives to come around to the idea that constituents other than their investors play such an existential role. Now they must show the substance behind their professed conversion.

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Letter in response to this column:

New urgency to the debate on stakeholder capitalism / From Bob Bischof, London, UK