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Leping Supplement
Shifting to a Stakeholder Economy
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Shifting to a Stakeholder Economy

As society looks to the business world to solve the most pressing social and environmental issues, corporations are changing the way they are structured to fulfill their duties and new responsibilities.

BY JINGLIAN WU

In the present day, society looks to businesses to address not only economic issues but also social problems—a change in expectation that came about in just the last two centuries.

In the 19th century, the social system was roughly divided into two sectors, private and public. Although this structure was viable under conditions of the time, it became fundamentally flawed as issues in the public sector became increasingly complex and costly.

By the 20th century, the deepening of the economic division of labor resulted in an increase in frequency of transactions and complexity of cooperative relationships. Dealing with the modern world's issues, from external ones such as national defense and counterterrorism to internal ones such as environmental protection, equity in education, and the shortfall of social security benefits for seniors, required more resources. As a result, governments found it harder and costlier to deal with these problems over time.

As a result, civil and nongovernmental organizations stepped up to take the lead in addressing society's various needs. The nonprofit sector developed rapidly in the 20th century and made major contributions in the public arena, from community service to citizens' empowerment.

However, it became clear that the third sector had its own challenges, particularly when it came to scaling solutions. Under such circumstances, further breaking the boundaries between the public

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and private spheres and mobilizing more resources to deal with public affairs were put on the agenda. A trend emerged in the late 20th century among traditional nonprofit organizations and commercial enterprises. On the one hand, many nonprofit organizations no longer relied solely on donations and began to use commercial means to obtain business income to enhance their ability to provide social services. On the other hand, some commercial enterprises no longer regarded economic returns as the sole purpose of operation, but took the initiative to commit themselves to fulfilling more social responsibilities. As a result, a number of hybrid organizations with both a public welfare and a commercial nature, which some call "social enterprises," emerged.

Among them, it was particularly noticeable that many commercial enterprises had set clear social goals for themselves. The emergence of this new type of enterprise was of great significance, because if tens of millions of enterprises could also use the spirit of innovation and entrepreneurship for public good, the power to solve social problems could be magnified hundreds or even thousands of times.

Anyone who knows the history of modern companies knows that in the early 1990s a corporate governance movement was taking place around the world due to the growing belief that the separation between ownership and control led to a flawed structure, whereby executives had total control of companies. Those opposed to the governance practices of the time argued that strengthening the supervision of owners (shareholders) over executives was needed for optimized checks and balances that would keep management from insider control and power manipulation.

In 1995, American economist Margaret M. Blair, whom I met at Yale when I was a visiting scholar, claimed in her book *Ownership and Control: Rethinking Corporate Governance for the Twenty-First Century* that strengthening owners' and proprietors' supervision and control over companies, as pushed by the revolution, would not solve what was wrong with corporate governance. Rather, Blair argued that corporations should be "maximizing total wealth" by providing ownership-like incentives to shareholders and stakeholders. In other words, a company should be responsible not only to shareholders, but also to stakeholders, such as employees, suppliers and distributors, the community, customers, and even society.

At the time, Blair's argument was not taken seriously in the business world. In fact, when I invited Blair to China, most economists in China disagreed with her and considered her ideas flawed. Instead, the popular belief at the time was that entrepreneurs who ran their firms well and made profits were fulfilling their social responsibilities.

BENEFIT CORPORATIONS

Only after entering the new century, under the impact of contradictions of capitalism that resulted in wealth inequality and the social ideological trend of utilizing business measures to solve social problems, did Blair's arguments gain approval. A new kind of business emerged: the benefit corporation (B Corporation). In 2010, the state of Maryland was the first to enact benefit corporation legislation, and since then, 36 more states have followed suit with some form of legislation.

Benefit corporations are not entitled to tax benefits, though they are required to define their social responsibilities (which the board of directors is responsible for fulfilling) in their articles of incorporation and report performance to the public using a third-party standard.

Besides self-restraint of enterprises, benefit corporations also need help and supervision from the society, to fulfill their social responsibilities. In the US, this issue is solved by nonprofit organizations

who provide third-party standards as well as certification according to their own evaluation criteria. In this way, they hope to promote the dual achievements of benefit corporations in commercial and social interests.

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good. Lastly, linked to the benefit of millennial talent is the impact of the millennial consumer. Millennial consumers are more willing to purchase products that are related to a social cause and will use benefit corporation certification as a signal of such a company.

B Lab is a nonprofit organization that uses its own standardized tool B Impact Assessment (BIA) to manage and measure the impact of a business's performance. The enterprises that satisfy their evaluation earn a B Corp certification. At the end of 2018, 2,655 companies from more than 50 countries and more than 150 industries had obtained B Corp certification by B Lab. Examples of well-known B Corps are Danone and Kickstarter. Tools like BIA help shift the business world to a stakeholder economy and strengthen movements that create social value, such as impact investing, fair trade, capital market reforms, and planet-friendly consumer movements.

BENEFIT CORPORATIONS IN ASIA

In recent years, enterprises across East Asia have shown a growing interest in the benefit corporation movement. In June 2016, First Response, a leading social enterprise dedicated to delivering first aid training and life-saving services, became the first Certified B Corp in China. By November 2018, 11 enterprises in China were certified as B Corps in such industries as education, consumer goods, technology, and architectural design. Today, hundreds of Chinese enterprises have applied for certification, and more than 500 enterprises use BIA to assess the scope and relevance that corporations have on social impact in China.

East Asia is a leading power in the global economy and possesses impressive innovation capacity. Today, as globalization faces increasing challenges, East Asian economies that have benefited greatly from globalization, especially China, must fight to protect the increasingly connected world by advocating for and practicing an economic development model that can benefit all—not just the few. In conclusion, speeding up the shift to a stakeholder economy has the potential to unlock innovation and solve the world's biggest social issues, therefore building a better society. ♦

There are multiple business advantages of benefit corporation certification. First, these enterprises can use the assessment guidelines to measure and improve their social and environmental impact. This makes it easier for financial institutions to evaluate a company's value potential, helping to attract investors. A second benefit is that it attracts and retains top-tier millennial talent who place a lot of importance on meaningful work that connects to a larger purpose. After being certified, enterprises around the world find that they attract more coveted top talent while simultaneously earning greater loyalty from employees who are passionate about doing

Korea's New Integrated Business Strategy

Despite financial risks, the traditional business landscape in Korea is shifting to a model that focuses on the pursuit of social good in addition to profitability.

BY JEONGTAE KIM, ANNA KANG & JIHYUN HONG

In May 2018, the chairman of SK Group, the third biggest Korean business conglomerate, along with about 70 of their CEOs and executives, gathered at the Grand Walkerhill Seoul hotel in Gwangjin-gu, Seoul, to discuss management strategies that maximize social value. When the discussion intensified around the high costs associated with business models for social good, SK Chairman Chey Tae-won quieted concerns, saying, "I believe corporations that create social value can become respectable and widely loved in the future. The value of society-friendly as well as customer-friendly corporations will eventually grow due to their social responsibility and innovation, despite the possibility of short-term loss." The SK Group officially began to apply "double bottom lines" perspectives to all of its businesses at home and abroad, the first-ever initiative by a corporation of its size in Korea that would base business success on financial returns and social values combined—or, "double bottom lines."

Korean conglomerates are beginning to shift their objectives, from focusing solely on maximizing shareholder profit to actively seeking benefits of the wider society and concerned stakeholders that include customers, employees, and suppliers—a seismic shift in the way things are usually done. After the Korean War, the country's rapid economic development was mainly driven by conglomerates, like Samsung, Hyundai Motor Company, LG, and the SK Group. From the 1960s to the 1970s, these massive firms, called chaebols, aggressively expanded into new industrial sectors, tapped into lucrative foreign markets, and set themselves up for maximized profitability. Traditionally, the chaebol's goal was to drive the nation's economic growth through sales and profitability. However, modern consumers expect businesses to care about the world. Businesses today are expected to share their wealth for social good and to act responsibly toward citizens, society, and the environment. As a result, corporations came to realize that they need to care for the concerned stakeholders' value in order to survive in the uncertain future marketplace.

Drivers of such changes helping South Korea to move away from a business landscape focused solely on financial returns are in both

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