Stakeholder Capitalism

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COURSE####: Course Title

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Due Date

Outline

Stakeholder Capitalism

An organization's ultimate goal is to maximize profits and stay as competitive as possible in the market. Although profit maximization guarantees company growth through asset development and expansion opportunities, a generous chunk of the profit maximization efforts should go to stakeholder management initiatives. The modern business environmental dynamism demands more than quality products or services from the organization. Ethical standards of business practices outline a multivariate framework with added responsibilities for stakeholder management through internal controls and social responsibility. Cultural differences around the globe define power divisions in corporate entities. For instance, power balances in Germany are stark different from those in the United States. An interesting stakeholder management concept is the idea of stakeholder capitalism, which is the orientation to serve stakeholders indiscriminately by capturing their interests in business decisions. This paper discusses the advantages to employees in stakeholder capitalism over shareholder capitalism in corporate decisions. The primary argument is that stakeholder capitalism enhances brand competitiveness by promoting public acceptance and talent attraction.

Stakeholder vs Shareholder Capitalism

Stakeholder capitalism in Germany is the most appropriate illustration of how business value-driven decisions can incorporate the social implications of business decisions to moderate shareholder decisions. Germany uses the Works Councils to promote a management approach where the primary corporate goal is to benefit every stakeholder category in the business (D'Souza et al., 2021). A typical corporate organization serves stakeholders in different categories, including suppliers, employees, customers, immediate communities, and organizational shareholders. D'Souza et al. (2021) explained the practices, as seen in the German corporate environments, go beyond social initiatives or corporate social responsibility into the governance frameworks. Governance frameworks include board decisions that tether operational benefits to each stakeholder category in a significant way (D'Souza et al., 2021). Although the key strategic focus in this analysis is to outline the advantages to employees, it is worth noting that all categories of stakeholders benefit from stakeholder capitalism in the short- and long-term.

Corporate organizations in Germany use the Works Council to represent employee voices in company decisions. According to CFA Institute (2021), employees take part in democratic elections of the Works Council members, who act as representatives for all employees in the company's decision-making processes. Moreover, German corporate environments make Works Council representation fundamentally different from trade unions. Unlike trade unions, where membership registration is a requirement for participation, employees do not have to acquire membership or political affiliation to elect Works Council representatives or view the posts (CFA Institute, 2021). The German Works Council mandates are limited to advocacy in companies where representatives are members. Nonetheless, a stakeholder capitalism approach empowers employees by amplifying their voices on wishes, needs, or interests in corporate decision processes.

Meanwhile, shareholder capitalism is the exact opposite of stakeholder capitalism. According to McCann and Berry (2017), shareholder capitalism systems put shareholder interests first, with decisions regarding value and profitability following the market- and shareholder-fixated interests. Most traditional governance approaches looked toward shareholder capitalism because CEOs and boards fixed their interests in short-term shareholder value maximization (McCann & Berry, 2017). Since the end justifies the means, shareholder capitalism systems made it a practice to compromise employees provided that they generate shareholder value. However, McCann and Berry (2017) agree that shareholder capitalism is detrimental to productive investment because corporate ownership and control build an elitist approach to power. One counterproductive feature of the shareholder capitalism model is a disregard for social responsibility or environmental protection. Shareholder capitalism contributes to social inequality, characteristics even evident in the patterns of power and hierarchical distribution of authority within the corporations.

Environmental challenges come to light in the corporations' appetite for risky short-term behaviors targeting quick profits and zero accountability measures. Some appropriate examples of the detrimental effects to the environment due to shareholder capitalism are mining activities, overdependence on fossil fuels at the expense of global environmental concerns, and ecological disruptions to pave the way for capitalist projects (McCann & Berry, 2017). Corporations have long held onto the tenacity of shareholder capitalism to mobilize large amounts of capital in the most time-effective manner possible. However, the considerable benefits of stakeholder involvement, especially for employees, pave the way for advocacy of stakeholder capitalism as the most preferred alternative. An analysis of the German work councils and employee roles in workplace advocacy through elected representatives explains the benefits of having stakeholder representatives on company boards.

Benefits of Employee Involvement in Company Boards

Through the Works Council's advocacy, employees in Germany get to enjoy seamless negotiation and involvement in company decisions that affect employee development and motivation. The CFA Institute (2021) reported that German Works Councils are generally efficient in negotiating issues affecting employees. One of the advantages of having a Works

Council in stakeholder capitalism-oriented corporate environments is that detachment from politics and membership entitlements promotes neutrality. That implies that employees in Germany have representatives from among employees whose negotiation intentions are honest and apolitical. Politics regarding capitalism does not mean national politics but corporate adjustments by taking sides. For instance, if a member of the Works Council in Germany is management-oriented, there are high chances the member would not promote employee interests.

The most significant advantage that employees in Germany enjoy over those in America is that the Works Council manages positive mediation that promotes corporate-employee understanding, especially when there are tough corporate situations. The most interesting role of the employee representatives is the moderation of corporate decisions by instating social responsibilities when decision-makers think of short-term profitability. According to McCann and Berry (2017), shareholder-oriented corporate decision-making practices promote sacrificing stakeholders for capital gains. The possible difficult measures would arise when corporate boards have to make drastic decisions that sacrifice employee benefits and well-being for corporate sustainability (McCann & Berry, 2017). An appropriate situation to illustrate the company's tough decisions was during the COVID-19 outbreaks. Employees in America would possibly have to go with corporate decisions on employee layoffs and mandatory measures for COVID-19 prevention. Meanwhile, Work Councils in Germany would easily negotiate for paid leaves and employee rescheduling to accommodate all the workforce through increased daily shifts (CFA Institute, 2021). That implies that workers in Germany would enjoy a greater job security edge compared to their counterparts in America.

Employees in Germany have their far-reaching duties and rights catered for more than those in America. The stakeholder capitalism model in German accommodates employee representatives on supervisory boards (CFA Institute, 2021). Moreover, large companies in Germany have the mandate to fill half of their supervisory board slots with employees. The German Co-determination Act (MitbestG) insists on 50% representation from employer and employee representatives (CFA Institute, 2017). Thus, the stakeholder capitalism workforce keeps employees and employers under constant active workplace dialogue, which benefits company stability. Stability is beneficial for employees partly because they become part of the teams that proactively address workplace concerns and provide ideas for ironing out friction in the workplace. Stable workplaces benefit employees in Germany by dispelling job security concerns and mental health challenges that could result from unresolved workplace stressors. Therefore, an average German employee is likely more productive than an average American employee.

Stakeholder capitalism in Germany provides empowerment advantages to employees. According to the CFA Institute (2021) report, the German Works Constitution Act single-handedly empowers employees through the Works Council. The remarkable legislation for employee empowerment is that Works Councils retain significant decision-making power. An average employee in Germany cannot face termination or transfers unless the Works Council issues consent for the workplace personnel changes (CFA Institute, 2021). The Council wields the power of decision-making nearly matching those of the human resource personnel, given that they also participate in the hiring process. Without the power of a conciliation body in Germany, the employee, through Works Council representatives, would have full authority in defining who onboards, who leaves through termination, and who receives transfers.

The employee in the German stakeholder capitalist work environment enjoys a better composed inclusive workforce since marginalized communities in the workforce have full-time protection on workplace issues such as job security. Unlike the German employee, the US employee is vulnerable to employer decisions since only the government capitalism through labor laws and employee rights regulations can protect marginalized communities from firing or mistreatment (Wilmers, 2017). An inclusive workforce in German corporations comprises people with disabilities, foreign workers, older employees, pregnant women, and marginalized sexual identities like people from the LGBTQ+ communities. According to Bebchuk et al. (2022), shareholder capitalists only enter into deal terms with employees on clauses and issues that protect company interests. For instance, the average American corporate leader did not advocate for stakeholder benefits and protections during the COVID-19 pandemic (Bebchuk et al., 2022). Therefore, the American employee misses out on the advantages of minority protection through negotiations of workplace benefits.

An average female employee in Germany enjoys an inclusive environment more than their counterparts in America. Women's rights are typically part of employee rights in a typical workplace setting. However, workplace diversity and inclusion trends incorporate more proactive approaches to women's empowerment through actionable advocacies and practical approaches to women's development. According to O'Hanley (2022), stakeholder capitalism begins with board diversity and inclusion through women's involvement in power and corporate decision-making. Interestingly, the German Works Constitution Act already incorporates women's interests in the composition of employee representatives, where 30% of supervisory board slots must be women (CFA Institute, 2021). Bebchuk et al. (2022) found that corporations in America incorporated few or no deals governed by constituency statutes. That implies the absence of obligations for protecting and promoting workplace inclusion unless it is part of their corporate social responsibility initiatives, which can be mere PR stunts. Nonetheless, employees in shareholder capitalism environments must find other means of voicing their concerns to employers.

America: Employer Communications with Managements

Employees in America rely on labor unions to advance their workplace interests, voice concerns, or seek protection for their employment rights. According to Sandroff and Boyle (2022), employees in America get to enjoy the collective bargaining avenues for voicing their concerns to their employers. Labor unions are an association of employees coming together to share a common voice in negotiating rights and interests (Sandroff & Boyle, 2022). Interestingly, America has had a long history of trade and labor unions through which employees can air their concerns to the management. Unlike the Works Council in Germany, labor and trade unions in America have mandatory requirements for worker membership (Wilmers, 2017). Moreover, labor unions in America have histories of political affiliations that have contributed to the loss of bargaining power for the various unions that came into existence (Wilmers, 2017). The most outstanding characteristic that distinguishes unions (shareholder capitalism advocacy) from Works Council (stakeholder capitalism advocacy) is that the latter is mandatory.

American employees experience difficulties in relaying timely information about their workplace concerns. Unlike the Works Constitution Act, which protects the Works Council's rights and supervisory board composition characteristics in Germany, no laws in America give employees or union members the right to sit on corporate boards (CFA Institute, 2021; Wilmers, 2017). Sandroff and Boyle (2022) described unions as voluntary associations; workers choose if they want to be part of the unions or not. Workers who are part of the trade or labor unions obtain union contracts and advocacy documents for members-only. For instance, Sandroff and Boyle (2022) observed that union workers' contacts specify working hours, employment benefits, workplace health and safety policies, and overall remuneration. Therefore, the unions will renegotiate benefits and rights whenever employees report violations of any terms in union contracts (Wilmers, 2017; Sandroff & Boyle, 2022). Labor and trade union advocacy in America has several shortcomings compared to the stakeholder capitalism 'Works Council' arrangements in Germany.

The US private employment sector constantly threatens union power and membership. According to Hagedorn et al. (2016), labor union density in America hit its 99-year low in 2014. The fall in labor union density left workers exposed to capitalist workplace challenges, including low pay situations, disregard for occupational health and safety, and a public decline in ratings on labor union effectiveness in the US (Wilmers, 2017). Unfortunately, the private sector rides on the back of the already withering labor unions to impose the shareholder capital-oriented decisions that stifle the little voice left for an average American worker to speak about workplace concerns. Sandroff and Boyle's (2022) argue that labor unions promoted discrimination after WWII is likely to return when the private sectors gain full control over the labor unions' direction. However, discrimination in the modern business context is no longer racial or identity-based but rather pay discrimination equally detrimental to employee engagement and motivation.

Employees' major concerns in the American workplace are the protection of rights and fair treatment that encompasses adequate compensation for their roles. Wilmers (2017) stated that remuneration factors determine employee health and well-being through psychological satisfaction, promotion of access to health, and improvement of employee living environment.

Although the Fair Labor Standards Act of 1938's minimum wage and overtime payment resulted from labor union advocacy efforts, the modern employee has little to no voice when negotiating personal benefits (Wilmers, 2017). That implies the American employee would have little to no chances of thriving in the corporate shareholder capitalism environments if not for the labor unions.

Conclusion

The stakeholder capitalism model is the alternative corporate governance approach making employees and other stakeholder categories party to the board decision processes. Shareholder capitalism stifles stakeholder involvement since company decisions focus on short- and long-term shareholder value development: most capitalist organizations compromise stakeholder rights and benefits for shareholder value growth. German corporations deal with the Works Constitution Act that mandates stakeholder involvement in supervisory councils. Therefore, employees in Germany have advantages over their American counterparts in areas such as workplace diversity and inclusion, empowerment, far-reaching duties and rights, advocacy, and mediation. American employees' only options to voice workplace concerns are through trade and labor unions.

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