

Binance Academy : blockchain for business sustainability

course 3 : Potential Blockchain Use Cases to All Firms

Module : Stakeholder Capitalism

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The notion of stakeholder capitalism has gained traction in recent years as an alternative to the traditional shareholder-centric model, which prioritizes the maximization of shareholder value

This shift in focus is driven by the increasing awareness of the social and environmental challenges that business face, as well as the need for a more inclusive and sustainable approach to value creation

Stakeholder capitalism offers a framework for business to engage with a broader range of constituents and address the complex interdependencies that characterize contemporary markets

What is Stakeholder Capitalism?

Stakeholder capitalism is a business philosophy or model where companies aim to create value not just for their shareholders (the people who own stock in the company), but for all stakeholders — including:

- Employees
- Customers
- Suppliers
- Local communities
- Governments
- The environment
- Future generations

This is in contrast to shareholder capitalism, which focuses primarily on maximizing profits and returns for investors.

Why is Stakeholder Capitalism Becoming More Popular?

There are a few major reasons why this model is gaining traction:

1. Social and Environmental Challenges

- Issues like climate change, income inequality, environmental degradation, and unethical labor practices have become more visible.
- People expect businesses to take responsibility and be part of the solution, not just focus on profits.

2. Changing Consumer Expectations

- Customers today prefer brands that align with their values.
- Many are willing to pay more or switch brands for better ethics, sustainability, and transparency.

3. Long-term Value Creation

- Focusing only on short-term profits can harm a company in the long run (e.g., poor labor treatment can lead to bad PR, strikes, or lawsuits).
- By investing in all stakeholders, businesses build resilience, loyalty, and long-term success.

4. Regulatory and Market Pressure

- Governments and regulatory bodies are beginning to introduce stricter ESG (Environmental, Social, Governance) requirements.
- Investors are increasingly including sustainability and ethical factors in their decision-making (impact investing, ESG funds, etc.).

How Does Stakeholder Capitalism Work in Practice?

Some examples of stakeholder-focused actions a company might take include:

- Paying fair wages and providing safe, inclusive workplaces.
- Reducing carbon footprints and using renewable energy.
- Offering products that are environmentally friendly and socially responsible.
- Engaging in ethical supply chains (no child labor, fair trade sourcing).
- Supporting the communities where they operate with education, health, or development programs.
- Reporting transparently on ESG metrics.

Why Does It Matter for the Future of Business?

The world is becoming more interconnected, and businesses operate in complex ecosystems. Companies that only focus on shareholder profit may overlook critical risks or opportunities that come from ignoring their broader impact.

Stakeholder capitalism is about long-term sustainability, building trust, and creating value that benefits everyone—not just a small group of investors.

Why Stakeholder Capitalism?

Most giant firms are required to apply stakeholder capitalism in their business philosophy nowadays. Stakeholder capitalism is vital for business sustainability for several reasons:

- Long-term value creation. By recognizing the interests of all stakeholders, businesses can identify new opportunities for innovation and growth, ultimately in more sustainable value creation over the long term.
- Enhanced reputation and trust. Attending to the needs of a broader range of stakeholders can help businesses build trust and enhance their reputations,

which can, in turn, lead to increased customer loyalty, stronger partnerships, and improved market positions.

- Risk Management. Acknowledging and addressing the concerns of diverse stakeholders enables businesses to identify potential risks, such as supply chain disruptions, labor disputes, or regulatory changes, and develop strategies to mitigate these threats proactively.
- Social and environmental responsibility. Stakeholder capitalism encourages businesses to integrate social and environmental considerations into their decision-making process, thereby promoting sustainable practices that contribute to the global goals, such as United Nations Sustainable Development Goals.
- Attraction and retention of talent. A commitment to stakeholder capitalism can help businesses attract and retain employees who are increasingly seeking to work for organizations that share their values and prioritize social and environmental well-being.

1. Long-Term Value Creation

In traditional shareholder capitalism, the focus is often on short-term profits—like boosting quarterly earnings or pleasing investors. But this mindset can sometimes lead to decisions that hurt the business in the long run (like cutting corners on sustainability or employee welfare).

Stakeholder capitalism flips the script.

It pushes companies to think long-term by considering how their decisions affect everyone involved:

- Employees
- Customers
- Local communities
- The environment

Example: A company that invests in cleaner energy might spend more now, but over time, it reduces energy costs, avoids regulatory penalties, and earns customer respect—leading to long-term success.

2. Enhanced Reputation and Trust

We live in a world where public perception matters more than ever. Social media, consumer activism, and global awareness make it easy for the public to call out bad corporate behavior.

Stakeholder capitalism helps build a positive brand image by showing that the company:

- Cares about people and the planet
- Is not just driven by money
- Makes ethical decisions even when it's harder or more expensive

When customers trust a company, they're more likely to stick with it—even during tough times. Trust also leads to loyal employees, reliable partners, and supportive investors.

3. Risk Management

Stakeholder capitalism improves how companies anticipate and handle risks. By listening to a variety of voices (not just investors), companies can:

- Detect potential issues early
- Adjust their strategies before problems escalate
- Build stronger systems of accountability

Examples of risks that can be better managed:

- Supply chain issues (e.g., sourcing from unethical or unstable suppliers)
- Labor disputes (due to unfair treatment or unsafe conditions)
- Environmental backlash (like pollution or deforestation)
- Regulatory changes (governments increasingly demand transparency and green policies)

4. Social and Environmental Responsibility

Stakeholder capitalism encourages companies to ask:

“How do our actions affect society and the planet?”

It promotes:

- Reducing carbon emissions
- Ethical sourcing of materials
- Fair labor practices
- Supporting local communities
- Contributing to global goals like the UN Sustainable Development Goals (SDGs)

This isn't just about doing good—it's about future-proofing the business. Companies that ignore these responsibilities face reputational damage, legal issues, and lost opportunities.

5. Attraction and Retention of Talent

Today's workforce, especially younger generations like Millennials and Gen Z, want purpose-driven work.

They look for employers who:

- Stand for something bigger than profit
- Actively contribute to sustainability and fairness

- Support diversity, equity, and inclusion

A company known for treating people and the planet well will:

- Attract top talent
- Keep employees happier and more engaged
- Reduce costly turnover and burnout

Summary: Why It Matters

Stakeholder capitalism isn't just a trend — it's becoming a new standard for responsible business. It allows companies to:

Build trust
Stay resilient
Create long-term impact
Align with global sustainability movements
Compete in a fast-changing market

Business model & governance trend

Part of strategic direction and supported by many prominent business school

- Yale school of management
- Harvard business school and Harvard law school
- MIT
- Oulu business school

R. Edward Freeman is the father of stakeholder Capitalism

Who Should We Refer to When We Talk About Stakeholder Capitalism?

It's important to ask: who is the person we should refer to when we talk about stakeholder capitalism?

This question matters because we need to identify the "guru" or thought leader behind this philosophy. Without a clear source, interpretations of stakeholder

capitalism can vary widely. Even if you ask ChatGPT, it may give you different definitions depending on the context. That's why it's crucial to follow a consistent and credible thinker—someone who has laid the foundation of this philosophy.

That person is Professor R. Edward Freeman.

He is often called the “father of stakeholder capitalism.” If you're truly interested in understanding the concept, you should study his work. He has been advocating for stakeholder theory and stakeholder capitalism since 1984 with his landmark book, *Strategic Management: A Stakeholder Approach*. Many institutions like Harvard Business School and the Institute for Business in Global Society have also hosted him to share his insights.

If you'd like to explore his ideas, I encourage you to read his work, particularly his article in the *Journal of Business Ethics* (2007), which he co-authored with colleagues. It's open-access and available online.

Why Is Stakeholder Capitalism Important?

Stakeholder capitalism is a response to the shortcomings of traditional capitalism models. Freeman traces the evolution of these models:

1. Labor Capitalism
2. Governance Capitalism
3. Investor Capitalism
4. Manager Capitalism
5. Entrepreneurial Capitalism

Each of these has its own limitations—either by focusing too much on profits, control, or shareholder interest. Stakeholder capitalism tries to address these gaps by considering all the parties that affect or are affected by a business, not just shareholders.

Relevance to Blockchain

Most blockchain discussions focus on technology—its features, infrastructure, security, and decentralization. But very few ask how blockchain aligns with philosophical or ethical theories like stakeholder capitalism.

Blockchain, after all, is just a tool. Whether it's used for ethical or unethical purposes depends on us—the people who design, develop, and deploy it. That's why we need theoretical grounding. Business people and entrepreneurs are more likely to adopt blockchain if they understand how it connects to values like responsibility, trust, and social good.

Six Core Principles of Stakeholder Capitalism

Freeman outlines six key principles that underpin stakeholder capitalism. Let's go through them one by one:

1. Principle of Stakeholder Cooperation

Capitalism is about creating, trading, and sustaining value through cooperative efforts among stakeholders. These efforts are largely based on *voluntary agreements*, not just legal contracts.

The term is "co-operation," not just "collaboration." It implies mutual respect, trust, and shared purpose. This principle reminds us that business relationships can be based on goodwill and shared values, not just transactions or profitability.

2. Principle of Stakeholder Engagement

To create and sustain value, businesses must actively engage their stakeholders. This includes not only customers, employees, and investors, but also communities, NGOs, and even the media.

Freeman emphasizes that value creation involves both *primary* (direct) and *secondary* (indirect) stakeholders. Engagement should be inclusive and continuous.

3. Principle of Stakeholder Responsibility

All parties must accept responsibility for the consequences of their actions. In blockchain contexts, this is critical.

For example, with smart contracts, who is responsible when something goes wrong? Is it the developer, the platform, or the user? While ownership is often discussed in blockchain, responsibility is often overlooked.

4. Principle of Complexity

Human beings are complex and socially embedded. Our values come from our communities, cultures, and lived experiences.

Even with blockchain's decentralized nature, trust is still involved. The rise of decentralized finance (DeFi) and cryptocurrencies like Bitcoin show that people *do* trust blockchain—just in different ways. As such, we must recognize the psychological and social complexity of human decision-making.

5. Principle of Continuous Creation

Value must be created and sustained over time. It's not just about one-time transactions.

This aligns with how blockchain projects often use the term “community.” In reality, that's stakeholder capitalism in action—an ongoing process of value creation and engagement.

6. Principle of Emergent Competition

Competition naturally emerges in free societies. Stakeholder capitalism welcomes this competition as a sign of healthy markets.

Many private blockchain projects fail because they ignore this principle. Instead of fostering open ecosystems, they try to dominate or monopolize the market. But the blockchain space thrives on diversity and decentralization—trying to centralize it goes against its very nature.

Final Thoughts

When designing blockchain-based systems, we must understand the principles of stakeholder capitalism. They guide us in building ethical, inclusive, and sustainable technology that serves not just shareholders, but all stakeholders.

Blockchain isn't inherently good or bad. It's how we choose to use it that matters. That's why connecting it to theory—like Freeman's stakeholder philosophy—is essential.