

Pursuing Stakeholder Capitalism Is an Impossible Task When Stakeholders Have Different Beliefs

BY MARC PAINTER September 10, 2020

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50 YEARS
LATER

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Can companies really attempt to benefit all stakeholders, when stakeholders rarely agree on the best course of action? A new study examines Walmart’s 2019 decision to enact some gun control measures in its stores and finds that the customer response to Walmart’s statement differed sharply along partisan lines.

The job description of a CEO was turned on its head last year when the **Business Roundtable** **promised** “to lead their companies for the benefit of all stakeholders—customers, employees, suppliers, communities and shareholders.”

The new view complicates the CEO’s already difficult job— to maximize profits for shareholders. Though endorsed by **some** (including **Joe Biden**), others have **commented** that the statement is “at best misleading marketing, at worst a dangerous power grab.”

If we take the Business Roundtable at their word, will they even be able to achieve their new purpose? **My research** shows that the goal of “stakeholder capitalism” is an impossible task when stakeholders hold different values.

I focus on the customer response to **Walmart’s decision on September 3, 2019** to discontinue sales of certain gun ammunition, ban open carry in stores, and encourage congress to enact stronger gun

control policies. These decisions were made directly after a mass shooting that killed 23 people occurred at a Walmart in El Paso, Texas. Walmart's statement also follows a long history of public scrutiny over the firm's policies toward guns.

Gun control is one of the most divisive social issues in America today. Survey evidence from **Pew Research Center** shows that Republicans are nearly four times as likely—relative to Democrats—to believe that protecting gun rights is more important than gun control. Walmart's customers are ideologically diverse, making it difficult to follow the Business Roundtable's goal of delivering value to all stakeholders when wading into a topic as polarizing as gun control.

To study how customers respond to Walmart's stance on guns, I use smartphone geolocation data from **SafeGraph**, which allows me to compare how foot traffic to Walmart varies relative to competitors around the release of the retail juggernaut's statement on guns. The granular nature of the data allows me to see customer reactions that would be undetectable in aggregate sales data. I join the geolocation data with county vote records in the 2016 presidential election to see whether the customer response is different in Democratic versus Republican areas.

I find that store visits to Walmart decreased by 3.3 percent relative to competitors after Walmart's gun control statement, suggesting that customers overall were not thrilled about the store's new policy. I also find that the customer response to Walmart's statement differed sharply along partisan lines. Walmart stores located in highly Democratic counties saw an increase in foot traffic of 3 percent, while those in highly Republican counties had a decline of over 8 percent.

I find mixed evidence regarding whether the change in consumer behavior is temporary or permanent. Figure 1 shows the aggregate response to Walmart's statement over time by comparing the change in foot traffic at Walmart to the foot traffic at their local competitors' stores. Customers overall had a sharp negative reaction to the gun control statement, but aggregate foot traffic was back to normal after three months.

Figure 1: Aggregate Customer Response to Walmart's Gun Control Stance

However, stores in highly Republican counties saw a persistent decline in foot traffic, as shown in Figure 2. The month after Walmart's statement, the change in foot traffic to Walmart stores in highly Republican areas was 18 percent lower relative to competitors. Foot traffic stayed lower as far as five months later, when foot traffic was 8 percent lower. These results suggest that political statements made by firms can permanently alter the shopping habits of consumers with strongly opposed views.

Figure 2: Change in Foot Traffic to Walmart in Highly Republican Counties

What can we learn from Walmart's attempt at stakeholder capitalism? If Walmart CEO (and Chairman of the Business Roundtable) Doug McMillon's goal was to take a stance on gun control while maintaining the same level of foot-traffic to stores, it appears this goal was eventually achieved, as most customers reverted to the normal shopping habits a few months after the statement. However, if McMillon's goal was to benefit all stakeholders—the stated purpose of the Business Roundtable—it is difficult to see the new policy as a success as the gun statement caused a significant portion of customers to permanently reduce their shopping at Walmart.

My results highlight how a corporate stance on social issues can decrease the value of a firm to some stakeholders while increasing value for others. Though gun control is a particularly divisive topic, it will be rare to find a social issue where all stakeholders agree. Consequently, businesses attempting to pursue stakeholder capitalism will struggle to deliver equal value when stakeholders have different beliefs.

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