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Perspectives on the Trend Toward Stakeholder Capitalism

Beginning in the 1970s, Milton Friedman and his economist colleagues at the University of Chicago successfully steered private enterprises to prioritize the pursuit of profits as their sole social responsibility. While not venturing to agree or disagree here, several forces are seemingly working together to shift this mindset. Though still in its infancy, the research and work on ESG by the Artisan Partners Growth Team for the past two years suggest a more balanced "stakeholder primacy" is taking hold.

A recent, notable development was Veeva Systems'—a company the Growth team considers to be a leader in its commitment to ESG principles—announcement on September 16 that it has begun exploring a potential conversion to a public benefit corporation (PBC). PBCs are for-profit companies, but their missions expand beyond the traditional corporate scope. Most notably, they consider the interests of all stakeholders—customers, suppliers, employees, shareholders and local communities. This gives directors and officers the legal protection to pursue a mission and consider the impact their businesses have not only on their equity stakeholders, but also on society and the environment.

Veeva is on a journey to become an indispensable cloud utility to the entire life-sciences industry, which requires a high degree of customer trust and employee engagement. The company has a dominant market share in pharmaceutical salesforce automation software, and its Vault suite of applications increasingly automates operations across a biopharma company—manufacturing, quality, regulatory interactions and clinical trial management. Management strongly believes that ESG principles and the proposed PBC conversion support—not hinder—this ambitious vision. As customers adopt one Veeva module after another, their dependence on the company rises (for example, software companies can be pointed out that have gained market share and then significantly increased prices over time), and Veeva's commitment to consider their best interests could help soften this perceived risk and build trust—and therefore lead to broader/faster adoption. The pharmaceutical industry also touches many other stakeholders as well—doctors, patients, regulators and payors. As Veeva increasingly automates more of what the industry does, the company will be interacting and seeking to earn the trust of more of these parties. Finally, none of this is possible without the company's employees. The software solutions Veeva provides require constant innovation, and having a strong, highly motivated talent pool is incredibly important.

The early read of the Growth team on the announcement is that it is a formal/legal commitment to the company's longstanding core values, making them more obvious to its stakeholders. The philosophy of "growing the pie" for all parties has been part of Veeva's culture from the beginning. The company has long viewed its stakeholder relationships through a partnership lens—equally weighing its own success with that of all its customers (including their employees) and the life sciences industry overall—and this mindset has been a key driver of the company's success, in the Growth team's view. The Growth team also believe the company is doubling down on its commitment to its stakeholders at a time when large technology companies are coming under increasing scrutiny for data privacy and antitrust concerns—further demonstrating its longstanding pledge to be a partner of choice.

This is the most demonstrative example of the shift from shareholder primacy to stakeholder primacy that can be recalled seeing since the Growth team's ESG journey began in early 2019. It is groundbreaking to see a company with such a successful financial track record as Veeva's— 46% compounded annual returns since its IPO in 2013 (vs. 13% for the Russell 1000® Index)—leading the charge toward stakeholder capitalism. The Growth team think the effort is particularly attention-grabbing given the company's revenue target of $3 billion by 2025 is not expected to change (19% CAGR from 2020-2025). This combats the common misperception that the pursuit of stakeholder interests likely comes at the cost of profit growth and therefore, shareholders' returns. Veeva clearly believes the alignment of all interests can "grow the pie" for all parties, and this announcement is a step toward capitalizing on the increasing awareness that being a great employer and partner to your customers on work that benefits society is a good way to attract market share, talent and growth.

The Growth team look forward to watching the marketplace for other companies that will follow in Veeva's footsteps and what the decision to operate as PBCs means for the application of ESG principles.

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