IS THE CURRENT CORPORATE REGULATORY FRAMEWORK FIT FOR SUSTAINABILITY?

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An Ecological Economics framework is especially relevant to provide a wide and consistent approach to understand the role of business in both society and the natural environment and also inspire solutions. The ends means spectrum developed by Herman Daly (1973) is extremely suitable for framing the human activity on the planet considering various forms of capital (Meadows, 1998) and allowing an analysis of the limits of the business activity in the context of sustainability (Brandão, 2009). The use of different forms of capital as part of a framework to understand business activities has been used is recent developments trying to integrate the financial and non-financial (environmental, social and governance) issues in corporate reporting (IIRC, 2011).

The current market approach has already proven that the profit maximization drive (together with the huge impact of negative externalities generated by business) does not leave room for other priorities. Corporations, however, should act as essential public utilities for the benefit of society as a whole. This scenario might be two steps away from the current reality.

The first step would be to give up the notion that the company exists to make money for its shareholders. The shareholder primacy approach is a kind of a myth that has been practiced by almost every player in mainstream business, following the neoclassical economics approach that defends and promotes it. One of its major consequences is the asymmetry between unlimited returns and limited risks, which mostly benefit controlling shareholders and business executives, whose compensation is highly tied to shareholders' interests. There are consistent views against it, but they are not considered to be serious "science".

However, an approach that considers that corporations exist to satisfy the needs of all stakeholders, the so called pluralist approach, might not be a solution for its difficulties to be enforceable. A viable option would be based on the enlightened shareholder value approach, which focuses on the promotion of the success of the company. It is the case in most of the regulatory framework in the European Union countries, where the corporate governance rules (mandatory or voluntary) state that the decision makers consider the interest of the company (and also its members). This is also the case in Australia and Brazil.

The second step would be to consider that the success of the company is subordinated to the common good of society as a whole and within the limits of the natural environment. Each country's corporate law and Constitution would have to be consistent with this approach. The Brazilian legislation seems to fulfill some of these requirements.

There are also leverage points to act upon in order to achieve the goal of making corporations act for the benefit of society. One of them would be to work on the concept of "limited liability", which has been one of the main drivers of the success of corporations in the last 160 years. Making shareholders more responsible for the failure of the business they invest in would have a significant systemic impact in the decision making process. Another leverage point is related to the current economic mindset that is intimately linked to the notion of efficiency, which is widely considered to be something intrinsically good. From a sustainability point of view both resilience and efficiency are complementary (Goerner, Lietaer and Ulanowicz, 2009). While ensuring economic progress, governments should constantly work to ensure prosperous and resilient economic outcomes, not only when markets fail to do so.

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