

# Sustainable Corporate Governance

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# Corporate Governance: where we are

- Mostly gloomy news: “corporate greed”, finance-driven and short-term, slow growth and lack of trust, but lacklustre public responses.
- A regulatory framework under pressure and subject to wide regulatory failure, e.g. UK consultation.
- What we have creates serious problems that threaten social, political and economic stability and ecological sustainability.

# The brighter side

- A movement for greater sustainability, highly critical of the status quo and highlighting the inevitability of change.
- Attracting a wide and surprising range of people.
- Successful and growing alternative forms, especially social enterprise, employee-ownership, cooperatives and commons-based governance.

# Three debates

## 1. Risk and short-termism

- Incentivise managers and shareholders to move beyond short-termism.
- But: reinforces shareholder–board nexus (stewardship).

## 2. Stakeholder theory

- Representation and accountability to non-shareholding stakeholders
- But: practicability and especially the link to ‘business case’ and CSR.

## 3. “Purpose of the corporation”

- Highlights *systems problems*: ‘undesirable behaviours characteristic of the system structures [i.e. the corporate legal form] that produce them’.
- The corporation remains a system designed to benefit financial interests.

# System change

‘[System problems] will yield only as we reclaim our intuition, stop casting blame, see the system as the source of its own problems, and find the courage and wisdom to *restructure* it.’

(D H Meadows)

# Business as usual: key ideas

- System detached from its environment (firm as a 'nexus of contracts')
- Growth (gaining market share and size)
- Capital production (extracting profit and return on investment)
- The human role of a self-interested market actor (pursuing market competition and competitive incentive structures)

# Alternative business forms: key ideas

- System in nature (social and ecological boundaries)
- Sufficiency (growing to ‘the right’ size)
- Production of human wealth and well-being (generative design)
- The human role as “individual in society” (responsible market actor)

What features – *incorporated into the business and its constitution* - manifest and entrench these ideas?

# Sustainability: two key features

## 1. Incorporating mission

- End-focused: 'sustainable materials'
- Means-focused: 'happiness of employees'
- A generic commitment to sustainable standards.

## 2. Inclusive membership

- Interests: members beyond capital-providers
- 'Rooted membership' (M Kelly): responsibility to actively govern.

Affecting also: directors duties / profit extraction / rules on sale or takeover / governance rules.



# Two further conditions

## 3. Attracting sustainable finance

- Social investment, stakeholder banks, crowdfunding, local currencies, debt...
- Key is the independence from capital markets.

## 4. Developing alternative market structures

- Including networks and commons-based arrangements, resource-pooling
- Responsible competition includes building of trust.

# Conclusions

- A coming together of various critical views on corporate governance: change is necessary.
- The most promising incarnation of that movement focuses on system problems: system change depends first on changing key ideas.
- Alternative business forms highlight a different set of key ideas from ‘business as usual’, that *operate in practice*.
- Mapping regular features and challenges highlights four conditions for sustainable corporate governance in particular: *incorporating mission, inclusive membership, independent finance and responsible market development*.