Comments on "The sustainable Corporation and its governance: long run performance and social responsibility" by Alessandro Vercelli

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Crucial concept: Sustainable corporation.

- successful in a long run perspective (economic aspect of sustainability)

- contributes not only to the economic but to environmental and social “pillars” of sustainable development

Conditions for a sustainable corporation:

1. take a long term approach

2. aiming at a durable value not only for the shareholders, but for all legitimate stakeholders.

• Legitimate stakeholders: those who have a legitimate interest in firm's performance.

•Legitimate interest: having made a specific investment in the firm.

This gives a right to participate in value creation and to say a word on the corporation’s governance.

Examples:

- shareholders invest in capital,
- employees invest in human capital,
- creditors invest in financial capital,
- clients invest in trust,
- local communities invest in infrastructures.

3. A sustainable corporation needs CSR.

Why?

In principle: a sustainable corporation could be achieved by each stakeholders:

- pursuing her own interest;

- using a perfect, complete set of markets.

In a set of perfect and complete markets, maximization of discounted profits’ flow takes place within a set of constraints, concerning non only technology but prices emerging from contracts written in these markets.

• Perfect and complete markets would define the value of specific investments, hence the value of specific stakeholders' legitimate interests.

• However, even neoclassical economists know that strategic behavior and market incompleteness makes all this irrealistic.

• The traditional response was "regulation".

• The "benevolent and informed" regulator could weight and value the different stakeholders' interests.

Government failures:

- information,
- criteria for “weighting and valuing”,
- enforcement,
- public choice arguments.

CSR as sustainable corporation’s self-regulation?

Main problem: how a sustainable corporation deals with conflicts among stakeholders' interests.

- Risk: balancing interests impossible if stakeholders are self-interest maximizers (as shareholders in the shareholder approach).

- Balancing interests possible when stakeholders advance their interests in a non individualistic way: in a manner that also advances the interests of all others.

- Stakeholders must accept some common value criterion for the organization: this raises an ethical point.

• Some shared "common good" criterion among stakeholders essential also for linking the private end of the organization and the ends of the society as a whole.

• Vercelli's position seems to recognize this when he refers to a criterion of sustainability, based on a principle of equity to balance different interests through time:

active and proactive behavior of stakeholders;

awareness of ethical implications of their behavior.

CSR, regulation and markets

- Vercelli is right in claiming sinergy between regulation and CSR.

- Regulation helpful in promoting CSR (although it may be instrumental)

- On the other hand, effective and enforceable Regulation needs citizens' social awareness and consensus

- Also sinergy between markets and CSR: better organized markets to transmit stakeholders messages.

Environmental issues

- Immediate perception of the link between sustainable corporation and sustainable Development

- Regulation was traditionally conceived as the mean to deal with externalities and public goods.

- Importance of voluntary agreements and Corporate Environmental Responsibility is increasingly recognized.

- Increasing relevance of signals from environmentally aware consumers.

- They are more important than voluntary action taken by the firms just to skip penalties and liabilities imposed by regulation

- Environment as a typical area where CSR, well organized markets and incentive compatible regulation interact in achieving a sustainable corporation.