Understanding Business Corporation

Key Points

- Corporations
  - Defining characteristics
    - legal person, limited liability
  - Corporations as psychopaths?
    - Dilemma regarding profitability and sustainability
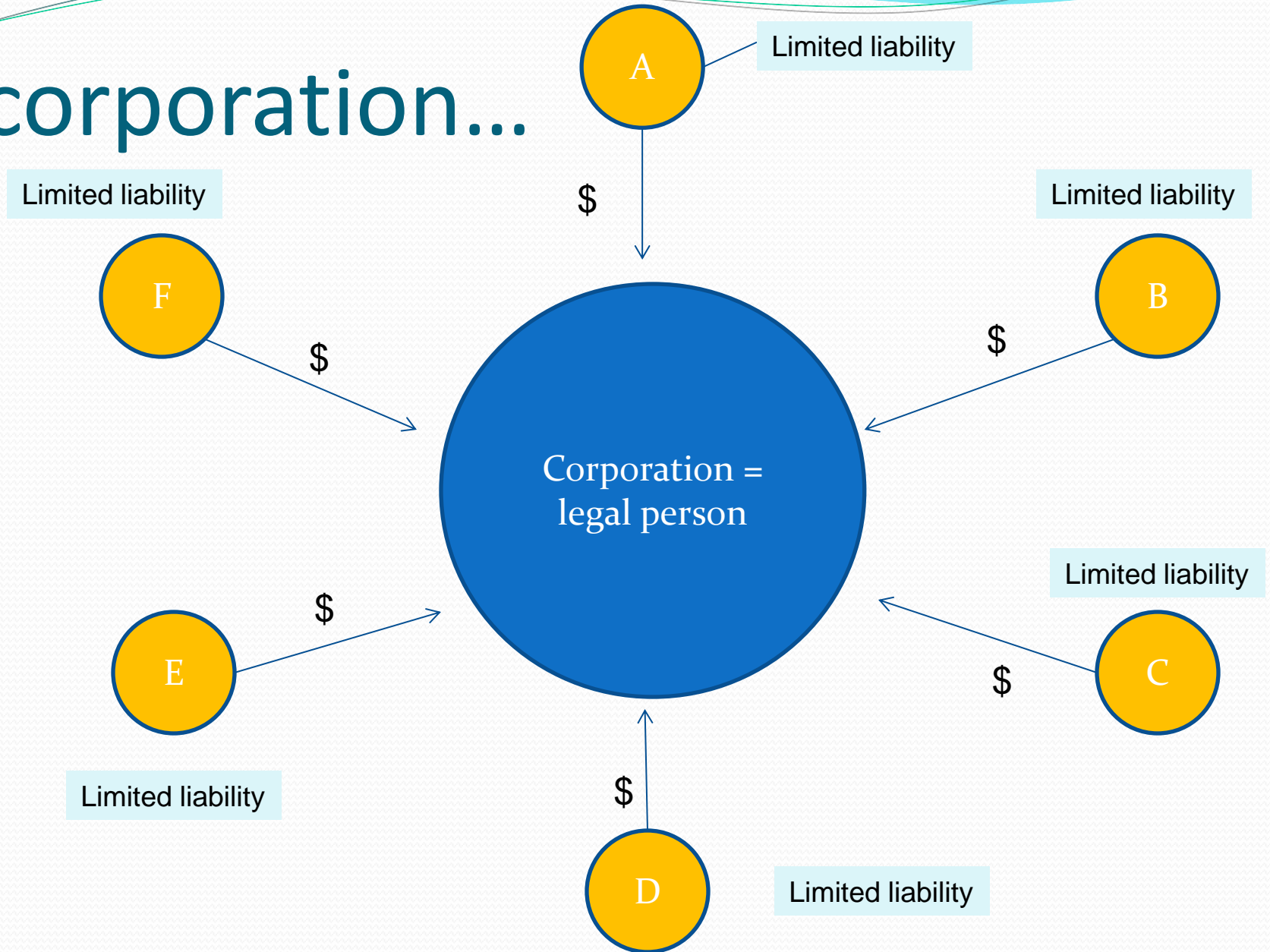
Corporation

Business firms . . .

- "Free market is the most efficient mechanism of allocating resources"

- Currently, *corporations* are the most dominant form of market institution

- What others?
  - cooperatives (and credit unions)
  - partnerships
  - sole proprietorship
  - . . .

  - Depend on 'company law' of the specific country

  (from Penguin Dictionary of Business)

Incorporation…

Corporation

- **Legal Person:** after *incorporation*, a company is a legal person **separate and distinct** from the people (natural persons) who own it . (*Penguin Dictionary of Business*)
  - ability to own and transfer assets
  - legal protection – (e.g. between 1890 and 1910, 307 cases were brought under **the 14th amendments** 288 by corporations and 19 by African Americans)

- The people who own it has **Limited liability**
  - the restriction of an owner's loss in a business to the amount of capital that he has invested in it

- Management is highly centralized under the company's board
  - Outside public oversight
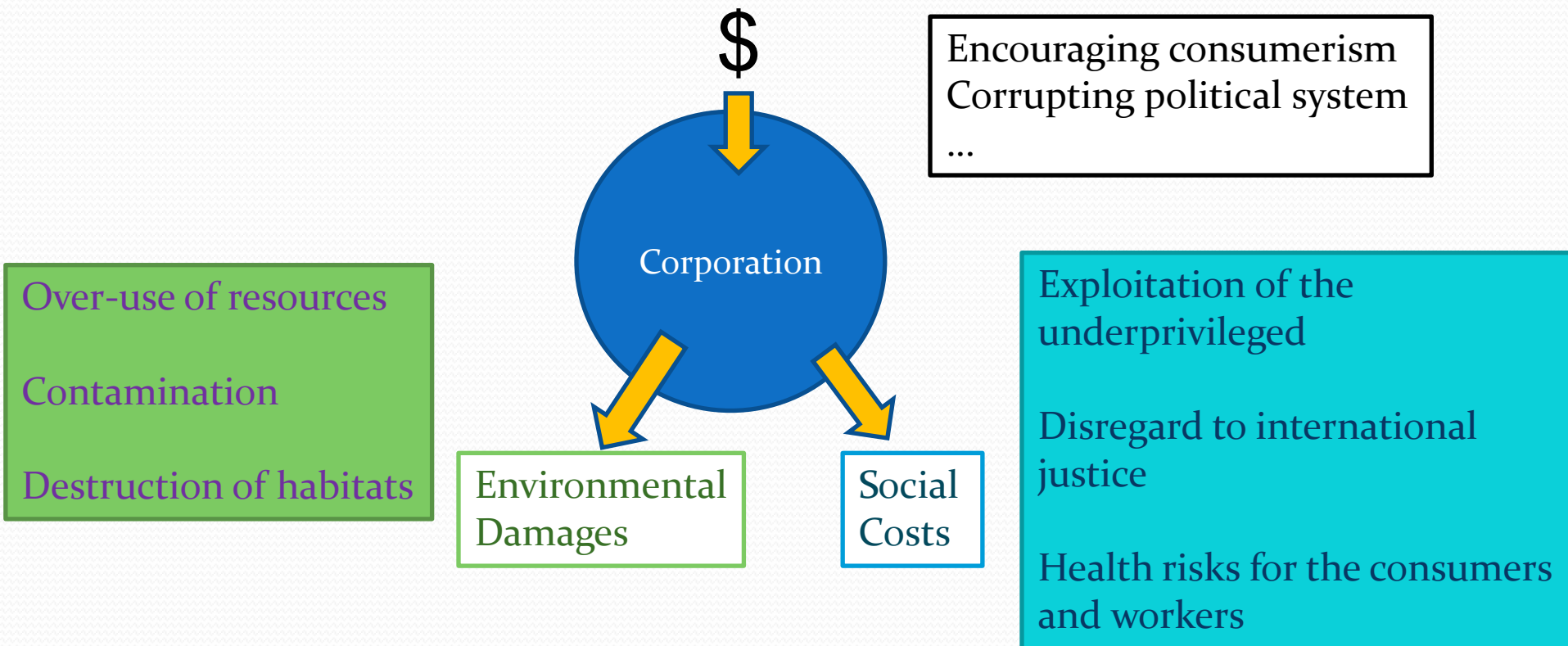
It is built to . . .

. . . serve (very efficiently) the interests of the owners (investors = shareholders)

. . . which is

. . . (short-term) Profit

but what about other things?

→ **Externalities:** A cost or benefit from some activity, which affects those other than the agent who makes decisions relevant to that activity.

$

Corporation

Encouraging consumerism
Corrupting political system
...

Over-use of resources

Contamination

Destruction of habitats

Environmental Damages

Social Costs

Exploitation of the underprivileged

Disregard to international justice

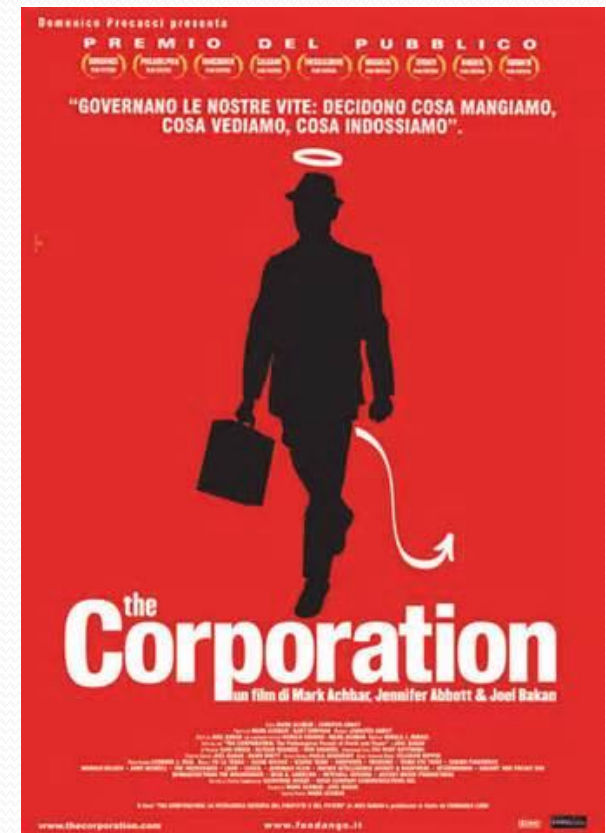Health risks for the consumers and workers

Corporation as Psychopath

- WHO ICD-10's Manual of Mental Disorders

  - Callous unconcern for the feelings of others
  - Incapacity to maintain enduring relationships
  - Reckless disregard for the safety of others
  - Repeated lying and conning others for profit
  - Incapacity to experience guilt
  - Failure to conform to social norms with respect to lawful behaviour

"The Corporation"
A film by Mark Achbar, Jennifer Abbott and Joel Bakan (2003)
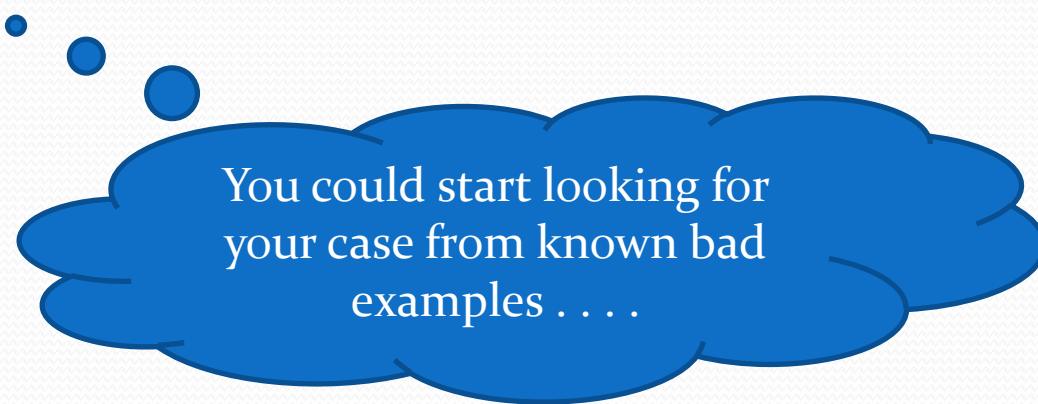Official Website: http://thecorporation.com/

The dilemma. . .

- Sustainability (or Corporate Social Responsibility) requires

  - Corporations (the main institution of the capitalism) to *internalise* much more than profits

  - Will this slowdown or disrupt the pursuit of the profit?

- Read:

  - **"Corporation as Psychopath"** ***Encyclopedia of Corporate Social Responsibility* (accessed through Springer Link**

  - Sukhdev, P. (2013) "Transforming the Corporation into a Driver of Sustainability". Ch12 of *State of the World 2013: Is Sustainability Still Possible?* Wolrdwatch Institute, 143-154 (accessed through Springer Link)

Corporate Crimes

- List of consumer boycotts against corporations
  - http://www.ethicalconsumer.org

- Nestle – the world's most boycotted brand
  - https://www.zmescience.com/science/nestle-company-pollution-children/

. . .

You could start looking for your case from known bad examples . . . .

Group Discussion

- Can business corporations work for sustainability?

  - If so, what can they do?

  - If not, what should be done by whom?

- Read:

    Sukhdev, P. (2013) "Transforming the Corporation into a Driver of Sustainability". Ch12 of *State of the World 2013: Is Sustainability Still Possible?* Wolrdwatch Institute, 143-154 (accessed through Springer Link)

If you can spare more time. . .

- Read. . .

* **Lemonic, M. (2009) "Top 10 myths about sustainability".** *Scientific American.* (http://www.scientificamerican.com/article/top-10-myths-about-sustainability/)

Or

Albino, V. (2013) "Green Economy". In *Corporate Sustainability*, **CSR, Sustainability, Ethics and Governance, P. Taticchi et al eds. Berlin: Springer, 1-26 (accessed through Springer Link)**

Or

Young and Dhanda, 2013, "Introduction"