

# The Role of the Corporation in Society: Historical Evolution & Current Debates

Or...

“We’ve Been Here Before”

People and organizations  
Fall, 2005

# Overview

- History of Corporations and Society: Love, Hate, Appreciate, or Regulate?
- Engaging the Debate: Shareholder Maximizing or Multiple Stakeholder Responsibilities?
  - Position A: Corporations best serve the interests of society by focusing solely on maximizing shareholder value
  - Position B: Corporations should be accountable to their shareholders, employees, customers, and communities

# Emergence of the Modern Corporation

- Origins: Charters to public corporations issued by the King: Expected to serve the King
- After the revolution: State legislatures issue charters
  - Corporations as public utilities
  - Expected to serve a “public purpose”
  - Innovators were private inventors: Eli Whitney, Elias Howe, Samuel Morse, Elisha Otis
- Mid 1800s: Emergence of Stockholders
  - Need to amass large amounts of financial capital to build railroads and serve growing national markets
  - Need to protect investors: “limited liability” corporations

# Late 1800s-Turn of the Century: Era of Big Business Arrives

- Corporate leaders become American Icons: J.P. Morgan, John D. Rockefeller, Andrew Carnegie...
- 1900: 318 corporations controlled 40% of U.S. manufacturing assets
- Anti-trust movement (1893 Sherman Act), Teddy Roosevelt's "trust busters"
  - Reformers/ Progressives: Upton Sinclair's *The Jungle*...
  - Woodrow Wilson: "I am for Big Business, and I am against the trusts."
- Roaring 20s: Calvin Coolidge: "The business of America is business."
- To Drop a Name...Alfred P. Sloan

# 1930s: New Deal Era Reforms

- Berle & Means: Managers now in control
- New Deal Model: Hold corporations accountable:
  - Regulations: Security & Exchange Commission
  - Minimum employment standards: Min. wages, overtime, etc.
  - Employee rights: Unions & collective bargaining
  - Use corporations to finance-administer benefits—social security, unemployment insurance, etc.

# 1960s: Corporate Social Responsibility?

- Corporations should accept broader social responsibilities
  - Environmental movement
  - Civil rights movement
  - Anti-poverty movement
  - Urban unrest and renewal efforts
  - Students against Dow Chemical (Napalm for Vietnam)
- Response by Milton Friedman: Corporation's highest (sole) responsibility to society is to maximize profits
  - Shareholders should decide how to distribute their wealth
  - Democratic governments should decide the public interest

# 1980s: The Market for Corporate Control

- Era of hostile takeovers & leveraged buyouts:  
*Barbarians at the Gate*
- Stock options used to align executives' interests with shareholders
  - Rise of CEO pay differentials (80:1 to 400:1)
  - Breakdown in the Social Contract
  - Rise in share of profits going to owners (versus employees or taxes)

# The Debate

- Position A: Corporations best serve the interests of society by focusing solely on maximizing shareholder value
- Position B: Corporations should be accountable to their shareholders, employees, customers, and communities
- Process:
  - 10 minute team prep
  - 2 minute statements
  - 2 minute prep for response—with questions from moderator
  - 1 minute response from each team
  - 5 minutes of further team to team q & a
  - Class-wide discussion



# Next Class: Corporate Accountability in a Global Economy

## The Nike Case:

Be prepared to discuss your answers to the set of questions posed at the end of the Nike reading—see how participants at the Sloan 50<sup>th</sup> anniversary discussed these questions and be ready to discuss your own answers

ALSO: GO ON LINE AND SKIM THE NIKE CORPORATE RESPONSIBILITY REPORT FOR 2004 AND PHIL KNIGHT, NIKE'S CEO STATEMENT ABOUT IT:

<http://www.nike.com/nikebiz/nikebiz.jhtml?page=29&item=fy04>