

The Ethical Corporation
Prof. Chhanda Chakraborti
Department of Humanities and Social Sciences
Indian Institute of Technology, Kharagpur

Lecture – 01
What is a Corporation

Hello and welcome to this course, this online course on Ethical Corporation. We are starting a journey together, to understand and to know about this ethical corporation and it is various activities that we are going to talk about in the coming weeks. Our first lecture is going to be an introductory lecture.

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CONCEPTS COVERED

Concepts Covered:

- What a Corporation is ✓
- Creation of a Corporation ✓
- Characteristics of a Corporation ✓
- What is an Ethical Corporation ✓

So, our topics that we are going to discuss today would be like this. First of all before we talk about what this Ethical corporation is, we need to first of all understand what this corporation is. This is an entity specifically that we need to know a little bit about and then, along with various other characteristics of the corporation, we will be specifically talking about the creation of a corporation, I mean how does a corporation come into being.

The it is important because it is first of all a formal process so that you would understand that this entity is not any and every kind of business and then, we will slowly also talk about the characteristics of a corporation; what are the some of the remarkable and unique features of a corporation.

So, this would be our preliminary steps to get acquainted first of all with the idea of a corporation and then, we are going to slowly go towards this direction. But today, I will just start the topic of ethical corporation. I will follow it up in my subsequent lecture. So, this is where we stand for today, we are now going to move to the body of the lecture, so let us start.

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What is a Corporation?

- A business entity. It is owned by its shareholders.
- Most significant kind of modern business organizations.
- It is usually a company, or a group of people, authorized to act as a single entity. Examples: Google, Infosys, IBM, Unilever, Larsen & Toubro, Tesla.
- A business Corporation in its present form is a relatively new kind of institution. Its traces can be found in the 16th CE concept of “joint stock company”, but its current characteristics were acquired during 19th CE.
- The law treats the modern Corporation as a ‘person’.

Logos: Unilever, Google, Infosys, IBM, LARSEN & TOUBRO, TESLA

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First of all, what is this corporation that we are talking about? Clearly understood it is a business entity; a business entity of a special kind. In fact, you can also say that it is actually it is the most significant kind of modern business organization that we have. It is owned by shareholders. So, multiple owners and its shares are owned by people; this itself is not enough to make it a corporation. But this is something that we can start out with, so it is a business organization; it is a business entity. When I am talking about this thing called entity, I not only mean it is an organization, but something more than that. What is that extra, I will try to explain as we talked about.

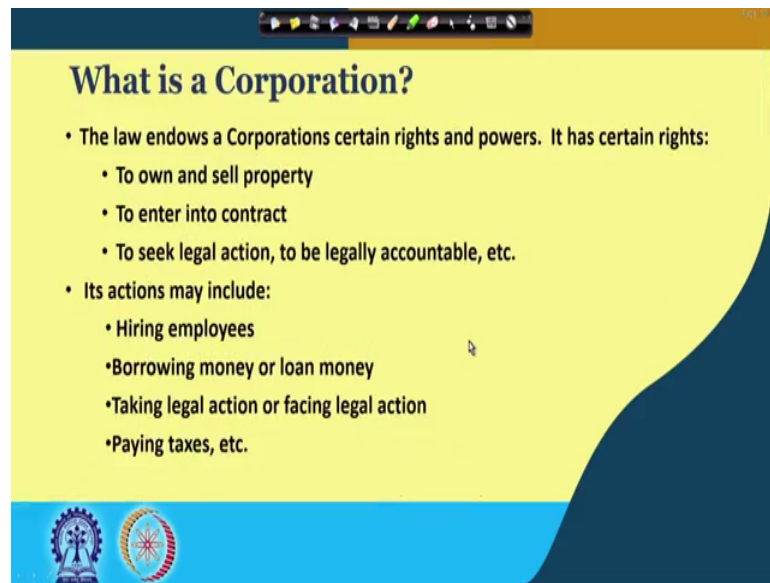
Now, if you want examples, then there are plenty around us. For example, think about Google. Anybody who is an internet user knows the name of this company, this corporation called Google. You are using its search engines, you are using it for many other purposes, but that is a corporation. It is not only a corporation, but it is a multinational corporation which means that it has a presence in various countries. Sometimes it is more than 100 countries, so it is a very large business entity.

If you think about our very own Infosys, it is also a corporation that we take a lot of pride in, but it is an entity of a special kind a corporation. IBM, Unilever, Larsen and Turbo, lately Tesla which is bringing out electric cars and making many innovative products at least promising to us, so all these are great examples of corporations. Why do we need to talk about corporations in these days? One of the great reasons is that if you look around in the world, then the economies are dominated by these corporations. Their revenues are stupendous; amazingly huge. Their presence is ubiquitous meaning everywhere they are, not only that they are in every different country.

So, together with power, clout, revenues, they stand really tall and as economic organizations as an economic institution among the business entities, the corporations really stand out. So, that is why we have chosen to talk about this particular kind of business entity. You can trace back the origin of corporation in historic history as late as you know in 16th century , but if you are looking for the characteristics that we were soon going to talk about, then those characteristics emerged around 19th century.

So, it is still a relatively new phenomenon, but the 21st century has brought them in a new avatar and they are as strong as they can be and as powerful as they can be. Are they when I have said entity you know I said that I want to mean something extra, here is a pointer for you. In the eyes of the law this corporations are seen as persons, not biological persons not like you and me, but as artificial fictitious, but persons. So, they are entities of a special kind; you and I we are also entities, but corporations are in a different group and they are considered as entities.

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Let me explain that to you. When we said that you know they are like persons or individuals and that the law treats them as beings of certain kind, maybe this point will make it clearer to you that basically the law gives certain rights to the corporations and certain powers or privileges to the corporations. Just as individuals like us ordinary human beings, we have certain rights.

You know if you if you know anything about Indian constitution, you know that the Indian constitution confers to us certain fundamental rights as individuals. If you have heard about human rights, then those are the privileges that we have as human beings of it does not matter which caste, creed, religion you are; you have certain rights.

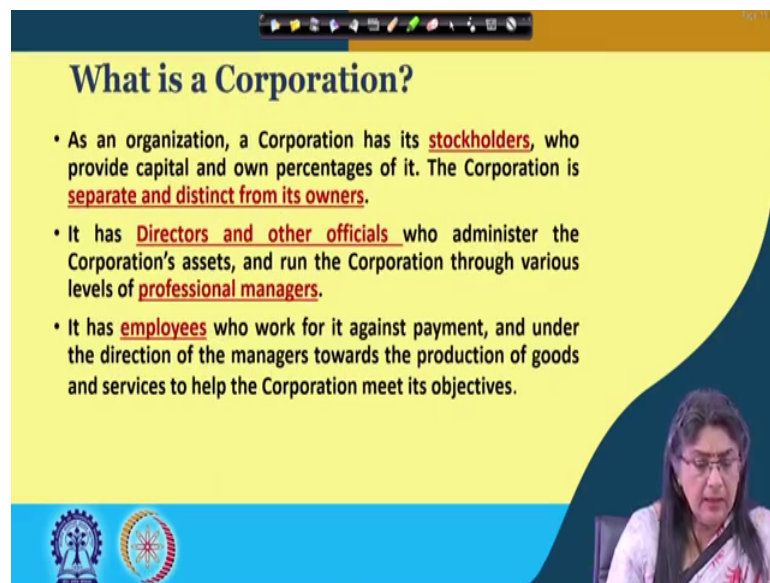
Similarly, being a person, the corporations also enjoy certain rights and certain powers they are authorized to do have certain privileges. For example, they have the right to sell and own property right. So, the premises that they own in order to develop the product or to carry on their operational services, they have the right to own and sell that property too.

Just like any individual, they can enter into legal agreement. So, they can be a party to a legal agreement and for any legal action, they can go to the court seeking legal redress or somebody can sue them; maybe the consumer is not too happy and they are treated like the corporations are treated like the other side of the dispute and they can be sued they are legally accountable.

So, these are certain rights that they have been given by the law. Their actions are also quite well known and pretty much specified. For example, for conducting their own business they can hire employees. They can borrow money from the bank or from any other financial institution. So, like ordinary humans, we they can also ask sources for funds and also give out money as loan to other parties.

I have already touched upon that they are party to legal actions meaning that they can seek legal action or can they can be sued also legally and then, government clearly considers them as entities who are like ordinary taxpayers can be taxed, they are supposed to pay the corporate taxes and so on. So, there are certain similarities between the person as we are and a kind of person that the corporation is. But they are as I have said earlier that they are very special entities.

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What is a Corporation?

- As an organization, a Corporation has its **stockholders**, who provide capital and own percentages of it. The Corporation is **separate and distinct from its owners**.
- It has **Directors and other officials** who administer the Corporation's assets, and run the Corporation through various levels of **professional managers**.
- It has **employees** who work for it against payment, and under the direction of the managers towards the production of goods and services to help the Corporation meet its objectives.

This further a few further points to make here regarding the corporation. A corporation has a certain group of people that they call the stockholders; stockholders as in they are the investors. So, remember the name, this is we are talking about the stockholders. The corporation has certain stocks and people who are or who have decided to invest money in this corporation, will provide the capital. In return, they are going to own a fraction of ownership of the corporation, this is how it works.

So, the corporation and stockholders basically the investor and the invested entity, that is the relationship. But please remember that the corporation is never to be identified with

the set of it is owners. So, the stockholder group though they own the corporation is not the same as the corporation. There is this very specific organizational structure also in the organization, in the corporation.

The specific organizational structure is that there will be some top people as in you know the CEO, the director of the company or the CFO, the chief financial officer for example and other officials in the top management who are going to run the company and administer the corporations assets and then, there will be other levels of management. There are various levels of managers, so senior, junior, middle etcetera.

So, with the help of those managers, the top including the board of governors, the top management will run the company, they run the corporation. This is the top structure, but the managers need some people to execute the actions or the decisions that have been made. This would be the people who will be going to execute work for the corporation are the employees that the corporation hires. The managers also hire professionals who are hired to particularly run the company and make key decisions on behalf of the corporation, but it is the employees who work also under the guidance and direction of the managers.

So, this is how the corporate structure is laid out. Simply put it has a certain hierarchical structure and overall they work together to have the corporation to get the corporation reach its goal; whatever its objective is, they try to help you to reach that objective .

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How is a Corporation born?

- A corporation is created when its stockholders or owners incorporate it with a common goal through a formal process called incorporation.
- Incorporation is a legal process : A registration process established by legislation is required.
- Usually, a corporation is identified by the use of terms such as 'Inc', or 'Limited'(Ltd.)
- India: Private Ltd, Public Ltd, Limited Liability Partnerships (LLP), etc.

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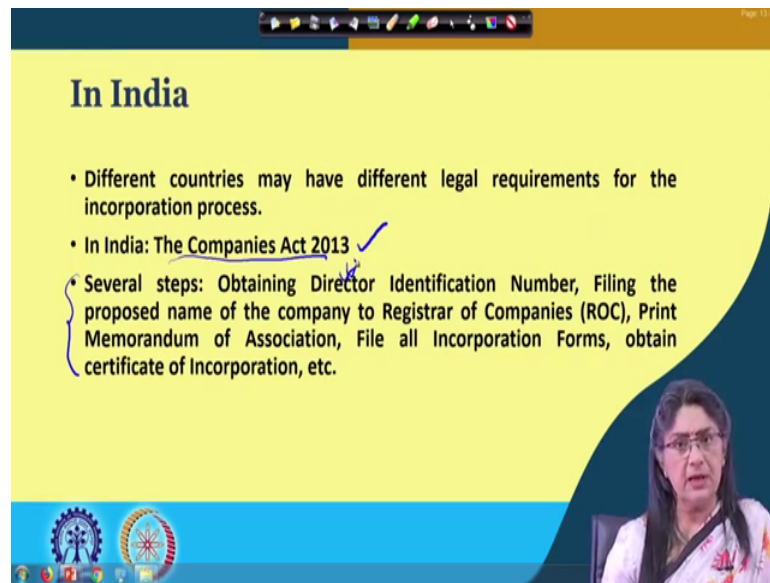
Now, how do we start a corporation or what is the moment of birth of a corporation? See we are working with an analogy of the corporation being an individual or an entity. So, if an individual has a definite beginning point namely the birthday or the moment of birth, then similarly we can ask that when is the corporation born. That process is a very formal process. What we are calling here that it is first of all a formal and a legal process.

A process that the stockholders or the owners decide to go through once they want to form a corporation, that process is called incorporation; incorporation. It is a strictly legal process, you have to register the company and under follow certain a legal requirements only after that you get the certificate of being a corporation.

So, it is not just your imagination that from tomorrow onwards my company is going to be call the corporation. There is a formal process that one that that everybody who linked with the corporation has to go through. Typically, when the incorporation is done, we find that there is this kind of nomenclature changes. Namely, there is usage of terms that are now linked to the or added to the name of the company namely limited or “Ink or Inc” as we call it Inc is a short abbreviated form of this incorporation.

So, now you are claiming that your firm is incorporated, it is a corporation itself. In India, we have private limited that is the nomenclature or public limited also unlimited liability partnerships, these are all the results of incorporation processes. So, overall what I have just said is that there is a definite process that one has to follow in order to create a corporation and I have just explained how a corporation is born.

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In India

- Different countries may have different legal requirements for the incorporation process.
- In India: The Companies Act 2013 ✓
- Several steps: Obtaining Director Identification Number, Filing the proposed name of the company to Registrar of Companies (ROC), Print Memorandum of Association, File all Incorporation Forms, obtain certificate of Incorporation, etc.

Now, in India, we have a legal requirement, we have a legal structure that has to be followed. Every country different countries have their own requirement legal requirement for the incorporation process. So, and they all need not be same in fact, they are not the same. In India, the law the relevant law that you may consult for incorporation is this Companies Act 2013, this is what we are talking about.

So, the Companies Act 2013 will give you guidelines for this incorporation process; what exactly would be required and so on from the legal requirements side. If you consult relevant firms before incorporation, you would find that there are several steps in the incorporation process in India. For example, there is an identification number that would be required for the key person in the company. There has to be application to be filed for registering the company to the registrar of companies and then, there has to be a memorandum of association which must be a printed document, there are several forms that have to be filed etcetera etcetera.

So, all of these show that the documents are legal documents and they are to be carefully filled out before the incorporation takes place. After all these are submitted, then comes the the procedure is completed and then, the company becomes a corporation. So, this is the situation in India.

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Corporation: Some Characteristics

Limited liability ✓

- Shareholders own the Corporation, they may earn profit through dividends and stock appreciation for their invested amount.
- However, shareholders will not be personally liable for the debts incurred by the Corporation.
- The corporation is liable for its actions and for its financial situation, but the shareholders are not.
- Their liability to the Corporation is thus limited.

A common goal ✓

A Corporation may have profit as its common goal. However, notable exception in cases of Charities, Not-for-Profit organizations.

Now, we come to the characteristics of a corporation. In general, how do you differentiate a corporation from other similar entities? The first point and this is an very important point, I must say is that concept called Limited liability; limited liability. I have told you already that the corporation is owned by people or group, that we call stockholders or investors or shareholders. Shareholders the name itself come because you own only a part of the corporation.

So, your share decides the percentage of your ownership over the corporations. So, this is we we call the shareholders group. The shareholders own the corporation, we have said that; not only that through the activities of the corporation, they actually earn profit. They have invested money and they want their money to increase that they want to return in return of the investment, they want profit. This is what we call the stock has appreciated. The value with which you bought the share has increased.

So, if you sell that stock now you are going to get a little bit of profit. Margin of profit, the higher the margin is the happier the investor group is because they are getting a better return for their invested money. So, they the shareholders do look for this profit and they are connected to the corporation in this way. But the shareholders are not personally liable for the financial situation of the corporation.

For example, if the corporation incurs some debts in the market, they have borrowed money from somebody and the companies not doing well. So, it cannot return the

borrowed amount of money which means that the company is now running into debt and sometimes these debt sizes are also very large because we are not talking about individual person or individual household, but very large companies.

But for that debt or for those losses the shareholders will not be personally liable that is you cannot go to the shareholders individually and claim that you, then if the corporation cannot, then you return that money or that you face the debtors this is one. And though, though the profit that the investors make from the corporation is a fact, the ultimately the corporations remain liable for it is actions and for it is financial situation.

So, if it is running well; well and good, but if it is running into losses, too bad, but the shareholders are not going to be liable for that financial situation. So, the liability of the shareholders to the corporation remains limited; limited as in not absolute. There is no merger of the identity between the shareholder group and the corporation; they are linked, but their liability specifically the investors have limited liability towards corporation; limited in the sense that you cannot hold them liable for everything or every financial situation that the corporation is running through.

Second point is that there is a common goal for the corporation. Now this is true about organizations in general that the way there is the difference between a group and an organization is that the organization is going to have be a collection of people who are working for a common objective. In case of business organization, it is the financial objective one of the objectives is financial objective.

So, you can say that there is a common goal for corporation also and which may be profit making to remain solvent and to make profit, to return the value in an increased form to it is investors that is the common goal. Having said that I will make one small addition that there are notable exceptions to that rule also. You can have also incorporated bodies which are not really profit making bodies. For example, the charities; for example, the not for profit organizations, but there is a common goal.

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Corporation: Some Characteristics

Shareholders

- A Corporation will have shareholders: Owners owning a percentage of the Corporation.
- There may be a single shareholder. Or, many shareholders. For public companies, there may be thousands of shareholders.

A formal end ✓

The legal life of a Corporation can be ended through a process called liquidation.

For certain reasons, e.g. bankruptcy, creditors of an insolvent company may prompt the process of liquidation: Selling its assets to pay the creditors of the Corporation.

The other thing is when we spoke about the owners, I think this also needs a little bit of an explanation that the way the ownership works here is a little different from other situations. A corporation is going to have shareholders. So, we have people who own portions of the corporation, everybody is the owner. Some may have a larger in size ownership over the corporation than the others.

Now you can have a single shareholder; the number of shareholders can vary from corporation to corporation, you may have 1 single shareholder; you may have a somebody who owns the majority of the shares and then, few others or you can have many many shareholders which is often the case. You can imagine if you talk about the Reliance industries, Reliance group companies, then there are probably thousands and thousands of shareholders.

So, this is often the case this is often the case with corporations that there may be many shareholders, but the ownership is in fragments and then, since we have talked about the beginning of a corporation, let us also talk about what we call the formal end. Why when can we say that the corporation is no longer there; has passed away. You know if we are making the analogy clear, then if you have talked about the birthday, then when can we say that this is the endpoint in the life of a corporation and that is through another formal process called Liquidation.

If for example, the corporation has become bankrupt, it is not running well and in general it has lost all its assets. So, then the creditors to whom the debt is actually given, they will go through a liquidation process sell the assets of the corporation to pay back to the creditors. So, these are some of the characteristics of a corporation.

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Now, we come to then what is this Ethical Corporation, we have understood what a corporation is; how it is born; how is it run structurally; who are the owners and how do you; how do you even end the corporation entities, life etcetera. But then we our topic for this course is Ethical Corporation.

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What is an Ethical Corporation?

- A Corporation which is voluntarily committed to, apart from its goal of pursuit of profit, its other ethical obligations.
- A Corporation which integrates ethical considerations into its business processes, and decisions, and acts on such considerations.

So, let us see what we can start today on. Regarding Ethical Corporation let me tell you the way I would like to understand it and I would like to impart that to you is that it is a special kind of corporation. It is a business; it is a business that is run differently. It is a business it is run differently in the sense that nobody is saying that this is a business that has to give up all profit making or it should not even conduct any kind of profit pursuing, money pursuing activities, no I did not say that.

But it is a corporation that is committed to apart from the profit making goal to other ethical obligations, to other ethical responsibilities Not only that I will also further add to that that this is a corporation which integrates ethical considerations into its mainstream business decisions, policies and practices. I have use this term and I have underlined because even if I say this now, it is not very clear to you because you would like to know what you mean by ethical obligations; what do you mean by ethical considerations etcetera.

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Merck and Co, Inc., and River blindness

- River blindness is a parasitic disease prevalent in the villages by the riverbanks in the tropical regions of Africa and Latin America. The parasite spreads from person to person by the bite of black fly. Spraying insecticide did not help, as the fly developed immunity.
- Merck & Co, Inc., is a more than century old US-based company inventing medicines and vaccines. In 1979, Dr Campbell, a scientist working for Merck & Co, discovered one of the company's best-selling animal medicine Ivermectin may kill the parasites of River Blindness. He and his team appealed to Dr Roy Vagelos, Chairman of Merck & Co, to allow them to develop a human version of it. Vagelos agreed. Result was Mectizin, a miraculous cure of River Blindness.
- Victims of River Blindness were too poor. Merck managers realized the company would not be able to recover the medicine production cost. Merck decided to give the medicine free to the victims.

So, we as I told you that I am going to just start you out today. So, I am going to instead of giving you great details on Ethical Corporation. I will tell you a little story about the Merck and Company and River Blindness. This is an example of a company Merck and Company is a Pharma company and River Blindness is a parasitic disease that as you can see were present in the tropical regions of Africa.

So, an in Latin America, what it was that it is a parasite based disease which spread from person to person by the bite of a certain kind of a fly, the black fly. The it created the worm sense under the skin and the parasites moved in the body and subsequently it caused blindness because it invaded the retina. Now this disease was prevalent. Merck and Company as you can see is a old company US based company that kept on inventing medicines and vaccines for various diseases. In 1979, one of it is scientists Dr. Campbell realized that one of the company's products which was meant for animals, you know this was Ivermectin had this potency to kill the River Blindness parasites.

So, together that scientist and his team appealed to the chairman of Merck and Company Roy Vagelos that can we develop a human version of it. Vagelos gave it some thought and agreed. After that there was about 7 years of continuous effort, but finally, the result was Mectizin which turned out to be a miraculous cure for River Blindness, something that can cure river blindness.

Now Merck realize that they have a new product in their hand and please understand they are this is a new product that can immediately cure this disease that was thought to be otherwise not curable. So, you can sense that there is a profit making opportunity, but look at the victims of the River Blindness, they were clearly too poor. The Merck managers realized that they will not be able to recover the value for their medicine. I mean normal normal value and they tried; they tried to pull up the money, they have different funds, but finally, a Vagelos and his team agreed that they are going to give the medicine free to the victims.

Look at the decision, also look at the action. Now you may say that why I mean what motivated them, we do not know that other than humanitarian ground at that moment when they decided there was no clear indication that they are going to make profit out of intangible profit, out of that decision. Later on this made Merck as a brand. People recognized in fact, it help them to enter other new markets. But at that moment when they decided this was not known to Merck, yet they chose to do that. Please look at that behavior and then, we will talk about Ethical Corporation later.

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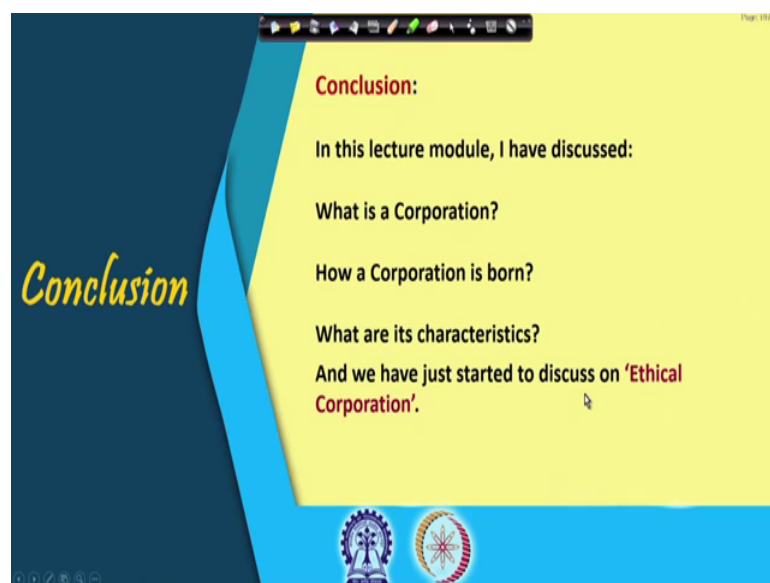
What is an Ethical Corporation?

- We shall discuss this topic in greater details in the next module.
- Some relevant and important questions to take up in the next modules:
 - ✓ What exactly is meant by Ethics? Ethical obligations? Ethical considerations?
 - ✓ How does a Corporation become an Ethical Corporation?
 - ✓ Why should a Corporation try to become an Ethical Corporation?

But this is our discussion point this would be our talking point that business does not have to go out of the business mode in order to be Ethical Corporation. They just need to think a little differently; how differently we will have to talk.

Now, there are several important questions that need to be taken up in the next modules. Specifically because I have use this term called ethics couple of times, what do you mean by that you will ask and I will try to explain that and then, how does a corporation become an ethical corporation, what exactly is expected of them? That we will have to explain in the next modules and moreover, you will say what is there in the corporation to be an ethical corporation, why should they even think about being an ethical corporation? So, we will take this up slowly in our subsequent modules, but stay with me and we will try to finish that. So, this ends our discussion for today.

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What we have done today lets sum it up that we have talked we have just opened our lecture a first lecture on this topic. So, we have introduced ourselves to this idea of a corporation. We have looked into it is various features, characteristics and then, how it they are born; what are the different kind of relationship with it is investors; what are the special characteristics that they have and we have just started to discuss this idea of an ethical corporation. So, we will follow it up in the next module, see you there.

Thank you.