# Researching Corporations

Hello, my name is David white, I work at the University of Liverpool. And one of the courses I teach is on how we research corporations. And this is really just an introduction to that course.

That goes through some of the jargon and some of the concepts that we need to know before we start the practicalities of researching corporations, and I usually do this course in conjunction with corporate watch, an independent research organisation, check them out this website, if you haven't come across them before and we collaborate on masters training, but also on a summer school that until COVID came along, we used to do quite happily and take people through practical exercises sitting around the table face to face without masks on, that kind of thing that hopefully will get back to some stage.

And the first question, first set of questions we really have to ask before we research corporations in any detail is just think about what a corporation is, what we mean by that. And, and Originally, it was an American term really, but it's become much more prominent in this country to describe a business, or a company, or firm.

I've got a couple of dictionary definitions, academics love to give a dictionary definition so they can shoot them down or see how much better their own personal definition is. And I'm not doing that here. I think these definitions are useful. The first definition identifies that the idea that the corporation is established as a single entity, and I'll come back to that in a moment. But what we mean by that is as an entity it's different from the people, they have a separate status from the people that make up the corporation, well, that's the investors, the shareholders, senior managers, workers, and so on.

And the second definition is a range of other features which are significant and I'll go through, in what follows, as most of the rights and duties of natural persons but with perpetual existence, and it has limited liability, don't worry, we'll explain those terms. But the idea of the entity is the subject really off the first jargon busting term that I want to look at.

The corporate person or corporate personhood is a phrase that you will hear to describe the separate entity, status of the corporation. And really what this does, or what this indicates, is that the corporation has a separate identity, a different identity in law, from the real persons, the real people that make up the corporation.  Investors, and managers and workers and so on. So, the corporate person or corporate personhood is really a legal term that's used out disciplines to indicate that the corporation is its own person. And that means that it has a range of rights and duties that are analogous to individuals in law. So, for example, corporations can claim rights under the European Convention of Human Rights. They can also be prosecuted in a court for violating a regulatory offence, for example. So those rights and duties are very often similar to the rights and duties that are owned by real people.

And this works in law but also works in in accounting in the beginning of the 19th century. A kind of sub specialism within accounting known as entity accounting, emerged as a fully developed way of understanding how organisations accounts worked, whereas prior to that, the focus of accounting would be on individuals on real people.

So the corporate person is quite significant and it carries a number of advantages for corporations. That image in the last slide, by the way, is a share certificate and it was a share certificate that entitled the bearer to a proportion of profits from copper mine in Sweden, in a town called Fallen. And the company was Stora Kopparberg about probably the first Corporation recorded in this way in in history.

And that gives us a kind of a nice introduction into thinking about well, what is a share certificate and what does, what does a share certificate do? And really all it does is it gives the owner rights to profit from the company and it's often misconstrued as an indication of ownership. Strictly speaking, that's not the case because when it comes to corporate personhood, as I've just said, the corporate person owns the assets of the company. It's the corporation that is the owner in in that legal sense and that's very important because that maintains a separation from the real persons, which give key commercial advantages to the to the corporations, it limits the exposure to individual investors so if individual investors are not responsible for assets or liabilities, they're not going to be exposed to so much financial risk.

It allows corporations to create complex structures, because very often, one corporate person will divide its assets up through other and face sometimes have a complex chain of corporate persons that has a very complex ownership relationship within the same group of companies or group of corporations. So that can effectively hide beneficiaries, it can bring other advantages, like it can allow the company to structure itself in the best way that limits its taxation, liabilities, and so on. And in fact, the whole point really, of establishing a cooperation was to give commercial advantages, particularly to investors. Which would encourage them to invest and encourage economic growth. That's really the origin of the cooperation, we don't have time to go into here, but if we go back to the era of the colonial corporation from the 16th century on, really that's the point that we see very clearly, that corporations were key to the big processes of colonisation of land grab and of slavery, mainly because they give commercial advantages to investors. So they encouraged the development of colonialism at a very rapid pace. And that's essentially still the same principle that's enforced today. Corporations exist to encourage investment and give those key advantages commercial advantages to investors.

Okay, let's return to the phrase that was introduced in one in one of our definitions back in slide one, this idea of perpetual existence. Now, the images I've got in this slide are the images of the same company that I've just mentioned, Stora Kopparberg on the left, that's the that's a pictorial representation of the mine, I think, from the 18th century,  and on the right there is the modern, the headquarters of the same company. It's not called Stora Kopparberg anymore, it's called Stora Enzo. And it's not primarily a mining company anymore, but primarily is a wood and pulp manufacturing company.

So, what's happened over time and that share certificate that we saw dates back to the mid-13th century dates back to the 1260s. Since then, the company has taken on a number of guises. And of course, ownership of the shares have changed hands. But essentially, you can trace the lineage of the same company Stora Enzo or right back to tora Kopparberg, it has perpetual existence doesn't die, unless it's killed.

And even in some cases, I mean, we, those of you who are fans of Scottish Football, will know that there is a club that probably should have died. I'm not going to get partisan about this, I think it should have died. But anyway, I think it was a very good thing all-round. But let's not create too much controversy. But Rangers Football Club, PLC, entered administration in in 2012, partly because of the debts or due to tax, that it hadn't paid and then was reinvented through a gradual process as the Rangers football club limited. So, it went from bankruptcy to a kind of rebirth and one of the the advantages of that process was that many of the creditors particularly the smaller creditors were never paid the debts that the original Rangers PLC owed. So, there is sometimes life after liquidation, I think that's really important to to know. And the key asset here that's common to both Rangers football club PLC and it's latter incarnation as Rangers football club Limited, it still owns Iraq's Stadium, it still has its main asset intact.

So, there's a range of issues around the kind of perpetual existence of corporations or the immortality of corporations that are really important. And again, originally, this was to protect the assets of investors that are some histories which show that this principle was intimately related to the avoidance of death duties when individual investors died, then they would be more exposed to death duties, unless they could simply pass on,  the shares were passed on or absorbed back into the company in some form. So that idea of perpetual existence is absolutely crucial because it opens up other possibilities in terms of giving the corporation a separate personal life that separate to its investors, and to its senior managers and directors.

So, we're going to deepen this analysis with the next slide and look at, more clearly where the big advantages to investors, that arises from corporate personhood.

Limited liability, that's a freeze that we have in the earlier definition. And very simply, what it means is the investors liabilities, their exposure to financial risk is limited to the amount of money that they invested in the first place the principal sum of their investment. So if someone buys shares in a corporation, and the corporation collapses, their shares may become worthless, very quickly, and that means they lose the sum they've invested, assuming the shares don't increase in value again, but they can lose the sum of the invested. But that's really the maximum sum that they can lose, they won't be held liable for the losses of the company. And that means that they, they have limited liability. Now, you know, what that means is that all assets are not affected. But the corporation’s assets will have to be sold off to pay for losses, but not any individual investors. Now, there are some examples that we can find where the court has in exceptional circumstances lifted, what's known as the corporate veil. But really, it's very rare and this veil is essentially the phrase that used to describe the protection of investors have in this way.

The corporate veil is also used to describe how directors and senior managers are protected, because they are not held liable for losses in those ways, look, there are some examples where directors, senior managers where there is wrongdoing, they may be held liable in damages actions or indeed may well be held liable in criminal court or for regulatory offences. But generally, directors, senior managers benefit from the corporate veil in the same way that investors do. So, it's an important phrase to understand how the most powerful individuals involved in corporations are generally protected by the structure by the very basic structure of the corporation, which starts as we started with this notion of corporate personhood.

So finally, we're going to look at different types of corporation are the main types of corporation that we come across in research.

But let's have a quick look at why the difference is significant. And it is significant for researchers that are similarities, both are run for profit both of shareholders, but shares of PLCs are bought and sold on stock markets and the model for limited companies is different shares of limited companies are generally bought and sold privately.

And of course, there are other types of companies and note here, about limited liability partnerships, that brings a layer of complexity that we don't have time to get into. I do want to look at what the pros and cons for researchers. There are some vert kind of clear, if not huge differences but the differences that PLCs have more reporting requirements, they have to publish more information for investors to so that informs investors decisions on whether to invest or not they have to have annual general meeting. So, there's a higher level of accountability and key decisions must be ratified by the shareholders at those meetings. So, there is a flow of information which is a bit different from those for most companies. And that's a key advantage. Another key advantage is of course the company has access to more funds because it's on it's on publicly quoted on the stock market can raise funds more easily. But also, it's more vulnerable to fluctuations in the markets and in its more beholden if you like to financial markets.

First thing, look out for the next NCRM event, there will be an event hopefully both online and in person and there will be summer schools starting up again, depending on when you're watching this, I hope there will be regular summer schools that you'd be welcome to join. But in the meantime, please check out the corporate watch guide to investigating companies, which is free to download at the corporate watch website, and includes a range of tips on how you understand the company, how you understand company law, some of the issues that we've touched on, in this video, a bit more of a detailed look at the types of company that you might come across, and the way in which ownership and subsidiaries, parent companies works and also the way in which you read company finance and company accounts. So please check out that resource. It's a great resource and it's free. And I hope to see you on one of our courses at some point in the very near future.

Thanks for listening. Bye