For Profit: A History of Corporations

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In this insightful and informative book, written by William Magnuson and published by Basic Books, New York, November 2022, Magnuson traces the history of corporations and the role that profit has played in them over more than two thousand years.

He begins with the Roman Republic, prior to the advent of the Roman Empire. He feels that was when the idea of the corporation began, pointing out that "the term *corporation* derives from the Latin Word 'corpus' or body." Modern corporations can act as a single body under the law and offer some protection to their owners through the concept of limited liability. They also issue shares to shareholders and through this means can raise capital from the public. Corporations in Roman times didn't share all these attributes, but they did consist of groups of people acting as a body for business purposes.

The corporations in the Roman Republic, says Magnuson, were used to execute government contracts for activities such as road building and tax collecting. They also provided resources for the Roman army and indeed played a major role in building the most powerful army in the world at that time. Their objective was to provision the army, and raising capital and making profits was a means to that end.

He further discusses the Italian Renaissance and the powerful Medici family. The Medicis built their fortune and remarkable status on their bank, which provided much funding for the armies of the state and the Pope. The Medici Bank generated new ideas about corporate structure. Rather than organizing itself as a single entity, located, managed and owned in Florence, it set up an early multi-structured form of holding company; "the Medici Bank in Florence was the principal entity, but other separate entities were formed across the continent. These separate branches had their own names, administrators and accounting books — and had to report regularly to the bank holding company in Florence." (Pg. 67)

With this structure, the Medicis were able to encourage the local managers, who were part owners of their own branches, to operate independently, within certain parameters, in the interests of the business. It also helped protect the corporation by spreading the risks across the entire corporate structure. Having offsite owners, with managers running the company, was to become a major feature of corporations after the Renaissance and, of course, into the present day.

New Elements to Corporate Organization

The large trading companies of the sixteenth and seventeenth centuries in Britain added some new elements to corporate organization. One of these was the East India Company, formed in the year 1600, which led the way by being formed as a joint stock company. "Joint stock companies, a new concept in English law, proved particularly well suited to the grand voyages of the Age of Discovery. In short, they allowed businesses to sell stock in their companies to investors, who would pay in cash up front in return for a slice of future profits down the line." (Pg. 70)

This approach worked well for those particular trading companies because they had high up - front costs preparing and manning their vessels and would return profits, if any, only several months or even years later. It took a long time to sail halfway around the world and back again in those days. While the stockholders were very much venture capitalists, the government of the day still played a very large role in their activities.

In those years, corporations could only be created by petitioning the crown. The East India Company was officially formed on New Year's Eve of 1600, "when Queen Elizabeth I granted a charter to the "Company of Merchants of London Trading into the East Indies" (Pg. 77). There were 218 merchants involved and together they became "one Body Corporate and Politick, in Deed and in Name," with a monopoly over all trade between England and the East Indies (which covered anything east of the Cape of Good Hope).

The charter was clear that the purpose of the company was to contribute to the greatness of England in addition to the advancement of trade of merchandise and increased navigation. Profits would be necessary to sustain this trade.

While the company was spread around the Globe, it was actually run by a small group of men in a building in London. They soon learned lessons that had been learned by the companies in Rome and Florence – that they required a system of management and controls to ensure that the managers in faraway places worked to the advantage of the overall business. This required a record-keeping system, which was based on double entry bookkeeping, something started in the fifteenth century in Florence for keeping track of finances and profits. Their systems were "required to maintain detailed ledgers of the contents of warehouses and the terms of contracts. This was a remarkable level of efficiency for a business operating in the seventeenth century." (Pg. 83)

Issuing Stock to Investors

The East India Company was one of the first companies to issue stock to their investors. The investors had limited liability, could trade their stocks, and were not involved in managing the company. Therefore, their prime interest was in the profitability of the company, which in turn led to a major change in the focus of management, in that they now had to keep the investors happy, or else they might impair their ability to raise capital. Although the author states that this reliable source of capital enabled the company to take a longer-term view of the company's prospects, this is questionable, since we know that the need to satisfy investors can cause a company to take a short-term view, sometimes even leading to the falsifying of profits at the expense of future profits. He does acknowledge that the change led the companies to focus on profits more than on the long-term benefits to the nation and society.

The East India Company also maintained a military (shades of the Roman and Florentine versions) and, by 1742, had a force of some 1,200 soldiers at its base in Madras, India. “While the East India Company would nominally continue its business for another seventy years (until the Indian Mutiny in 1857 led the British government to fully nationalize the company), its era as a private corporation was for the most part at an end. It had become an arm of the British government.” (Pg. 99)

The company went on to have a significant role in world affairs, when its trade in tea through Boston triggered the Boston Tea Party, which in turn helped to foster the American Revolution!

The “East India Company had … shown the power that corporations could wield in the world. The joint stock company and its progeny would come to dominate capitalism and commerce for the next several centuries. It would foster the colonization of the New World. It would usher in the Industrial Revolution. And it would fuel the spread and growth of the American economy.” (Pg. 100). The need for companies to satisfy the investors’ desire for higher stock prices led the companies to place an even greater emphasis on profits.

Railroads Into the Future
Fast forward to the nineteenth century and the formation of companies like the Union Pacific Railroad Company during the great westward migration. The Union Pacific was specifically formed to build a railroad from Iowa to California and meet up with another railroad started in California to be built by the Central Pacific Railroad Company. President Lincoln had decided that the railroad would be built by corporations. The companies were set up complete with capital stock and a board of directors. There was limited oversight by the government.

The result of this organization was that the stockholders stood to make lots of money on railroads, and they did. The incentive, opportunity and limited oversight drove many of them to unethical practices. These owners became known as the robber barons. They drove any competition out by various means including violence and kept costs down by importing cheap Chinese labour and exploiting its workers. Many fortunes were made in the railroads during this period. The country got its railroad, which provided the infrastructure to support the rapidly growing trade in beef, grain and other products across the country.

And, Then, Cars
The important transportation business took a major turn in the early twentieth century when Henry Ford used the form of a corporation to make cars. They were not the first cars, but they were the first to be mass produced and sold. The core of this mass production was the assembly line.

“The Ford Motor Company transformed itself into the most efficient system of production the world had ever seen. In 1913, the year before the introduction of the assembly line, Ford produced 68,733 Model Ts. In 1914, the number soared to 170,211. Production accelerated as the company refined its methods through constant experimentation. In 1915, Ford produced two hundred thousand Model Ts, then three hundred thousand, then five hundred thousand.

By 1918, it was producing over seven hundred thousand cars a year. Ford Motor Company was now producing half of all US automobiles.” (Pg. 162)

But there was a tawdry side to Henry Ford’s glittering reign over the automobile industry. Because it needed to sell all these cars at a price people could afford, the company created dehumanizing working conditions. “Outside the corporation, it created new appetites for consumption as an end in itself and, perhaps worse, incentives for corporations to generate those appetites on a societal scale. Mass production, it turned out, was a dangerous recipe for materialism, waste, and environmental destruction.” (Pg. 178)

The resultant controversy ultimately led to the famous decision of the Michigan Supreme Court: “A business corporation is organized and carried on primarily for the profit of the stockholders. The powers of the directors are to be employed for that end. The discretion of directors is to be exercised in the choice of means to attain that end, and does not extend to a change in the end itself, to the reduction of profits, or to the non-distribution of profits among stockholders in order to devote them to other purposes.” (Pg. 167) Much of the corporate activity in the remaining years of the twentieth century was consistent with this directive.

Around the same time, the famous economist, Milton Friedman, concluded that “there is one and only one social responsibility of business — to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game.” (Pg. 7)

Here Come the Multinationals

The latter part of the twentieth century saw the advent of Multinational Corporations. These companies no longer did business primarily in a single country and with a single domestic market. Instead, they operated wherever and whenever it made sense — regardless of jurisdictions or borders, currencies or languages. Today, they are found everywhere in companies like Walmart, Amazon, Apple, Exxon, and Facebook.

Multinationals really began with the big oil companies, when the world’s use of oil grew dramatically in mid-century and local sources were not available. The companies began to explore and develop the resource wherever in the world it could be found. Eventually, they settled largely on the Middle East. OPEC was formed to enable the oil producing countries to help control their resource, but it eventually led to their establishing an embargo on the export of oil. After negotiations with OPEC failed, the big oil companies (the Seven Sisters) began to coordinate their shipments. It was organized by Exxon, which was able to manage this arrangement because it had a long history of navigating the global economy and therefore had developed a multinational reach. It was another indication of the power of the multinationals.

The multinational corporation represented an important shift in the nature of capitalism because the companies were freed from the clutches of their local governments. Since they operated so freely around the world, multinationals also drove the development of globalization.

In the after-war years, national economies became increasingly interdependent as supply chains went global and people and ideas crossed borders as never before. International corporations encouraged these developments, not just by taking advantage of the economic prospects of cross-border trade, but also by attracting the world's best and brightest and training them to succeed in the new world. A new kind of cosmopolitan capitalism began to take shape.

In retrospect, Magnusson points out that "It should come as no surprise that the rise of the multinational in the post – World War II world coincided with the rise of the world's most pressing multinational problem: climate change." (Pg. 214) Their efforts to seek out the most profitable jurisdictions in which to do business often meant finding countries that imposed lower taxes, or fewer restrictions on employment conditions, or lax environmental rules.

According to Magnusson, "capitalism had lost its way. The modern corporation was no longer an exemplar of industry and efficiency; it was a symbol of greed and excess." (Pg. 218) Popular culture picked up this view of corporations, at least those of corporate raiders, in the form of Gordon Gekko, the prime hero/villain of the movie "Wall Street." His "greed is good" speech ranks as one of the more powerful contemporary commentaries on modern capitalism.

One of the most prominent practitioners of corporate takeovers in this period was Kohlberg and Kravis and Roberts, generally known as KKR. They fostered the concept of the leveraged Buyout (LBO) which meant they could buy a company with other investors' money and very little of their own. Then they could sell it and make a huge profit on their own investment.

Another investor, Stephen Schwarzman, saw the tremendous potential of LBOs and formed the company Blackstone, now one of the world's largest investment companies, making Schwarzman a multi-billionaire.

Technology Changes the World

Finally, in his historical work, Magnusson focuses on the advent of the technology start-ups – perhaps the most striking example of the evolution of capitalism in the twentieth and twenty-first centuries. Examples include Facebook, Airbnb, Instagram, Snapchat, Twitter, Uber. There are several others, all sharing a similar business model.

To quote Magnusson, "No corporation in the history of the world has ever come anywhere close to the sheer size and scope of Facebook (or Meta, as it has now rebranded itself). Not Standard Oil. Not the East India Company. Not the Medici Bank. Simply put, Facebook is unprecedented. In the evolution of the idea of the corporation, Facebook represents the apex predator." (Pg. 253) He adds that "Mark Zuckerberg himself is worth an estimated $76 billion. The golden age of start-up culture dawned with Facebook." (Pg. 255)

The US election of 2016 witnessed a turnaround: a good deal of concern about "fake news" and mis-information carried by Facebook and other social media. In an appearance before Congress after the election, Zuckerberg apologized for what his company had wrought. "It's clear now that we didn't do enough to prevent these tools from being used for harm as well. That goes for fake news, foreign interference in elections, and hate speech, as well as developers and data privacy. We didn't take a broad enough view of our responsibility, and that was a big mistake. It was my mistake, and I'm sorry. I started Facebook, I run it, and I'm responsible for what happens here.…" (Pg. 293)

Magnuson observed that, by most measures, Facebook was supremely successful, but that, much like the ancient Roman corporations had done during the first century BC, Facebook had ignored, dismissed, or simply not known how its behavior affected the common good." (Pg. 283)

For the Good of Society?
For Profit – A history of Corporations presents a coherent view of corporations over the past millennia. It shows how the quest for profit has interacted with other business objectives and with the good of society. And it makes clear how those interactions have varied and fluctuated.

Magnuson's account leaves us with challenging questions. What does the story tell us about the pressures for change facing modern corporations? And does it provide any hints about the possible future direction of the corporations?

A few observations can be made. At present, there is strong pressure from several segments of society to take stronger action with regard to corporate impact on the environment. History shows us that corporations have always had to respond eventually to the demands of society. The Medici bank was closed down when it no longer met those needs. Similarly, The East India company was disbanded by the British government. In current times, we see Twitter and Facebook trying to deal with their role in dispensing misleading and erroneous information.

And the future? Today, companies are faced with massive change, in the form of shifting attitudes toward work, economic disparity, moves towards mobile and hybrid work, the growth of the gig economy and others. There is little doubt that they will change, perhaps drastically, to meet these pressures.