

# MN4227 Coursework 1

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*A Detailed Review & Critique of Bakan's 'The Corporation' as against another 'business-and-society' text in the backdrop of its place within a wider relevant literature*

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We have chosen *Free To Choose* by Milton Friedman as the main business-and-society text for direct comparison – as shall shortly be shown, wherever Bakan is interventionist, Friedman is almost inevitably deregulatory on the same issue which makes for a great contrast. We have chosen *Enter The Triple Bottom Line* by John Elkington as a proxy for wider relevant literature which follows a middle line between our two main extremes.

While none of the three of us would have written this essay nor would any of us individually take its position, it represents a reasonable balance of all our opinions and viewpoints. We conclude that all three texts are essentially correct and compatible with one another.

## **'The Corporation'**

Joel Bakan's 2004 book, *The Corporation: the Pathological Pursuit of Profit & Power*, provides an entertaining read and yet generates a somewhat harrowing impression of the business and corporate world. *The Economist* describes the book as "a surprisingly rational and coherent attack on capitalism's most important institution" (back cover review of *The Corporation*).

It was a book which, when initially published, sent shockwaves through many of the world's leading corporations, whilst those people against the current levels of power and influence of corporations embraced many of the issues raised in the book. Bakan provides many examples of corporate misbehaviour throughout his text, each one seemingly designed to persuade the reader that Bakan's point of view is indeed at the very least, a reasoned and acceptable one. According to an Amazon Online Editorial Review, provided by *Booklist* (American Library Association):

*"Joel Bakan has performed a valuable service to corporations everywhere by holding up a mirror for them to see their destructive selves as others see them"*

Bakan describes the corporations themselves as psychopaths. He believes that the world's nicest people can be involved in the decision-making process within the corporation, but the demands placed upon them make them do 'bad' things. He also says that not all corporations are psychopathic, citing the example of *The Body Shop*, but admits that in time, they all show psychopathic tendencies due to financial pressures.

*The Body Shop*, founded by Anita Roddick, began as a company which did not separate her personal values from her business needs (Robarts, 2005). However, Bakan illustrates his belief that the structure of corporations breeds psychopaths with this example as when *The Body Shop* was floated on the stock exchange, the balance of power shifted, and Roddick was no longer permitted to pursue her own aims, instead now being forced to aim for the ultimate in profit and forgo some of her 'responsibilities'.

Bakan utilises the opinions of a leading psychologist to inform the reader of the attributes a psychopath is likely to show. According to Dr Robert Hare, the people in the corporations are not psychopaths, instead being, as Anita Roddick says, more like schizophrenics, as they can separate the corporate needs from their own morals, understand what they are doing, but still do it all the same. He, like Bakan believes that corporations are unable to *easily escape the psychopath diagnosis*. He says that the following psychopathic tendencies all relate to corporations – they are:

- Irresponsible - it puts others at risk in pursuit of its own goals.
- Manipulative - it manipulates people an opinion in pursuit of its goals
- Grandiose - it always insisting that it is the best
- Reckless - it refuses to accept responsibility for its actions
- Remorseless - it cannot feel remorse
- Superficial - it relates to others always in a way that does not reflect their true selves (masking what they truly are)

(table taken from Robarts S, 2005 Review of 'The Corporation' by Joel Bakan)

Added to this, he says they feel no concern for others as they have – just as Friedman explains – a *single self interest* and have no need or obligation to think of the consequences of their actions as long as profit is being made.

Bakan is a law professor in America and has been educated by both Oxford and Harvard. As a result, a lot of his debate centres around the impact of law and regulation on corporations and the business world. Bakan believes that regulation is a necessity for the current corporation or else it would destroy everything that go in the way of its psychopathic pursuit of profit, no matter what it was. He also reminds the reader – and as such, the corporations – that the very laws, made by government, that created the corporations could be taken away again, thus destroying the corporation. He admits that this would be in no-one’s best interest in the current climate, but uses the notion as a hint to the corporations that they should remember their wider markets and their obligations to the society that made and supports them.

### ‘Free To Choose’

The Nobel Prize for Economics laureate Milton Friedman has probably had more of an impact on more everyday people’s lives today than anyone else who lived during the past century. As is often the case in such circumstances, he wrote just two books for the general public, both of which were immensely influential and whose recommendations were mostly adopted wholesale by the Reagan and Thatcher governments. The latter of these two books is *Free To Choose* published in 1980, co-written with his wife Rose, who is said to be the only person to have ever convincingly won an argument with Milton<sup>1</sup>.

The book follows quite a similar course to *The Corporation* by charting a series of historical events and their causes & effects according to the two Friedman’s. They argue forcefully that the reason that Britain prospered in the 19<sup>th</sup> century and the United States overtook Britain in the 20<sup>th</sup> is due to tight unimpeded feedback loops quickly & directly rewarding risk taking and entrepreneurship and punishing failure and laziness. They strongly advocate small government, minimal regulation and that people should be directly exposed as much as possible to cold, harsh reality for their own good so they can better learn & adapt. If one follows the logic in this book (e.g.; “*A corporation is the property of its stockholders. Its interests are the interests of the stockholders*”), it is clear that on Corporations the argument would be as follows: Given that Corporations consist of workers (people) and are directed by shareholders (also people), if a Corporation should behave psychopathically, then it is because its workers & shareholders want it to so behave. Therefore, *removing* regulation will better incentivise Corporations to behave better – and in many cases, it is *because* of regulation that Corporations have any incentive to continue to behave psychopathically in the first place.

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<sup>1</sup> From the Presidential Speech when Friedman was awarded the Medal of Freedom. It was said jokingly, but not that jokingly.

This philosophy is fundamentally an evolutionary one. In Chapter 7 'Who protects the worker?' p. 209:

*"The error of supposing that the behaviour of social organisms can be shaped at will is widespread. It is the fundamental error of most so-called reformers. It explains why they so often feel that the fault lies in the man, not the 'system'; that the way to solve problems is to 'turn the rascals out' and put the well-meaning people in charge. It explains why their reforms, when ostensibly achieved, so often go astray."*

One of the major recurring themes in this book is the corruption (legal & moral) of people. In Chapter 5 'Created Equal' p. 145:

*"When the law interferes with people's pursuit of their own values, they will try to find a way around ... When the law contradicts what most people regard as moral and proper, they will break the law – whether the law is enacted in the name of a noble ideal such as equality or in the naked interest of one group at the expense of another. Only fear of punishment, **not a sense of justice and morality**, will lead people to obey the law."*  
[emphasis added]

In Chapter 4 'Cradle to Grave' p. 119:

*"Category IV [when one spends someone else's money on someone else] spending tends also to corrupt the people involved. All such programs put some people in a position to decide what is good for other people. The effect is to instil in the one group a feeling of almost God-like power; in the other, a feeling of childlike dependence. The capacity of the beneficiaries for independence ... atrophies through disuse ... **the end result is to rot the moral fabric which holds a decent society together.**"* [emphasis added]

Therefore according to the Friedman's regulation is doubly corrupting: firstly through creating disrespect for the law, and secondly through morally corrupting both those who enforce it and those who are subject to it. Note however that an assumption of humans being mostly self-interested to the exclusion of all else has been made.

Both Milton and Rose Friedman are of culturally Hungarian descent though where they were born has since been re-bordered into the Ukraine. Both were immigrants into the United States fleeing repression

& war – both worked hard and worked their way up the system into positions of financial security and respect. Both were originally strong advocates of interventionist Keynesian Economics and both played a large part in enthusiastically implementing Roosevelt’s New Deal before turning against their prior convictions. We found their book to be a compelling read, more obviously opinionated than *The Corporation* but actually stronger for it – we found ourselves in the unenviable position of agreeing with both *The Corporation* AND *Free to Choose* simultaneously without knowing how or why, despite both being diametrically opposite! Initially this seemed like a major obstacle, but in fact turned into a major boon.

## Wider Relevant Literature

Friedman is old – 1980 – and therefore is much more obvious in its importance whilst also being most out of date. While Bakan is much newer (2004), its theme & proposed solutions would be almost entirely familiar to a student of early 20<sup>th</sup> century corporate misbehaviour. We therefore chose John Elkington, a world leader on sustainability and on triple bottom line corporate strategy (Henriques & Richardson, 2004), as a proxy representing a synthesis of surrounding literature.

*“The better the system of corporate governance, the greater the chance that we can build towards genuinely sustainable capitalism”* and *“Corporate sustainability issues revolve not just around process and product design, but also around the design of corporations, of ‘business ecosystems’ and, ultimately, of markets”* (Elkington 2004) are two statements made by Elkington in one page of his 2004 article ‘Enter the Triple Bottom Line’. They combine both the ideas of Friedman – markets controlling the corporations’ decision making and the pursuit of capitalism – and elements of Bakan – better corporate governance and sustainability responsibility.

Elkington accepts that his views are middle ground ideals – and maybe there is something in his views as he tries to get the ‘best of both worlds’: *“ ‘capitalism and sustainability do not make easy bedfellows’, but capitalism can be as much the solution to the present sustainability crisis, as it is its cause”* (in Jeurissen, R. 2000). Still it is unlikely that either Bakan or Friedman would be inclined to agree with him, as his methods for survival are not ‘extreme’ enough – *“working with business, rather than against it”* (in Jeurissen, R. 2000). Elkington views corporations as things in need of regulation, but recognises that they cannot be held completely accountable for all their externalities. Bakan too recognises this, but believes that Corporate Social Responsibility (CSR) is still something that should be firmly and rigidly undertaken.

## Comparison & Critique

To fully comprehend all points of view, it pays to look at the competing beliefs and theories of Bakan and the Friedmans in relation to how the rest of society currently views these issues. Gray, Owen & Adams (1987) say that society has 7 types of people: the pristine economist; the expedient; the social contractors; the social ecologists; the socialists; the radical feminists; and the deep ecologists. Chapter 3 cites Milton Friedman as a 'pristine capitalist' – someone who “see[s] liberal economic democracy...as a good approximation of how the world works and also as the way in which the world *should* work”. Bakan, on the other hand, fits more in with the social contractor's way of thinking, but also shows some of the tendencies of the socialist category (believing that the current domination of social, economic and political life by capital to be unfavourable). He believes that corporations owe much to wider society and so regulation is required, along with CSR, in order to keep corporations in line, as do social contractors. However, Bakan is difficult to pin down directly as he does acknowledge the basic principles of economics and that corporations and their managers must fulfil the requirements of the shareholders – namely, to maximise profit. Elkington, like Bakan, is left-leaning in his views and probably fits into the social ecologist section of Gray, Adams and Owen's seven types of people. This section contains people who are concerned over the organisation/environment interactions. At times Elkington appears to agree with Bakan, and at other times, leans more towards Friedman, which makes him an interesting 'middle-ground-man'.

Fundamentally however, both Bakan and the Friedmans (and thus Elkington) are all on the same page. Both agree that humans cannot be trusted, both agree that society is in trouble, and interestingly both agree that people are being exploited and that that's a bad thing. Both agree that society must take measures to address these problems for the greater good – but where Bakan trusts an elite to intervene to enforce behaviour, Friedman thinks the system should create market incentives appealing to individual self-interest and let the market take care of it.

Both texts seem to depend on rapid dissemination of accurate information and more importantly, that people will **correctly** diagnose the appropriate solution. Bakan thinks a small command & control elite are best able to do this whereas Friedman thinks that only the combined creativity of a market can solve this problem, whereby lots of individuals try their own solution and the best solution becomes adopted en-mass via the market 'invisible hand'. Obviously, this implies that Bakan thinks that certain kinds of people (lawyers & government bureaucracy) can be entrusted with the welfare of others to the least

detriment of society, whereas Friedman thinks that wherever anyone rules over another, corruption inevitably results due to the inevitably selfish nature of man.

We can spot obvious and glaring logical inconsistencies in both lines of argument (more so Friedman, but that's due to our own political biases), but after considerable round-and-round argument between us, we began to realise that perhaps these don't actually matter because maybe the two approaches are synonymous with one another – possibly they are two sides to the same coin, and maybe they only appear to be different at all because of the way in which we choose to look at them.

To explain this proposition, one needs to consider what *actually* happens under Friedman's perfect system: a group of people form together to create a firm, whereby workers surrender their individual autonomy up a hierarchy which leads to a centralised command & control – equally, shareholders surrender their individual shareholding of company control to a Board of Directors who manage the company on their behalf. While some firms have flatter management structures and others are more rigid, there is still a *voluntary surrendering of control by many to a centralised authority of a (usually expert) few*. Given enough scale and scope, one gets a force which moves as one, thus power & political play (swinging one's weight around), and thus for most markets you get varying stages of Monopoly<sup>2</sup> (of which Government is a peculiar kind), and thus the modern Corporation.

While the Friedmans rail strongly against monopolies, we found their arguments against them to be extremely weak: in Chapter 2, it's simply stated that without government intervention, monopolies *usually* fall on their own before going on to list several which have persisted without government protection for decades<sup>3</sup>. Yet the fact that monopolies do go forth and multiply is exactly the same thing as that which has given forth to the modern Corporation – so this is an empirical reality. One could see how this might be a requirement of all civilisation without which mass mobilisation for some end is impossible. The only difference here is one of scale and scope – the ultimate firm in a regional unit is its government, much as the ultimate firm in computer software is Microsoft, the ultimate firm in diamonds is De Beers, the ultimate firm in oil is OPEC and so on.

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<sup>2</sup> We use 'Monopoly' here in its widest possible sense, so including duopolies, monopsonies, oligopolies etc. – anywhere with a large single or cartel of market power.

<sup>3</sup> Niall points out that there is a large body of Economic history proving that like species, 99.99% of all firms eventually fail even with government protection (as government is just a special form of firm anyway). See Ormerod, P., (2005), *Why Most Things Fail – Evolution, Extinction & Economics*.

These are highly competitive industries dominated by a large single player who sets (and usually imposes) the agenda for everyone else. This therefore suggests that decentralised *laissez-faire* systems **give forth** to centralised interventionist systems *and vice versa* – neither can exist without the other in any useful or meaningful kind of way. It is on this basis that we posit that Friedman, Bakan and Elkington all refer to contradicting *aspects* of the *same* system, and that therefore both intervening AND letting people get on with it are BOTH the correct approach at the SAME time.

Much as with raising children, knowing when or whether to spare the rod or spoil the child is fraught with difficulties in an uncertain world. Both carrots and sticks work, but the wrong one at the wrong time will have unpredictable effects. We could draw countless more analogies, but we hope our point is made – our biggest critique of Bakan is he doesn't listen enough to Friedman (and the reverse would be true were Bakan published before Friedman), which is something that Elkington does his best to attempt.



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