

## 4.4: Summary

### Section Summaries:

#### 4.1 Corporate Law and Corporate Responsibility

While some argue that corporations have a primary duty to maximize profits for the benefit of shareholders, others assert that businesses have a duty to the society in which they operate, a duty that serves as the basis of the CSR philosophy. Many court cases have addressed the issue, but it has not been conclusively resolved.

Despite the ongoing ethical debate, being a good corporate citizen is a goal toward which most contemporary corporations strive. An effective CSR policy usually means that companies have to commit to both an internal and external approach to ethics. Corporate social responsibility and good corporate governance are in reality just two sides of the very same coin. Social responsibility does not mean lower profitability.

#### 4.2 Sustainability: Business and the Environment

Adopting sustainability as a strategy means protecting the environment. Society has an interest in the long-term survival, indeed the flourishing, of ecological habitats and natural resources, and we ask and expect companies to respect this societal goal in their business activities.

When analyzing what a business owes society in return for the freedom to extract our natural resources, we must balance development and preservation. It may be easy to say from afar that a business should cut back on how much it pollutes the air, but what happens when that means cutting back on fossil fuel use and transitioning to electric vehicles, a choice that affects everyone on a personal level?

#### 4.3 Government and the Private Sector

One challenge in a free enterprise system is balancing the need for government regulation and private-sector corporate managers' need for independence in running their businesses. The Sarbanes-Oxley Act tries to strike this balance by mandating transparency in corporate governance. This debate also includes the question whether businesses operating in the private sector ought to do public good on their own, regardless of whether the government mandates it. For example, many companies make a commitment to keep the environment clean, and to do so by going above and beyond what the law requires.

### Key Terms

**business judgment rule**

the principle that officers, directors, and managers of a corporation are not liable for losses incurred when the evidence demonstrates that decisions were reasonable and made in good faith

**cap and trade**

a system that limits greenhouse gas emissions by companies while allowing them to buy and sell pollution allowances

**carbon footprint**

the amount of carbon dioxide and other carbon compounds released by the consumption of fossil fuels

**carbon tax**

a pay-to-pollute system in which those who discharge carbon into the air pay a fee or tax

***Citizens United***

a 2010 Supreme Court ruling in favor of unlimited spending by individuals and corporations on political campaigns

**Commerce Clause**

an enumerated power listed in the Constitution giving the federal government the right to regulate commerce between states

**corporate personhood**

the legal doctrine holding that a corporation, separate and apart from the people who are its owners and managers, has some of the same legal rights and responsibilities enjoyed by natural persons

**fiduciary duty**

a very high level of legal responsibility owed by those who manage someone else's money, which includes the duties of care and loyalty

**limited liability**

a business owner's protection against loss of personal assets, granted with corporate status

**moral minimum**

the minimal actions or practices a business must undertake to satisfy the base threshold for acting ethically

**quid pro quo**

the tradeoff someone makes in return for getting something of value; from the Latin meaning *this for that*

**Sarbanes-Oxley**

legislation passed in 2002 that mandates reporting transparency by businesses in areas ranging from finance to accounting to supply chain activities

**shareholder primacy**

a company's duty to maximize profits for stockholders

**states' rights**

a view that states should have more governing authority than the federal government, based on the Tenth Amendment, which reserves to the states any right not specifically delegated to the federal government

**sustainability**

a long-term approach to the interaction between business activity and societal impact on the environment and other stakeholders

**tragedy of the commons**

an economy theory highlighting the human tendency to use as much of a free natural resource as wanted without regard for others' needs or for long-term environmental effects or issues

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