MODULE 1

WHAT IS A FIRM AND WHAT DOES IT DO?

BOONE BOWLES

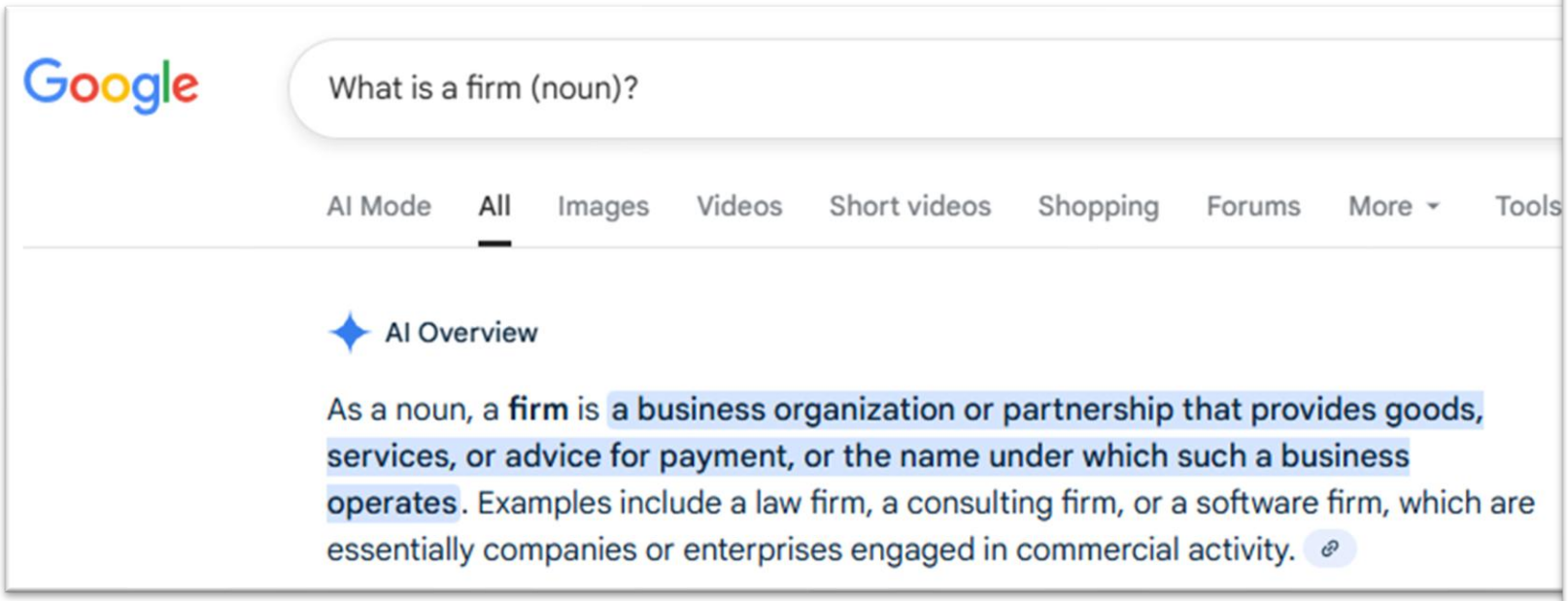


Agenda

1. What is a firm?
2. What are the different types of firms?
3. Who controls a firm?
4. What do firms do?



What is a firm?



Key characteristics of a firm:

Business organization

: It is a collective of people working together for a commercial purpose.

Partnership or association

: It is often a partnership or a group of people associated to conduct business.

Provides services or products

: Firms offer something people are willing to pay for, such as legal services, financial advice, or products.

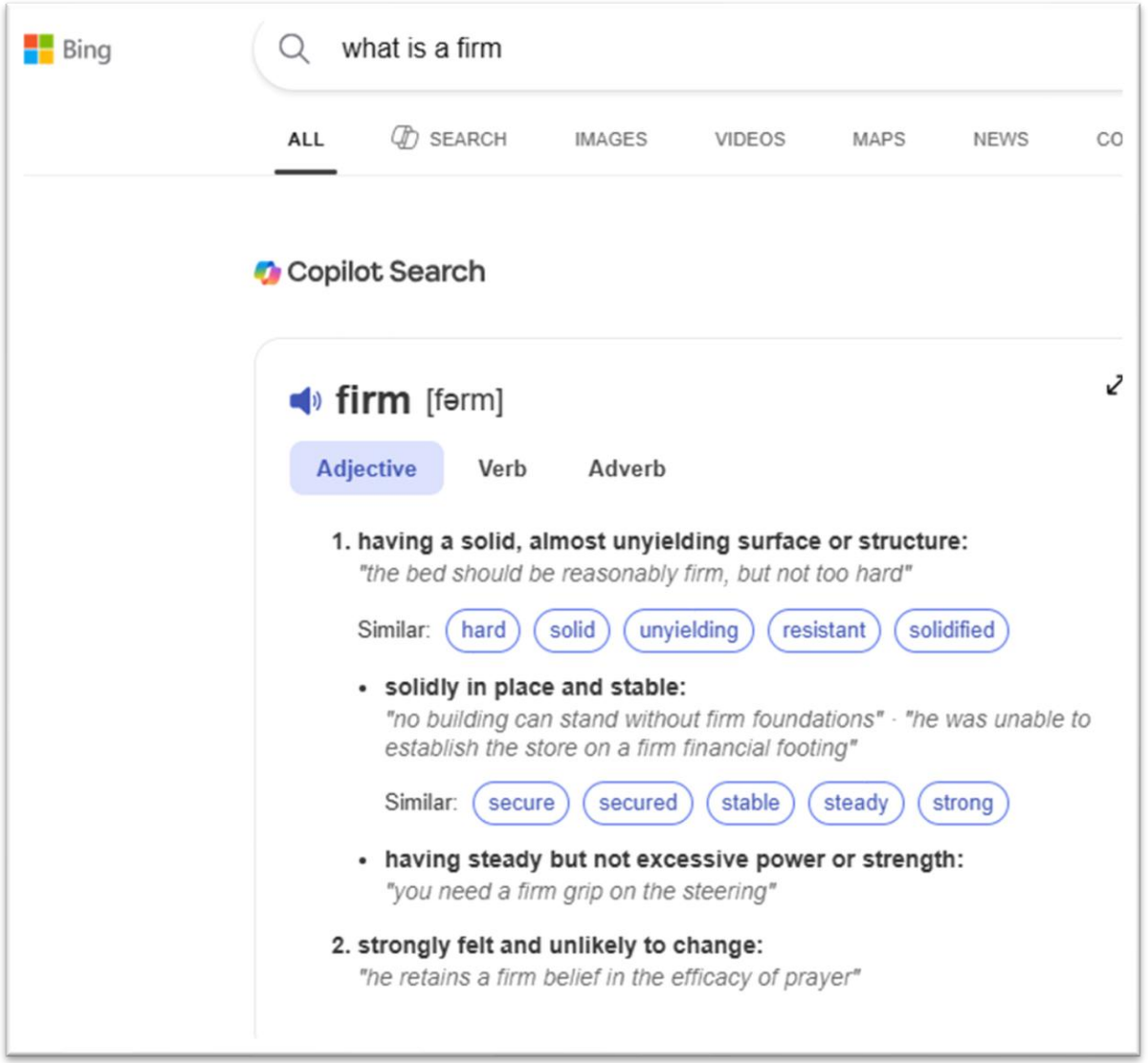
Operates under a name

: It is known by a specific title or name, such as the firm of "Smith & Jones".

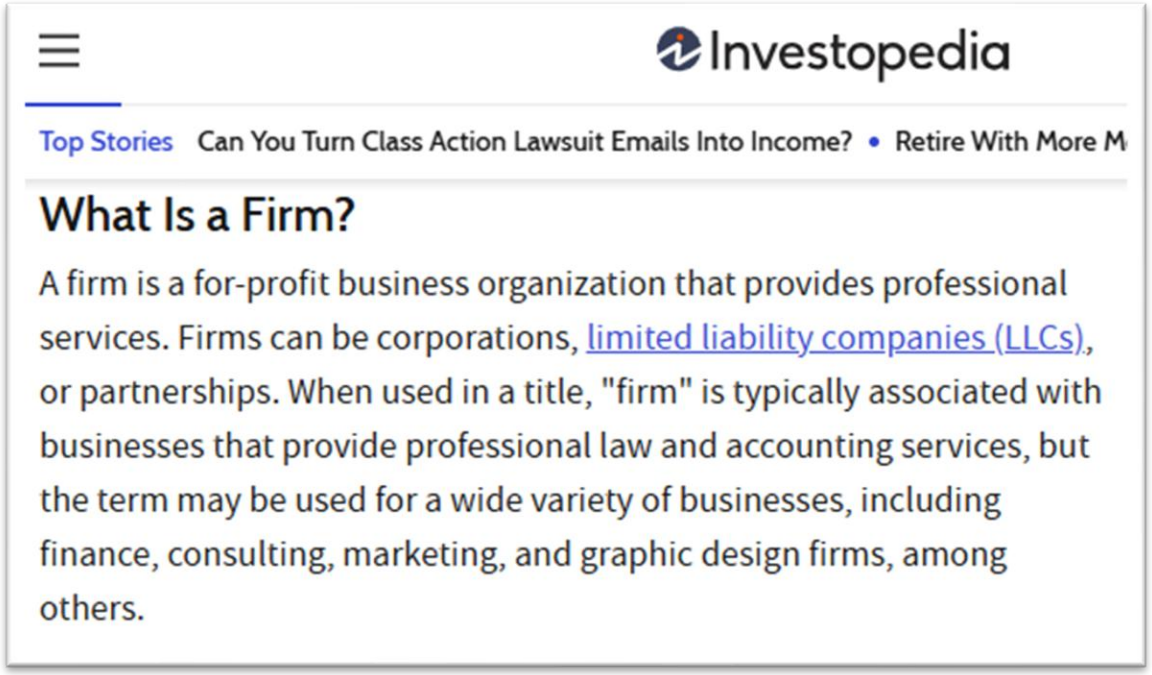
Synonyms for firm (as a noun):

- Company
- Business
- Concern
- Enterprise

What is a firm?



What is a firm?

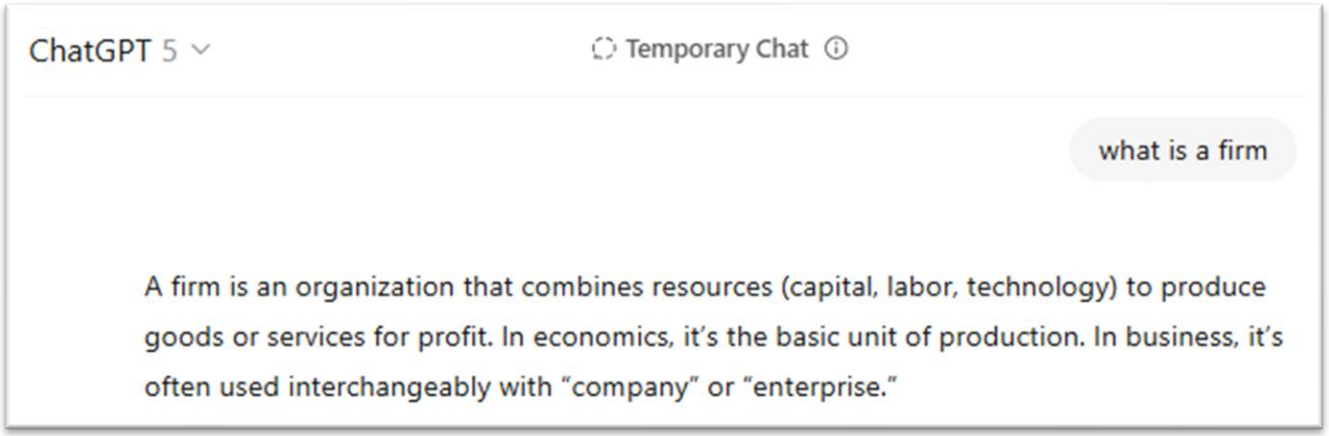


What is a firm?



A **company** is a legal entity that represents an association of legal persons with a specific, shared objective, such as the earning of profit or the benefit of society. Depending on jurisdiction, companies can take on various forms, such as voluntary associations, nonprofit organizations, business entities, financial entities, banks, and educational institutions. Across jurisdictions, companies have generally evolved to have certain common legal features, including separate legal personality, limited liability, transferable shares, investor ownership, and a managerial hierarchy.[1]

What is a firm?



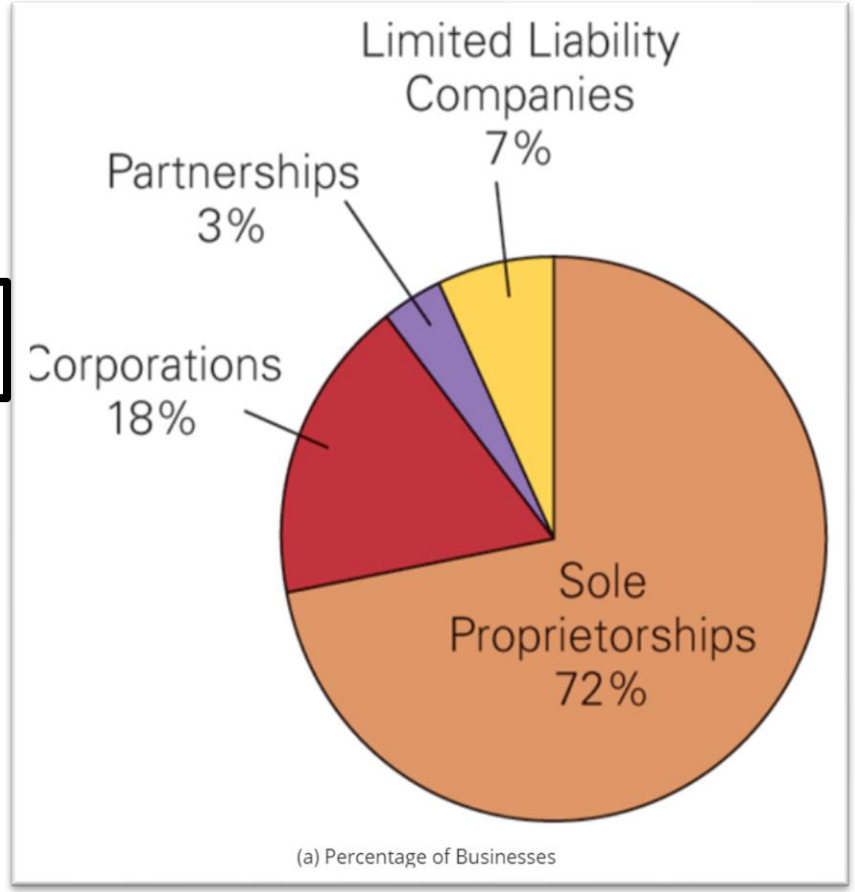
What is a firm?

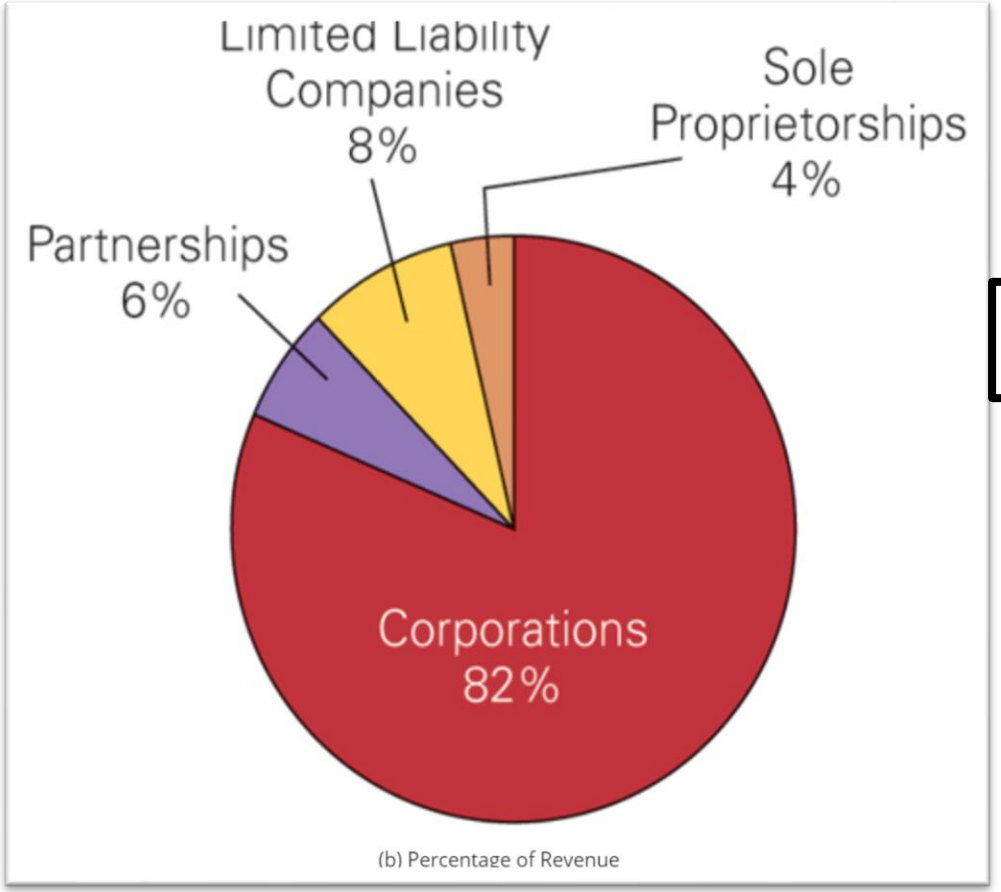
The modern U.S. corporation was born in a courtroom in Washington, D.C., on February 2, 1819. On that day the U.S. Supreme Court established the legal precedent that the property of a corporation, like that of a person, is private and entitled to protection under the U.S. Constitution. Today, it is hard to entertain the possibility that a corporation's private property would not be protected under the Constitution. However, before the 1819 Supreme Court decision, the owners of a corporation were exposed to the possibility that the state could take their business. This concern was real enough to stop most businesses from incorporating and, indeed, in 1816 that concern was realized: The state seized Dartmouth College.

Dartmouth sued for its independence and the case made it to the Supreme Court under Chief Justice John Marshall in 1818. In a nearly unanimous 5–1 decision, the court struck down the New Hampshire law, ruling that a corporation was a "contract" and that, under Article 1 of the Constitution, "the state legislatures were forbidden to pass any law impairing the obligation of contracts."[1] The precedent was set: Owners of businesses could incorporate and still enjoy the protection of private property, as well as protection from seizure, both guaranteed by the U.S. Constitution. The modern business corporation was born.

What type of firm?

Pct. of Businesses

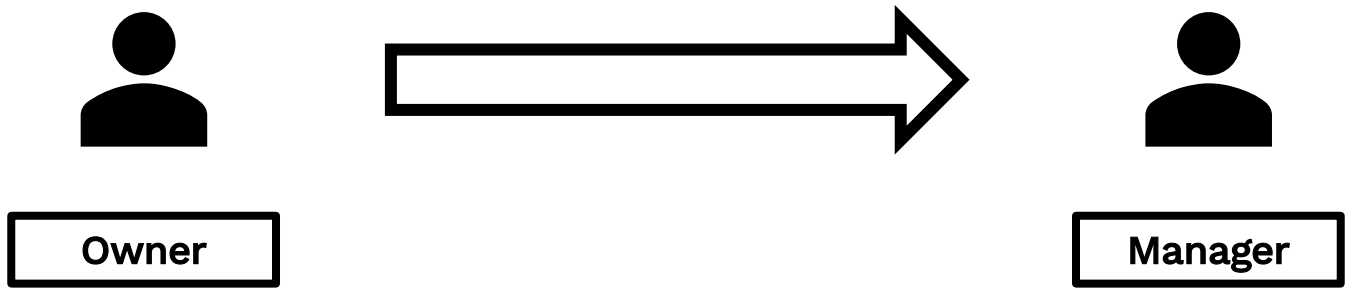




Pct. of Revenue

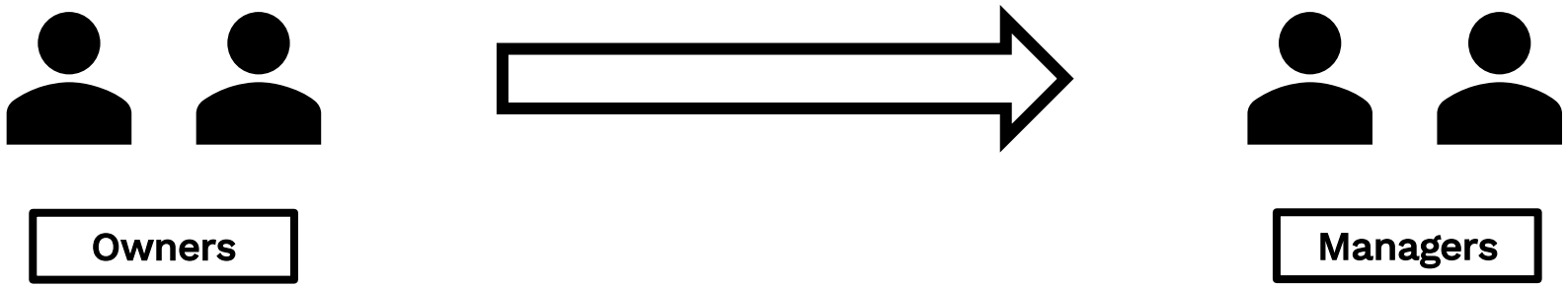
Who controls a firm?

Sole Proprietorship



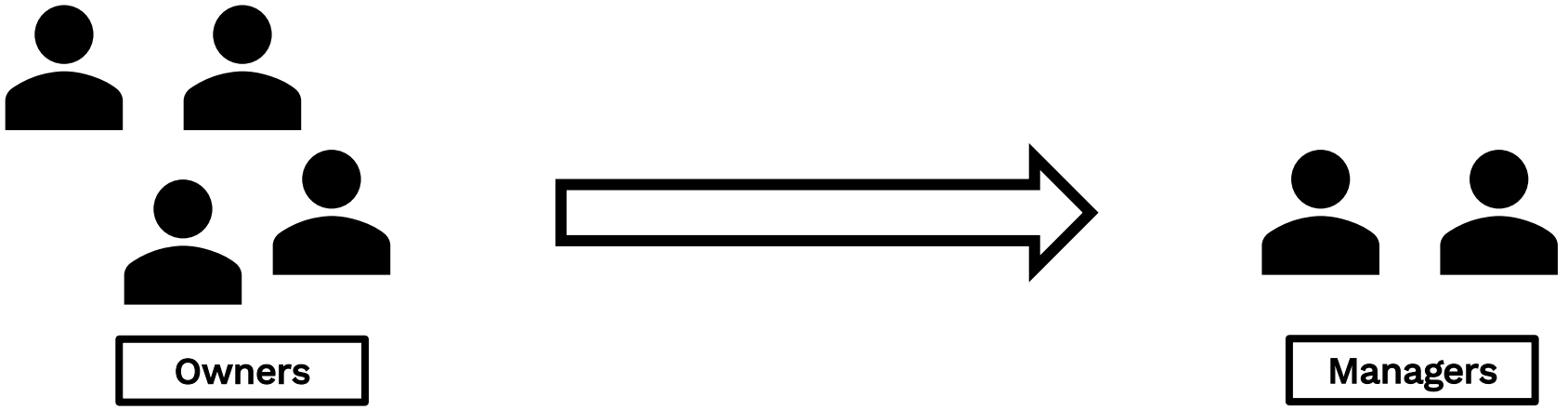
Who controls a firm?

Partnership



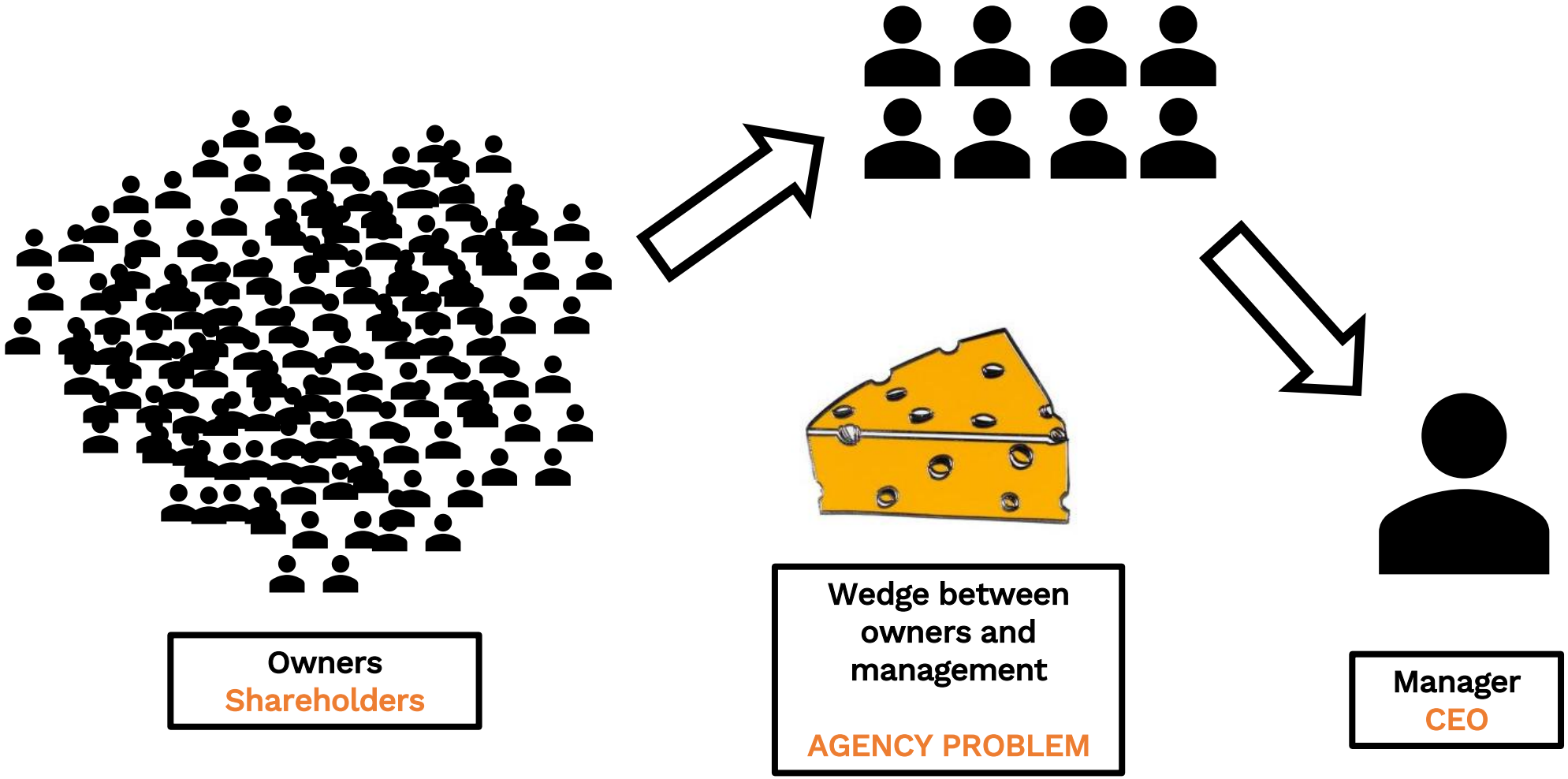
Who controls a firm?

LLC



Corporations

Who controls a firm?



Owners
Shareholders

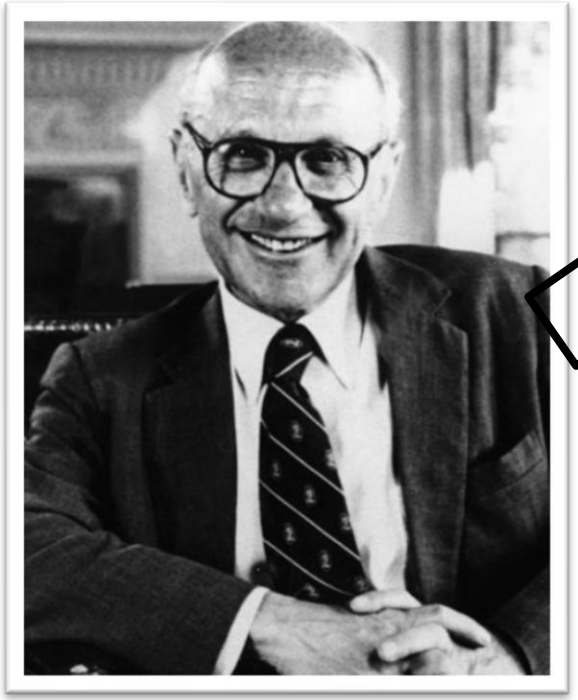
Wedge between owners and management

AGENCY PROBLEM

Manager
CEO

What do firms do?

BR Business Roundtable



Shareholders

Stakeholders



Milton Friedman
(Nobel Prize)

Larry Fink
(Blackrock)

How do firms maximize value?

By taking on positive NPV projects!

What did we learn here?

1. **What is a firm?**
   - **Business/legal entity, pools capital, generates profits.**

2. **What are the different types of firms?**
   - **Sole proprietorships, partnerships, LLCs, Corps.**

3. **Who controls a firm?**
   - **Managers (Agency Problem).**

4. **What do firms do?**
   - **Maximize shareholder value (positive NPV).**





TEXAS A&M UNIVERSITY

Mays Business School