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Relationship-to-Profit: A Theory of Business, Markets, and Profit for Social Ecological Economics

JURY

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ABSTRACT

How does the relationship between business and profit affect social and ecological sustainability? Many sustainability scholars have identified competition for profit in the market as a key driver of social exploitation and environmental destruction. Yet, studies theorizing a sustainable economy rarely question whether businesses and markets have to be profit-seeking. The widespread existence of not-for-profit forms of business, which approach profit as a means to achieving social benefit, suggests that there are other ways of organizing business and markets that might be more sustainable. In this thesis, I use a critical institutional economics lens and systems thinking to synthesize existing theory and knowledge about how business, markets, and profit affect sustainability outcomes, in order to explain how alternative approaches to these institutions might produce different outcomes. The result is a new theory about how relationship-to-profit (the legal difference between for-profit and not-for-profit forms of business) plays a key role in the sustainability of an economy, due to the ways in which it guides and constrains actors' behavior, and drives larger sustainability-related dynamics. In Paper 1, I develop a conceptual framework for understanding the tradeoffs and synergies between profit and social-ecological sustainability. I show how profit-seeking strategies can be examined to assess whether they derive profit from: efficiency gains; willing and informed contributions from social stakeholders; or exploitation of social or ecological stakeholders. These bounded sources of profit imply limits to profit. Therefore, in order for businesses and markets to be sustainable, they should see profit as a means rather than an end in itself. In Paper 2, I explain that whether profit is seen as a means or an end manifests through both voluntary objectives (i.e., if a business explicitly pursues profit as a goal) and financial rights (i.e., the right or obligation to distribute profit to private owners). Some forms

of business encourage profit-as-an-end more than others. In Paper 3, I outline ideal types of for-profit and not-for-profit economies, and describe the expected dynamics of these systems based on the regulative aspects of relationship-to-profit. The legal purpose, ownership (i.e., private financial rights), and corresponding investment structures of for-profit forms of business encourage firms to see profit as an end. The pursuit of unlimited financial gain and the private distribution of the surplus by for-profit business tend to drive the growth of consumerism, environmental degradation, inequality, market concentration, and political capture. In a not-for-profit type of economy, businesses do not have a financial gain purpose or private financial rights. Profit in such a system is used as a means to achieve social benefit. This results in higher levels of equality and opens up the space for more effective sustainability interventions. Yet, relationship-to-profit is only one dimension of business that is important for sustainability. In Paper 4, I develop a framework to structure analyses and wider discussions of post-growth business around five key dimensions of business: (1) relationship-to-profit, (2) incorporation structure, (3) governance, (4) strategy, and (5) size and geographical scope. The framework clarifies that, as a legally-binding formal institution that specifies the financial rights and legal purpose of a business, relationship-to-profit guides and constrains all of the other dimensions. As such, the relationship-to-profit dimension is essential for aligning business with sustainability. The theory developed in this thesis offers an explanation of how key institutional elements of business and markets drive social and ecological sustainability outcomes. A better understanding of these institutions, in turn, allows for more effective sustainability interventions.

KEYWORDS

Sustainability, Sustainable economy, Sustainable business, Institutional analysis, Systems thinking, Post-growth economy, Degrowth, Not-for-profit business

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