BOOK REVIEW

Samuel F. Mansell
Capitalism, Corporations and the Social Contract: A Critique of Stakeholder Theory
Cambridge, Cambridge University Press. 2013.

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My first impression when reading *Capitalism, Corporations and the Social Contract: A Critique of Stakeholder Theory* is that the author does more of the latter part of the title (critiquing stakeholder theory) than examining the former (capitalism and corporations). While this does not do justice to the book – that addresses very carefully and thoroughly the ethical foundations of business in a capitalist system –, Mansell's declared goal is still a "critical analysis of the consistency" (p. 3) of stakeholder theory's normative grounding. Albeit taking a critical stance toward this theory, the book is therefore situated in the vast literature on stakeholder theory, that advocates for taking into account not only shareholders' but also stakeholders' interests in the conduct of business (Donaldson & Preston, 1995; Freeman, 1984). The book, generally, contributes to the business and society literature (e.g. Carroll, 1979; Jones, 1983; Scherer & Palazzo, 2007) and, specifically, to the long-standing debate on corporate purpose (see e.g. Freeman et al., 2004; Jensen, 2002; Sundaram & Inkpen, 2004).

To do so, Mansell contrasts stakeholder (corporations should satisfy their stakeholders' interests) and shareholder (maximizing solely shareholder wealth) theories. The author spends most of the book examining stakeholder theory, though. Mansell analyzes the logical structure of stakeholder theory's "ethical claims about the proper objectives of business" (p. 17) and, in particular, the compatibility of the theory's normative foundations with those of a market economy – which stakeholder theorists seem to assume. The main finding of his analysis is that stakeholder theory is inconsistent with the ethical principles of a market economy and that therefore it has no coherent logical and normative grounding. Therefore, Mansell concludes, the purpose of business in a market economy should be to maximize shareholder wealth.

The introduction of the book places stakeholder theory in the context of its 'nemesis', shareholder theory, and provides some information on the endeavor of the book, its methodology and structure.

Chapter 2 provides a comprehensive overview of stakeholder theory, with a focus on its normative foundations. Mansell shows that despite stakeholder theory being overtly strategic (that is, provide managers with ways to ensure the long-term survival of their firms by addressing stakeholder interests), it nevertheless builds on an oftentimes tacit normative foundation: satisfying stakeholder interests as a moral duty. The author goes on to detail normative arguments that justify this position, mostly based on Rawlsian philosophy and associated notions of justice and fairness. Some stakeholder theorists apply Rawls' notion of the ‘veil of ignorance’, where stakeholders should act as if they did not know the precise stake they have in a corporation. Mansell convincingly shows that this principle does not provide normative grounds for stakeholder theory, because it fails to provide a clear alternative corporate purpose to shareholder wealth maximization.

Chapter 3 details the philosophical underpinnings of four different strands of stakeholder theory. Mansell concludes by showing that these formulations either consider the firm a sovereign power (i.e. similar to the state), or assimilate the firm to a citizen with associated rights and duties (i.e. “a legal individual, created for commercial purposes, which can own and trade property in its own right”, p. 94).

Chapter 4 moves on to describe the market economy, which, according to Mansell’s analysis, is based on the underlying notion of trade. The author carefully outlines the ethical principles of such a market economy, namely the rights to *property* and to *contract*. The author carefully shows that, for stakeholder theorists adopting the view of corporations as legal persons, the ethical principles of a market economy are not aligned with any other purpose than pursuing shareholders’ interests. If stakeholders would also invest *property* in the corporation (shareholders are the only corporate property owners according to “legal and historical evidence”, p. 100), the corporation would not be able to enter into *contracts* with stakeholders (e.g. employees, consumers, etc.) because there would be a conflict of interest – as “the property rights of the corporation and those who contract with it must be distinguishable”, p. 98.

Chapter 5, in turn, addresses the formulations of stakeholder theory that assume that the corporation can be assimilated to a sovereign power, a ‘social contract’ between stakeholders. In this view, the “corporation is not merely a commercial entity that trades with stakeholders, but is an association of *all* stakeholders united for a mutual purpose” (p. 101, emphasis in original). Mansell shows that contrary to citizens that have equal interests and ‘united will’ in granting sovereign power to the state, stakeholders do not. Because of these inconsistencies, deduces the author, this view of stakeholder theory is also not valid, as “on no grounds […] can a corporation legitimately represent in its objectives the interest of any stakeholders other than shareholders” (p. 124 – those latter have united will and equal interest as per the memorandum of association of the corporation when it was created in the first place).

Chapter 6 develops on ‘shareholder theory’ perspectives and how they refute stakeholder theory. Especially, this chapter emphasizes how different strands (consequentialist and deontological) of shareholder theory have come to the conclusion that the objective of business is to be run according to the interests of shareholders. First, running a business according to shareholder interests’ maximize the corporation’s ultimate social value, which benefit stakeholders as well. Second, proponents of shareholder theory assume that only shareholders have a say in the definition of the corporate objective because it is them who invest property in the corporation. Therefore, managers have a contractual obligation to pursue those investors’ interests (and only those).

Mansell concludes by first providing a summary of the book’s arguments and structure, and then goes on to provide a much needed background on historical notions of the state (as a parallel to the short history of the corporation provided in Chapter 4). This historical examination shows that stakeholder theory may be misaligned with the normative foundations of a market economy because the theory uses a very specific notion of the state – at least for those formulations of stakeholder theory that view the corporation as a sovereign power. The final word, as one would expect, is that, given the ethical principles of a market economy, the only coherent corporate objective is one that satisfies shareholders' interests.

Capitalism, Corporations and the Social Contract: A Critique of Stakeholder Theory is incredibly thorough in its analysis of the logical structure of stakeholder theory's normative foundations. It builds on a wide range of philosophical sources that underpin stakeholder theory or capitalist thinking, such as Kant, Hobbes or Rawls. The book, and despite Freeman's alleged tiredness of the debate on corporate purpose (p. 10), takes this debate forward in a significant manner: it goes beyond argumentation by looking at the philosophical underpinnings and logical structure of existing arguments. In fact, and even though the book is arguably set up as a critique of stakeholder theory, its main contribution for me lies in a critique of the normative groundings used by theorists of corporate purpose and corporate responsibility in a capitalist system (see also Orlitzky, 2015).

Of course, as with any academic undertaking, there are areas where I wish the author would have gone further. I understand that not all of the following points could have realistically been incorporated in the book, but let them serve as suggestions for future research. Firstly, I found the use of the term 'shareholder theory' slightly misleading. As Mansell notes in Chapter 6, there are multiple perspectives on the primacy of shareholder interests. A more fine-grained and developed analysis (and critique) of those approaches would have been welcome, to balance the very detailed critique of stakeholder theory.

Secondly, while one alternative form of organizing for business is considered in Chapter 6 ('community interest company' in the UK), I think the book would have benefited from a more thorough examination of the empirical reality of market economies and forms of corporations. The rise of partnerships, cooperatives, B-corps, 'flexible purpose corporations', and other new or renewed forms for business (see e.g. Davis 2013) challenge some of the claims of the book. Are those contemporary developments inconsistent as well with the ethical principles of a market economy? What would that mean for shareholder and stakeholder theories and their normative foundations?

Thirdly, in the same vein, while Chapter 6 provides some critique of 'shareholder theories', the economic system of today does not correspond to its conceptualization by Enlightenment thinkers or 19th (and sometimes even 20th) century philosophers anymore. As noted in the book, the separation of ownership and control and the shift to managerial capitalism (among others) challenge theses initial theorizations of market economies and corporations. In my opinion, the fact that capitalism has evolved since its original conceptualization some 300 or 400 years ago calls for a consideration of such evolution – much like Mansell does with an examination of the historical and legal evolution of the corporation (Chapter 4) or the state (in Conclusion). Assuming that the market economy can be taken as a stable construct seems a bit far stretched.

Fourth, Mansell's analysis of the market economy mostly relies on an analysis of trade based on classical economics. It seems that a market economy is not interpretable from different normative standpoints. But sociological and anthropological advances, for example, have shown alternative understandings of exchange, markets and economic systems (e.g. Graeber, 2001; Lie, 1997). While classical (and neoclassical) economics may be the dominant paradigm for understanding the economic system today, alternative paradigms have been developed and surely those diverge to some extent in terms of their underlying ethical principles (e.g. Etzioni, 1988). In short, I would have appreciated a (brief) discussion of other paradigms for understanding the ethical principles of an economic system, and how shareholder and stakeholder theories would fit such paradigms.

Finally, and relatedly, what I missed most from the book – as with quite a number of critical analyses – is the lack of clear alternatives (although the passage in Chapter 6 on legal developments in the UK addresses this point to an extent). I may be misreading the author's intentions here, but even though Mansell seems sympathetic to stakeholder theory's premise (addressing the potential negative externalities of markets and business), there are no clear statements of the author's position on that matter. It is unclear whether Mansell abides by the capitalist system, if he considers that a complete reform is needed, or if other paradigms – such as the ones mentioned above – can be conceivable and applicable.

To conclude, *Capitalism, Corporations and the Social Contract: A Critique of Stakeholder Theory* is a necessary read for scholars interested in the corporate purpose debate. I learned (and learned anew) lots about stakeholder theory specifically, and about the purpose of the corporation in market economies more generally. My opening statement that Mansell mostly critiques stakeholder theory rather than addressing capitalism, corporations or the social contract is therefore misplaced. He definitely does address those concepts – but framed as a questioning of the normative grounding of stakeholder theory. This echoes my wish to have more of the author's own perspective and what an alternative may (or may not) be. Nevertheless I applaud Mansell's fruitful attempt at taking the debate on corporate purpose forward. I hope this debate will now start looking at contemporary development of markets and corporations – so that it can move towards a middle-range theory that corresponds more closely to, as well as explain more adequately, the corporate, economic and social realities of the 21st century. It is, I think, our moral duty as thinkers to explain the world with theories that match as closely as possible the intersubjective reality we live in.

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