Capitalism, Corporations and the Social Contract

A Critique of Stakeholder Theory

In whose interests should a corporation be run? Over the last thirty years the field of 'stakeholder theory' has proposed a distinctive answer: a corporation should be run in the interests of all its primary stakeholders – including employees, customers, suppliers and financiers – without contradicting the ethical principles on which capitalism stands. This book offers a critique of this central claim. It argues that by applying the political concept of a 'social contract' to the corporation, stakeholder theory in fact undermines the principles on which a market economy is based. The argument builds upon an extensive review of the stakeholder literature and an analysis of its philosophical foundations, particularly concerning the social contract tradition of John Rawls and his predecessors. The book concludes by offering a qualified version of Milton Friedman's shareholder theory as a more justifiable account of the purpose of a corporation.

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Foreword

A new story about business and capitalism has emerged in the last thirty years. The bare bones of this story are that every business has a set of stakeholders: groups and individuals who can affect or be affected by the purpose and operations of the business. For a business to be successful it must pay attention to these stakeholders, and ultimately it must create value for them, though sometimes value is in fact destroyed. Also, the new narrative embraces the view that human beings are complex creatures who sometimes act in their self-interest and sometimes act in regard to others. The new story eschews imputing a singular motivation to all human activity in business. Capitalism itself is essentially a system of social cooperation whereby we create and trade value together. No one of us could accomplish alone what our businesses and their stakeholders are able to create together.

This story has developed as a counterpoint to the standard modern-day narrative of capitalism as a system whose only concern is the generation of profits for owners or shareholders, and as a system that is based on greed, money and self-interest. All too often in today's post-financial-crisis world, we see more and more evidence of the power of this dominant narrative.

As "stakeholder theory" (as this new narrative has come to be called) has developed, there have been a number of variations on it, each with somewhat different assumptions, framings, and claims. The time is ripe for a more critical analysis of these theories.

Sam Mansell has produced a fine critical analysis of stakeholder theory. He is both a skeptical and a sympathetic critic, a difficult road to follow, yet the results are a fine example of how to give the best possible interpretation of a position before one begins to criticize it. More importantly, he does not examine the claims of stakeholder theory only from the standpoint of the standard narrative, where they are bound to come up short, and in error. Rather, he wonders whether stakeholder theory goes far enough both as a way to understand business practice and as an analysis of how business practice and theory need to change.

As one of many authors of this new narrative about business, I cannot pretend to be an uninterested bystander. Much of this book is critical of positions that I have held and continue to advocate. However, Mansell's critique has the potential to make stakeholder theory better and stronger. And the scholarly life demands that we pay sharp attention to our critics, to advance our knowledge in general and business practice in particular.

My hope is that this book will be one of many more to come that will help up develop a better version of stakeholder theory and continue to make business and capitalism a system of value creation and trade that is truly fit for human beings.

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