2

A Stakeholder Theory of the Modern Corporation: Kantian Capitalism

William M. Evan and R. Edward Freeman

I. INTRODUCTION

> Corporations have ceased to be merely legal devices through which the private business transactions of individuals may be carried on. Though still much used for this purpose, the corporate form has acquired a larger significance. The corporation has, in fact, become both a method of property tenure and a means of organizing economic life. Grown to tremendous proportions, there may be said to have evolved a "corporate system"—which has attracted to itself a combination of attributes and powers, and has attained a degree of prominence entitling it to be dealt with as a major social institution.[1]

Despite these prophetic words of Berle and Means (1932), scholars and managers alike continue to hold sacred the view that managers bear a special relationship to the stockholders in the firm. Since stockholders own shares in the firm, they have certain rights and privileges, which must be granted to them by management, as well as others. Since the greatest good of all results from the self-interested pursuit of business, managers must be free to respond quickly to market forces. Sanctions, in the form of "the law of corporations," and other protective mechanisms in the form of social custom, accepted management practice, myth, and ritual, serve to reinforce the assumption of the primacy of the stockholder.

The purpose of this paper is to pose several challenges to this assumption, from within the framework of managerial capitalism, and to suggest the bare bones of an alternative theory, *a stakeholder theory of the modern corporation.* We do not seek the demise of the modern corporation, either intellectually or in fact. Rather, we seek its transformation. In the words of Neurath, we shall attempt to "rebuild the ship, plank by plank, while it remains afloat."[2]

Our thesis is that we can revitalize the concept of managerial capitalism by replacing the notion that managers have a duty to stockholders with the concept that managers bear a fiduciary relationship to stakeholders. Stakeholders are those groups who have a stake in or claim on the firm. Specifically we include suppliers, customers, employees, stockholders, and the local community, as well as management in its role as agent for these groups. We argue that the legal, economic, political, and moral challenges to the currently received theory of the firm, as a nexus of contracts among the owners of the factors of production and customers, require us to revise this concept along essentially Kantian lines. That is, each of these stakeholder groups has a right not to be treated as a means to some end, and therefore must participate in determining the future direction of the firm in which they have a stake.[3] . . .

The crux of our argument is that we must reconceptualize the firm around the following question: For whose benefit and at whose expense should the firm be managed? We shall set forth such a reconceptualization in the form of a *stakeholder theory of the firm.* Fi-

---

nally, we shall critically examine the stakeholder view and its implications for the future of the capitalist system.

II. THE ATTACK ON MANAGERIAL CAPITALISM

The Legal Argument

The law of corporations gives a relatively clear-cut answer to the question: In whose interest and for whose benefit should the modern corporation be governed? It says that the corporation should be run in the interests of the stockholders in the firm. Directors and other officers of the firm have a fiduciary obligation to stockholders in the sense that the "affairs of the corporation" must be conducted in the interests of the stockholders. And stockholders can theoretically bring suit against those directors and managers for doing otherwise. It says further that the corporation exists "in contemplation of the law," has personality as a "legal person," limited liability for its actions, and immortality, as its existence transcends that of its members.[4]

The basic idea of managerial capitalism is that in return for controlling the firm, management vigorously pursues the interests of stockholders. Since the corporation is a legal person, existing in contemplation of the law, managers of the corporation are constrained by law. Until recently there was no constraint at all. In this century, . . . the law has evolved to effectively constrain the pursuit of stockholder interests at the expense of other claimants on the firm. It has, in effect, guaranteed that the claims of customers, suppliers, local communities, and employees are in general subordinated to the claims of stockholders. . . .

Central to the managerial view of the firm is that management can pursue market transactions with suppliers and customers in an unconstrained manner.[5] The existence of marketplace forces will insure that fair prices for goods will be taken. This supplier-firm-customer chain has been constrained by a number of legislative and judicial acts. The doctrine of "privity of contract," as articulated in *Winterbottom* v. *Wright* in 1842, has been eroded by the developments in products liability law. Indeed, *Greenman* v. *Yuba Power* gives the manufacturer strict liability for damage caused by its products, even though the seller has exercised all possible care in the preparation and sale of the product and the consumer has not bought the product from nor entered into any contractual arrangement with the seller. Caveat emptor has been replaced, in large part, with caveat venditor.[6] The Consumer Product Safety Commission has the power to enact product recalls, and in 1980 one U.S. automobile company recalled more cars than it built. . . . Some industries are required to provide information to customers about a product's ingredients, whether or not the customers want and are willing to pay for this information.[7]

The supplier-firm-customer chain is far from that visualized by managerial capitalism. Firms, in their roles as customers and suppliers of other firms, have benefitted from these constraints, and they have been harmed to the degree to which the constraints have meant loss of profit. However, we can say that management is not allowed to pursue the interests of stockholders at the expense of customers and suppliers.

The same argument is applicable to management's dealings with employees. The National Labor Relations Act gave employees the right to unionize and to bargain in good faith. It set up the National Labor Relations Board to enforce these rights with management. The Equal Pay Act of 1963 and Title VII of the Civil Rights Act of 1964 constrain management from discrimination in hiring practices; these have been followed with the Age Discrimination in Employment Act of 1967.[8] The emergence of a body of administrative case law arising from labor-management disputes and the historic settling of discrimination claims with large employers such as AT&T have caused the emergence of a body of practice in the corporation that is consistent with the legal guarantee of the rights of the employees. . . . The law has protected the due process rights of those employees who enter into collective bargaining agreements with management. As of the present, however, only 30 percent of the labor force are participating in such agreements; this has prompted one labor law scholar to propose a statutory law prohibiting dismissals of the 70 percent of the work force not protected.[9] . . .

The law has also protected the interests of local communities. The Clean Air Act and Clean Water Act have constrained management from "spoiling the commons." In an historic case, *Marsh* v. *Alabama,* the Supreme Court ruled that a company-owned town was subject to the provisions of the U.S. Constitution, thereby guaranteeing the rights of local citizens and negating the "property rights" of the firm. Some states and municipalities have gone further and passed laws preventing firms from moving plants or constraining when and how plants can be closed, and there is much current legal activity in this area to constrain management's pursuit of stockholders' interests at the expense of the local communities in which the firm operates. . . .

We have argued that the result of such changes in the legal system can be viewed as giving some rights to those groups that have a claim on the firm, for example, customers, suppliers, employees, local communities, stockholders, and management. It raises the question, at the core of a theory of the firm: In whose interest and for whose benefit should the firm be managed? The answer proposed by managerial capitalism is clearly "the stockholders," and we have argued that the law has been progressively circumscribing this answer.

The Economic Argument

In its pure ideological form managerial capitalism seeks to maximize the interests of stockholders. In its perennial criticism of government regulation, management espouses the "invisible hand" doctrine. It contends that it creates the greatest good for the greatest number, and therefore government need not intervene. However, we know that externalities, moral hazards, and monopoly power exist in fact, whether or not they exist in theory. Further, some of the legal apparatus mentioned above has evolved to deal with just these issues.

The problem of the "tragedy of the commons" or the free-rider problem pervades the concept of public goods such as water and air. No one has an incentive to incur the cost of clean-up or the cost of nonpollution, since the marginal gain of one firm's action is small. Every firm reasons this way, and the result is pollution of water and air. Since the industrial revolution, firms have sought to internalize the benefits and externalize the costs of their actions. The cost must be borne by all, through taxation and regulation; hence we have the emergence of the environmental regulations of the 1970s.

Similarly, moral hazards arise when the purchaser of a good or service can pass along the cost of that good. There is no incentive to economize, on the part of either the producer or the consumer, and there is excessive use of the resources involved. The institutionalized practice of third-party payment in health care is a prime example.

Finally, we see the avoidance of competitive behavior on the part of firms, each seeking to monopolize a small portion of the market and not compete with one another. In a number of industries, oligopolies have emerged, and while there is questionable evidence that oligopolies are not the most efficient corporate form in some industries, suffice it to say that the potential for abuse of market power has again led to regulation of managerial activity. In the classic case, AT&T, arguably one of the great technological and managerial achievements of the century, was broken up into eight separate companies to prevent its abuse of monopoly power.

Externalities, moral hazards, and monopoly power have led to more external control on managerial capitalism. There are de facto constraints, due to these economic facts of life, on the ability of management to act in the interests of stockholders. . . .

III. A STAKEHOLDER THEORY OF THE FIRM

Foundations of a Theory

. . . Arguments that question the legitimacy of the modern corporation based on excessive corporate power usually hold that the corporation has no right to rule for its constituents. Each person has the right to be treated, not as a means to some corporate end, but as an end in itself. If the modern corporation insists on treating others as means to an end, then at minimum they must agree to and hence participate (or choose not to participate) in the decisions to be used as such. If our theory does not require an understanding of the rights of those parties affected by the corporation, then it will run afoul of our judgments about rights. Thus, property rights are not absolute, especially when they conflict with important rights of others. The right to property does not yield the right to treat others as means to an end. Property rights are not a license to ignore Kant's principle of respect for persons. Any theory of the modern corporation that is consistent with our considered moral judgments must recognize that property rights are not absolute.

Arguments that question the legitimacy of the modern corporation based on externalities or harm usually hold that the corporation is accountable for the consequences of its actions. Persons are responsible for the consequences of their actions through the corporation, even if those actions are mediated. Any theory that seeks to justify the corporate form must be based partially on the idea that the corporation and its managers as moral agents can be the cause of and be held accountable for the consequences of their actions.

In line with these two themes of rights and effects, . . . we suggest two principles that will serve as working rules, not absolutes, to guide us in addressing some of the foundational issues. We will not settle the thorny issues that these principles raise, but merely argue that any theory, including the stakeholder theory, must be consistent with these principles.

Principle of Corporate Rights (PCR): The corporation and its managers may not violate the legitimate rights of others to determine their own future.

Principle of Corporate Effects (PCE): The corporation and its managers are responsible for the effects of their actions on others.

. . . .

The Stakeholder Concept

Corporations have stakeholders, that is, groups and individuals who benefit from or are harmed by, and whose rights are violated or respected by, corporate actions. The notion of stakeholder is built around the Principle of Corporate Rights (PCR) and the Principle of Corporate Effect (PCE). . . . The concept of stakeholders is a generalization of the notion of stockholders, who themselves have some special claim on the firm. Just as stockholders have a right to certain actions by management, so do other stakeholders have a right to their claim. The exact nature of these claims is a difficult question that we shall address, but the logic is identical to that of the stockholder theory. Stakes require action of a certain sort, and conflicting stakes require methods of resolution. . . .

Freeman and Reed (1983)[10] distinguish two senses of *stakeholder*. The "narrow definition" includes those groups who are vital to the survival and success of the corporation. The "wide definition" includes any group or individual who can affect or is affected by the corporation. While the wide definition is more in keeping with (PCE) and (PCR), it

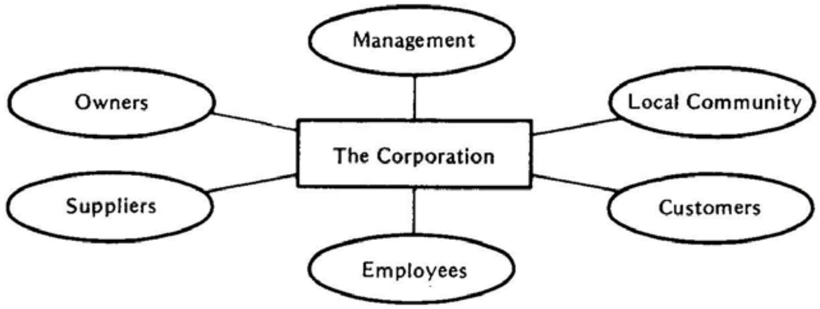

FIGURE 1. A Stakeholder Model of the Corporation.

raises too many difficult issues. We shall begin with a more modest aim: to articulate a stakeholder theory using the narrow definition.

Stakeholders in the Modern Corporation

Figure 1 depicts the stakeholders in a typical large corporation. The stakes of each are reciprocal, since each can affect the other in terms of harms and benefits as well as rights and duties. The stakes of each are not univocal and would vary by particular corporation. We merely set forth some general notions that seem to be common to many large firms.

Owners have some financial stake in the form of stocks, bonds, and so on, and expect some kind of financial return. Either they have given money directly to the firm, or they have some historical claim made through a series of morally justified exchanges. The firm affects their livelihood or, if a substantial portion of their retirement income is in stocks or bonds, their ability to care for themselves when they can no longer work. Of course, the stakes of owners will differ by type of owner, preferences for money, moral preferences, and so on, as well as by type of firm. The owners of AT&T are quite different from the owners of Ford Motor Company, with stock of the former company being widely dispersed among 3 million stockholders and that of the latter being held by a small family group, as well as a large group of public stockholders.

Employees have their jobs and usually their livelihood at stake; they often have specialized skills for which there is usually no perfectly elastic market. In return for their labor, they expect some security, wages, and benefits, and meaningful work. Where they are used as means to an end, they must participate in decisions affecting such use. In return for their loyalty, the corporation is expected to provide for them and carry them through difficult times. Employees are expected to follow the instructions of management most of the time, to speak favorably about the company, and to be responsible citizens in the local communities in which the company operates. The evidence that such policies and values as described here lead to productive company-employee relationships is compelling. It is equally compelling to realize that the opportunities for "bad faith" on the part of both management and employees are enormous. "Mock participation" in quality circles, singing the company song, and wearing the company uniform solely to please management, as well as management by authoritarian supervisors, all lead to distrust and unproductive work.

Suppliers, interpreted in a stakeholder sense, are vital to the success of the firm, for raw materials will determine the final product quality and price. In turn the firm is a customer of the supplier and is therefore vital to the success and survival of the supplier. When the firm treats the supplier as a valued member of the stakeholder network, rather than simply as a source of materials, the supplier will respond when the firm is in need. Chrysler traditionally had very close ties to its suppliers, even to the extent that led some to suspect the transfer of illegal payments. And when Chrysler was on the brink of disaster, the suppliers responded with price cuts, accepting late payments, financing, and so on. Supplier and company can rise and fall together. Of course, again, the particular supplier relationships will depend on a number of variables such as the number of suppliers and whether the supplies are finished goods or raw materials.

Customers exchange resources for the products of the firm and in return receive the benefits of the products. Customers provide the lifeblood of the firm in the form of revenue. Given the level of reinvestment of earnings in large corporations, customers indirectly pay for the development of new products and services. Peters and Waterman (1982)[11] have argued that being close to the customer leads to success with other stakeholders and that a distinguishing characteristic of some companies that have performed well is their emphasis on the customer. By paying attention to customers' needs, management automatically addresses the needs of suppliers and owners. Moreover, it seems that the ethic of customer service carries over to the community. Almost without fail the "excellent companies" in Peters and Waterman's study have good reputations in the community. We would argue that Peters and Waterman have found multiple applications of Kant's dictum, "Treat persons as ends unto themselves," and it should come as no surprise that persons respond to such respectful treatment, be they customers, suppliers, owners, employees, or members of the local community. The real surprise is the novelty of the application of Kant's rule in a theory of good management practice.

The local community grants the firm the right to build facilities and benefits from the tax base and economic and social contributions of the firm. In return for the provision of local services, the firm is expected to be a good citizen, as is any person, either "natural or artificial." The firm cannot expose the community to unreasonable hazards in the form of pollution, toxic waste, and so on. If for some reason the firm must leave a community, it is expected to work with local leaders to make the transition as smooth as possible. Of course, the firm does not have perfect knowledge, but when it discovers some danger or runs afoul of new competition, it is expected to inform the local community and to work with the community to overcome any problem. When the firm mismanages its relationship with the local community, it is in the same position as a citizen who commits a crime. It has violated the implicit social contract with the community and should expect to be distrusted and ostracized. It should not be surprised when punitive measures are invoked.

We have not included "competitors" as stakeholders in the narrow sense, since strictly speaking they are not necessary for the survival and success of the firm; the stakeholder theory works equally well in monopoly contexts. However, competitors and government would be the first to be included in an extension of this basic theory. It is simply not true that the interests of competitors in an industry are always in conflict. There is no reason why trade associations and other multi-organizational groups cannot band together to solve common problems that have little to do with how to restrain trade. Implementation of stakeholder management principles, in the long run, mitigates the need for industrial policy and an increasing role for government intervention and regulation.

The Role of Management

Management plays a special role, for it too has a stake in the fiction that is the modern corporation. On the one hand, management's stake is like that of employees, with some kind of explicit or implicit employment contract. But, on the other hand, management has a duty of safeguarding the welfare of the abstract entity that is the corporation, which can override a stake as employee. In short, management, especially top management, must look after the health of the corporation, and this involves balancing the multiple claims of conflicting stakeholders. Owners want more financial returns, while customers want more money spent on research and development. Employees want higher wages and better benefits, while the local community wants better parks and day-care facilities.

The task of management in today's corporation is akin to that of King Solomon. The stakeholder theory does not give primacy to one stakeholder group over another, though there will surely be times when one group will benefit at the expense of others. In general, however, management must keep the relationships among stakeholders in balance. When these relationships become unbalanced, the survival of the firm is in jeopardy.

When wages are too high and product quality is too low, customers leave, suppliers suffer, and owners sell their stocks and bonds, depressing the stock price and making it difficult to raise new capital at favorable rates. Note, however, that the reason for paying returns to owners is not that they "own" the firm, but that their support is necessary for the survival of the firm, and that they have a legitimate claim on the firm. Similar reasoning applies in turn to each stakeholder group.

A stakeholder theory of the firm must redefine the purpose of the firm. The stockholder theory claims that the purpose of the firm is to maximize the welfare of the stockholders, perhaps subject to some moral or social constraints, either because such maximization leads to the greatest good or because of property rights. The purpose of the firm is quite different in our view. If a stakeholder theory is to be consistent with the principles of corporate effects and rights, then its purpose must take into account Kant's dictum of respect for persons. The very purpose of the firm is, in our view, to serve as a vehicle for coordinating stakeholder interests. It is through the firm that each stakeholder group makes itself better off through voluntary exchanges. The corporation serves at the pleasure of its stakeholders, and none may be used as a means to the ends of another without full rights of participation in that decision. We can crystallize the particular applications of PCR and PCE to the stakeholder theory in two further principles. These stakeholder management principles will serve as a foundation for articulating the theory. They are guiding ideals for the immortal corporation as it endures through generations of particular mortal stakeholders.

Stakeholder Management Principles

P1: The corporation should be managed for the benefit of its stakeholders: its customers, suppliers, owners, employees, and local communities. The rights of these groups must be ensured, and, further, the groups must participate, in some sense, in decisions that substantially affect their welfare.

P2: Management bears a fiduciary relationship to stakeholders and to the corporation as an abstract entity. It must act in the interests of the stakeholders as their agent, and it must act in the interests of the corporation to ensure the survival of the firm, safeguarding the long-term stakes of each group.

P1, which we might call The Principle of Corporate Legitimacy, redefines the purpose of the firm to be in line with the principles of corporate effects and rights. It implies the legitimacy of stakeholder claims on the firm. Any social contract that justifies the existence of the corporate form includes the notion that stakeholders are a party to that contract. Further, stakeholders have some inalienable rights to participate in decisions that substantially affect their welfare or involve their being used as a means to another's ends. We bring to bear our arguments for the incoherence of the stockholder view as justification for P1. If in fact there is no good reason for the stockholder theory, and if in fact there are harms, benefits, and rights of stakeholders involved in running the modern corporation, then we know of no other starting point for a theory of the corporation than P1.

P2, which we might call The Stakeholder Fiduciary Principle, explicitly defines the duty of management to recognize these claims. It will not always be possible to meet all claims of all stakeholders all the time, since some of these claims will conflict. Here P2 recognizes the duty of management to act in the long-term best interests of the corporation, conceived as a forum of stakeholder interaction, when the interests of the group outweigh the interests of the individual parties to the collective contract. The duty described in P2 is a fiduciary duty, yet it does not suffer from the difficulties surrounding the fiduciary duty to stockholders, for the conflicts involved there are precisely those that P2 makes it mandatory for management to resolve. Of course, P2 gives no instructions for a magical resolution of the conflicts that arise from prima facie obligations to multiple parties. An analysis of such rules for decision making is a subject to be addressed on another occasion, but P2 does give these conflicts a legitimacy that they do not enjoy in the stockholder theory. It gives management a clear and distinct directive to pay attention to stakeholder claims.

P1 and P2 recognize the eventual need for changes in the law of corporations and other governance mechanisms if the stakeholder theory is to be put into practice. P1 and P2, if implemented as a major innovation in the structure of the corporation, will make manifest the eventual legal institutionalization of sanctions. . . .

Structural Mechanisms

We propose several structural mechanisms to make a stakeholder management conception practicable. We shall offer a sketch of these here and say little by way of argument for them.

1. *The Stakeholder Board of Directors.* We propose that every corporation of a certain size yet to be determined, but surely all those that are publicly traded or are of the size of those publicly traded, form a Board of Directors comprised of representatives of five stakeholder groups, including employees, customers, suppliers, stockholders, and members of the local community, as well as a representative of the corporation, whom we might call a "metaphysical director" since he or she would be responsible for the metaphysical entity that is "the corporation." Whether or not each representative has an equal voting right is a matter that can be decided by experimentation; issues of governance lend themselves naturally to both laboratory and organizational experiments.

These directors will be vested with the duty of care to manage the affairs of the corporation in concert with the interests of its stakeholders. Such a Board would ensure that the rights of each group would have a forum, and by involving a director for the corporation, would ensure that the corporation itself would not be unduly harmed for the benefit of a particular group. In addition, by vesting each director with the duty of care for all stakeholders, we ensure that positive resolutions of conflicts would occur. While options such as "stakeholder derivative suits" would naturally evolve under the law of corporations as revised, we are not sanguine about their effectiveness and prefer the workings of the political process, as inefficient as it may be. Therefore, representatives of each stakeholder group would be elected from a "stakeholder assembly" who would initially meet to adopt working rules, charters, and so on, and whose sole purpose would be to elect and recall representatives to corporate boards. The task of the metaphysical director, to be elected unanimously by the stakeholder representatives, is especially important. The fact that the director has no direct constituency would appear to enhance management control. However nothing could be further from the truth. To represent the abstract entity that is the corporation would be a most demanding job. Our metaphysical director would be responsible for convincing both stakeholders and management that a certain course of action was in the interests of the long-term health of the corporation, especially when that action implies the sacrifice of the interests of all. The metaphysical director would be key link between the stakeholder representatives and management, and would spearhead the drive to protect the norms of the interests of all stakeholders.

2. *The Stakeholder Bill of Rights.* Each stakeholder group would have the right to elect representatives and to recall representatives to boards. Whether this is done on a corporation-by-corporation, an industry-by-industry, or a country-by-country basis is a matter for further discussion. Each stakeholder group would have the right to free speech, the right to grievance procedures inside the corporation and if necessary in the courts, the right to civil disobedience, and other basic political rights.

3. *The Management Bill of Rights.* Management would have the right to act on its fiduciary duty, as interpreted and constrained by the Board and the courts, the right to safeguard innovation and research and development, the right to free speech, grievance procedures, civil disobedience, and so on.

Both Bills of Rights merely recognize the fact that organizational life is pervasive in our society. If we are not to become what Orwell envisioned, then our organizations must guarantee those basic political freedoms, even at the cost of economic efficiency. If organizational members are to find meaningful work by participating actively in the modern corporation, then we must ensure that the principles of Jeffersonian democracy are safeguarded.

4. *Corporate Law.* The law of corporations needs to be redefined to recognize the legitimate purpose of the corporation as stated in P1. This has in fact developed in some areas of the law, such as products liability, where the claims of customers to safe products has emerged, and labor law, where the claims of employees have been safeguarded. Indeed, in such pioneering cases as *Marsh* v. *Alabama* the courts have come close to a stakeholder perspective. We envision that a body of case law will emerge to give meaning to "the proper claims of stakeholders," and in effect that the "wisdom of Solomon" necessary to make the stakeholder theory work will emerge naturally through the joint action of the courts, stakeholders, and management.

While much of the above may seem utopian, there are some very practical transitional steps that could occur. Each large corporation could form a stakeholder advisory board, which would prepare a charter detailing how the organization is to treat the claims of each stakeholder. Initially this stakeholder advisory board would serve as an advisor to the current board of directors, and eventually it would replace that board. Simultaneously, a group of legal scholars and practitioners, such as the American Law Institute, could initiate discussion of the legal proposals and methods to change corporate charters, while business groups such as the Business Roundtable could examine the practical consequences of our proposals. Given the emergence of some consensus, we believe that a workable transition can be found. . . .

NOTES

1. Cf. A. Berle and G. Means, *The Modern Corporation and Private Property* (New York: Commerce Clearing House, 1932), 1. For a reassessment of Berle and Means' argument after 50 years, see *Journal of Law and Economics* 26 (June 1983), especially G. Stigler and C. Friedland, "The Literature of Economics: The Case of Berle and Means," 237–68; D. North, "Comment on Stigler and Friedland," 269–72; and G. Means, "Corporate Power in the Marketplace," 467–85.
2. The metaphor of rebuilding the ship while afloat is attributed to Neurath by W. Quine, *Word and Object* (Cambridge: Harvard University Press, 1960), and W. Quine and J. Ullian, *The Web of Belief* (New York: Random House, 1978). The point is that to keep the ship afloat during repairs we must replace a plank with one that will do a better job. Our argument is that Kantian capitalism can so replace the current version of managerial capitalism.
3. Kant's notion of respect for persons (i.e., that each person has a right not to be treated as a means to an end) can be be found in I. Kant, *Critique of Practical Reason* (1838 edition). See J. Rawls, *A Theory of Justice* (Cambridge: Har-

vard University Press, 1971) for an eloquent modern interpretation.

4. For an introduction to the law of corporations see A. Conard, *Corporations in Perspective* (Mineola, NY: The Foundation Press, 1976), especially section 19; and R. Hamilton, *Corporations* (St. Paul: West Publishing, 1981), Chapter eight.
5. For a modern statement of managerial capitalism, see the literature in managerial economics, for example R. Coase, "The Nature of the Firm," *Economica* 4 (1937): 386–405; M. Jensen and W. Meckling, "Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure," *Journal of Financial Economics* 3 (1976): 305–60; and O. Williamson, *The Economics of Discretionary Behavior* (London: Kershaw Publishing, 1965).
6. See R. Charan and E. Freeman, "Planning for the Business Environment of the 1980s," *The Journal of Business Strategy* 1 (1980): 9–19, especially p. 15 for a brief account of the major developments in products liability law.
7. See S. Breyer, *Regulation and its Reform* (Cambridge: Harvard University Press, 1983), 133 for an analysis of food additives.
8. See I. Millstein and S. Katsh, *The Limits of Corporate Power* (New York: Macmillan, 1981), Chapter four.
9. Cf. C. Summers, "Protecting All Employees Against UnJust Dismissal," *Harvard Business Review* 58 (1980): 136 for a careful statement of the argument.
10. See E. Freeman and D. Reed, "Stockholders and Stakeholders: A New Perspective on Corporate Governance," in C. Huizinga, ed., *Corporate Governance: A Definitive Exploration of the Issues* (Los Angeles: UCLA Extension Press, 1983).
11. See T. Peters and R. Waterman, *In Search of Excellence* (New York: Harper and Row, 1982).