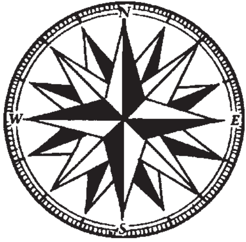

Book Reviews

***Prosperity: Better Business Makes the Greater Good*, by Colin Mayer. Oxford: Oxford University Press, 2018. 288 pp.**

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According to Colin Mayer's *Prosperity,* every enterprise should be owned, governed, and managed with a coherent sense of purpose. Working from international and historical examples, this interdisciplinary monograph advances the cause of idiosyncratic value by rethinking the legal and financial aspects of business.

Given the scope of the ethical challenges faced by the financial sector, more contact is needed between the fields of financial theory and business ethics. As such, Mayer's contribution is particularly welcome. Its ten chapters deal with principles (chapter 1), purposes (2), and values more widely within the firm; the history (3) and ownership (4) of the corporation; the governance of the firm (5) and measurement of its performance (6); the legal (7) and regulatory (8) environment in which firms operate; and the financial (9) and investment (10) processes that strengthen or undermine corporate purposes. A confusing preface introduces the book and a helpful postscript concludes it.

In lieu of a foundational principle like shareholder primacy or stakeholder fairness, Mayer proposes "purpose primacy" (230). Purposes are "value propositions" (109) that define performance: "Until one knows what the corporation set out to do, one has nothing to say about how well it has done" (7). Contrary to financial theorists who view comparability as the hallmark of capital markets (see Hsieh 2007), Mayer sees overemphasized financial performance as derailing the sense of purpose that founders, employees, and investors bring to an organization.

Many scholars recognize the wide diversity of firms, but *Prosperity* celebrates this distinctiveness in a new way. Gone are boilerplate articles of incorporation and cut-and-paste ethics statements. Instead, Mayer contends that a firm's specific purpose should be baked into its governance and ownership structures, its management practices, and the way that it is regulated.

The sense of purpose that Mayer extols does not prescribe any particular ends, but some means are proscribed. Mayer's version of the harm principle prohibits capital depletion and capital offsetting, suggesting that a firm cannot deplete natural or social capital to enhance financial capital (133–4). The argument is an interesting application of the triple-bottom-line approach. It is helpful that, relative to full cost accounting, non-depletion can be accomplished without ascribing a numerical value

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to incommensurable forms of capital (139–40). This argument for non-depletion overlaps with what I have called "object stewardship," (Burg 2018, 64). Mayer's formulation is useful because it integrates well with established accounting procedures.

In promoting this pluralistic definition of firm capitalization, Mayer sets up a key aspect of his critique of the Friedman doctrine. Historically, shareholders stood in partnership with other stakeholders; then agency-based approaches to corporate governance came to dominate and began to exaggerate owners' importance. While financial capital might once have been in short supply, Mayer claims that we are in a new phase of financial history. Financial capital is less scarce than it used to be, particularly in comparison with natural and social capital, which are increasingly depleted (203). Short-term ownership worsens conflicts both among shareholders and between shareholders and other stakeholders (103, 162). A sense of purpose may help to adjudicate competing claims on organizational resources.

"Purpose" is a generic concept that does a lot of work in *Prosperity*. Mayer views firms as evolved economic systems that encapsulate individual contributions to common projects. A firm's purposes exceed what any individual can accomplish, but collaboration comes at the expense of agency: "Once voluntarily adopting the corporate form, the providers of its capital are trapped in an embrace from which there is no escape" (49). Purposiveness establishes and maintains the fragile alliances upon which corporate commitments depend.

Despite an interesting account of interdependence and the importance of commitment, Mayer's purpose argument is fragmented and reliant on an obscure biological metaphor (algae and foraminifera symbiosis). Mayer seems unaware of the stakeholder fairness arguments that run in the same direction, and focuses instead on a practical claim that purpose primacy is better able to establish and maintain trust so that corporations can sustain commitments. Such an argument can only be tested with practice.

While purpose primacy is among *Prosperity*'s more novel contributions, the application of this argument to corporate governance shows the book's more radical program. The defense of an unequal distribution of shareholder power exemplifies this radicalism.

Mayer lauds family ownership (90), dual class shares (90–1, 125), the history of local capital markets in England (92), the history of family governance in Japan (96), industrial trusts (162), boards that appoint trustees to protect a firm's mission (161–2), and ownership by employee pension schemes (192). Generalizing across these examples, Mayer favors modes of investment and governance that utilize interpersonal norms and organizational commitments and disfavors anonymous, short-term market relations.

Mayer may be justified in preferring the close social relations of embedded ownership structures to the status quo standard of anonymous shareholding. Individual investors' subtle moral priorities are often drowned out by institutional intermediation. In comparison, legacy blockholders are demonstrably more capable of sustaining a dialogue with management and governing for the long term. Nevertheless, agency and democratic theorists have reason to question Mayer's defense of unequal voting rights.

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The concern in agency theory is that principals with diminished control rights will be unable to organize in order to protect their interests with respect to the shares that they hold. In Google, for example, where some shares give ten votes each, others give one, and others have no votes at all, one might worry that the owners of non-voting shares will be subject to the idiosyncratic preferences of the owners of voting and super-voting shares. Mayer is aware of the risk that control rights will be used to expropriate resources from minority shareholders, a risk that is exacerbated by the hybrid forms that he discusses (91). He nevertheless concludes that these arrangements are often necessary to sustain and enhance a firm's idiosyncratic value.

While Mayer has little to say about property-based accounts of owners' rights, he makes some provocative claims about owners' responsibilities: "ownership involves committing to, not controlling, entrepreneurship and innovation" (90). On this account, the moral status of an owner is partially determined by that owner's commitment to a firm's purpose.

This is where I see *Prosperity*'s argument as being the most compelling. Owners who are committed to firms that are, in turn, committed to meaningful pursuits have a special moral status. They secure a moral claim to their just deserts by having earned them, by having helped to accomplish something that they did on purpose without depleting resources in the process. Being purposeful invites innovation through specialization in capital provision, management, and business strategy. In contrast, firms without a specific sense of purpose are less capable of accomplishing anything because they do not know what they are trying to do: "Vacuous statements of values create a vacuum in social contracts that companies cannot credibly fill" (187). Most corporate governance is generic corporate governance, so the suggestion that generic corporate governance cannot generate effective norms is a serious critique of the status quo.

Mayer attributes a significant range of business mismanagement and environmental misconduct to the governance function and the profit motive. He suggests that purposive businesses should decide how to be owned with care, given these risks and also the opportunities that are being missed. Mayer makes reference to a striking number of cases where industrial trusts and founding families have stewarded the value of the firms that they govern, countering the agency theory critique.

The democratic critique of Mayer's proposal is more serious. In this age of elite power, mass inequality, and rising political authoritarianism, granting outsized control to blockholders involves a further concentration of power within the corporate governance system. For Mayer, corporations are "inhumane because we have taken humans and humanity out . . . and replaced them with anonymous markets and shareholders over whom we have no control" (45). I understand the mechanisms of social control that Mayer trusts, but I wonder how smoothly this machinery can function when the blockholders wield the political influence of the Walton, Koch, or Mars families.

I do grant the claim, though, that financial relationships within publicly traded firms have tended to level these firms' purposes and mute their moral distinctiveness. Long-term planning, environmental stewardship, and effective management have suffered as a consequence. Perhaps Mayer is right that many firms should

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be governed like non-profits with self-appointing boards to buttress the firm, its stakeholders, and its managers from excessive short-termism.

If elites can be entrusted with a firm's purposes, as they were when it was founded, they promise to have a greater capacity to support innovation than anonymous market processes. Just as we mock Soviet artistic expression that was designed by committee, so, too, might we doubt that decentralized, anonymous, and ephemeral owners are capable of the integrity and expressive depth required to uphold important corporate commitments.

The need to uphold commitments ranges beyond the dynamics of relationships with owners. In the penultimate chapter, Mayer takes on the challenge of explaining how investments in infrastructure can be improved or sustained more reliably. Mayer's answer is consistent with his argument throughout the text: trust facilitates collaborative relationships that make credible commitments on all sides. For example, when political bodies agree to terms with private businesses such that these businesses make significant public investments with the promise of future returns, the government needs to find ways to ensure that the terms of that commitment are upheld. Mayer goes so far as to propose that the distinction between the purposes of business and state be abolished because their purposes overlap. The state alone cannot guide firms' purposes through the law, and important aspects of public goods provision cannot be addressed without states and firms working in concert.

I would like to have seen more emphasis placed on transparency as a key feature of public-private partnerships, but the coverage in Mayer's argument is balanced by other important considerations. For instance, Mayer observes that states' eagerness to privatize public assets has been promoted by a public accounting error—a failure to value the public sector capital and its functioning in society. The book includes a number of insightful observations of this sort. In critical chapters on investment and finance, Mayer carefully deconstructs the tax incentives that have made firms so eager to receive loans rather than investments, which have also shaped the leverage that banks take on. Once again, Mayer deals with these issues by proposing a focus on purposes. He contends that regulators should focus on the function of financial markets, applying the same regulatory spirit to activities in shadow banking and publicly insured banks when their functional roles overlap.

That the argument in *Prosperity* is thin on some literatures can be forgiven, provided that it achieves sufficient novelty in other areas. One area where it does so is stakeholder theory. Some aspects of the text are sympathetic to stakeholders. Mayer explains that "the purpose of the corporation is to do things that address the problems confronting us as customers and communities, suppliers and shareholders, employees and retirees" (40). Elsewhere, Mayer views stakeholders as a hindrance: "the corporation is capable of delivering substantial benefits to its customers and communities" provided that it is "freed from the shackles of particular interest groups, be they shareholders, employees, or governments" (4). Late in the book, Mayer provides an example of this through the innovation of mobile money as a payment platform in Kenya (177–8), an innovation that would not have been possible if the emergent platform had been shackled with excessive regulation.

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If purpose primacy can be squared with stakeholder theory, it can answer difficult governance and regulatory questions to support stakeholder responsibility. Yet, Mayer sometimes seems to suggest that purpose primacy can proceed without emphasizing stakeholder relations. I find this implausible. What is a "purpose" without an individual or a group to value it? Mayer's theory of corporate consciousness obscures more than it clarifies, particularly in light of his prediction that artificial intelligence will soon establish firms' purposes (57). A simpler path for purpose primacy is through a stakeholder model. It need only grant that purposes come from people and groups and also recognize that firms can be organized to serve different stakeholder communities.

Prosperity's grand vision is that stakeholders, including shareholders, should place trust in managers and a core block of owners based upon an expressed purpose for the firm. Once they do so, managers are then freed to do what they set out to do and to innovate and improve as they go. Not surprisingly, the text is on its surest footing in later chapters when it stays closest to the author's area of expertise. The chapters on ownership, governance, performance, law, and finance are peppered with interesting insights, and they build an argument that will challenge key assumptions shared by many business ethics scholars. Alas, the book barely acknowledges nearly fifty years of responses to Friedman.

The biggest limitation of Mayer's *Prosperity* is the biggest opportunity for the discipline of business ethics. The text leaves many questions unanswered as far as what purposes firms ought to pursue. A theory of purpose provides a point of departure for posing these questions, but *Prosperity* ends where business ethics begins: with a need to distinguish just, righteous, virtuous, or good corporate purposes from those that are not.

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