A STUDY OF THE ACCOUNTABILITY OF CORPORATE MANAGEMENT

IN COMPANIES WITH DISPERSED OWNERSHIP

by

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SUBMITTED IN PARTIAL FULFILLMENT OF THE
REQUIREMENTS FOR THE DEGREE OF
MASTER OF SCIENCE

at the

MASSACHUSETTS INSTITUTE OF TECHNOLOGY

1961

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May 17, 1961

Professor Philip Franklin
Secretary of the Faculty
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Dear Professor Franklin:

In accordance with the requirements for graduation, I herewith submit a thesis entitled "A Study of the Accountability of Corporate Management in Companies with Dispersed Ownership."

At this time I want to record my gratitude for the help of Professor Elting Morison, Chairman of my thesis committee, and Professor Douglas McGregor, member of the committee. I appreciate their good faith in allowing me to undertake a study of this nature, and their constant support along the way.

Also, I am indebted to the many business leaders in New York and Boston who were willing to devote to this work the necessary time to engage in serious discussion about corporate accountability.

Sincerely yours,

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Paul O. Gaddis
4 May 1961

Mr. Paul O. Gaddis
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A STUDY OF THE ACCOUNTABILITY OF CORPORATE MANAGEMENT
IN COMPANIES WITH DISPERSED OWNERSHIP

Let us develop the resources of our land, call forth its power; build its institutions, promote all its great interests and see whether we also in our day and generation may not perform something worthy to be remembered.

--Daniel Webster
ABSTRACT

A STUDY OF THE ACCOUNTABILITY OF CORPORATE MANAGEMENT IN COMPANIES WITH DISPERSED OWNERSHIP

by Paul O. Gaddis

Submitted to the School of Industrial Management on May 17, 1961, in partial fulfillment of the requirements for the degree of Master of Science.

Accountability is a state of human existence in which one is liable to answer for one's conduct. It has been alleged that business corporations in the United States are no longer effectively accountable for their actions, because the former accountability to ownership has been weakened, and an appropriate substitute has not been established. The purpose of this study is to examine the allegation, to evaluate the nature of corporate accountability at the present, and to construct an approach to the accountability of the near future.

To fulfill this purpose, it has been necessary to review in detail the rise and fall of the nineteenth-century structure of corporate accountability, in which ownership was the central virtue. This former structure was fully effective because it was cogently understood and firmly accepted both within business institutions and generally in the society. It is suggested that the remarkable performance of business enterprise in the late nineteenth and early twentieth centuries resulted in no small measure from this accountability.

The decay of this earlier mode of accountability was forecasted by the decline of ownership as a force, and by the increasing socialist trend in government, economics, law, and philosophy. In contemporary times, the privileges of ownership must be legalistically interpreted, and ownership is now found to be only one element in a new and unclear structure for corporate accountability. The new structure has been criticized by many observers, ranging from the gentlemanly to the irresponsible; the gist of these several schools of criticism is that the corporations are presently not effectively accountable for (1) their use of economic power, and (2) their use of human beings as employees. The first of these charges may be rationally analyzed, and a detailed review of the financial performance of American corporations indicates conclusively that they still exhibit the same degree of restraint, and response to market conditions, as they did previously.

The second charge -- involving corporate use of human beings -- is not refutable by analysis, and since it is currently being pressed with intensity it may be the most serious indictment which the corporation must withstand. In Chapter V an approach is outlined by which management may counter this charge, and which suggests that the critics have based this attack upon an unfounded premise.
However, irrespective of the substance of these charges, they are important, both because they shape the attitude of the public consensus toward management and the corporation, and because they indicate an unhealthy confusion about the form of corporate accountability. The real problem, not articulated in the many criticisms, is three-fold: First, efficient corporate performance is jeopardized by lack of understanding of accountability within the corporation; second, effective corporate survival in the society is jeopardized by lack of understanding and acceptability of the present accountability outside the corporation; and third, because accountability is not clearly defined there is no bridge of understanding between public policies and corporate policies.

It is the theme of this study that the one effective way to establish the new accountability is to institutionalize responsibility within the corporate sector, or more specifically within those men who manage the corporate sector. The long evolution of the professional role in the Western culture is analyzed, and it is concluded that management is now at the stage of an emergent profession, and can successfully assume a true professional responsibility. An absolute prerequisite here -- an attainable prerequisite -- is a degree of faith in the profession's competence and ethics on the part of the public (the laity).

A structure of professional management accountability will have to be established within nine broad problem areas involving the corporation and its environment. As an example, an approach toward the establishment of a corporate accountability for the preservation of the free market is worked out in Chapter V. In all these problem areas, the essential contribution of the new profession will be the construction at long last, of a link of understanding between intra-corporate and public policy. The construction will be made by the whole profession collectively, but acting through those members of the profession who are temporarily in the public sector (generally in government or in the graduate business schools) as advisors in policy formulation. These managers outside the corporation will have previously gained comprehensive professional managing experience within the corporate environment.

In the establishment of professional standards of corporate accountability, management becomes the last potent defender of economic freedom. And human freedom in all dimensions -- political, social, and religious -- cannot stand if economic freedom falls.

Thesis Advisor: Elting Morison

Title: Professor of Industrial History
FOREWORD

This study of corporate accountability has been motivated at least in part by my own deeply felt need for an understanding of the larger environment in which industrial business lives and grows. As I will attempt to demonstrate in these pages, the industrial businessman of today must achieve in some measure an understanding of his accountability if he is to preserve his identity, and retain his mission, within the civilization he serves. The problem of accountability, like many current enigmas, will not go away of its own accord, and the manager who succumbs to the tendency to put his head in the sand defects from the cause of management.

This work has led me, recently a manager of an atomic power project, into strange byways in finance, law, economics, philosophy, and the social sciences, all of which border and delimit the structure of corporate accountability. If these fields cover a broad spectrum, it is only so broad as the arena in which industrial managers must operate in their daily lives. And while I can claim no expertness in any of the components, I am willing to try without apology to analyze the structure of accountability from the point of view of the manager who in his work must respond to its demands.

In the practice of management I have developed, as all managers must, a concrete value system. Therefore I make no pretense of freedom from value judgments in the preparation of this report. I do however pledge the objective interpretation of facts and opinions as I have gathered them.
In conducting this study, I have approached the modern corporation and its management as institutions which are part of the foundation of our nation’s social and economic structure. In the examination of these institutions, it has not seemed inappropriate to refer to the works of the scholars of ancient and modern times wherever there is understanding to be gained. The principles which must guide corporate managements in their basic decisions derive from all the scope of human culture which is the heritage of modern man in authority.

The governing concepts of corporate responsibility in the United States will continue to be formed by the manager, and influenced by the scholar and the intellectual. The scholar has compiled the knowledge which enables us to understand the course and direction of industrial progress. The intellectual has been the interpreter of the performance of American industry, for the edification of the public; and he has been the catalyst motivating intervention by government in the conduct of industry.

As a business manager in mid-career I am keenly aware that I have much at stake, as does the institution of corporate management, in the future interaction of these three forces on the American scene. While I do not possess the motivations nor the equipments of the intellectual, I am fortunate in having been temporarily provided with the privileges of the scholar. If I have used these privileges at all well, the effort represented in these pages will serve to help managers and scholars assess the true nature of corporate accountability.
It readily becomes apparent to a manager who investigates the matter of accountability that much disturbing nonsense has been written and published on the subject. Several interpreters of the business scene have a skilled and ready grasp for their pen which exceeds their grasp of the factual situation they are portraying. In particular, the matter of the control of corporations has been carelessly examined. In this study, my investigative procedure has included a review of the considerable amount of available literature, complemented by a series of interviews with practicing senior executives. The opinions of these business leaders, if I have solicited them properly, should inject a leaven of realism into the investigation.

The interview program was as extensive as the available resources would permit. About thirty comprehensive interviews were conducted, of which twenty were with executives (in many cases the chief executive officer) of major U.S. corporations and financial institutions. The remaining interviews were with well known management consultants, deans of foremost business schools, officers of the New York Stock Exchange, and members of the U.S. Congress.

This thesis is divided into five chapters. Chapter I traces the development of the concept of corporate accountability, from the age of laissez-faire to the era of the modern corporation. Chapter II is an analysis of the factors which at the present define the problem of corporate accountability. In Chapter III, the evolution of the institution of management is examined, and its effect on accountability
is weighed. Chapter IV suggests that the critics external to the corporate world have been unsuccessful in framing a clear picture of the accountability problem, and that managers acting in enlightened self-interest might help them not only to define the problem, but to resolve it. In Chapter V, an approach to the resolution of the problem is constructed.

In this writing, I have been well aware that there is nothing herein which is not already known, at least implicitly, to successful corporate managers. But there is often value in clarifying the implicit, and my work here is dedicated to that end.

Paul O. Gaddis
Cambridge, Massachusetts
April, 1961
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CHAPTER I

THE GENESIS AND DEVELOPMENT OF CORPORATE ACCOUNTABILITY

Great then is the good fortune of a state in which the citizens have a moderate and sufficient property.

--Aristotle
The Politics
CHAPTER I

THE GENESIS AND DEVELOPMENT OF CORPORATE ACCOUNTABILITY

INTRODUCTION

If a man is accountable, he is by definition "liable to be called to answer in judgment." Thus accountability is a state of human existence in which one is liable to answer for one's conduct. It is important to note that this liability can and does exist in both substance and form. It can be quite real in form -- in the statutes or law books of a government, or in the public consensus and accepted ethics of a society -- while rarely or never being exercised in substance. Conversely, accountability can be overpowering in substance, as in any strong or traditional hierarchy where a member must continually justify his actions in detail to a superior.

In this context, corporate accountability is the state of being answerable applied to a corporate institution, which the law has taught us may be regarded as a separate personal entity, a fictitious person. When the liability is exercised, it is discharged via the principal executives and directors of the corporation. That is, corporate accountability is fulfilled through human channels, via those who are sovereign within the institution.

It is this concept of corporate accountability which will be examined from several points of view throughout this thesis. The examination will be complex, because the industrial business environment in which the modern corporation operates is an incredibly complex blending of personal motivations and impersonal economic forces.
But the environment was not always so complex. Business accountability, like many modern perplexities, began to take its sophisticated shape during the early years of the Industrial Revolution and the rise of capitalism. In this chapter, the several precedents which led to the nineteenth century structure of business accountability will be traced. The object is not to develop the history of enterprise in these years, but rather to document those factors in economics, law, and ethics which culminated in the magnificently unclouded nineteenth century understanding of responsibility in the business world.

Once this earlier and now haplessly eroded structure of accountability is established, the modern antithesis will be considered. Here, the polar view will be assumed, which sets up a structure opposed to the earlier one in many aspects. This view is used not because the contemporary corporation has migrated to it or necessarily ever will, but rather because it is useful as a limiting concept for purposes of evaluation. After this antithetical version is considered, the actual modern status of corporate accountability will be analyzed in the succeeding chapter. The third chapter will contain an evaluation of the impact of the managerial function upon corporate accountability. The last chapters will be devoted to the task of searching out a synthesis, woven from the fabrics of both of the conflicting versions.

Before going on to the beginnings of the present corporate environment, it will be helpful to look at the Western world as it was before the several revolutions which are called in the aggregate
the Industrial Revolution. The age of feudalism was, significantly, an age in which there was no separation between a man's practical life — his work — and his whole political, religious, and social life. His home life and his occupational life were inextricably bound together at the same site. The Church and the State were all-pervading and commingled, and there was no "economic sphere" in any way apart from them.

The picture of feudalism is often that of the manor — an autocratic form of society founded upon ownership, which was the source of legitimacy for all power. This was a concentrated, stultified kind of ownership, a prerogative limited to an extreme few — the lords of the manor. The privileges of ownership where it existed were virtually unlimited, proscribed only by the vagaries of the Natural Law, which was above the lords. In this overly simplified picture, there was the strong element of fealty — the personal fidelity of the vassal to his lord, in return for which the vassal enjoyed a form of security.

For the purposes of this study, it will be more illuminating to consider what the pre-industrial, pre-mercantile Western society was not. First, it was not a society which sanctioned the idea of personal gain, or acquisitiveness. One of the constant dictums of the church in the Middle Ages was, "No Christian ought to be a merchant." Even in Puritan New England, in the 1640s, there were impassioned Sunday sermons on the falsity of trade. To be sure, avarice and greed were abundant ingredients of human nature, then as now, and the medieval lords in their acquisitive ventures knew when to turn their
backs on the teachings of the church. Nevertheless, a large-scale system based upon the recognized concept of personal gain by each participant was literally unthinkable. Only those inclined to blasphemy would have spoken of a "profit motive."

Second, since the society did not sanction personal gain, it could not have general markets for commodities or services. There were periodic individual markets, at the fairs and in the towns, but there was no market system. Trading was minimal, unorganized, inaccurately recorded.

It follows readily that there was no field of study called economics, since there was no subject matter for it. Its elements of Land, Labor, and Capital did not exist as the concepts or abstractions which economists now use. Consider the case of Land in England, where the vast bulk of the people have always been tenants. In 1688, there were only about 175,000 landowners out of a population of five million, or 3.5 per cent. In 1874, among these landowners only 4,200 families owned one-half of it by acreage, so that the concentration of ownership was extreme. This small group came into possession of their land mostly through inheritance, as a result of judicious family marriages in the past, or from wise ancestors who were successful in obtaining grants from the Crown in times of various troubles. No member of the landed gentry would conceivably treat his land as a transferable

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commodity, but rather regarded it as an inherited right.

Similarly, there was no labor market. There were serfs, who were bound to the manor by duty; there were apprentices who served their masters, in conditions where the wage rates and hours of both master and apprentice were set by a guild.

Those who controlled funds in that era were all staunchly committed to the status quo. The concepts of change and risk were quite foreign to them. For example, in seventeenth century France, the clothing industry and the government joined to outlaw the sporadic but increasing importation of printed calicoes, which was threatening the industry with ruin. The severe repressive measures finally cost the lives of 16,000 persons, who were caught dealing with the forbidden imports in one way or another. Although there were funds in these centuries, there was no risk capital and there were no capitalists.

Innovation, as an accepted and rational factor in the society, was not only lacking in the pre-capitalist era, but was viewed as a cardinal sin by the church and state, by the aristocracy and by the guilds. Another missing factor was the trained official, who existed only in embryo, and the manager, whose function was not yet conceived.

This was a stable, relatively comfortable, traditional world, under command of the fortunate few. It was self-satisfied, and self-reproducing through many generations. It was preoccupied with forming, studying, and exerting a strict accountability, chiefly in the

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2 The evidence of preoccupation with accountability can be found in the study of medieval law. See Otto Gierke, *Political Theories of the Middle Age*. 
religious and political dimensions, upon its populace, even to a considerable extent upon the lords of the manors who sat atop the pyramids of authority. At all levels, it was a society that would not yield easily to change.

THE PHILOSOPHIC SUPPORTS FOR CAPITALISM

Historians have termed the Industrial Revolution, starting about 1764 and continuing for about sixty years, as "perhaps the most striking fact in modern history." These were the years of the most dramatic changes, but they were only part of the long birth agony of the market system, which began in the thirteenth century and continued into the nineteenth. In its final impacts, this long process was to destroy completely the feudal structure of accountability.

The details of this Revolution can be examined only briefly here. It was manifested in three relatively abrupt changes in the conduct of human lives: an agricultural revolution, a communications revolution, and the manufacturing revolution. In agriculture, pioneers of scientific farming and animal husbandry, like Jethro Tull, Townshend, and Bakewell in England, succeeded in increasing the productivity per acre many times. The result was an increased food supply for a growing population, but at the same time tens of thousands of peasants and

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3 Some modern scholars hold that the popular conceptions of tyranny in the medieval period are erroneous. See Bertrand de Jouvenal, Sovereignty: An Inquiry into the Political Good, pp. 171 ff. Also, Gierke, op. cit., Part VI, "The Idea of Popular Sovereignty."

4 See Hall and Albion, op. cit., pp. 488 ff.
lesser tenants were displaced from the land. Their chief refuge was
to migrate to the new factory areas.

Before 1760, the western world was everywhere marked by pro-
vincialism. Transportation had been for fifteen hundred years generally
inferior to that of the Roman Empire. Forty miles per day was the
average travel speed on the main roads, while messages were carried
by hard-riding couriers at 150 miles per day. About 1760, the communica-
tions revolution began with the turnpike and the canal, to be followed
in succession by the steamboat, the railway, telegraph, cable, and
telephone. Large-scale provincialism was doomed, and large-scale
centralization became possible.

The manufacturing revolution, following the steam engine, the
spinning jenny, and the puddling process in the smelters, saw tenfold
increases in output as commonplace. The factories grew, and urbaniza-
tion began. The ugly unhealthy cities followed.

These dramatic manifestations of revolution were preceded by a
series of profound changes in human thinking, which are of particular
importance to the course of this study. First, centralization over-
took the feudal dynasties, resulting in a growing emphasis on
nationalism in human outlook. The national spirit led in turn to
geographic exploration, to the systematic search for new wealth and
raw materials.

Second, there was the rise of scientific curiosity and techno-
logical exploration. As an example, sophisticated accounting and
bookkeeping were imported into Europe and Britain from Venice. Significantly, the innovator and the experimenter were tolerated for the first time, thus setting the stage for the age of Newton and his contemporaries, and for the later development of the specialist and the trained official.

But the most important prerequisite to the development of the nineteenth century concept of ownership was a sanction by the society of the role of personal gain. A code of economic conduct based upon this role would have to be achieved in the face of a broadly accepted scheme of social ethics, and against the rigorous provisions of church law and secular law. During the entire Middle Ages, the church had motivated the society against what the clergy called the appetitus divitarium infinitus -- the unlimited lust for gain.

As early as 1700, this earlier scheme of ethics began to give way. A picture of "economic man," who followed the trail to gain wherever it led him, began to emerge. By 1800, the concept of personal gain was not only securely established but rather well explained and rationalized. There is still much controversy in scholarly circles regarding the reason for this basic change in outlook. Certainly it is difficult to separate cause and effect.

One school of thought, inhabited by those scholars who tend to trust impersonal forces, believes that this revolution in thinking was sparked by irresistible changes in the economic environment -- the influx of metals and other wealth from the overseas commerce, expanding markets and population, and technological improvements. Other scholars,
led by Max Weber,⁵ present a good case for the conclusion that the change had its source in human, religious motivation -- specifically in the Reformation of the sixteenth century. Capitalism was the social counterpart of Calvinist theology.

For present purposes, this new ethic may be regarded as one of the ingredients in the new thinking, whether or not it was causative. It has been dubbed the Protestant Ethic, although it is now recognized that it was part of a general intellectual movement participated in to some extent also by Catholic philosophers, and having many roots in the whole stream of Judaeo-Christian culture. It is examined here because of the distinct influence it still exerts in some aspects of corporate accountability.

The core of the Ethic was the idea of "a calling," which was no longer the state of life to which a man was predestined by Heaven, but a responsible and demanding enterprise which he would select himself. To labor fruitfully in this calling was then a spiritual end in itself, not merely an economic means. The calling dictated a rational conduct -- a self-denying, ascetic emphasis upon hard work, diligence, thrift, sobriety, and prudence.

Life was dedicated to reward in the here-and-now, on earth, as well as in the hereafter. Reward came via self-realization in hard work, but this also resulted in accumulation of material wealth.

This accumulation was wholly sanctioned by the Ethic, for it was the result of demonstrated piety and virtue. But the wealth became capital, an almost sacrosanct material which one never used for mere consumption. Covetousness could be a minor sin, but sloth was a mortal enemy.

Benjamin Franklin in his writing\(^6\) often reflected the spirit of this Ethic:

> The most trifling actions that affect a man's credit are to be regarded. The sound of your hammer at five in the morning, or eight at night, heard by a creditor, makes him easy six months longer; but if he sees you at a billiard-table, or hears your voice at a tavern, when you should be at work, he sends for his money the next day; demands it, before he can receive it, in a lump.

Lord Russell with his acid pen\(^7\) recalls his childhood in Victorian England, when the Ethic was perhaps at its peak:

When I was a child the atmosphere in the house was one of puritan piety and austerity. There were family prayers at eight o'clock every morning. Although there were eight servants, food was always of Spartan simplicity, and even what there was, if it was at all nice, was considered too good for children. For instance, if there was apple tart and rice pudding, I was only allowed the rice pudding. Cold baths all the year round were insisted upon, and I had to practice the piano from seven-thirty to eight every morning although the fires were not yet lit. My grandmother never allowed herself to sit in an armchair until the evening. Alcohol and tobacco were viewed with disfavour although stern convention compelled them to serve a little wine to guests. Only virtue was prized, virtue at the expense of intellect, health, happiness, and every mundane good.

The Ethic also placed great value on the independence of the individual. In its Protestant strain, it made the individual rigorously

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\(^6\)See Franklin's essay, "Advice to a Young Tradesman," 1748.

accountable, via himself and without need or benefit of human inter-
mediary, to his God. The conscientious puritan continually supervised
his own state of grace.

THE VALIDATION OF OWNERSHIP

The great and chief end, therefore, of men's
uniting into commonwealths, and putting themselves
under government, is the preservation of their
property....

--John Locke

Essay on Civil Government,
1690

In the midst of the turmoil of the revolutions which have been
described, the processes by which humans generate wealth began to
mount in efficiency. It was well for the new entrepreneur of the
infant middle class to know what he was after, and to understand why
his ventures were virtuous. But it remained for someone to explain
how a system of many such "economic men" would work, and indeed whether
it would work. Many penetrating analogies have been drawn noting the
critical need for a business philosophy now, in the mid-twentieth
century, similar to the need at the time of the Industrial Revolution.

The earlier need was supplied by the classical economists --
Adam Smith, Ricardo, Malthus, and John Stuart Mill. Dr. Smith, a
professor of moral philosophy, founded the concept of natural liberty
in the market sphere, and thereby gave legitimacy to the market system
in the eyes of the public for generations to come. He created the
idea of a sovereign consumer, to whom all production was oriented.
If the market system was to work, three forces had to be assumed as continually at work within it. First, each producer and distributor in the system must at all times act in self-interest, i.e., to bring the greatest return to himself. Second, there must be a regulator acting continuously upon this force of self-interest. The regulator was to be the competition within the marketplace; this competition had to meet certain specifications, and Smith started the singularly unfortunate custom among economists of trying to define a state of competition by a single adjective. In Smith's day, the desired state was not prohibitively complex. He called it "perfect" competition, and by this he meant that it was a sufficiently vigorous competition among many firms to constrain any single firm in the market from being able to influence its returns, or the wages it paid, contrary to the all-powerful influence of the system itself.

The third force which classical economists assumed was the continuous capacity of the consumer to exercise his sovereignty, to maximize his satisfactions through selective purchasing in a free market. If the consumer were to have this capacity, he needed both the will and the competency to exercise the "dollar vote" in the market.

A market system with these inputs could be counted upon for a set of outputs which on first glance might appear commonplace, but which on further scrutiny are truly remarkable -- perhaps as remarkable as any system of dynamics which human vision has penetrated. First, the laws of the system would impose a competitive price, or the best feasible price for consumers, on products and services sold within
it. Prices will not stray, by human whim or design, away from a close relationship with the costs of production. Second, the wages which will secure the needed services of labor must be competitive in the labor market; thus the wage rates will be set by the market at the best feasible level for the worker, and at a level which permits the employer to compete fairly with other employers. The producer who tries to buck this stern system with regard to prices or wages finds himself without customers or workers.

The third output of the system will control the quantity of production for each good or service to best meet the needs of the consuming public. By means of the dollar vote acting upon the price mechanism, which in turn influences the returns to producers, the changing and fickle wants of the consumer will be readily fulfilled. One producing firm will throttle its unwanted line of production, while another will increase its output to meet increasing demand; employees will be laid off at the first firm, and will find employment at the second.

Fourth, and of vital importance, the market system will providentially regulate the assignment of the factors of production -- the Land, Labor, and Capital which after the Industrial Revolution are transferable entities which can be used by the entrepreneur, and abstractions which can be grasped by the scholar of economics. The factors will flow within the system to the frontiers of production where they are most needed for the good of the society.

The final regulative output from the system is the beneficial control of the incomes of all the human participants in production.
Where returns to producers are too high, other potential producers will rush in and set up shop, and their production will serve to lower the returns. Workers will migrate from one area or firm to another, with the result that unduly high or low wage levels will be eradicated.

These are the remarkable advantages to be accrued in the free market system, if one can agree to the three assumed inputs. But there is something even more remarkable about this system. It operates infallibly without benefit of commissariats, bureaus, and other breeds of supervising organizations, and without need for commissars, planners, and bureaucrats, directives, plans, mandates, regulations, et al. In short, it poses no need for human beings of omniscient knowledge and foresight, who must sit at the fulcrums of power to direct the machinery.

From the point of view of this investigation, the most important facet of the classical market system was its acceptance in the society of the time. The system nicely complemented the Ethic, which powerfully governed the thinking of the economically aggressive citizens who were forging a middle class. Those who were seeking their self-fulfillment and reward through achievement in the here-and-now, and were self-accountable to an Authority not on earth, were tailor-made citizens for the market society. It is safe to generalize that these participants in the system knew what they wanted to do, and how their role would affect the society in which they lived.

But aside from the participants, it was critically important that the learned observers also accepted the market system. Natural liberty in the marketplace fitted the broader political philosophy
of natural liberty then espoused by the intellectuals and the radicals. The demonstrations of Sir Isaac Newton in science and the reflections of John Locke in political philosophy together profoundly influenced the values and the thinking in England, on the Continent, and in America at the start of the eighteenth century. By the time of the Industrial Revolution, this influence was still strong and growing.

Locke's positions, as set forth particularly in his second essay on government, An Essay Concerning the True Original, Extent and End of Civil Government, 1690, are examined briefly here because derivatives from his work will be found in later discussions of accountability. His beliefs were a prime source of strength to Jefferson and other architects of the American republic.

Locke held that there was a natural law which protected the people against the tyrannical acts of a government, and that the people were ultimately sovereign over any government. In his view, government had a limited function, and existed solely to preserve the property of the individual. Importantly, Locke defined his concept of property as "life, liberty, and estate."

John Locke had come under the strong influence of his contemporary, Newton, and the natural laws of Newtonian physics. Locke came to believe that the preservation of freedom and democratic process could best be achieved in a government of balanced powers, analogous to the balance, the action and reaction, in physics. He then formulated a system of checks and balances within the power centers of the government -- among king, lords, commons, and an
independent judiciary. He thereby became an early advocate of "countervailing powers," a form of pluralism in which the good of all automatically came out of the continuous resolution of conflicts among the power centers. The similarity of the dynamics in this political abstraction to those in the market system of classical economics is apparent.

Thus, as the nineteenth century began, three mature and mutually supportive forces -- an Ethic, a market system, and a scheme of political philosophy -- formed the bedrock for the subsequent growth of capitalism. Many embellishments and refinements would be applied to all three, but the essences would remain unchanged.

But most importantly for the subject of this writing, at the dawn of the nineteenth century the concept of ownership had been sanctified. The factors of production were commodities that could be bought, and sold -- and owned. Personal property was a reward, if only as a by-product, in the Ethic; the striving for it was a requisite input for a functioning market system; and the prevailing philosophic opinion was oriented to the protection of it. Ownership would be the first bastion of accountability in the business world.
THE CORPORATE FORM

It (the corporation) is an arrangement by which hundreds of thousands of men who would in days gone by have set up in business for themselves put their money into a single huge accumulation and placed the entire direction of its employment in the hands of men they have never seen, with whom they never confer.

--Woodrow Wilson, in the
Annual Address before the
American Bar Association,
Chattanooga, Tennessee, 1910.

The great market scheme of Adam Smith and his disciples was a fairly close fit to the realities of economic life at the end of the eighteenth century. But even during the ten years which Smith devoted to writing the Wealth of Nations, there were forces pushing this early and simple economic world toward increasing complexity. Each force, each push, weakened the integrity of the classical model of the market, and it is a tribute to the care of its construction that many elements of the model have survived a century and a half of complicating forces.

One of these forces was quite vigorously alive, but still very young, in 1766 when Smith started work in earnest on his monumental book. This was the tendency of small groups of individuals to organize themselves, for various purposes, into a "body" which would represent them all in pursuing their task. The body had been since ancient times called a "corporation," and was organized in accordance with the law's age-old habit of recognizing men and a "body politic" as two kinds of Persons. The body had rights and duties of its own, which were not the same as the rights and duties of its members.
Adam Smith's concept of the market system did not encompass corporations acting in place of his "firms" (proprietorships and partnerships). He took little note of the infant status of corporations, and gave them little or no future in the sphere of business. His reason was significant: He did not believe that corporations, which he regarded as impersonal organizations, could ever act with sufficient self-interest to participate actively and properly in the market, and make the market work.

Yet in all western civilizations, men had shown an irrepressible desire to associate, to incorporate. A legal writer of the early seventeenth century in England quoted the opinion of a peer of the realm concerning corporations -- that they were "invisible, immortal, having no conscience or soul -- and therefore no subpoena lieth against them; they cannot speak nor appear in person, but by attorney."  

While men had always sought the right to organize to pursue their own ends, the State had always jealously guarded the privilege of enfranchising corporations. Centuries of canon law, from the early days of the Roman Church, had yielded the Concession Theory, which held that the corporation could only exist as a creature of the State. That is, the State may permit the birth of a corporation. There was also a train of thought which held the corporation as inevitably, by

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9The observations of Sir James Coke, noted in William Z. Ripley, Main Street and Wall Street, p. 61.
its very existence, an enemy of the State. Thomas Hobbes, an articulate advocate of an absolutely sovereign State\textsuperscript{10} who has influenced four centuries of political scientists, likened the growth of corporations in the state to the growth of ascarides (worms) in the entrails of a natural man."

In England and on the Continent in the eighteenth and nineteenth centuries,\textsuperscript{11} the privilege of incorporation was jealously guarded, and used generally for the benefit of the Crown or State. Several of the states of the American union were born as chartered corporations of the English crown. The early blendings of the business venture with the corporate form have become infamous as landmarks of public travail and private abuse.

In 1718, the regent of France, in financial distress, grasped at the speculative scheme of a Scotsman, John Law, who was allowed to organize a wild venture known as the Mississippi Company. The purpose was to exploit the "mountains of gold" on the new American continent. The boom was extreme, and speculators fought for the privilege of buying stock. When the jerry-built structure finally and suddenly collapsed in 1720, there remained a few private fortunes in the hands of those who sold out in time, and thousands of ruined speculators.

In 1720, the English Parliament granted monopoly privileges to the South Sea Company in return for the company's taking over 30 million pounds of the national debt. The public's conception of the vast wealth in gold and silver in Spanish America provided a base for easy exploitation by stock manipulators. Within three months, the stock

\textsuperscript{10}Thomas Hobbes, Leviathan, Part II, Of Commonwealth, Chapter XXIX.

\textsuperscript{11}The English common law in its prudery long refused to recognize the existence of corporations among the citizenry, and in fact considered it a crime for men "to presume to act as a corporation." However, for centuries the English circumvented the intent of the common law by resorting to forming "Trusts" under Private Law and the courts of equity.
had been bid from 100 pounds per share to its peak of 1060. Unscrupulous spectators used the resulting bull market to promote stock in fictitious or worthless ventures. The collapse of the Mississippi Company bubble in France shook the English market, and suddenly Britain had its own bubble disaster. In the wake of the financial ruin, the entire government was discredited, and there followed a period of successive scandals.

For the next one hundred years, the business corporation remained a discredited device. It was thoroughly unaccepted, and unforeseen, in colonial America, at the time when the great political architects of the new world were devising a government and a society which emphasized the sanctity of private property. In 1820, an early American text on economics advised that "every moneyed corporation is prima facie injurious to the national wealth." This warning was no doubt aimed at corporations like the Boston Manufacturing Company, formed in 1813 as perhaps the first prototype of a modern American business organization. It had eleven stockholders, most of whom were relatives.

But the human urge to incorporate would not be stifled, and it was in fact stimulated by accelerating technological industrialization, and the resultant need for more powerful business organizations. In England, the Act of 1862 was the "Magna Carta of cooperative enterprise" in that it placed the corporate form and "legal personality" within the easy reach of reasonably qualified citizens. While the State still "made" corporations, it did so in the same way it made marriages by granting a license to persons who wanted to marry. The Concession Theory of corporate law was dying.

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12 Ripley, op. cit., p. 22.
American outlook on corporations turned similarly, and it may well be that unselective and easy methods of incorporation were a contributing factor to the shady status of some segments of American business in the last quarter of the nineteenth century. In 1879 the Standard Oil Trust was formed, and in the following years there were many large business combinations. Public opposition to the business conduct of the trusts grew steadily, and in 1888 President Cleveland remarked "Corporations which should be the carefully restrained creatures of the law and servants of the people, are fast becoming the people's masters." In 1890 the public furore resulted in the Sherman Anti-Trust Act, probably the most important American statute in regulation of corporate business.

It was not long until the era of wholesale, "chartermongering" in the United States. Witness the typical advertisement in Collier's Weekly, March 7, 1908, which lauded the values of incorporation in the Territory of Arizona. The advertisement stressed "Incorporation better than Partnership" and went on to emphasize minimum cost, no corporation tax in Arizona, any kind of stock may be issued, and ended with the statement, "No books need be kept for public inspection anywhere." There was of course no need for the newly chartered corporation's headquarters to be anywhere near the state of incorporation. Hence each week saw a sales message in many eastern papers from the corporation commissions in Nevada, Delaware, South Dakota, and other states.

In U.S. popular usage, the Trust was a combination of corporations, a permanent organization which controlled the policies of a number of independently operated companies. It was often used to suppress competition and to control prices.
After the turn of the century, vigorous anti-trust prosecution of corporations under the Sherman Act was carried on in the Roosevelt, Taft, and Wilson administrations. But during these years, the corporation began to win respectability in the eyes of public opinion, and to become accepted by the public as a justifiable and necessary instrument for production and distribution.

As the corporation became accepted, it began to multiply copiously. In the American colonies before the War of Independence, there had been twenty-one business corporations, of which only one was a manufacturing business. These transplanted seeds found their most favorable soil in North America, and by 1920 there were almost as many corporations registered in Delaware as there were registered with the Board of Trade for the whole of England. In the United States in 1955, there were \(14\frac{3}{4}\) million business firms of all types, of which 885,000 were corporations.

Thus has the corporation grown in stature, from an early avocational habit of men, to a promotional device abused by governments and citizens, and finally in the twentieth century to a wealth-generating organism which is the heart of the industrial structure of western civilization. The uneasy relationship between the corporation in the abstract and the public consensus, and particularly between

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the corporation and the intellectuals who mold this consensus, will be the subject of later comment in Chapter IV.

It is sufficient for present purposes to note that the corporation has become the instrument of business accountability in the United States. The American public tends to view accountability selectively, in directional terms; in the case of the larger corporations, accountability is recognized as a quality owed by business to the society. But in the case of the much more numerous small corporations and small firms, it is a quality owed by the society (via its governments) to the small businesses. This attitude is of course politically founded in the traditional and ingrained American distrust of power concentration in any sphere. It is only the large-corporation aspect of accountability which is under examination in this writing.

THE AMERICAN ADAPTATION

Ours may not be a perfect system, but under it seven percent of the people of the world do produce nearly fifty percent of the world's manufactured goods....

--Paul G. Hoffman
May 25, 1950
Address before the National Board of Fire Underwriters

Classical economics and the market system were widely accepted throughout the western world during the nineteenth century and up


15 In Chapter II, the number and size of the corporations under study will be defined.
until about 1914. If the United States was to build its business civilization, it was early apparent that widespread acceptance and understanding of a market ethic and system would be required here too. Yet it was also apparent that no simple transplanting of European economic ideas would suffice. Surely, in the founding days, Jefferson, Hamilton, Paine, and all their remarkable contemporaries had not merely transplanted the stream of democratic political thinking from Aristotle to John Locke -- they had added unique American embellishments.

The classical economists in the old world were for the most part scientists, and they worked toward the fundamental objective of science -- to enlarge human understanding. But businessmen are activists, and their fundamental aim is to influence action -- economic action in the business sphere, and when necessary to provide a favorable environment for business, social action in the national sphere. In this last, they are no different from many groups -- for example, educators.

Ideology is a concept which also is closely related to the influencing of action. Businessmen in general reject the concept of ideology, because of several unfortunate connotations of the word. It brings to mind all the political excesses of the first half of the twentieth century -- Communism, Fascism, others. It also smacks of a visionary kind of theorizing. However, the word is much simpler when used in its denotation of "the manner of thinking of an individual, group, or class." Where the ideology is well constructed and well propagated, it leads to dynamic action, which may be
beneficial or harmful, depending upon the values and goals of those who constructed it. If a society's business sector is dynamic in action, as in the America of the nineteenth century, and these dynamics are fully understood by those within business and broadly accepted by those outside business, then it might safely be concluded that a dynamic ideology is at work. Democratic institutions, with their requirements for motivating those who are members, tend by their very nature to develop ideologies.

In America a very effective business ideology was constructed, which was essentially a blended adaptation of the classical market system, the Ethic which grew from the Reformation and the Judaeo-Christian traditions, and the democratic political point of view. Like all ideologies, this one used the devices of selectivity, simplification, and the symbol. It was selective in that it omitted information which did not support it, and simplified in that it pictured ideas in black or white, rather than the "gray" descriptive language of science. It used symbols with strong connotations, like "American Free Enterprise."

The elements of this American adaptation are briefly discussed here, because it is in the American context that accountability will be examined. Its primary element was respect and regard for the productive achievements of capitalism and the market system in America.

These achievements were tangible, hard to argue with, and steadily becoming more impressive throughout the nineteenth and into the twentieth centuries. The system was making a magnificent response to the needs of the consumers.

Outside the area of the marketplace, the American adaptation could point to three significant non-material accomplishments. First, American business had within itself created a spirit of Service to the society, in which men could legitimately and constructively discharge their obligations to their fellow men. Second, the system had provided an opportunity for personal achievement in business, with resulting social recognition, to all those with the talents to use it. Third, and most important, the American system, with its basis in economic freedom, established for men their freedom in the political, religious, and personal spheres.

Here again, it is important to note the reasons for these accomplishments, as they were explained in the American adaptation. Americans did not find the answer to their successes in abundance of natural resources, nor in industrious ancestry, nor in hard work, because all of these factors had been present in other societies without the achievements. A nationalistic answer was supplied, which had some near-mystical elements. Basically, it was believed that Americans at the beginning of the nineteenth century had found a New Way to release human energy, a new basis for human relationships in the production of wealth.

The New Way comprised sturdy Yankee traits -- puritanism, optimism, nationalism, individualism, the concept of the "calling,"
and the universalism which demanded equal opportunity for all. As an example of the selectivity of the ideology, the European theoretical origins of classical economics were all but ignored, while its free market system was appropriated along with many of this system's inputs and outputs.

From the standpoint of business accountability, there were two important features of this New Way -- its emphasis upon morally responsible, self-accountable individuals, and its strict regard for the individual's right to own and control property. The first was rooted in a strong concern for the freedom of the individual, and in the Protestant Ethic. The ideal society was one in which men of personal integrity could be granted wide freedom for positive action, and could be trusted to act in accordance with a sober sense of moral accountability. This ideal would be applicable, not only to the wealth-producing groups in the economy, but to all groups in the society -- the lawyer, politician, scientist, soldier, journalist.

The firm right of the individual to hold and enjoy property came directly from the sanctification of Ownership, previously discussed, and was in keeping with Jefferson's "nation of small landholders."

The American adaptation became the philosophic and academic basis for early corporate accountability in the United States.
THE NINETEENTH CENTURY MODEL OF ACCOUNTABILITY

I am the good shepherd; the good shepherd giveth his life for the sheep. But he that is an hireling, and not the shepherd, whose own the sheep are not, seeth the wolf coming, and leaveth the sheep, and fleeth: and the wolf catcheth them, and scattereth the sheep. The hireling fleeth, because he is an hireling, and careth not for the sheep.

--John 10

In 1909 a merchandising executive in New York wrote a small book called *Imagination in Business* -- one of the unending series of inside revelations on how to get ahead in business which Americans have been writing since the days of Ben Franklin. This book, now long out of print, was written at the peak and near the end of the era of unadulterated nineteenth century business philosophy. In his Chapter V, the author describes his experiments with one Mills, a young clerk whom he has unsuccessfully tried to make into a businessman. After several months of intense efforts, Mills has been unable to come up with a single good idea to increase the sales of his employer. Hence the author gives him this final, unsolicited advice, which is a bittersweet capsule of the businessman's creed of that day:

Lie low, my boy. Keep out of prominence as much as you can, and go down on your knees tonight and thank God that you have got a situation where you are paid all that you are worth. I don't mean that you are a bit inferior to thousands of other young men who are in the stores and wholesale houses in this city; but you, like them, are simply sitting upon the head of the one brainy man who sits in the counting-room. He has to solve all these problems. You and fifty others in your establishment

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are just sitting on top of his head, like so many dead weights. If the business prospers you expect a raise of salary, when it is his headwork that has gained every inch of the progress. He has to carry you all. (Underlining added)

The Man the author is referring to is the Owner, who is also the Manager and in control of the business. For all the reasons which have been cited earlier in this chapter, the Owner was the anchor who secured the enterprise, and whatever power it wielded, to acceptance and respectability in the society -- in short, to legitimacy.

In the elementary model of nineteenth century accountability, the hireling, the salaried man (who was always one step removed from full respect in the business community) was fully accountable in his performance of work to the Ownership. Moreover, the employee knew why he was so accountable. In the 1909 book, the young clerk Mills even before receiving the final bitter advice had decided that he "wanted to stay where he was," i.e., at a fixed and somewhat permanent salary level.

Even in an elementary model, it is at the top of the accountability pyramid that subtlety and complexity enter into the picture. The crux of the accountability problem is at this point. To whom, and in what manner, was the Owner accountable? First, the Owner had put on the mantle of moral responsibility, to be exercised as he saw fit. He and everyone knew that Abuse was always potential in the system -- acquisitiveness could slip over the delicate border into avarice, sloth or laziness or an Epicurean bent could creep in to
prevent an Owner's effective action in his own self-interest, thereby sabotaging a crucial input to the market system. Therefore the Owner in continually "supervising his own state of grace" had a solemn if unwritten contract enjoining him to act responsibly, in the terms of that day. The concept of inwardly imposed accountability was a direct descendant from the roots of Judaeo-Christian culture.

Aside from this self-accountability, the Owner shared the great responsibility for preserving the integrity of the market system, with its classical self-regulating mechanism. This absolved him of any undue preoccupation with general responsibilities to the society, and freed him to devote all his energies to his primary tasks in the generation of wealth. The market system, if it were kept oiled, took care of many details for him -- it set prices and quantities, regulated incomes, cared for the consumers' desires, and allocated the factors of production. In the American adaptation, it did more than this; it provided an adequate personal outlet for achievement, self-fulfillment, and prestige for those who were worthy.

And how did the whole society, including the employee, view all this? The employee understood, at least implicitly, the mode of accountability of his employer-Owner, and he accepted it. After all, he was a participant in the same Ethic. This made good employees. The nineteenth century liberal, even on the radical fringes, was under the influence of Locke and Newton and Smith. In England, this liberal was confronted with the ten-hour day worked by eight-year-old children in the mine pits of Northumberland; the fourteen-hour days at the
textile factories; and the mill owners who used their mills as a
harem. To all these cases, the liberal's response was some version
of "laissez-faire" or "let them (the Owners) alone," for he believed
that natural liberty was at work building a new world, and there was
order forming beneath all the chaos. These liberals were not callous;
they were concerned with human welfare, but like their brethren of
all generations, they established their own criteria for welfare,
and in this age it was viewed in a mechanistic framework.

The use of the corporate form in business complicates the
elementary model, but not so much so that the threads of the nineteenth
century pattern might not be clearly discerned. The long evolution
of the law of association, when applied to business, had culminated
in a corporate law which regarded the corporation primarily as an
instrument of the owners. The law clothed this instrument with limited
liability, the means for perpetuation (often termed "immortality",
and most importantly the effective means for concentrating private
resources, all for the purpose of engaging in private enterprise.
Although the corporation owed its life to the state, there was no
inference anywhere in the volumes of corporate law that the corporation
had any form of public responsibility to the state which might sub-
ordinate the interests of the owners.  

The only substantial restric-

18
G. M. Young, Portrait of an Age (London: Oxford University
Press, 1936), p. 16.

19 This statement is still generally true at the present (1961),
as will be discussed in Chapter IV.
corporation were those which protected either the owners' interests or the rights of others who contributed -- creditors, bondholders, suppliers, etc.

Thus the law reinforced the concept of ownership. But, then as now, business and the society were a great deal more complicated than the law portrayed them. In philosophy, the corporation leaders followed the tenets of classical economics and the American adaptation -- he who pursued earnings advanced the welfare of the society. Also, these leaders were usually as committed to the Ethic as were their small-business associates. Hence, if the corporation was viewed as "a man writ large," as many of the early U.S. corporations were, then it could be endowed with human, personal characteristics. And it could be simply substituted for the proprietor in the elementary model of business accountability.

However, the corporation made provision for the separation of ownership from control, and thereby gave a charter to the managerial function. In the early days of U.S. corporations, owners, managers and directors were generally the same persons, or in any case the managers could identify the person or persons who represented ownership of their companies. The accountability of the manager to Ownership was easily constructed, and rigorously practiced.

As this accountability was practiced, it generally meant an austere rationing of the gross profits, for the protection of the shareholder. There was no need, within the market system, for the managers or directors to worry about the consumer, the employees, creditors who supplied debt capital, suppliers, or the public. The
market mechanism would take care of each of these, except the last, and it was incumbent upon the manager to make sure that he always drove a hard bargain in negotiating with each of them. In the case of the public, the corporation owed it nothing except taxes and the continuation of effective wealth-generating operations.

The corporate view of the dynamics of the market system was a somewhat expanded version of the rudiments of classical economics. It was generally believed that the competitive market automatically yielded these advantages to the society: 20 (1) Lowest possible cost in production and distribution of goods and services, (2) minimum profits, (3) allocation of energy and materials and capital to those goods and services which the public wants, and in proportion to their demands, (4) return to each factor in production in harmony with its contribution to the public, (5) constant effort to widen the choice of goods and services offered, (6) constant effort to improve the goods offered, (7) assured freedom of opportunity to start a business if capital is available, (8) continuous progress and gradually improving scale of living.

There was no "dividend-retention" decision to be made under nineteenth century corporate accountability. All of the net earnings after taxes were a return on the owners' capital, and went directly to them. Classical economics said that Savings always equalled Investment, and it was up to the owners to reinvest their returns at the

point where the next return on capital was optimum, thereby keeping the allocative function working. Furthermore, the managers were not to be consciously concerned with such intangibles as corporate "growth," corporate prestige, charitable contributions and social responsibility. If these intangible claims were answered by successful and profitable performance, that was fine; but they were not to be pursued as ends in themselves, and certainly the managers were not to drive up the immediate costs of operating by pursuing them.

This environment bred a manager who intensely devoted himself to a single purpose. He was Darwinian in that he believed that the market system would soon destroy the inefficient. He believed in natural liberty in all of its ramifications, and this led to a political conviction that the government and all other factions within the society should "mind its own business" as his corporation did. If the government needed specialized help, he as a citizen could ponder its problems, aid he could on his own time. But as a businessman, he could not help, nor could his company.

As a conclusion, it can be said that the elementary model of nineteenth century business accountability was essentially the same as the corporate model of that era. In both cases, the Owners felt the same form of responsibility. In the corporate case, the manager clearly understood his rigorous accountability to easily identifiable Owners.

A final caveat is in order: The structure of accountability presented here is a model one. Probably no company or no proprietor,
in 1850 or 1900 or any other year, exactly fitted it. Business then as now was more complex than could be pictured by any generalized model. But a model can illustrate most usefully, as does the opinion of a business citizen of the times. The 1909 executive, previously quoted, ends his book with a sort of apology for the "sharp flavor" of some of his how-to-do-it examples: "It is not a theory, but a condition, which confronts the businessman. He takes his medicine as he finds it compounded. It doesn't taste as he would like to have it, but no one asked him what he liked. He isn't picnicking. He's at war. He smiles through the bitter drink, and orders it up for the whole company when his turn comes!"

THE EROSION OF THE PHILOSOPHIC FOUNDATION

Economic man or woman seems to be made mostly of straw.

--Stuart Chase, in
The Social Responsibilities of Management, 1950, p. 5

In England, at some time in the middle years of the nineteenth century, a new school of Liberals become articulate. They recoiled at the excesses of the young European capitalism, at the abuses of human beings in the mines and mills. They would inexorably replace the earlier "nineteenth-century liberals" as their movement grew. Their growth presaged the general decline of the philosophy of natural liberty, the coming erosion of the Protestant Ethic, the weakening of ownership, and the advent of collectivism.
The late Joseph Schumpeter, the brilliant modern Austrian-American economist and one of the best friends capitalism ever had, largely denied the greatness of the scheme of classical economics. Yet he gave the classicists credit for one significant achievement, in that they dispelled the accumulated myths of ignorance which had always held that the individual self-seeking of producers was inevitably harmful to the interests of consumers. Or, to get to the heart of the matter, the classicists broke up the age-old untruth: Private profits are always a net loss to everyone in the society except to those who reap them; therefore under socialization the society can realize these profits as a net gain.

But Schumpeter, and many others writing subsequently, saw a defect in the classic model of "perfect" competition. While the early economists had demonstrated that the search for profits was not incompatible with maximum beneficial production in the society, they had not proved that there was a direct correlation between the two. And the flaw lay in the competitive model. With some oversimplification, it can be said that Schumpeter felt that perfect competition was based upon a myopic short-run view, had never been feasible, nor had ever existed, and that it was particularly unfeasible and undesirable in powerful modern economies. He saw perfect competition with its many small firms as a completely inadequate model in a world in which large-scale establishments were not merely a

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21 See Joseph A. Schumpeter, Capitalism, Socialism and Democracy, 1942, pp. 75 ff.
necessary evil, but a positive requirement to foster technological progress in production. He also viewed competition as a regulator, but in a long-term framework. Progress comes from innovation, and innovation springs from large economic units operating in the hope of gaining a monopoly position; the regulative force originates in the next innovator, who will aspire and act toward his own monopoly position.22

In this questioning process, one of the three crucial inputs to the market system -- the regulation afforded by perfect competition -- was being cast into doubt. But the two other required inputs were also under attack.

The market system had to assume an ever-functioning acquisitive man, a perpetual "maximizer of profits" -- a creature who became known as Economic Man. The businessman, in adopting this creation of the economists, became one of the sole human agents in history, if not the only one, who frankly and openly professed an egoistic or self-seeking creed. This adoption has since caused many a shrewd observer to wonder whether the businessman's candidness exceeded his discretion. The creed from its inception was always in conflict with one of the

22 Since the end of World War II there have been several serious attempts to define rationally a currently applicable model for competition. See Oswald Knauth, Managerial Enterprise, 1948, and David E. Lilienthal, Big Business: A New Era, 1952. The terms "workable competition" and "The New Competition" have been quite generally used. The postwar studies are outgrowths from earlier scholarly approaches to the problem, such as Edward Chamberlain's The Theory of Monopolistic Competition (Cambridge: Harvard University Press, 1933).

23 See p. 13.
basic tenets of the Judaeo-Christian and other religions -- namely, that self-denial and selflessness are the real servants of the common good.

However, Economic Man betrayed weakness on other than moral grounds. In the early twentieth century, the rejuvenated social sciences began to doubt his very existence, on quasi-scientific grounds. The comprehensive study of industrial workers at the Hawthorne Works of the Western Electric Company from 1927 to 1932, carried out by Professor Elton Mayo of the Harvard Business School and his staff, became a landmark along the route to a concept of Social Man. Mayo's work led to a demonstrable case against the concept of Economic Man, for he proved the response of workers to non-economic stimuli. In the succeeding years, psychology, sociology, and comparative anthropology would continue to reconstruct the nineteenth century concept, and the individualism in which it was founded.

How did the Ethic, which had motivated nineteenth century man, fare in the cooling climate? There was conspicuous abuse of it in the latter eighteen hundreds -- popularly known as the era of the "robber barons" in U.S. business -- which challenged its integrity. The blatant consumption and high living typified by Jay Gould and Jim Brady in New York -- the general rapacity and duplicity in business dealings -- were decadent to the Ethic, and there is at least some merit to the point of view that the barons were anomalies, throwbacks to an earlier feudal age. But in any case, this was a pathological aspect of life under the Ethic. Its general health is of more importance here.
Two recent observers have collected many diverse trends into a compelling, if not rigorous, account of the decay of the Ethic in the modern United States. William H. Whyte, Jr., of FORTUNE magazine, and Professor David Reisman, now of Harvard, have painted widely accepted portraits of the Organization Man and the Other-Directed Man. Both of these Men are hyper-sensitive to the expectations and preferences of other humans in their environment, and both fit well into the world that some social scientists now portend. If individual Man persists in retaining his coarseness and cannot be perfected, then the new and hopeful project is the perfectibility of Society. Whyte constructs the outlines of a new Social Ethic which may govern modern western man.

Thus goes the attack on Economic Man. Two bastions of the market system have been examined and found weakened. This leaves one of the crucial three -- the consumer who is both willing and able to exercise his preference in the marketplace. Here again, the intellectual observers tell of attack and erosion. To summarize volumes of current commentary, it may be said that, first, super-aggressive salesmanship has robbed the consumer of his initiative, i.e., he can be, and is being, manipulated. Second, as technology races on, the consumer is increasingly less competent to judge quality, or to communicate what he wants in terms of what the laboratory can give him. Further, the

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U. S. is now an Affluent Society, in which the consumers' vote is no longer effective in determining the ends to which production factors should be committed.  

The broad political philosophy of natural liberty also came under corrosive attack, along with the market system and the Ethic. The ancient theory of natural law held that right and wrong could be established by reasoning from the nature of man. It led to a theory of the sovereignty of the people, to a concept that any political, human sovereign (group or individual) cannot do certain things without contradicting the very reason for its (or his) existence. It was the stream of democratic thought stemming from natural law, propelled by Aristotle, John Locke, Jefferson, and Marshall, which played a key role in the founding of the American republic.

There was always another and opposite stream of thought. Thomas Hobbes was an articulate proponent of an absolute sovereignty, and absolutism could be applied to any form of governmental power—legislative, for instance. After 1900 in the U.S., new legal theories came into being, and were put into practice, which leaned far away from natural law and toward Hobbes.  

25 The noted legal philosopher Bertrand de Jouvenel in his 1957 book, Sovereignty: An Inquiry into the Political Good, advances the thesis that a legislative tyranny is forming over the democratic peoples of the world.
Corporate law moved in the same pattern. Professor Roscoe Pound of the Harvard Law School compiled a list of modern trends in Anglo-American law which contributed to a process he calls "the socialization of law." These were the principal trends:

(1) Growing limitations on the owner's use of his own property, and notably on the anti-social exercise of rights.

(2) Growing limitations on freedom of contract, limitations which of course go to the heart of the social mechanism of competition.

(3) Growing limitations on the owner's freedom of disposition of his property which again closely affect the competitive mechanism.

(4) Growing limitations on the power of the creditor or injured party to exact satisfaction.

(5) Liability without fault merging into the insurance principle of liability, making enterprises and ultimately the community as a whole responsible for agencies employed for their benefit.

(6) The increasing assertion of public rights in basic natural resources.

(7) The growing intervention of society through law to protect dependent persons, whether physically dependent or economically dependent.

(8) A tendency to hold that public funds should respond for injuries to individuals by public agencies.

(9) The replacing of the purely contentious conception of litigation by one of adjustment of interests.

(10) Increasing legal recognition of groups and persons in stable relations to each other as legal units instead of exclusive recognition of individuals and of juristic persons as their analogues. The collective labour contract and the trade union provide examples of this.

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This section has been only a brief review of some trends in the public consensus which have differentiated the present century from its predecessor, and which have contributed to the weakening of Ownership. Depending on the observer's value system and his degree of optimism, the changes can be described as a massive adjustment or as the first combers of a disastrous tidal wave of the future. The business manager with his heart in the last century may be excused for wistfulness or even sentimentality, but he can never be excused for ignorance of what has happened.

THE DECLINE OF OWNERSHIP

Ownership has been separated from control; and this separation has removed many of the checks which formerly operated to curb the abuse of wealth and power. And, as ownership of the shares is becoming increasingly dispersed, the power which formerly accompanied ownership is becoming increasingly concentrated in the hands of a few.

--Mr. Justice Brandeis, dissenting, in Louis K. Liggett Co. v. Lee (1933) 288 U.S. 517, 565

The previously cited Boston Manufacturing Company, formed in 1813 with eleven shareholders, represented a beginning. In the present, there are single companies with more than two million shareholders, and the New York Stock Exchange is electronically girding itself for the foreseeable peak day in the near future when it must handle a volume of transactions of eight million shares.
The problem in this section of Chapter I is to describe what has happened to the ownership of corporations from 1813 to the present. There is excellent data on how many shares of corporate stock are owned, and how many are exchanged; there is reasonably good data on the share ownership of the large investment institutions. But there is a dearth of reliable information regarding who owns how much stock in the United States, and in particular regarding the degree of concentration of stock ownership in relation to the control of corporations. In fact, the term "control" itself, although widely used in the literature (including publications of the Securities and Exchange Commission) is susceptible to varying definitions, and any good statistical study which purports to examine control should define it first.

The decline of Ownership as a force is chiefly a function of the decline of concentration of share ownership, or the decline of the percentage of a company's total equity owned by any identifiable group or individual. It might be suspected that as the total number of shareholders increases, concentration will decrease.

The rapid increase in the number of shareholders in the nation is well established. The vigorous program, sometimes called People's Capitalism, instituted seven years ago by the New York Stock Exchange has been bearing fruit. Its objective is 22 million U.S. shareholders by 1970 -- a reasonable goal. The 1959 census of shareholders gave the following facts: 28

28 These data are from Share Ownership in America: 1959, published by the New York Stock Exchange.
In 1959 there were 12,490,000 Americans who owned stock in publicly-held U.S. corporations. This was almost twice the 1952 total, 45% above the 1956 total.

1 out of 8 U.S. adults is now a shareholder.

The average shareholder has a median household income of $7,000. The median income is decreasing.

Women now account for 52.5% of all shareholders, and their predominance is growing at an increasing rate.

The median age of new shareholders since 1956 is 35, compared to a median age of 49 for all shareholders.

An estimated 1,335,000 of the total shareholders, or 10.7%, are members of labor unions.

1,235,000 or 9.9% of all holders, own shares in investment companies only. This figure has increased four times since 1956.

The U.S. Dept. of Labor classification Proprietors, Managers, & Officials, although relatively a small group, accounts for 1,982,000 holders, or 16.4% of the total.

These data indicate how many Americans are concerned to any extent (i.e., own at least one share) in the ownership of U.S. corporations. Significantly, there is no information here concerning concentration of ownership.

The Survey Research Center at the University of Michigan recently completed its 1960 Survey of Stock Ownership among American families (June 1960). It indicates that over 14 per cent of American families now own common stock, and the trend is decidedly upward. 40 per cent of these own stock in a single corporation; 20 per cent have a portfolio of seven or more issues.

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29 This means that there are more shareholders at this income level than at any level above or below it. There were 3,145,000 shareholders in the income range $5,000 to $7,000.
This Survey does yield some minimal new data on concentration. Of all U.S. families, \( \frac{2}{5} \) per cent have an income of over \$15,000 and are shareholders; this group of families owns 42 per cent of the value of privately held common stock. Somewhat less than 6 per cent of U.S. families have incomes of over \$10,000 and own stock; this group of families owns 64 per cent of the value of privately held stock.

A sophisticated attempt was made by the Brookings Institution in 1945 to determine quantitative information on concentration of share owning. Unfortunately, this work had been delayed several years during the war, and it refers largely to the prewar period 1937-1939. However, the data are still informative:

In 176 selected large corporations, the 20 largest stockholders owned 23.8% of the market value of the common stock. In the Manufacturing companies only, this figure was 25.8%.

Of the 176 large corporations, in 58 companies representing 43.8% of the total assets of the group, no dominant stockholding group could be identified.

In this study, where a "dominant" group was found, the extent of influence of this group was not interpretable. Further, the holdings of investment and other financial institutions were not separated in the categories, and these holdings were regarded as a force of ownership. Other corporations holding shares were in some cases classed as ownership groups influencing control. It required several assumptions, and vigorous interpretation of insufficient data, for the

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30 Robert A. Gordon, Business Leadership in the Large Corporation. In Chapter II, extensive use is made of data from Temporary National Economic Committee, Monograph No. 29, "The Distribution of Ownership in the 200 Largest Non-Financial Corporations."
Brookings study to reach its conclusions:31 (1) Probably less than one-fifth of the common stock of the selected large companies was owned, in 1937-1939, by individuals or groups in a position to exercise a strong influence on management. (2) The mere existence and size of some substantial minority holdings tells little or nothing regarding the extent to which stockholding groups actually participate in the function of business leadership.

More recently, a privately sponsored attempt has been made to determine concentration of shareholding in all companies listed on the New York Stock Exchange. This work was done by the staff of the brokerage firm of Hemphill-Noyes in New York in 1954, and is partially reported by Professor Ernest Dale of the Cornell graduate business school in 1960.32 Dale, in summarizing the mass of data in the 1954 study, with its unavoidable omissions, used the concept of "concentration ratio." A ratio of less than 10 per cent means that the amount of common stock in a given company owned by investment institutions, officers, directors, associates, and large stockholders is less than 10 per cent of the total. Such a company has highly diffused ownership, whereas a company with a high ratio may be under ownership control. Dale notes the several shortcomings of this approach, and

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31 Ibid., p. 45. This conclusion is roughly in accord with the 1932 study by Berle and Means, The Modern Corporation and Private Property, p. 115, in which they state that 34 per cent of the 200 large companies they observed were controlled through ownership.

the reader will be able to add to the list. However, when applied to a sufficiently large sample, the approach can yield a rough picture of concentration.

Dale, using the Hemphill-Noyes data, has computed a concentration ratio for the largest 200 companies (by sales) in the 1956 Fortune magazine list of the 500 leading industrial companies, as follows:

<table>
<thead>
<tr>
<th>Concentration Ratio, Per Cent</th>
<th>No. of Companies from the 200</th>
<th>Per Cent of the 200 Companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 10</td>
<td>61</td>
<td>30</td>
</tr>
<tr>
<td>10 - 19</td>
<td>71</td>
<td>37</td>
</tr>
<tr>
<td>20 - 29</td>
<td>29</td>
<td>14</td>
</tr>
<tr>
<td>30 - 39</td>
<td>12</td>
<td>6</td>
</tr>
<tr>
<td>40 - 49</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td>50 and over 33</td>
<td>24</td>
<td>12</td>
</tr>
<tr>
<td></td>
<td>200</td>
<td>100</td>
</tr>
</tbody>
</table>

Here again, while there is information, there is no definitive information on the force of ownership. Investment institutions may, and do, hold large blocks of shares in the middle and high concentration ratios, yet may be totally passive. 34 "Large stockholders," say twenty to thirty in number, have an indeterminate effect in the aggregate on the control of large companies.

Still more recently, Standard and Poor's Corporation has taken a look at ownership concentration in listed corporations. 35 Here, the

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33 One of the shortcomings is apparent in this category. Example: Western Electric is included in it, because of the very substantial holdings in this company by A. T. and T. Yet, A. T. and T. itself is a company with highly dispersed ownership.

34 The extent of holdings by investment institutions will be defined in Chapter II.

search was for "large holdings" in management, defined as beginning at 20 per cent and continuing up to 80 per cent. A list of 150 companies where large management holdings exist was published. There is one informative conclusion to be drawn from this investigation -- the 150 companies, while they are for the most part listed on the stock exchanges, significantly are not the same companies which are on the Fortune list, or any other list of the largest.

This leaves the present writer in the situation in which managers nearly always find themselves, that is, needing the answer to a question for which there is no definitive statistical data. The manager's usual recourse is to go ask someone who knows. In the interviews, and in Sloan seminars at M.I.T., ten eminent bankers were consulted about concentration of share ownership. Their answers were all in agreement, and might be paraphrased, "In the banking business, we now define 'substantial ownership' as 2% to 3% of the outstanding common stock. Even with this definition, we rarely find substantial ownership in the modern corporate world."

In the same vein, at least five of the senior corporate officers who were interviewed stated that there was no concentration of their company's stock as high as 1 per cent in the hands of any group or individual. All of the interviewees confirmed that highly diffused ownership is a fact of this era, although of course in the case of the younger corporations substantial and active ownership groups are still very much alive.

A rigorous study which discloses the extent of diffusion of stock ownership could be done, but no one has done it. However, the
fact of extensive dispersion, and the decline of concentration, is incontrovertible. The meaning of this for the present study will be examined in the next section.

**THE TWENTIETH CENTURY MODEL OF CORPORATE ACCOUNTABILITY**

Religion and law and creeds ought never to be made subjects of discussion by your majesty, for these are the concerns of prophets, not the business of Kings.... From the days of Adam until now they have been the mission of prophets and apostles, as rule and government have been the duty of Kings.... My advice is that your majesty should never talk about these matters.

---Advice to a sixteenth century Indian sultan from his counselor. Quoted by Arnold Toynbee in *A Study of History*.

The nineteenth century model of business accountability has been for some decades under serious attack, as described in the preceding pages. This attack has been leveled at all segments of the pyramid of accountability, at the top, the sides, and the bottom. At the top, ownership -- once a simple quality with simply defined prerogatives -- has become in the corporate world a quality that is hard to find, difficult to identify, complicated to define, with prerogatives that must be legalistically interpreted. More importantly, it is no longer taken for granted in the society as an anchor to legitimacy, as the unassailable bastion at the top of the accountability structure.

At the mid-section of the pyramid, the corporate manager finds himself with varying degrees of authority, but without the blessedly simple route of accountability upward to Ownership which his ancestor
enjoyed. At the lower levels of the pyramid, the employee finds well-defined channels of accountability, but he suffers from a lack of understanding of the whole structure. The summit, where the fortress of ownership used to be, is beclouded and often beyond his vision.

Corporate officers are realistic, and they are men of action. In the successive economic shocks of the early nineteen thirties, business leaders of vision began to propose modifications to the concepts of business responsibility. These modifications, and their subsequent refinements under the spur of a massive regulatory government, led to practices in corporate management which portend a new structure of accountability. In its projected form, the new accountability is an antithesis to the earlier form. Modern corporations tend to maintain roots in the old accountability while seeking to adopt portions of the new in widely varying degrees. However, the new model can be pictured, for the use of the president who wishes to approach it or avoid it.

Long before 1930, the stage had been set. In 1903, the Ford Motor Company finally began to be successful under the actions of Henry Ford, one of America's greatest businessmen who, although a strict puritan, was never an Economic Man. He was profoundly motivated by factors outside the marketplace -- by his desire to use the machine as the New Messiah\textsuperscript{36} which would lighten the burdens of the

\textsuperscript{36}These are Ford's own words. His title for Chapter I of his 1921 book, \textit{My Philosophy of Industry}, was "Machinery, the New Messiah."
workingmen and the farmers of the world. He made the thoroughly un-
classical concept which blended the employee and the customer as the
same man. In 1914, he single-handedly implemented a startling, un-
precedented (and again unclassical) management practice, when he
declared to his Board that his company would henceforth pay $5.00 in
wages for an eight-hour day. He was a pillar of Ownership, but he
would not act in the marketplace according to the old precepts of
ownership. And it is safe to say that the men of his age who tried
to share ownership with him, as shareholders in his company, were
very often violently in disagreement with him.

Ford's own concept of corporate accountability was broader
than that of the nineteenth century model. In 1919, when he tried to
share profits with customers by sharply reducing prices, he found a
fact of the law which is still true today. His shareholders sued
him, and the opinion of the trial judge is meaningful: 37

...a business corporation is organized and carried on pri-
marily for the profit of the shareholders." Also, the court
said that the directors cannot lawfully "conduct the affairs
of a corporation for the merely incidental benefit of the
shareholders, and for the primary purpose of benefitting
others....

But businessmen would persist in thinking ahead of the law.

One of the early signs of cleavage in professional management thinking

37 Before this act, top industrial wages in the U.S. had never
exceeded $2.50 for a nine-hour day. A very good account of Ford's
Board Meeting on January 1, 1914, is contained in Father R. L.

38 Dodge vs. Ford Motor Co. 204 Michigan 459, 170 N.W. 668
was revealed in a speech by Owen D. Young, then Chairman of the General Electric Company, in an address in 1929.39 Young spoke of the conflict he felt in choosing between two roles. In the first role, the director was an attorney for the shareholder, retained by the shareholder and devoted to his interests. In the second role, he was a trustee for the corporate institution, and as a trustee he had several responsibilities. The first one was to the providers of capital, to whom he owed the safe use of their capital and an adequate return for its use. Then he also had obligations to the employees of his institution, to the customers it served, and to the society and government in which it existed. By implication, these responsibilities were near equal in importance, or at least any one of them might be subordinated to the others at a given time.

In these remarks, Young professed his leaning toward the latter of the two roles, and he became one of the first businessmen to talk openly of multiple objectives. Also for the first time, a business manager had spoken seriously of an old concept which was now to become the crux of the accountability problem -- the concept of Social Responsibility.

In the early thirties, the Swope Plan was formed, to induce American business to take the lead in implementing "social responsibility," to head off drastic government intervention in business. In this decade, organized labor in the United States won its immunity,
in the eyes of the law, from the competitive aspects of the market system, and "combination in restraint of trade" became an offense of which Labor could not be guilty. During these years of a semi-paralyzed economy, which would not resume working as classical economics stated it should, the regulative force of government planning reached a new high.

Then, in the immediate postwar years, a refined theory of corporate accountability began to take shape. Its most articulate spokesman was Frank Abrams, Board Chairman of the Standard Oil Company of New Jersey, although it is said that the theory was put together by a public relations firm. Management was viewed as the arbitrator who sits in judgment to determine the "balanced best interests" of the several publics of the corporation. This role of arbitrator has unfortunately been confused with the concept of the professional manager: 40 "The professional management approach requires a dedication of the man's self and service not only to the owners of the business through his board of directors, but also as a steward to the company's customers, its industry, its employees, and to the community at large."

With this background, the twentieth century model of corporate accountability can be outlined. The hired manager, in the form of

40 Ralph J. Cordiner, New Frontiers for Professional Managers, p. 16.

41 Richard Eells, of the Columbia graduate business school, has termed the typical company in the new accountability a "metrocorporation" or mother corporation which takes care of a "numerous brood." See his The Meaning of Modern Business, Chapter III.
a chief executive officer without substantial stockholding in the company, occupies a pivotal position in the new structure. He has no single orientation in answerability, as formerly; rather he is oriented toward the several groups who are contributors to, or claimants on, the company. There is no pyramidal structure here, with a "top," and the analyst is immediately reduced to the position of the political philosophers of the seventeenth century who tried to chase down sovereignty to its ultimate location. The arrangement is not linear, but circular, and in reality there is no sovereignty. Hence the statement that the corporate chief executive officer is at the pivotal location. He is senior, and thereby most accountable, within the corporate structure, and he dispenses the benefits from the corporation's work to the shareholders, the customers, the employees, the business community and his suppliers, and to the community at large. Yet he is dependent upon these publics in the aggregate, and he can be deposed by their displeasures, combined in any of many proportions.

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42 Thomas Hobbes, op. cit., and Jean-Jacques Rousseau, in The Social Contract, speculated at length about the location of sovereignty. To solve the circular nature of the problem, and still maintain a sovereignty, Rousseau invented the concept of a supreme General Will to crown the structure. In Jacques Maritain, Man and the State, the thought that there is no true sovereignty in the political sphere is elaborated. See pp. 49 ff.

43 In law, the directors are of course solely liable for the conduct of the corporation. The directors have fiduciary duties of loyalty and care, and these are owed to the corporation itself. An overt action which will depose or constrain corporate officers must therefore come from discontented stockholders who have succeeded in legally establishing themselves as representatives of the corporation. But this final overt action will have been generated from the publics, as discussed above. The law still views corporate accountability in the simpler terms of the nineteenth century.
In this structure, the corporation is still a private organization (with its stock publicly held) and by the economists' classification it is still in the private sector of the economy. But the old conviction that each group in the society, including the government, should "mind its own business" is missing. The corporate leaders are concerned with large issues of public policy, with the health of their industry, and with the health of the economy of the United States. (It is easy to foresee that in the near future they will be vitally concerned with the health of supranational economic organizations, such as the European Coal and Steel Community, or Euratom.) Moreover, the corporation now regards public policy as an area in which it has a right to intervene and a duty to aid in formulation, by lobbying, testifying before public bodies, and other political techniques. Governmental agencies are suppliers of required services, such as law and order, or public education; they are also important customers.

In the twentieth-century accountability, the corporation never absolves itself of moral responsibility by stressing the fact of control by impersonal market forces. It attempts to be high-minded, philanthropic, and generally to assume social responsibility for its actions. It does not confine these actions to narrowly defined business purposes. Above all, it avoids cynicism in its dealings with people.

The existence of power within corporations, and over employees and suppliers, presents ethical questions which, even in this model of present accountability, have not been fully answered, nor have they ever been in the history of human institutions. However, this corporation
inevitably tries to develop an internal government which is compatible with the ideal of the democratic environment. For example, it ceases once and for all to regard Labor as a factor of production, and will in time evolve some scheme of relationship with the Union other than open conflict.

Generally, in this form of accountability, the corporation subscribes to the most advanced hypotheses in the development of social perception. A few years ago the concept was Participation, which meant that the employee could contribute more than he was contributing to the corporate efforts and should be allowed to do so. Now, the ideal is broader, and might be labeled Fulfillment, meaning that the employee is capable of being much more than he is and the corporation should develop him to his full potential.

This corporation approaches some form of constitutionalism, in which democratic process and suffrage is instilled in varying degrees within its government. It may demand lifelong loyalty from its people, and in turn grant them protection, security, status, even diversion, education, and other non-economic perquisites. In short, it becomes a lesser society, a private government.

The reader will find areas for concern in this projected, oversimplified model of twentieth century accountability, just as he observed undue narrowness in the older model. But the intent here is to illustrate two ends of a spectrum, and not at this point to inject commentary or values. The twentieth-century pattern of accountability has undoubtedly been approached more closely by some companies than others. The next chapter will be devoted to the real status of corporate accountability in 1961.
CHAPTER II

AN ANALYSIS OF CORPORATE ACCOUNTABILITY -- 1961

It will take sustained thought and sustained effort to create an effective world economy that can replace the one which expired in 1914.

-- Eugene V. Rostow
Dean of the Law School
Yale University
in Planning for Freedom, 1959
CHAPTER II

AN ANALYSIS OF CORPORATE ACCOUNTABILITY -- 1961

INTRODUCTION

The use of models which portray real conditions has long been a practice of the engineer, and these models have been particularly useful in studying the dynamics of changing situations. This type of analysis of the changing structure of business accountability was made in the preceding chapter.

However, a model is of limited usefulness in determining the actual status of a complex situation at any given moment in time. In making this kind of determination, the role of analysis becomes important, and a hard look at the collected facts is in order. The balance sheet for corporate accountability -- a statement of position as of the present -- is set forth in this chapter.

Before the balance sheet is constructed, the more recent allegations of a lack of accountability in corporate managements will be considered. The important nature of the constraints which act upon modern corporate managements will be evaluated. Also, it will be necessary to examine the present role of the Institutional Investor -- the intermediary in ownership -- and his effect on accountability.
The first duty of a writer is to let his country down. He knows his own people the best. He has a special responsibility to let them down.

-- Brendan Behan, to a reporter, 1960

In the recent business literature, there have been many outright allegations that the managers of major U.S. corporations are accountable to no one. These charges are couched in temperate language, and can be easily differentiated from the usual demagogic attacks which business leaders have been conditioned to ignore. It is difficult to ascertain the precise foundations underlying these recent charges. Because they have been formed by scholars, one might assume that they would be based upon factual analyses. However, an assessment of the charges might lead an objective observer to conclude that they are based upon informed intuition at best. In the view of this observer, the existence and publication of these allegations is in itself cause for concern.\(^1\)

The statements regarding lack of accountability will be considered here. Excerpts from them will be generously quoted, in order to allow the reader to sample their content more directly, and more readily render his own judgment concerning their validity.


\(^2\)In Chapter IV, the thesis that there may be more harm in the existence than in the substance of these types of allegations will be examined, along the lines suggested by Joseph Schumpeter. See pp. 189 ff.
The first voice belongs to the grandfather of the critics of accountability, Adolf A. Berle, Jr.—eminent attorney and student of the law, professor, Board Chairman, copious author, and New Deal political administrator. During the nineteen twenties, he commenced writing in periodicals concerning the responsibility of corporations. In 1932 he engaged in a classic debate with the late Professor E. M. Dodd, Jr. of the Harvard Law School, in which Berle advocated that managers are trustees primarily for their shareholders, while Dodd argued that they have a much broader trusteeship oriented to the community at large. More recently, Berle's position seems to be that the managers have in fact become trustees for the entire community, so they had best make themselves accountable by learning to respond to the public consensus.

Berle's thirty-five years of work have indeed shed light on the status of accountability in U.S. corporations, regardless of the soundness of his conclusions. He has pointed out the rapid emergence of the investment institution as the great Owner of the modern business world. Speaking of this emergence, he wrote:

Two things can happen. One, more or less absolute power can be frozen in the corporate managements. Two, the institutional trustees can themselves freeze onto this power. But in either case, the traditional role of responsibility is being eliminated. We no longer will have a group of financially-interested stockholders to which each corporate management must account.

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3 1932 was also the year of publication of Berle's classic, The Modern Corporation and Private Property, co-authored with Gardner C. Means, and still much quoted as an earlier reference on the decline of ownership.

4 Adolf A. Berle, Jr., Power Without Property, p. 56.
He also was able to perceive the phases of accountability, and the effects of attrition upon ownership, and to document them to some extent. Defining "control" as "quite simply the capacity to make or unmake a board of directors," he portrayed four phases of control:

Phase 1. Absolute control, represented by the family companies.

Phase 2. Working control, where there is a close bond between a few strong elements of ownership and the members of the board of directors.

Phase 3. Management control, where the board regularly expects the majority of shareholders to follow their lead.

Phase 4. Here the fiduciary institution emerges, and dispersed shareholding once again tends to become concentrated. Voting power becomes concentrated in these institutions, while beneficial ownership is even more widely dispersed to the beneficiaries of the institution (for example, members of a pension trust).

Berle cannot have written so profusely regarding the modern corporation without making his general conclusions at least implicit, and his conclusions are probably the most important of any of the gentlemanly critics. His first such conclusion was that the established separation of ownership from control was making the managers free of restraints from owners and from the edicts of the classical market system. Next, this freedom from older constraints was leading to changes in managers' behavior and in corporate performance. Finally, these effects were becoming increasingly important because the assets of the U.S. were becoming more concentrated in the hands of these large corporations.

One of Berle's more eloquent views is set forth in his recent work for the Fund for the Republic:  

....these 500 (U.S. corporations) -- each with its own little dominating pyramid within it -- represent a concentration of power over economics which makes the medieval feudal system look like a Sunday school party. In sheer economic power this has gone far beyond anything we have yet seen.

Another commentator on corporate accountability is Ernest Dale, professor at the Cornell graduate business school and management consultant in New York. He remarked in an address before the American Economic Association in December 1960:

But, if we are to be true to our most fundamental traditions, we must insist that power have some place to which it is answerable. As it is well known, this tradition is not being honored. Increasingly the top managements of large corporations are beholden to themselves alone. In the short-run there is little in the way of effective machinery to check on the use or abuse of power by corporate executives. In the world of blue chip oligopoly, competition, publicity and public opinion may at best be long-run forces and the run may be very long for managers who enjoy surpluses accumulated by their predecessors, who serve as their own auditors, and who select their own boards of directors.

(Can not underline. Underlining added)

Carl Kaysen, Professor of Economics at Harvard, writes often in this vein:

In the evolving giant corporation, managers possess great scope for decision-making unconstrained by market forces, and nowhere more so than in their decisions with respect to future growth and change.... Formally speaking, management in making these decisions is responsible only to itself.... No matter how responsible managers strive to be, they remain in the fundamental sense irresponsible oligarchs in the context of the modern corporate system.

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6Professor Dale puts forth similar thoughts in his book, The Great Organizers, Chapter 6, "To Whom is Management Accountable?"

Professor Edward S. Mason of the Harvard Law School states:  

What Mr. Berle and most of the rest of us are afraid of is that this powerful corporate machine, which so successfully grinds out the goods we want, seems to be running without any discernible controls. The young lad mastering the technique of his bicycle may legitimately shout with pride, "Look, Ma, no hands," but is this the appropriate motto for a corporate society?

Gerard Swope, former president of the General Electric Company, is quoted that he agrees that directors and stockholders provide no practical curbs on management.... Management today does define its own responsibilities. It depends on the personal factor of the president in each case. It depends on whether he is selfish and narrow or broad and has a sense of stewardship.

The literature abounds with many more examples of the conclusion, drawn with some air of finality, that top management accountability is nil. Congressmen, retired executives, and lesser academic lights have jumped on this rolling bandwagon. But the examples cited are sufficient to make the point.

Aside from these charges, which are framed within the political-economic area of the corporation and its relation to the society, there is another school of criticism now being leveled which does not appear to be run-of-the-mill demagogy. This school is typified by Scott Buchanan, former president of St. John's College, and by Earl Latham, Professor of

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8Edward S. Mason, in the Introduction to The Corporation in Modern Society, 1959, p. 4.

Political Science at Amherst College. This attack, although now only incipient, may prove to be the most serious, because it may be the most difficult with which to contend. It is only marginally "gentlemanly," particularly in the case of Latham, but it should be considered here.

This new sortie, not yet well articulated, is framed in the area of the internal government of the large corporation. Latham believes that power is used within the corporate government in a way which "substantially violates the prevailing values of American democracy." Buchanan notes that the corporation may be the "school of political prudence in which we learn not to practice what the political republic has always preached." If the thread of this thinking is projected, it will be found to be again a charge of lack of accountability to the society, this time in terms of the effects upon human beings who work for the corporation. Undoubtedly this concern is sincere, in view of the backgrounds and qualifications of the plaintiffs, and is directed toward the kind of human being which these plaintiffs fear is being formed by the corporations to which he belongs.

This section has become a resume of current, more or less informed charges against the status of accountability in the modern corporation. Within the remainder of this chapter, the accuracy of the charges of managerial freedom from constraints will be evaluated. The potentially more serious allegations regarding the effect of company governments upon

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employees will be evaluated in Chapter V. In concluding this section, one can only note the remarkable, if not amazing, differences in outlook between those who dwell within the modern corporation, and those who observe it from afar.

THE NATURE OF THE CONSTRAINTS UPON MANAGEMENT

The principles and practice of big business in 1959 seem to me considerably more responsible, more perceptive, and (in plain English) more honest than they were in 1929.

-- Adolf A. Berle, Jr.

1959

The business leaders who were interviewed in preparation for this thesis were preoccupied with the total nature, and the effects in the aggregate, of the constraints upon their decision-making processes. There were no remnants in their thinking of the economic determinism of an earlier era, i.e., the theory that the market system completely determined a manager's strategic reactions. In only one case was there an attitude approaching the social determinism pictured by Chester I. Barnard a few years ago.12

The opinions of the interviewees represented a rough spectrum of thought,13 one end of the range feeling that the total constraints were

12 In 1949, Mr. Barnard outlined this point of view in an address before the Harvard Research Center in Entrepreneurial History. Because of his eminence in management, the concept was widely discussed. In general he felt that the "power" of chief industrial executives was largely illusory, because their latitude and discretion were so narrowed by the total social pressures upon them.

13 It is not intended anywhere herein to imply that this work represents a sampling of executive opinion from which statistical conclusions may be drawn. It is merely a qualitative sampling of the thoughts of men who occupy important positions in U.S. industry.
actually endangering entrepreneurial progress because of the restrictions upon discretion, and the other extreme feeling that the constraints were not sufficient to protect business from the shallow or dishonest self-seeker. These opinions may be typified as follows: 14

Chief executive officer, very large utility: This emphasis upon check and balance of all industrial power in the country has taken us to the point where we are badly over-organized, almost neutralized. Our industrial virility is at stake.

Chief executive officer, another very large utility: There is a man who holds a most responsible position in this city in offices just a block from here. His income is substantially over $100,000. He has never contributed any funds, nor any of his time, to any worthwhile cause -- charity, community, industrial association, nor any other. He is accountable to himself, but importantly only for himself. The system may eventually get him, but it will take much time. He is not fit to be the chief executive of a modern, public corporation.

However, the large bulk of the industrial executives, bank and financial institution officers, consultants, and business educators did not express themselves strongly upon the over-adequacy or inadequacy of the total constraints. They did unanimously feel that the moral responsibility of large business had "immeasurably," "substantially," "many-times" improved since the days of the depression, and they were willing to concede that external regulative forces counted for much in this improvement. Again, in all cases, these men believed that the total constraining forces acting upon them were subtle, complex, large in magnitude, always present, and always felt. In many cases, they gave examples of the frustration and irritation which builds up over the

14 All opinions of interviewees used herein will be paraphrased, not quoted.
irrationality of some of the regulative forces, but no one type of con-
straint seemed to be singled out in these comments.

Each of the following types of constraints was mentioned in one way
or another during all of the interviews. No attempt is made here to list
them in any order of importance, except in the case of the first four
which were undoubtedly the most important in the outlook of the interviewees.

1. **The effects of competition** (however the economists may
classify the type of competition) in the industry served is
a powerful and perpetual constraint. The competitive forces
were depicted as vigorous, and acting in the areas of price-
cost relationships, share of market, innovation and new
products, and the substitution of one good or service for
another.

2. **Inward accountability** is a required quality in a senior
executive. The long-term effects of professional management
training, long process of selection and survival, and arduous
performance demands have produced a breed of top executives
who are in 99 per cent of the cases morally responsible,
effective, and can be entrusted with the power which is re-
quired at the helm of a modern corporation. The bearer of
this power not only feels acutely the consciousness of
fiduciary duty in the heritage of the Trustee, but also the
strong and growing new force in the ethics of the profession
of management.

3. **The necessity to please the shareholders and their analysts,**
by adequate performance (the crucial ingredient) and in count-
less minor ways. Shareholders may not usually be a Force, but
they are an ever-present Spirit. Their displeasure can always damage a company's reputation, but at times when equity capital is sought in the market this displeasure can be expensive. The sharply growing number of analysts, and the growing holdings of sophisticated investment institutions make this a demanding task. (4) Recognition by one's peers is a powerful influencing force. In the "political world" in which top managers live, their achievements and their mistakes become readily known to the whole world-wide fraternity of peers. The approval of this group for effective performance is a meaningful reward; its censure for ineffective performance is to be avoided at all costs. (5) Compliance with national and state legislation; anti-trust, labor, all the regulatory commissions, other laws. (6) The demanding concept of Service to the Customers, beyond their immediate and minimum needs. (7) The necessity to build a positive structure of personnel relations in their companies, with all employees, from the professional to the unskilled, organized or unorganized. (8) The regulations of the Securities and Exchange Commission requiring full disclosure, appropriate handling of shareholder proposals, rigorous voting procedures. (9) The regulations of the several Stock Exchanges governing listed companies. (10) The necessity for favorable relations with the suppliers of long-term debt capital.
(11) The **continuous maintenance** of a **capability** to serve those civil and military agencies which determine the needs and purchasing policies of the federal government.

(12) The **maintenance of a favorable posture** generally in the whole community, with educational institutions, civic groups, charitable agencies, trade associations, scientific and engineering associations, **management groups**, others.

(13) The **constructive fear of stockholders' derivative suits** ("strike" suits), and beyond that the specter of the corporate raider.

Some of the comments of the business leaders regarding these constraints are of interest. An interviewer must be impressed with the all-pervading nature of the competition which is felt by these executives (except in the regulated utilities, where the concept of **service** replaces it). Nowhere is the gulf between academician and practitioner wider, nor more opaque. The executives have never understood the terminology nor the substance of the elaborate structure which economists have built over the old, non-existent "perfect" competition. Such terms as "oligopolistic competition" or "quasi-monopolistic competition" have a meaning only within the esoteric confines of academic institutions. The executives are aware that these terms have powerfully adverse connotations which can be used easily by the political exploiter, and they tend perhaps unfairly to blame the economist for this. But the important point is that an executive who is always on the battle line of a competitive war cannot accept the economist's continuous charge that there is weakened or no competition in his industry. This is an interesting semantic swamp which might deserve
some examination in its own right. Within the swamp the practitioner of strategic business management is being steadily drawn away from real communication with the economists.\textsuperscript{15}

In the area of shareholder relations, there was universal agreement regarding the obeisance which management owes to the individual shareholder, although there were some varying points of view on the extent of this shareholder's non-monetary contributions, if any, the effectiveness of the company. The executives were all aware that the records of the New York Stock Exchange verify a complete turnover of total listed stocks every five years, leading to the important conclusion that the stock of any one company is at a given moment in the hands of those investors who have approved the basic policies of the company, at least implicitly, by the act of purchasing. Also, it means that long-term strategic decisions should not necessarily be established to reflect the wishes of the shareholders at the moment.

Chairman of the Board, large electronics manufacturing company: The average individual shareholder has only two interests in this company -- his immediate dividend return, and his long-term return in the form of appreciation. Occasionally he will demonstrate some interest in the overall image which the company presents to the public. Beyond these factors, he has no interest in what happens to us, nor in our operating problems.

\textsuperscript{15}There were at least three unsolicited comments during the interviews, from bankers and industrial executives, regarding the valueless function of the economist insofar as the individual corporation is concerned. The allegations were that the economist, while he may contribute in the study of the whole economic structure (macro-economics), totally lacks an understanding of the true motivations within the firm (micro-economics).
The statement noted above was made in the interviews so often that it is probably representative of the views of most executives. It emphasizes the one-way aspect of the modern ownership, in which the shareholder is interested in returns but not the responsibility formerly associated with owning. However, no general disapproval of this situation was indicated, and certainly no interviewee indicated that he wanted the shareholder to exhibit more "responsibility."

U.S. Senator, former Board Chairman: The stockholders bought in to my company because they trusted me. I don't want any advice from them about how to run the business.

President, manufacturing company: This whole thing is analogous to the representative form of democracy. If the Board of Directors is functioning properly, the individual shareholder has no need to exercise any responsibility, because his interests are being taken care of. When trouble comes, then he should take his own action. And believe me, he does.

Chairman of the Board, utility company: By now, every investor should know, or be able to find out, what our company's position is regarding dividends and other management policies. We only want the kind of shareholder who approves of this position. If a shareholder doesn't like our policies, he can find plenty of companies with different ideas and he can invest in them.

Executive Vice President, petroleum company: Our shareholders are often constructive, at least constructively intentioned. Some of their suggestions have been helpful.

President, holding company: When our stockholders show interest in our operations, it's too often some form of self-seeking. Usually they want to sell us something, or they may want employment for someone they know.

President, utility company: Stockholder suggestions are often destructive. For example, at the last annual meeting a small stockholder group tried to destroy our management retirement plan which we have set up for the many managers in this company. We don't have annual bonuses, and our pay scales are only marginally competitive with manufacturing industries. It's becoming increasingly hard to attract well-qualified young men into this company. We can't preserve
the company unless we have something to offer these young men, and if the retirement plan had been destroyed it would have been disastrous. Some of the stockholders thought they would have to wait too long for the payoff in this kind of an investment.

Vice President, Finance, international manufacturing company:
Individual shareholders are somewhat of a disappointment at the annual meeting. About 80 per cent of the comments are from uninformed hecklers, or from potential blackmailers who want to cram some order down our throats. The remaining 20 per cent are from nice dilettantes, like the lady who got up to compliment the Chairman on the color of the drapes in the meeting hall, or to tell him that she liked the article about his daughter which she had seen in the society pages. It's been a long time since we've had any intelligent discussions between the table and the floor at an annual meeting.

In this picture, the constraints offered by individual shareholders are sometimes real, sometimes inconsequential. The relationship of management to the institutional investor-owner, and to the organized shareholder group, is however another matter and will be discussed in a subsequent section of this chapter.

At this point, the question of the effectiveness of these many constraints remains unanswered. Do they provide an effective accountability? In the economic dimension, this is or should be a comparatively simple question. It reduces essentially to these two aspects: Are these constraints in the aggregate sufficiently forceful to induce socially desirable management performance? And, are the constraints against socially undesirable performance adequate to prevent it? The question will be examined later in this chapter.
THE PRESENT RELATION OF OWNERSHIP TO ACCOUNTABILITY

Managements need someone to ask embarrassing questions, at least once a month.

--Chairman of the Board,
Manufacturing Company
Personal interview, December 1960

In the preceding section, it was apparent that management is not receptive to shareholder participation in operating decisions. Yet management obviously feels a strong sense of fealty to the individual shareholder, which calls for a great amount of deference to him at the ceremonial Annual Meeting and at all other times during the year.

President, utility company: It's a rare day that I don't have one or more stockholders calling on me in this office. We usually discuss the general outlook for the company, although we may end up chatting about almost any topic. It would be interesting to know what these daily stockholder chats here, and with the other officers, cost the company each year. We know precisely how many hundreds of thousands our formal and informal stockholder communications cost each year. Yet we feel that it's all well worth it.

Part of the reason for management loyalty to the shareholder is obvious, in that he is the supplier of equity capital16 for the corporation. But there would appear to be more to the answer.

President, manufacturing company, former general manager of large agency of the Federal government: When I was with the government, we had all learned to scoop up our papers

16 In 1959, net new issues of all kinds of corporate securities accounted for 17 per cent of the total Sources of Funds for U.S. corporations. Recent yearly experience would indicate roughly that about one-fifth of this, or about 3 per cent to 5 per cent of total Sources, is provided each year by common stock issues. See Economic Report of the President, January 1960, Tables D-60 and D-62 (Washington: Government Printing Office, 1960), pp. 224 and 226.
on short notice and go to Capital Hill for a grilling. There, a wrong answer or poor planning could be disastrous, could in some cases even lead to the cancellation of entire programs. Now, I am continually amazed by the chairmen of companies in their arduous preparations, and perspiration, before annual meetings. In my view, these meetings are usually attended by a group of poorly informed, relatively powerless people, and I've never seen much action result from them, good or bad. Yet preparing for them is a ritual.

A definition of the nature of this obeisance to shareholders was sought during the interviews, but it was articulated only indirectly. Ownership in the corporate environment is now a simulated quality, but still an important and constructive one. This synthetic brings some of the intangible rewards of ownership to shareholders, but more importantly it brings legitimacy to corporate managements. Thus the shareholder is the agent of legitimacy for management, and as such he is deserving of deferential treatment. As the number of shareholders grows, these agents become more dispersed throughout the population, and more representative of the population. The anchor to legitimacy is thereby strengthened in a sense, even though such growth dilutes ownership.

Besides legitimacy in the eyes of the law and the public, the shareholder gives to the large business corporation the priceless mantle of the private institution. This corporation, and its management, are thereby sheltered from the full extent of the governmental regulation which falls upon the public institutions -- the large federal and state agencies -- and the semi-public institutions, such as the New York Port Authority. This mantle may well be the most valuable possession of modern management in large business corporations, because it retains for it the entrepreneurial latitude and freedom which fosters the generation of wealth in a market economy. (There has of course been a long-term trend
over the past seventy years to reduce this protection, and the large business corporation has steadily approached the public institution in degree of regulation.)

While management fully recognizes this indebtedness to the American Stockholder, it is at the same time in the unfortunate position of only rarely being able to heed the stockholder's advice. One is reminded of the King in a modern monarchy, who enjoys the adulation and deference of his populace, draws his stipends, presides at certain ceremonies, yet is courteously ignored should he ever indiscreetly venture near the parlia-

But wherever recognizable blocks of stock are held by an individual or a small cohesive group, a different situation prevails. This situation is found less and less frequently in large corporations as the base of ownership is steadily eroded by the attrition of the estate tax, the antitrust laws, and the process of dilution through growth. Yet it still exists in some places, and is still of value as a device to illustrate the relation of ownership to accountability.

The accountability of ownership is a matter of some controversy, as evidenced during the interviews for this writing, and in the literature.

Chairman of the Board, mining company: My brother and I still hold about 10 per cent of the stock in this company. But we are the last of the owners -- the current president is a hired manager, an engineer who has been with us for years. I sincerely believe that he, and our other officers, feel the same responsibility for this company that I do, by virtue of their office.... I suspect that if you pinned me down, I might admit that my owner's sense of responsibility is a little "expanded" over theirs.

Management consultant: Does your question imply that the old accountability to ownership was superior to the present account-

ability, whatever it may be? I can't go along with the sentimentalists who long for the good old days of the big owners.
They (the big owners) perpetrated most of the sins for which business is still being crucified daily by all the anti-business factions. Life may have been simpler then, but that's the only good thing I could say about it.

President, utility company: I'll tell you where I learned about accountability. I was singularly fortunate. Twenty years ago in this company I worked for an owner. He had clear control, and he was knowledgeable in our business too. It was the best training in the stewardship of someone else's dollars that I could have obtained, and I often wonder how the new generation of managers will be able to overcome the lack of similar training in their backgrounds. When I read about the company which had to sell seven airplanes in the recent business downturn, I ask the obvious question: By whose bad judgment did they ever acquire seven airplanes?

Ownership can be a dubious steward, in the eyes of many observers:

Many of the vacent textile mills in the South today are vacent because stockholders, often concentrated within the controlling family, insisted on high dividends at the expense of the business' future.17

Dean, graduate business school: The large family-owned corporations in India are an interesting example. Many of them are not wealth-producing organizations for the society; they are private vehicles for the speculation of the owners. They are also a place to plant the members of the family in one sinecure or another, and to take care of the retinue of faithful followers.

A prominent investment firm takes a questioning look at ownership:

Firms with stock-owning managements may not always be a good investment -- the assurance of control might make for complacency or otherwise work against objective judgment.18

In one area there was unanimous agreement among the executives, bankers, investment officers, and consultants. They all believe that stock ownership makes better top managers, and they approve of the restricted


stock option plan as the only feasible means of achieving adequate holdings by hired executives. These are representative comments:

*Chairman of the Board, investment fund:* We want to see effective stock options in companies we hold. If we don't find them, we sometimes suggest that they be instituted.

*Chairman of the Board, utility company:* Although we didn't have management bonuses or other incentive pay, we always hoped that our executives were putting forth their best efforts. Then we set up a restricted stock option, and I would say that within a few years it has transformed our whole management philosophy, much for the better. The results are proved in the company's performance records.

*Vice President, New York Stock Exchange:* If you want to gain a real insight into stock option plans, examine the plans which have been put into effect by large family-controlled corporations, like the Ford Motor Company or Sun Oil. Family owners are not known for throwing their money away, but they are consistently liberal in the terms of their options with their hired executives. These families believe that the option is a most effective way of securing optimum management performance.

There are no comprehensive factual studies which relate the management participation of owners to company performance. However, a start in this direction was recently made by Ernest Dale,¹⁹ who uses the term "partial proprietor" to designate anyone holding enough stock to exercise direct influence on management. His surveys indicate that partial proprietors still sit on the Boards of slightly more than half of the 200 largest corporations. These include the cases where the partial proprietors represent ownership by another corporation, for example, the five duPont directors on the General Motors board before the divestiture action.

¹⁹Ernest Dale, op. cit., Appendix to Chapter 6, p. 239.
Dale believes that these active part-owners can make substantial contributions to management. They have well-developed business acumen, the marked ability to nurture and use executive talent, the power to be independent, and a high capacity to serve constructively as directors. Unfortunately, he does not show that these qualities (except the one related to independence) are in any way unique to proprietors.

Nevertheless, to support his contention Dale has made an elementary study relating company performance to partial proprietorship, using the Hemphill-Noyes data cited in Chapter I of this report. The study covers the 200 largest firms, by sales, in the 1956 and 1957 Fortune listings, and the performance indices are profits as a per cent of sales, and as a per cent of investment. His computations tend to show that companies in which identifiable owner interests hold an intermediate percentage (10 per cent - 50 per cent) of the voting stock perform better than companies in which these interests hold no substantial number of shares (less than 10 per cent) or hold a dominant interest (greater than 50 per cent). The study is, by his own statements, far from conclusive. For a discussion of its limitations, see Chapter I herein, under "The Decline of Ownership."
I would say I spend a substantial amount of my time with the three companies where I'm a so-called outside part-time director. And I do not applaud at all those directors, of which I'm afraid there are far too many, who dash to a meeting, collect a fee...and run away. I don't like that at all.

---Participant in the Symposium on directorates, Columbia University Graduate School of Business, 1957

Any examination of the Board of Directors can only be approached with hesitancy, since it is by all odds the most over-examined institution in business. Yet the task cannot be avoided here, because the Board and its function are crucial to the study of corporate accountability. If the directorates of U.S. corporations were fulfilling to the highest degree all the expectations in the law, custom, and the business school literature, then it might be said that, although the question of corporate accountability would still exist, the answers would be generated automatically. The Board is the agency of accountability for the corporation.

It has been generally agreed that any Board comes to exist as a guardian for the shareholders' interests. Does the declining vigor of the ownership role weaken this linchpin of the Board's charter, or at the least confuse the charter? And, if this is true, is there any resultant weakening of the "representative democracy" analogy, under which the shareholder need assume responsibility only at times of a "change in government"?

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20 The proceedings are available in Courtney C. Brown and E. Everett Smith, The Director Looks at his Job, 1957.
A very brief review of the foundations of the Board will be helpful. The director is in a unique legal category which no one else occupies. He is, personally, not an Agent of the corporation because usually he does not act independently but as a member of a group. Nor is the Board an Agent of the corporation, unless the law of agency is revised to permit the Agent to control the Principle. Also, neither the director nor the Board are legally Trustees, because they do not hold title to the corporation's properties, and thus the essential element of trust -- the corpus or res -- is missing.

However, like the Agent and the Trustee, the director is a fiduciary. His fiduciary duties are not easily interpreted, and vary from state to state, and in different corporate charters. The important basis of these duties is that they are primarily oriented to the corporation itself. As the California Corporation Code\(^{21}\) puts it, "...directors and officers shall exercise their powers in good faith, and with a view to the interests of the corporation." This means that his fiduciary duties may be construed, and constructed, to conform to the demands of accountability in all its dimensions -- in keeping with the nineteenth century model, or with the complexities of the antithetical model.

It is important for the purposes of this study to gain at least a qualitative impression of the strength of the directorates of U.S. corporations. The outside observers, some of whom were quoted earlier in this chapter, take the position that the directorate is but an

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extension of the management. In fact, there is a noticeable trend in their writings to regard the two synonymously, to use the term "management" as all-inclusive and to cease referring to the directorate. They of course imply that the Board is not a strong organization in U.S. business, and they have overworked the term "rubber stamp."

The inside observers, if the interviews are representative, believe unanimously that the director and the Board have a clearly different function from that of management. While they have a good understanding of management's needs for a true board of review, they are also keenly aware of the difficulties in obtaining a good board, mostly because of the marked scarcity of men with adequate personal and business qualifications to sit on major boards. And, these practicing directors and executives are well aware of abuses in the functioning of directorates.

Within business, the Board has been humorously referred to as a club for the "wise, successful, and elderly." Chancellor Litchfield of the University of Pittsburgh, a former Board Chairman and still a director of several companies, leveled four criticisms at American directorates in a presentation for the American Institute of Management. First, there is generally no clear definition of what the Board should do to carry out its job. Second, directors in general do not work hard enough at being a director. Third, too many directors are not well qualified; they are retired self-seekers or golfing friends of the Chairman. Fourth, board meetings are often poorly defined, poorly planned, poorly run.

These were pertinent comments from the interviews:

President, utility company: It is my considered opinion that about 3 per cent of the 1500 companies listed on the New York
Stock Exchange have effective boards of directors. The others prostitute the function of directors -- a quick once-over, rubber stamp, pick up fee and leave.

Dean, graduate business school, and director: I believe in the management team, and know it's important, but the director doesn't belong on this team. He should be independent, and he should be strong. To get independence on the Board, the directors should be selected by a nominating committee, itself operating independently. Even this won't guarantee independence, in the presence of a very aggressive chief executive officer. But it's as far as I'm willing to go. We can't guarantee independence by any mechanical means, but we can approach it. To guarantee it, we would have to go to some disruptive method, like the commissar approach, which is repugnant to Americans.

Chairman of the Board, manufacturing company: Generally the Board is not effective in asking the embarrassing questions.

Executive Vice President, manufacturing company: People in business can now pretty easily spot the "phony" director -- the one who comes just to pick up his pay.

President, financial institution: It's extremely hard to be a truly good director today. Most of the directors don't have the time. Too many of them feel uncomfortably like the sentry on his post in peacetime -- generally things are quiet but every once in a while one of them is sued.

Chairman of the Board, mining company: This Board is an effective one. The management spends much time keeping it informed. The directors do their homework continually. The "outside" directors make sure that they are personally contributing. The Board sets policy in this company. It's a fine mechanism which we have spent years building.

Chairman of the Board, pharmaceutical company: The Board always goes along with the propositions of management. That's often said, and it's true. But it does not take into account the many ways in which a Board can influence these propositions before they are finally presented. Even so, if management insists on its own way, the Board will always defer to it. However, if this happens, say, three or four times with adverse results, the Board will simply change the management. I have been on several Boards where this has happened.

No rigorous conclusions may be drawn concerning the present functioning of corporate directorates. Each Board is a creature of its company,
and tailored to that company's needs. There undoubtedly is nonfeasance and malfeasance within the ranks of U.S. directors, to an indeterminate extent. But the earlier question may have been answered: Yes, declining ownership has probably also weakened the functioning of the directorate. The next question inevitably arises: How can the Board be modified to permit it to be cognizant of all the obligations which the corporation owes to the society, and further be able to control the corporation to act accordingly? This question has come up, in Congress and elsewhere, each time in the past when there has been business adversity, and it will arise again in each time of future adversity.

In the postwar years, the question has prompted two concepts in answer: the "public" director and the "paid" director. The former is appointed from government ranks, the latter from the private sector. They are both of the same category, which might be labeled the "commissar" plan, an appellation used by many of the interviewees. It connotes a director who not only is not part of the management team, but whose loyalties and interests do not coincide with those of his organization. The more adverse connotation of the "informer" with inside access is also in the term. It is not equivalent to the check and balance method which Americans have long adopted. It is rather analogous to a situation in which a member of the judiciary might be placed within the legislative unit, to adjudicate new legislation before it is formulated or while it is being formulated. It is not hard to foresee the sharp decline of successful legislation under such a situation.

In 1940, Mr. Justice Douglas, while Chairman of the Securities and Exchange Commission, advocated a system of paid directors, who would
constitute in effect a new profession. Speaking of the several elements of public interest in the modern corporation, Douglas noted:

One function of the paid director would be to harmonize these various elements so far as possible. For, although these elements may superficially appear to conflict, the fundamental interests of all social groups are identical over the long term. The corporate officer frequently recognizes these principles; but he is so close to his work that it is hard for him to look beyond its immediate necessities. But the paid director need not be afflicted with such nearsightedness. It would indeed be one of the defects which he would be paid not to have.

Proposals for public directors on corporate boards have been made on the floor of the Congress for years. Similarly, there have been many proposals for "paid" directors. For example, one proposal emphasizes a new national association, which would be formed by all of the major institutional investors in the country for the purpose of appointing professional directors to the Boards of all companies in which they hold large amounts of stock. These directors would be well paid by the association, and would be representatives of the association.

During the interviews for the present study, the question of the paid director came up in several sessions. One of the deans of investment banking in the U.S. spoke with conviction:

Senior partner, investment bank: Accountability, to be effective, requires an instrument. Professional management and ownership are now fissioned, with management definitely calling the signals. Under this situation, the directorate as it is now conceived cannot be the instrument of accountability. In my view, a form of anarchy prevails.

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Shareholders must secure cohesive representation, because they are now one of the few unorganized groups in the society. They can do this if the banks and financial institutions will set up a group of competent directors for them, pay these directors, and see that they are seated on the Boards of the major corporations. Each Board would then have two or more members beholden to an outside group, and paid by them.

There were other shades of opinion on this subject:

**Dean, graduate business school:** We had a panel of company presidents meeting here recently. They were all concerned about the scarcity of qualified directors for their Boards. They suggested that we help form a pool of competent directors, who would be certified as qualified. This wouldn't have helped their problem -- it wouldn't have created any more qualified directors, and it would have given us an impossible task.

**Vice president, New York Stock Exchange:** We occasionally receive, or hear about, offers from a group of retired or other businessmen who want to hire themselves out as "paid" directors to guard the shareholders' interests. Too often they have been chiefly interested in the personal rewards. Speaking personally, I think this kind of director is too far "outside," even though the Exchange now requires at least two "outside" directors on the Board of each listed company.

These searchings for a new viability in the Boards of Directors point to a new phrasing of the problem. What is really sought is a way to structure the directorate so that it simulates the whole desired structure, whatever it may be, of the accountability of the corporation. If this were achieved, then the corporation could be guided unerringly, in its total economic and social roles, by a Board which is the public consensus in microcosm. But note that the problem is unsolved in two dimensions. **First,** the best way to build a Board which can effectively guide (or review) managements is not known. Interminable discussions still go on, within and outside business, regarding the optimum composition -- inside, outside, commissar directors, or various combinations of the three -- and concerning the techniques of Board operation. **Second,** the desired structure of corporate accountability is far from clear, as of 1961.
The Board of Directors, like all other institutions conceived during the age of simple Ownership, has suffered in the winds of change. And the analogy which compares the shareholder to the voter, each protected by his own house of representatives, stands in doubt. The directorate will have a crucial function in accountability, but the function has not been fully defined.
SHAREHOLDER DEMOCRACY: REAL OR FANCIFUL?

It is vain to summon a people, which has been rendered so dependent on the central power, to choose from time to time the representatives of that power; this rare and brief exercise of their free choice, however important it may be, will not prevent them from gradually losing the faculty of thinking, feeling, and acting for themselves....

--Alexis de Tocqueville
Democracy in America, 1862

Americans have always believed, along with Aristotle, that virtue can best be defined by the multitude. Indeed, many of the pronouncements of this immortal Greek philosopher, in pure or disguised form, echo down through every generation of American political thought. The many are more incorruptible than the few. A multitude is a better judge of many things than any individual.

America in the nineteenth century was also a citadel of ownership. The share of common stock had two essential prerogatives: ownership of equity, and a vote. It was thereby two ways sacrosanct. Very early, the line of reasoning grew: The shareholder owns, therefore he controls. Strategic decisions, like the disposition of net earnings after taxes, are his.

When ownership and management were essentially the same, there were no problems. Even so, the idea of shareholder control, as often expressed then and now, was probably always a delusion. In law, the shareholders' "control" was the capacity to make or unmake the Board of Directors. Beyond that, he had few rights in control, other than to resort to the courts if he was displeased (the derivative suit).

But the delusion has persisted in the movement now called by its sponsors Shareholder Democracy. Its advocates are voices crying in the
wilderness, but they are sustained by the force of their convictions, and probably in some cases by their desire to exploit the leadership of a popular movement. One of the most sincere proponents was the late Professor William Z. Ripley of Harvard, whose stand in the nineteen thirties can easily be surmised from one of his chapter titles -- "Giving up Control: A Birthright for Pottage."

Ripley was not sure whether the enemy who was bilking the shareholder at the time was management (the archvillain of present writings by the Shareholder Democrats) or the Banker (the archvillain of earlier days). But he shared one conviction with his present-day descendants — stockholders must organize. He noted shrewdly that labor in the U.S. had been lost as long as it allowed management to deal with employees individually. Collective strength was the answer. And collectivism could be achieved by a familiar route, by modifying the Board to provide an "independent audit" of management and bankers.

Two facets of Professor Ripley's work should be emphasized here. First, he was intelligent enough, in distinction to his later brethren, to see clearly that Shareholder Democracy would not, could not, work unless the individual shareholder was educated to be able to assume some minimal responsibility in connection with his holdings. He even went so far as to propose a permanent agency, governmental or quasi-governmental, which would exist to educate stockholders, to induce them to participate intelligently in corporate functions, in his own words "to make democracy tolerable." Second, he wrote before the significant securities legislation of the nineteen thirties.

25 William Z. Ripley, Main Street and Wall Street, 1932. The title of Chapter IV is cited.
Every Chairman who has presided recently at an Annual Meeting knows the names of the modern Professional Shareholders -- Lewis and John Gilbert, Wilma Soss, Benjamin Javits, and their various lieutenants. Businessmen tend to characterize them in one of four ways: publicity-seekers, dilettantes, hecklers, or constructive gadflies. The professional shareholders are complemented by aggressive observers, like Joseph A. Livingston, financial editor of a Philadelphia newspaper, and The Reverend David C. Bayne, Jesuit priest and lawyer, in furthering the rights of the American stockholder.

President, utility company: People like the Gilberts, in the balance, exert a negative influence. At our last six-hour annual meeting, they and their compatriots took over the meeting for long periods. We have some excellently qualified stockholders in this company who could contribute substantially at our meetings. But they have told me that they will not take the floor in the highly contentious atmosphere which these hecklers develop.

Chairman of the Board, manufacturing company: People like Lewis Gilbert serve a useful function. They become the ever-present Spirit hovering about at all Board meetings when decisions are made. Every generation has a gadfly like this. When the Board reaches decisions, the question is always asked, "What will ______ say about this at the next Annual Meeting?" This is the real contribution which the gadflies make -- not the unpleasantness and inconvenience at the annual meetings.

Senior vice-president, commercial bank: The Gilberts and the Sosses may have a good cause, but they're simply not equipped to promote it.

President, manufacturing company: You'll find that what the Gilberts really want is recognition and publicity. If we play ball with them in this respect, they are most cooperative.

How well equipped are these "professional amateurs" to advance their cause? The Gilberts inherited a small fortune some years ago, are New Deal democrats of undefined educational background. Mrs. Soss's main qualification is that she is a woman, and her Federation of Women
Shareholders in American Business is dedicated to the dubious proposition that, since women own an increasing (and the major) share of common stock, they should exert an increasing leverage on managements. Javits, who organized the United Shareholders of America, is a corporate attorney and one of the unhonored, successful "strike" suit lawyers. His organization in 1961 only has 1,200 dues-paying members, after twelve years of existence.

These organizations, in their amateur zeal, sometimes clash with the sophisticated knowledge of specialists. For example, the United Shareholders in 1960 conducted a campaign to promote competitive bidding in the purchasing activities of "their" corporations, presumably in the belief that this practice prevents collusion between seller and buyer, and thereby protects the shareholder. According to Javits, the 375 listed companies which were approached were willing to augment their already predominant use of this device "to respond to stockholder wishes."

This statement led Paul V. Farrell, editor of the trade publication Purchasing, to protest. In an editorial, he stressed the point that competitive bidding can be rigged almost as easily as any other kind of purchasing, and further that it is not always economical purchasing. The Shareholders were exerting themselves, but they were not being helpful.

In Lewis Gilbert's book, Dividends and Democracy, he reveals much that is not reassuring for his cause. A certain immodesty seems to

28 Lewis D. Gilbert, Dividends and Democracy, 1956.
permeate the book. There is the implication that, when he went to war in 1944, and because he went to war, all constructive shareholder activity ceased. There are near-gloating accounts of his alleged victories in postwar "battles" with eminent Chairmen, particularly involving General of the Army MacArthur and General Clay. "For a corporal I seem to have a way with generals."

More seriously, his analytical process appears most doubtful. He is given to this kind of analysis:29

A corporation chairman and the tone and atmosphere he gives an annual meeting are an index to the entire business of a given corporation under a given management. If the meeting is chaotic, company affairs may also tend in that direction. If a chairman is dictatorial, it may explain labor trouble and other difficulties. If he is hasty or impulsive, it may account for that bad loan. If he ad libs, obviously improvising on important matters, or hesitates or stammers in attempting to answer questions, he may be the partial explanation of your low dividend rate. His bearing may have a dollars and cents relation to your bank account. Thus the new criticism is more than an evaluation of manners. It is also in a sense a guide to profit and sound investment.

In the matter of results, the Gilberts are somewhat difficult to evaluate. Only when they have a strong issue do they capture as much as 5 per cent of common share votes for their proposal, or "against" management as they put it. Hence their vote-gathering power is weak. But they claim to have influenced management many times by their recurring minority strength, and there is some substance to this claim. They have thrown the sharp light of publicity on some outright abuses or discourtesies by management, i.e., Olin Mathieson Chemical Corporation's continuous Annual Meetings in Saltville, Virginia (population 2,800), or Swan-Finch Company's former Chairman Lowell Birrell's summer

29Ibid., p. 98.
meetings at which he would close the windows and turn off the air conditioning to discourage questioning. Also, they have often publicized anomalies in management compensation, as for instance in 1946 when American Tobacco paid its officers and directors in total $2,073,822 while the comparable Liggett and Myers paid its officers and directors only $650,478.

Moreover, the Gilbert longer-term "program" contains much in common with current proposals from security analysts and financial commentators, and is probably constructive, although it has some dubious planks. Here is an outline summary of the Gilbert program:

1. More democratic regional and annual meetings
2. Full disclosure
3. A stronger rule which will insure that all shareholders' proposals are presented to the annual meeting.
4. Equitable pensions, control of options, and reasonable ceilings on executive compensation with shareholder review thereof
5. Cumulative voting
6. Pre-emptive rights
7. Elimination of the stagger system
8. Election of auditors by shareholders
9. Eliminate the millions of automatic, uninstructed proxy votes cast by fiduciaries for management
10. A maximum sum stipulated by SEC that can be spent in proxy contests
11. The nomination of independent directors by means of the company proxy statement
12. Stock ownership by directors in their companies
13. Election of qualified women to boards
Impartial and factual financial reporting in the financial press

The use of a secret corporate ballot

The New York Stock Exchange has a more sober, but even more determined, view regarding the rights of the shareholder. It intends to promote stock ownership into the hands of a steadily increasing number of Americans, as discussed in Chapter I under People's Capitalism. Its mission is not to protect the shareholders' interests in the Gilbert fashion, but to (1) define and protect his rights, (2) educate him appropriately in the topics he should know to invest and maintain his investment, and (3) provide for him a forum in which all U.S. shareholders can make known their thinking. The officers of the Exchange well understand that the mere broadening of the base of stock ownership, if unaccompanied by any broadened capacities in the new owners, will not strengthen capitalism.

The question of management's accountability to the shareholders is still the most vital one. During the interviews, the question drew this answer:

Chairman of the Board, manufacturing company: The accountability to stockholders is live. And, also, stockholders are alive. They do respond, quickly and articulately, to any real or assumed abuse on our part. But the trouble is that stockholder accountability is now generally taken for granted. This is not 1929, it's 1960, and we have the laws, the SEC, the Exchange. Often when people say stockholder accountability is dead, they mean that they haven't seen anything dynamic about it lately. But its existence is real, and that's the important thing. If we ever forget the shareholder, we are soon violating one of the regulations, and so are reminded of our sin.

This answer, from an eminent businessman and attorney, may be the best one now available concerning shareholder accountability. But
Shareholder Democracy is another and greater thing, particularly when construed to mean control of operations by shareholders. Thirty years ago, Professor Ripley pictured the individual stockholder as helpless in the face of powerful management and financial interests. After much powerful protective legislation and other regulations, observers are still sketching pictures of a helpless shareholder. Perhaps the approach is wrong; perhaps the real problem lies in the apathy and disinterest of this American shareholder. If so, the mere enlargement of his franchise will not accomplish anything.

Yet, American business management can ill afford to ignore the twin forces of Shareholder Democracy and the Exchange's program of People's Capitalism. Thirty, or fifty, or seventy million American shareholders in the future would make one version of a Jeffersonian dream -- "a nation of small shareholders." These would be strong roots indeed for a flowering corporate tree.

THE INSTITUTIONAL INVESTOR

....where representatives of a great banking house are on the board and are financing the corporation and in close relations with the management the policy of the corporation is largely determined by the bankers where they choose to assume that responsibility.

-- Report of the Pujo Committee,
U.S. House of Representatives, 1913

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Institutional investment firms, also often termed financial intermediaries, are a general category which includes all life and non-life insurance companies, banks, savings and loan associations, public and private pension funds, mutual investment funds, and government lending institutions. Of these, two will be of particular interest here -- the mutual funds and the pension funds -- because they are heavy investors in common stocks.

The institutional investor is of interest in this study because of a rather broad change in his status and conduct since 1900, and the implications thereof in the matter of corporate accountability. For many decades Americans have exhibited an increasing desire to put aside present income to provide future financial protection for themselves and their families. In their investment habits, they have relied increasingly upon diversification, and more latterly upon retaining professional investment management by various schemes. In their banking habits, they have demanded greater relative liquidity as their incomes have risen, thereby fostering the large-scale creation of deposit currency in the banking system.

All of these tendencies have resulted in a spectacular growth of the financial intermediaries in the aggregate, and also in many cases in the creation of new types of intermediaries, i.e., the mutual fund. During the past fifty years, the financial intermediaries have been growing (in assets) at a rate which is more than twice as fast as the growth of all non-financial (industrial, commercial, and mercantile)
corporations. In 1955 the intermediaries' total assets were $545 billion, compared with an estimated total assets of non-financial corporations of about $500 billion. Before World War I, individuals placed about 40 per cent of their current savings with financial intermediaries; after World War II, more than 80 per cent. About 1900, the intermediaries held one-tenth of the entire assets of U.S. households, while at the present they hold about one-quarter.

The investment institutions have steadily become a more important source of funds for American industry -- the non-financial corporations. The growth may be tabulated as follows:

<table>
<thead>
<tr>
<th>Period</th>
<th>Approximate Per Cent of Total External Funds (Debt plus Equity) used by Non-financial Corporations, Supplied by Intermediaries</th>
</tr>
</thead>
<tbody>
<tr>
<td>1910-1914</td>
<td>35</td>
</tr>
<tr>
<td>1920-1929</td>
<td>42</td>
</tr>
<tr>
<td>1946-1959</td>
<td>50</td>
</tr>
</tbody>
</table>

Equity financing by the intermediaries has grown more erratically, but importantly it has shown a significantly increased rate of growth since 1955. This has resulted in rapidly growing blocks of corporate common stocks in institutional hands, the extent of which will be described shortly.

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32 Ibid., p. 304.
Many observers have reported in the literature that they are concerned about the implications of this trend. The institutional investors, as important providers of funds may acquire powers of various nature over industrial organizations. In any case, as the institutions acquire common stock, they will absorb the ownership function, thus becoming an insulating block between the investor and the enterprise. Moreover, the observers see strong concentrating forces at work which will affect the voting control of corporations.

Among the institutions, the mutual investment fund and the pension fund are the ones which might effect a new distribution of voting control. Both hold common stocks in large amounts, and both are growing rapidly. The former has been acquiring, and holding, common stocks in the amounts shown in the following table.33

<table>
<thead>
<tr>
<th>Year</th>
<th>Per Cent of Total New Issues of Common Stock Acquired (Net) by Open-Ended Investment Companies</th>
<th>Per Cent of Total Holdings of Common Stock Held by Open-Ended Investment Companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>1946</td>
<td>7.69</td>
<td>0.90</td>
</tr>
<tr>
<td>1947</td>
<td>14.29</td>
<td>1.10</td>
</tr>
<tr>
<td>1948</td>
<td>7.69</td>
<td>1.11</td>
</tr>
<tr>
<td>1949</td>
<td>12.50</td>
<td>1.33</td>
</tr>
<tr>
<td>1950</td>
<td>5.56</td>
<td>1.37</td>
</tr>
<tr>
<td>1951</td>
<td>7.41</td>
<td>1.47</td>
</tr>
<tr>
<td>1952</td>
<td>12.90</td>
<td>1.77</td>
</tr>
<tr>
<td>1953</td>
<td>17.39</td>
<td>1.96</td>
</tr>
<tr>
<td>1954</td>
<td>11.54</td>
<td>2.09</td>
</tr>
<tr>
<td>1955</td>
<td>16.67</td>
<td>2.18</td>
</tr>
<tr>
<td>1956</td>
<td>21.05</td>
<td>2.34</td>
</tr>
<tr>
<td>1957</td>
<td>20.00</td>
<td>2.47</td>
</tr>
<tr>
<td>1958</td>
<td>23.81</td>
<td>2.75</td>
</tr>
</tbody>
</table>

33 Source for this table, and the next one on pension funds, is Board of Governors of the Federal Reserve System, Flow of Funds/Savings Estimates, Supplement No. 2, 1959.
It is apparent that the mutual funds do not yet own a significant share of the holdings, although they have for years been a buyer of appreciable quantities of the new issues. As a purchaser in the market, the private (non-government) pension funds are a force to watch, as shown by these figures:

<table>
<thead>
<tr>
<th>Year</th>
<th>Per Cent of Total New Issues of Common Stock Acquired (Net) by Private Pension Trusts</th>
<th>Per Cent of Total Holdings of Common Stock Held by Private Pension Trusts</th>
</tr>
</thead>
<tbody>
<tr>
<td>1946</td>
<td>7.69</td>
<td>0.3</td>
</tr>
<tr>
<td>1947</td>
<td>7.14</td>
<td>0.4</td>
</tr>
<tr>
<td>1948</td>
<td>7.69</td>
<td>0.5</td>
</tr>
<tr>
<td>1949</td>
<td>6.25</td>
<td>0.6</td>
</tr>
<tr>
<td>1950</td>
<td>11.11</td>
<td>0.8</td>
</tr>
<tr>
<td>1951</td>
<td>11.11</td>
<td>1.1</td>
</tr>
<tr>
<td>1952</td>
<td>16.13</td>
<td>1.5</td>
</tr>
<tr>
<td>1953</td>
<td>21.74</td>
<td>2.0</td>
</tr>
<tr>
<td>1954</td>
<td>23.08</td>
<td>2.7</td>
</tr>
<tr>
<td>1955</td>
<td>23.33</td>
<td>3.5</td>
</tr>
<tr>
<td>1956</td>
<td>26.32</td>
<td>4.3</td>
</tr>
<tr>
<td>1957</td>
<td>25.00</td>
<td>5.4</td>
</tr>
<tr>
<td>1958</td>
<td>28.57</td>
<td>6.7</td>
</tr>
</tbody>
</table>

This mushrooming stride into common stock investments by the pension trusts is a comparatively recent development. It started about 1950, when the New York State Law was revised to allow trustees to place up to 35 per cent of the market value of a trust in common stocks. Also during the fifties, the union-negotiated pension plan covering wage earners became an important factor for the first time.

Common stocks and pension funds were in several ways ideally suited for each other. There was the obvious feature of protecting the fund

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34 See Peter H. Vermilye, Vice President, Morgan Guaranty Trust Co. of N.Y., "Common Stocks for Pension Funds," address delivered at the New York University Pension Trust Conference, Oct. 6, 1960, pp. 2-4.
against inflation and price increases. Funds could enjoy some measure of participation in the growth of the economy as they invested in common stocks. Furthermore, since the projections show a steady increase of pension trusts for many years into the future, there is no need for them to maintain liquidity, nor are they likely to be forced to sell stocks during a low market period to meet obligations. The funds are in a unique position to exploit the advantages of purchasing by "dollar averaging" -- purchasing at high prices as well as low, year by year. New York banks have made studies\(^{35}\) which show that a fund purchasing common stocks by dollar averaging comes out substantially better than if it had been buying bonds equally.

The proportion of investment of pension trusts going into common stocks has increased every year since the funds started, and in 1959 passed the 50 per cent mark as the average for all such trusts. The principal bank trustees in New York invest from 35 per cent to 50 per cent of their new funds in common stocks, although one trustee is cited who has invested 100 per cent in 1958 and 1959.\(^{36}\)

Commercial banks in the U.S. are also holders of large blocks of common stocks, most of which are held in various kinds of trust arrangements for clients. These banks in the aggregate have 200 such holdings of $10 million or more each.\(^{37}\) Life insurance companies have since 1951

\(^{35}\text{Ibid.}, \ p. \ 2.\)

\(^{36}\text{Ibid.}, \ p. \ 3.\)

\(^{37}\text{Private interview with Mr. Robert Schriever, Vice President, United States Trust Company, Nov. 22, 1960.}\)
generally been permitted to hold up to 3 per cent of their assets in common stocks, but by 1958 they had only purchased in total about $800 million.  

It may be concluded that institutional investors in general do not yet own an appreciable percentage of the outstanding common stock, but that the investment funds and the pension funds together are now buying half of the new issues of common each year. This fact can be, and often has been, the subject for some interesting speculation about future projections. But before such speculation can be meaningful in terms of the effects upon ownership and accountability, it is necessary to determine what kind of owners these institutions will be.

As of 1960, the general impression, inside and outside of business, is that the institutions are definitely and actively avoiding any position of power with respect to the companies in which they have large holdings. This attitude is proving a keen disappointment to some observers, particularly to Joseph A. Livingston, financial editor who recently wrote a book in which he suggested that the institutions become the shepherds for all the small non-professional investors, that they aggressively lead the way to a better deal for all shareholders, including the small fry. The Gilbert brothers are outraged by this attitude on the part of the institutional investors, and have repeatedly "called" for a Congressional investigation into the "thousands of institutions" which routinely sign every proxy vote for management and "against" the owners.

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38 This figure is furnished by Professor John Lintner of the Harvard Business School. See Edward S. Mason, op. cit., p. 317.

In the interviews this question was discussed at length.

Chairmen of the Board, investment fund: We are investors, not management consultants. If we don't like the way a management is running a company, it's much easier and cheaper for us to dump that stock than to engage in rejuvenating operations. Of course we tell the management first, and we never sell any sizeable block out of mere caprice. Incidentally, the law says that we can hold no more than 10 per cent of the outstanding common of any company, and in practice we strictly limit ourselves to 5 per cent.

Vice president, commercial bank: A conservative bank is supposed to be part of the management team. A bank which becomes controversial -- say by leading a proxy fight against a management -- soon finds itself left off the team. As far as our bank is concerned, there are darn few "prerogatives of ownership." The only one we know is to sell out.

On the other hand, there is beginning to be a basic skepticism about these kinds of policies:

Chairman of the Board, investment fund: This firm is actively trying to reintroduce a long-missing element -- a knowledgeable, sophisticated protection of shareholder interests. In this, I tell you frankly that we are not typical.

A few years ago, out in the mid-continental part of the United States, there was a large oil company with a very old chief executive. He was a capital featherbedder of the first order. He was also president of an eastern bank, and he had many millions of that company's funds sitting useless on deposit in his bank. We were large shareholders, and very displeased about this, but our "honey" approach didn't work. So we resorted to vinegar. I got together four of the large mutual funds in New York and Boston, and we forced that company to merge with a smaller, tremendously aggressive petroleum company we knew about. The resulting company has really performed, and there's no featherbedding there now.

Most of these banks and insurance companies take the "hands-off" policy because they have conflicting interests involving the same companies in which they hold stock -- for example, commercial bank accounts or employee insurance programs. Admittedly, mutual funds have a unique advantage in this respect.
There were other examples where this particular investment fund management had actively intervened to correct situations it deemed intolerable. From other sources, there were these comments:

Dean, graduate business school: This completely passive attitude on the part of institutional investors who have substantial holdings will not be tenable much longer. It's beginning to be modified now.

President, life insurance company: No institution like this wants to become known as an intervener, or a wielder of power, in any company to which we loan money. We remember the TNEC hearings, and the series of investigations before that, when the banks were the culprits. Americans don't like big "absentee owners."

You ask about the Prudential loan to Chrysler. Well, any loan in the amount of $250 million poses special problems. In my opinion, a loan of that amount would make it awfully difficult to keep a "hands-off" policy, even though it is debt and not equity. Also, when you loan that amount, you certainly indicate a thorough study and approval of the recipient, which will influence a lot of smaller investors.

The passive attitude on the part of institutional investors is now generally a fact. Again, this is only opinion, but in my view it will just take one instance of substantial trouble in connection with a major loan (or major stock purchase) to cause this whole attitude to change drastically. By trouble I mean a failure, or reorganization, or resuscitative merger, in the borrowing company. From that time on, the lending institutions are going to be interveners, and are going to sit on Boards much more than they do now.

Director, investment fund: When we acquire a very large block of a company's stock, and seek to place one of our men on that company's Board, we always run up against the old legend which says that this can't be done. As the story goes, this action would inhibit our freedom, because if we then want to sell that company out of our portfolio, it would place us (and our director) in an "awkward" position. This is all greatly exaggerated. Just last week, in our judgment we had to sell a large block of common, and we had a director on the Board of the company involved. We had him explain the reasons for our proposed action in detail to the company's management. Then we sold. He's still on that Board, still contributing to it. Maybe next year we will see fit to buy in there again.

As the tables indicate, the administrators of private pension funds are finding themselves in an increasingly strong voting position in common
Vice president in charge of pension trust administration, commercial bank: When we vote our common stocks, we are not "rubber stamps," and the learned commentators who accuse us of this crime disturb us deeply. True, we generally adopt the management recommendation, because our very act of investing signifies trust in a particular management. But in any case where we perceive a good reason to question, we question thoroughly, then act if we have to. Here's an example. Last year a large company, in which our funds have substantial holdings, proposed a profit sharing plan for management and certain other employees which we considered unconscionable. We made known our reaction to the management, and then we joined two other large pension fund administrators in a campaign against the management proposal. In the voting, it was defeated.

In another case, a management asked the stockholders to vote to give up their pre-emptive rights on new issues. We declined, and in the ensuing disagreement, we joined again with other administrators to beat the proposal.

I might add that, in both of these cases, the companies involved had large commercial accounts with our banking departments. One of them withdrew its accounts after our trust action, and we thereby lost several million dollars worth of banking business. The problem is that our learned critics do not know of these kinds of actions on our part, and they do not take the trouble to find out. Do you think that we should tell them?

What do the viewers-with-alarm project as the future result of the increasing growth of the pension funds? First, they see the mechanization of saving, and thereby of investing. By means of life insurance, union pension plans, company pension plans, and investment funds with planned payments, Americans in growing numbers will subscribe to methods which will force them to save, under varying degrees of compulsion. Significantly, these plans all remove the facility of control from investment, while dispersing to ever-greater numbers the beneficial ownership involved. The union pension plan member and the mutual fund certificate holder each lack any voice
or vote, even legally, in the final object of their investment. Conversely, their fund administrators gain increasing voting power where common stocks are involved.

Adolf Berle pictures this result in a few years. A few hundred large fund managers will control the one hundred largest industrial and utility corporations. These fund administrators, according to Berle, will then have two choices. They can remain passive owners, insulating management and thus allowing management to assume "absolute control." Or, they can absorb this control themselves. Berle does not like either of these alternatives.

The possibilities of the funds taking control are real, but the Berle sketch is over-simplified, very probably too pessimistic. True, the assets of the pension funds show a startling growth; they were $6.87 billion in 1951, $22.09 billion in 1958, $25.30 billion in 1959. True, there is evidence that they concentrate on blue-chip stocks, that they do generally retain this stock indefinitely, and have "effected a substantial net removal of stock from the market." However, Professor John Lintner computed that, if the pension funds maintained the same concentration of

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40Adolf A. Berle, Jr., Power without Property, p. 54.

41The pension trusts tend to concentrate in blue-chip issues. In 1955, the ten favorite stocks of the bank-administered pension trusts amounted to 27 per cent of their holdings. See Sherwin C. Badger, "Thinking Ahead: Funds in the Stock Market," Harvard Business Review (July-August 1956), p. 34.


43See Edward S. Mason, op. cit., p. 199.
holdings in these issues, and if the prices of these issues did not rise, and if these companies did not issue new stock, then by 1965 the funds as intelligently projected would still own less than 10 per cent of the stock of the blue-chip companies. The ifs are very large ones. There is also a definite possibility that the SEC will step in with diversification requirements which will limit the amount of any one company's common stock which a pension fund may hold, similar to the existing SEC requirements for mutual funds.

In conclusion, it is difficult to make a case that the investment institutions will revitalize Shareholder Democracy in the nation. Nor will they take over control of American industry within a few years. However, they may be expected to provide tough-minded, knowledgeable protection of their own investments, on an increasing scale.

FINANCIAL ACCOUNTABILITY AS IT NOW EXISTS

The South Sea Company...had an immense capital...an immense number of proprietors. It was naturally to be expected, therefore, that folly, negligence, and profusion should prevail in the whole management of their affairs.

--Adam Smith
Wealth of Nations, 1776

In the earlier section, THE GENTLEMANLY ATTACKS, the fears of some well-meaning observers of business were noted. First, there was concern about the increasing separation of control from ownership in the corporations, a phenomenon which is now generally conceded to be a fact. The corollary concern was that this process would leave managements free from shareholder restraints, and free from classical market constraints because
they were not owners. Then there was the fear that these unconstrained managements would change their behavior and performance patterns, adversely for the society as a whole. Finally, there was the assertion that increasing concentration of assets in the large corporations would actually enhance these adverse effects.

If corporate managements are now changing their behavior patterns for the worse, this unhappy fact should show up first in the financing trends of their corporations.\textsuperscript{44} The observers imply that there might well be an increasing reliance on internally generated funds, i.e., earnings might be retained at an increasing rate for expansion and operations, with resultant harm to the shareholders' dividends, and resultant freedom of managements from the capital market system. Here are the figures on use of internal sources of funds which Professor Lintner has gathered:

<table>
<thead>
<tr>
<th>Period</th>
<th>Retained Earnings plus Depreciation Allowances as Per Cent of Total Financial Needs</th>
</tr>
</thead>
<tbody>
<tr>
<td>1900-1910</td>
<td>55</td>
</tr>
<tr>
<td>1913-1922</td>
<td>60</td>
</tr>
<tr>
<td>1921-1924</td>
<td>79</td>
</tr>
<tr>
<td>1924-1927</td>
<td>91</td>
</tr>
<tr>
<td>1926-1929</td>
<td>97</td>
</tr>
<tr>
<td>1946-1949</td>
<td>68</td>
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<td>1949-1954</td>
<td>67</td>
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<td>1959(45)</td>
<td>65</td>
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\textsuperscript{44}In this analysis, much use has been made of the very comprehensive work of John Lintner, Professor of Finance at the Harvard Business School, in his continuing research in the area of Profits and the Functioning of the Economy for the Rockefeller Foundation. Important aspects of his work are reported in his Chapter 9, "The Financing of Corporations," in Edward S. Mason, \textit{op. cit.}, p. 166.

\textsuperscript{45}Economic Report of the President, January 1960, \textit{op. cit.}, Table D-60, p. 224.
Clearly, no expanded reliance on internal funds is shown here. It may be more illuminating for present purposes to look at only the funds which are used for asset expansion. Here also, there is no evidence of increased reliance on internal funds. Retained earnings were used for 32 per cent of corporate asset expansion, 1901-1912, 27 per cent in 1923-1929, and about 33 per cent at the highest in 1951-1953 and in 1955-1957. Hence, whatever the extent of separation of control from ownership, it is not being reflected in any change in management performance in this important respect.

Similarly, the gentlemanly charges might lead one to believe that, through the years, managements would have been able to change the mix of retained earnings and outside funds used in the corporations, by diminishing the latter. The record shows that this has not happened. During the past forty years, every period of heavy asset growth in American industry has been marked by an increased use of outside funds, to about the same degree. This was true in 1914-1919, in the late twenties, and late thirties, and in 1948-1953 and in 1953-1957.

It also might have been predicted that managements would reduce or otherwise tinker with the dividend rate as they came into this era of alleged new freedoms. Lintner in 1956 made a statistical study of the dividend practices of corporations from 1918-1940, and found that his formulas for those years could accurately predict dividend practices in 1945-1960. In other words, the pattern of dividend performance has not changed.

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46 John Lintner, op. cit., p. 183.

Adolf Berle had also alleged that modern managements were free from any dependence on outside capital markets. If this were true, it would mean of course that the allocative function of this market -- the placing of capital where it would do the most good for the society -- was being bypassed. The preceding paragraphs have demonstrated that corporations still use outside capital to the same extent as previously. However, it is true that there have been changes in the mix of external capital, and there is less reliance on new issues of securities. Stocks, bonds, mortgages, and term loans are now a somewhat lesser portion of external financing. This reduction is offset by a greater dependence on accrued tax liabilities, which are interest-free funds resulting from high corporate tax rates. Nevertheless, these changes are minor, and do not by any means justify a conclusion that corporations are free from dependence on the capital market. Security issues are still the mainstay of this market.

Then there is also the question of the non-owning status of managements. The implication has been made that this "deficiency" may cause managements to respond inadequately or sluggishly to changes in the cost of capital, that is, not use this market in shrewd self-interest in the way of nineteenth century Economic Man. Here again, if this were true, it would mean the loss of the social good in the market's allocative operation. But again, it is not true. In recent years as in earlier years, corporations have alternated in the use of stocks and bonds, in accordance with variations in the relative cost of capital by equity or debt financing. Managements have conformed to the market; they have driven the best deal for capital, as did the owner-managers of earlier generations.

There is another serious charge lurking under all the others. Since internal funds provide for about 60 per cent of their fund needs, it may be that corporations are bypassing one of the most important allocaters -- the one by which savings are directed, via profit indicators, to those producing units which turn out the goods most wanted in the society. Internal funds are not dependent upon savings, and management with its freedom may be simply financing the new projects which happen to be available.

This charge also will not stand up to the light of investigation. A study covering the last twenty-five years in several industries shows that the industries having the greatest expansion in plant and equipment have been the same ones having the greatest growth in profits and earning the highest rates of profits. Also, the comprehensive recent study by Professor Kuh of M.I.T. of 700 companies in the postwar period details the investment policies in seventeen different manufacturing industries. The conclusion was that the current rate of investment in all these companies was directly determined by (1) rate of profits, (2) sales level, and (3) the relation between sales level and manufacturing capacity. These two studies indicate fairly conclusively that investment funds are flowing in the same channels as they would if savings were following the profit indicators directly.

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In one more area there have been repeated expressions of alarm. Writers have tended to use the term "growing concentration" as almost one word. The commonly accepted picture is one of steadily increasing assets in the hands of the large corporations. If true, this fact would lend added emphasis to each of the illusionary charges which have been examined.

It is not true, as most scholars have agreed by now. Professor M. A. Adelman of M.I.T. did his classical study on industrial concentration in 1951, updated it in 1958. As indices of concentration he used sales, income generated, share of total employment, and share of national income-producing wealth, or assets. In the case of assets, he found that corporations in the United States owned 58.8 per cent of the wealth-producing assets, that the largest 200 corporations held 40.3 per cent of all corporate holdings of assets, and therefore that the top 200 held 23.7 per cent of the total. Adelman's general conclusions are of importance here. He found that, first, the American economy is highly concentrated, and second, the concentration is highly uneven from industry to industry. Third, and most significantly for present purposes, concentration in American industry shows no tendency to increase, perhaps some tendency to decline. In any case, since early in this century it has moved, if at all, at the speed of "a glacial drift."

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52 It is not the most highly concentrated in the world. Some of the European industrial economies are more concentrated.
Therefore the final allegation from the hand-wringing sector appears to have no substance. The nation's assets are not inexorably being gulped into the maw of the large corporations.

If there was grand opportunity for management skulduggery here, management has failed to grasp it. It would have been a fairly simple process. To recapitulate, the first step would have been to increase the use of internally generated funds, thereby freeing the corporation from the constraints of the money market where it used to seek external funds. At the same time, the need to rely upon the common stock market for additional funds would be decreased, and management need not be unduly concerned with the shareholder, and could begin to cut his dividends further. In so doing, management would have seriously damaged the allocative function of the capital market, but would have gained freedom to invest arbitrarily.

There is a most relevant conclusion in all this. At least within the financial and market dimension, corporate accountability is still being exercised in substance. No one can ever dissect this structure to determine which individual constraints are effective, or the manner in which they constrain. For example, it is quite possible that the internal, self-imposed restraints of the better managements may account for a great deal of the successfully accountable performance. But the important fact is that, in the aggregate, the constraints are effective and do result in socially desirable performance. Yet, accountability must also exist in form, and it is all too apparent here that the form has become confused.
Is this loss of form important? Isn't it the results that count? Any American who understands how his country came into being knows the answer to the first question. In the minds of Americans, the form of accountability has always, from the very beginning, been crucially important. Results count, but they may not be enough.
CHAPTER III

THE EVOLUTION OF MANAGERIAL ACCOUNTABILITY

But a rational, systematic, and specialized pursuit of science, with trained and specialized personnel, has only existed in the West in a sense at all approaching its present dominant place in our culture. Above all is this true of the trained official, the pillar of both the modern State and of the economic life of the West. He forms a type of which there have heretofore only been suggestions, which have never remotely approached its present importance for the social order.

--Max Weber
in The Protestant Ethic and the Spirit of Capitalism, 1930
CHAPTER III

THE EVOLUTION OF MANAGERIAL ACCOUNTABILITY

INTRODUCTION

The disciples of a management profession often cast about in antiquity looking for remote roots of their avocation. They like to point out that in the Bible, Jethro in his advice to Moses,\(^1\) circa 1200 B.C., set up a plan for organization and first called attention to the principle of management by exception. Or they single out the Greek philosopher Thales, who speculated about "things that exist" and in his early rationalism predicted an eclipse of the sun in 585 B.C. They note the successful commercial expansivity of ancient Babylonia, and the administrative practices and wise code of laws of its great King Hammurabi, about 1800 B.C. Then, after the centuries of darkness, there was the sophisticated bookkeeping system of Luca Pacioli in 1494 in Italy, which was the genesis of modern accounting.

These strivings for the respectability of tradition, although interesting, are doomed to failure in that they can show no continuous threads of development, no real roots, before the beginning of the contemporary industrial civilization. The institution of management, the trained official, the specialized functionary as they now exist are all things which are actually new under the sun. Moreover, these efforts in historical research are superfluous, because management has won complete acceptance, without benefit of tradition, during its short span of existence.

\(^{1}\)Exodus 18:12-26.
There were two strong elements in the nascent capitalism of the sixteenth and seventeenth centuries which set the stage for the birth and growth of the manager. The first was universality, the concept which permitted ideas to be conceived, implemented and exploited by anyone, regardless of who he was or whatever his stature in the society. Under universalistic principles, an idea must be judged on its content, or if any kind of subjectivity should creep in to taint the judgment it would preferably be based upon the known technical competence of the idea's creator, not upon his position in the society.

The principles of universalism\(^2\) forced the creation of a social space, a room for maneuvering and a chance to attain status for those who could demonstrate individual achievement in the economic field. The two great feudal avenues of personal mobility, the church and the armies of the lords, were thus complemented by a third avenue -- business enterprise. And from the beginning this third channel exerted a strong attraction for those who, in Joseph Schumpeter's words,\(^3\) possessed "super-normal ability and ambition."

The second factor, and probably the most important concept bred under young capitalism, was rationalism. Schumpeter and others have advanced the compelling thesis that logic begins and prospers in the economic sphere. This thesis may be reached intuitively, by picturing a

\(^2\)This term, as used here in the sense in which sociologists use it, should not be confused with the theological universalism, which is a distinct concept.

\(^3\)Joseph A. Schumpeter, *Capitalism, Socialism, and Democracy*, p. 125.
primitive ancestor who has an economic need -- for example, he needs food. He soon learns that incantations and rituals, which he "knows" always help him in government, love, and war, do not procure food. So he resorts finally to the rational, and to satisfy hunger he may search methodically for berries, or he may even plant. The economic sphere had two great advantages which made it the breeding ground of reason in human beings. First, primitive man faced incessant economic needs, day by day, and was constantly tempted to think out a solution. Second, cause and effect had an immediate and direct relationship, and in this sphere he could determine explicitly which actions were successful.

Once rationalism gains a foothold in the economic sphere it embarks quickly on the path to becoming a habit of mind in the society. In the years of feudal twilight when the economic revolutions were stirring, rationalism was coupled with universalism to form a strong force. On many fronts, the fortress of scholasticism -- where thinking was always in terms of dogma -- was besieged and attacked by the new force. In mathematics, science, art, medicine, and politics, not to mention religion, there was conflict.

Galileo, the son of a merchant, dared to experiment and observe in physics and astronomy in the face of contemptuous hostility from the universities and the church. He was finally defended and sponsored by a merchant prince, one of the Medici. Leonardo Da Vinci, the son of a village notary and lawyer, with his incredible mind became what might be termed an entrepreneur of discovery in the arts and sciences. In medicine, the study of anatomy was pioneered, and the cherished, deadly illusions of the medical scholasticists which had been held for fifteen centuries since Galen were frontally assaulted.

In those years when modern Western society was being formed, there was a plentiful supply of ability and ambition. Universalism allowed the young men so endowed to contribute fully. These men worked in trade,
science, manufacturing, art, and in many fields of human endeavor, and they were all dedicated in common to a new understanding of their world and to new ways of doing the work of the world. Rationalism was to permeate all areas of human enterprise, and its agents -- the human beings whom it freed and who became its spearhead -- were perhaps its most significant legacy to the generations to come. Their occupational descendants would form the professions, and a significant element of the professions would be a rigorous system of accountability.

THE DEVELOPMENT OF THE MANAGERIAL ROLE

By the elaboration of Standards, on the impersonal side of industry, through the analytical and synthetical methods of Science, and by the deductive determination of the principles and methods of management on the personal or human side, it is the aim of those practising management to evolve, by a sharing of knowledge and experience, irrespective of trade and business divisions, a Science of Industrial Management, distinct alike from the sciences it employs and the technique of any particular industry....

--Oliver Sheldon
in The Philosophy of Management
London, 1923

Among the young men who went into manufacturing enterprise at the time of the Industrial Revolution, a few clearly had an insight into the future professional complexities of management. Matthew Boulton and James Watt opened their new foundry in Soho in 1796, and soon began using techniques which can justifiably be described as planned machine layout, market research, production control, supervisory development, and incentive compensation.

Then in 1810 Robert Owen, a giant in understanding among the early entrepreneurs, established his textile mills in New Lanark. Starting
from humble beginnings, he worked in the mills as a child, became a manager of a group of mills in 1800, and within ten years after starting his own business he had repaid the entire original cost plus interest. He was truly the first personnel administrator, and pleaded articulately with other "superintendents of manufactories" to act in enlightened self-interest, as he had, in devoting themselves to the needs of their "vital machines" -- their employees. Between 1815 and 1825 over twenty thousand visitors, many of them distinguished royalty and other dignitaries, made the pilgrimage of observation to the successful factory in New Lanark where the employees were alleged to be both productive and contented. In depth of outlook as a manager, and in performance, Owen was a century ahead of his time.\textsuperscript{4}

After Owen, during the remainder of the nineteenth century, the Western world saw much vigorous entrepreneurship. But the era of the professional man in the arts, sciences, and enterprise had not yet blossomed, nor was it foreseen, even though its seeds were developing strongly in the soil of capitalist rationalism. The embittered Karl Marx, reconstructing society on paper more to his liking, paid little attention to the hired manager or administrator, or to the occupational specialist. In fact, he viewed them all as anomalies. In his black-and-white cosmos, society had but two elements, the exploiters and the exploited. Significantly, these specialists were neither.

\textsuperscript{4}After 1820, Owen became devoted to the planning of Utopian communities, and his reputation for incisive thinking began to decline enormously. See Robert Owen, \textit{A New View of Society}, First American Edition (New York: E. Bliss and E. White, 1825).
But in the latter half of the nineteenth century other more perceptive observers were aware at least of a need for a professional and specialized approach to the problems of enterprise. Thorstein Veblen, the son of a Norwegian immigrant farmer, became the brilliant, erratic iconoclast of America, a professor of economics who was a perpetual failure in the academic world. Yet he possessed an uncanny ability to see through the hypocrisy of the business era of the robber barons, and he wrote strong critiques which contained many punishing insights. Veblen is of interest to this study because he is generally regarded as the first of the "managerialists" who believe that trained management is not merely the best way to supervise certain functions but that management is a basic institution and a key leadership group in the society.

Veblen developed a unique view of Vanderbilt, Morgan, Gould, and their contemporaries. He accused them of having no interest in an orderly functioning of the economy, nor in stability. Rather he saw them as having a vested interest in economic chaos, because the speculator could reap his gains only by taking advantage of fluctuations, and the wider the fluctuations the better the reaping. He clearly perceived the American dichotomy of that era -- technical genius in production on the one hand, and financial recklessness on the other. Inevitably he took the next steps, in which he accused the tycoons of carrying entrepreneurship over the bounds of reason into piracy, of being throwbacks to the predators of the feudal ages, of sabotaging the brilliant efforts of
America's specialists who could easily make her the most productive nation in the world.\textsuperscript{5}

It is not hard to imagine the reactions of this sort of man to the theorized system of the classical economists, in which the self-seeking of each participant would add up to the good of the whole. In reference to this theory, he once wrote\textsuperscript{6}

A gang of Aleutian Islanders, slushing about in the wrack and surf with rakes and magical incantations for the capture of shellfish, are held...to be engaged on a feat of hedonistic equilibration in rent, wages, and interest.

Veblen, in taking the unprecendented view that the businessmen of his day were opposed to productivity and were in fact sabotaging it, had found a kernel of truth. From the vantage point of sixty years of subsequent business evolution, it is now possible to justify a position of substantial doubt regarding the concern of the tycoons of 1860-1900 with the matters of productivity and service. During the battle for control of the Erie Railroad between the Gould and Vanderbilt interests, Gould received these words in a letter from one of his superintendents:\textsuperscript{7}

The iron rails have broken and laminated and worn out beyond all precedent until there is scarcely a mile of your road, between Jersey City and Salamanca or Buffalo, where it is safe to run a train at the ordinary passenger or train speed, and many portions of the road can only be traversed safely by reducing the speed of all trains to 10 or 15 miles per hour.

In these years railroad accidents were a most common occurrence.

One vice-president of the Erie, whose task was the financial preservation

\textsuperscript{5} The Veblenesque view of the business system was set forth in Thorstein Veblen, The Theory of Business Enterprise (New York: Charles Scribner's Sons, 1904).


\textsuperscript{7} Ibid., p. 224.
of the company, said,"The public can take care of itself. It is as much as I can do to take care of the railroad."

Hence there were grounds for Veblen's pessimistic position regarding the real contributions of the steel, rail, and other business tycoons to the American economy. At least it may be said that these men, while not actively against productivity in itself, simply were not concerned with the mundane complexities of the techniques of production and service. In this attitude they showed a remarkable kinship with the intellectuals of the twentieth century, as will be indicated in later sections of this writing.

Yet Veblen, who was almost a total cynic, actually professed hope and optimism in one area. In the specialists -- the technologists, the new industrial engineers, the designers -- he foresaw the emancipators of the American economy. He believed that their rationalism could remove the shackles which had been imposed upon the nation's productivity, and also achieve economic stability. The American dichotomy would be resolved in favor of technological genius; financial irresponsibility would be mercilessly exposed in its anti-social impacts by the rational approach.

In actuality Veblen's writing and thinking had very little impact upon the American economy nor upon the society at large. His satire against the leisure class was widely read and amused many; his attacks against the school of classical economics were devastating and resulted in a new scope for the study of economics. But his thoughts about the future role of the professional specialists made sense only to a few,

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8 Ibid.
an influential few who were for the most part professional specialists. He may not have been the first managerialist, but he was by far the most articulate one up to his time.

The years 1910-1912 marked the approximate beginning of the era of the true professional man in the occupational structures.

The Scientific Management movement was in full steam in America under the early industrial engineers, men like Frederick W. Taylor and Frank Gilbreth. In 1911, Taylor presented his historic paper, "The Principles of Scientific Management," to the First Conference on Scientific Management at Dartmouth. This was a cold rational approach to the science of industrial work and organization, and in the perspective of the times it was truly illuminating.

These years saw the fruition of the earlier, basic reorganization of the U.S. Army, undertaken by Elihu Root as Secretary of War. It was the first massive organizational task in which the very young science of organization was used. Root set up the Army War College and the concept of the General Staff.

Overseas, Henri Fayol, a shrewd practitioner and student of the administrative arts in France, was making successful reorganizations of large mining companies. German industry developed the concept of Betriebswissenschaft -- a detailed analysis of the many systems which in the aggregate make up a large business enterprise. In Austria in 1911, Joseph Schumpeter's book Theory of Economic Development was published. This was the first scholarly analysis which included the role of the manager as a significant factor in the functioning of the economy.

In America, 1912 marked the publication of the monumental Flexner Report upon the condition of medical education and

9 In France about 1800 the Comte de Saint-Simon emphatically defined the importance to a society of its skilled occupational groups. He pictured France without her 3,000 leading chemists, doctors, mechanics, academicians, artists, and other artisans, and concluded that with this loss the nation would have suffered a catastrophe, would in fact have lost its very soul. On the other hand, the loss to France of its titled noblemen (like himself), its officers of state, its social lions, and its large landowners Saint-Simon depicted as unfortunate but really only a sentimental loss.
the medical profession in the United States. This report rescued medicine from the occupational swamp in which it was mired and directed it on its way to becoming a modern profession.

Henry L. Gantt was one of the ablest of the American industrial engineers who built the Scientific Management movement. In his work in production control he devised the widely used Gantt Chart, and he was a pioneer in the area of incentive compensation. He was keenly aware of the need for proper motivation in workmen, and in this he was a forerunner of the participative school in human relations. About 1916, Gantt became quite alarmed at what he perceived to be an American drift toward "an economic catastrophe such as Europe exhibits to us." He feared an "European-style" capitalism, which he viewed as harsh, totally selfish, and cartel-ridden, and also probably doomed because of the erosion by class warfare, anarchy, and communism.

In 1916, Gantt proposed an organization to be called "The New Machine," which in his own words would be: "a conspiracy of men of science, engineers, chemists, land and sea tamers and general masters of arts and materials -- a fellowship at deadly enmity with all parasites and pretenders -- held together in their war against humbugs by their common love of what is really so and by their common scorn of purse-lipped pious altruisms." The purpose was to provide production and service to the community.

This was followed in 1919 by Gantt's writing, "The Parting of the Ways." Here he attacked an alleged decay in the moral strength of the business community, which he believed was succumbing to a perilous creed in which profits took first place, service the second place. He believed that the American business system had been founded upon the concept of rendering service to the community, and he exhorted businessmen to return to this concept forthwith. Gantt had been profoundly affected by the unhappy spectacle of the 1918 revolution in Russia, and he wrote:

The lesson is this: the business system must accept its social responsibility and devote itself primarily to service, or the community will ultimately make the attempt to take it over in order to operate it in its own interest.

It is apparent that Veblen and Gantt, although they lived in totally different worlds one from the other, each viewed the professional industrial specialist in the same light -- as a savior. As late as 1941, James Burnham in his book The Managerial Revolution took this point of view one step further. He sketched a clear conflict of interest between those who were in charge of the technical processes of production -- the managers -- and those who guided the financial position of a company -- the top managers, bankers, financiers, and stockholders. Burnham wrote:

It is a historical law, with no apparent exceptions so far known, that all social or economic groups of any size strive to improve their relative position with respect to power and privilege in society. And the managers are so placed as to assure victory in this struggle of interests and classes.

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12 Ibid., p. 15.

13 James Burnham, The Managerial Revolution, p. 82.
These three observers all shared one tendency which is quite repugnant to most Americans, and this is the tendency to view the economy, or segments of it, in terms of class warfare. In their writings, the class struggle, while not between rich and poor, was between specialist and businessman, engineer versus ritualist. Although they were insightful observers, there was perhaps a deep flaw in their analysis, in that they allowed little latitude for accommodation or change in the attitudes of either of the contestants. The conflicts they predicted, if they ever existed at all, have been relatively peaceful ones, basically because the businessman has acquired an increasing sense of social responsibility, while the manager has preserved within his scale of values the worth of entrepreneurship.

However, there have been on the recent scene more sophisticated commentators upon the role of the manager. Peter F. Drucker, consultant, professor, and prolific author, was the distinctive formulator of opinion regarding management during the decade of the nineteen fifties.\(^{14}\) Repeatedly, in journal articles and in his books, he made the points that management is an essential and leading institution in the society; that it has no basic conflicts with any other groups, since it is neither exploiter nor exploited; that classical economics, with its emphasis upon automatic market adjustments and individual acquisitiveness, absolutely cannot be a criterion for management actions; that management succeeds when it makes whatever is good for the public become a part of the enterprise's own self-interest.

\(^{14}\) Probably his most representative book is *The Practice of Management*, 1954.
Drucker also unabashedly states that business enterprise has no single paramount objective, and that if it did, the making of profits for shareholders would not be that single top purpose. Profits must be sacrosanct, but only because they are a levy upon the current earnings of the enterprise which permits it to have a future. He views the creation of a new customer as probably the most important of the several objectives of enterprise.

Also, during the postwar period there has been an increasing public acceptance of the crucial function of the institution of management in the matter of economic growth. The remarkable postwar economic growth of France, in the face of continuous military pressures from the Indo-China and Algerian situations, and in spite of the many war-ruined utility and transportation systems in 1945, is a case in point. International economists give credit for the key ingredient in this growth to the rise of a group of competent younger industrial managers who wrestled the decision-making powers away from the traditional holders. One symbol of the new industrial France is the Caravelle, the jet transport aircraft which is gaining acceptance with airlines on all continents. This successful product dramatizes the departure from the ways of the old France, in which there were always many good ideas, few good products.

Perhaps the highest compliment paid to management in recent years on the international scene came from the late Jose Ortego y Gassett, the great Spanish philosopher who had devoted his last years to studying the political and social structure of modern European civilization. He was a persuasive advocate of the uniting of the economies of the European nations, and saw in this task a historic mission for the managers of
Europe. Professor y Gassett, in a keynote speech to an international management organization in 1954, noted that these managers were already overburdened with their duties in industry, yet they must superimpose upon this work the intelligent guidance of the "immense transformation" of continental economies. He said: 15

Neither the politicians nor even the economists are the right persons to lay the foundation for such an all-embracing fundamental change; it is the managers and no one else....

The advent of the present world-wide horizons for the institution of management is probably the most significant event in management's short history. As an example, it is estimated that British East Africa, now acquiring independence, will need within ten years between 2,000 and 3,000 people capable of managerial or administrative work. Presently this colony produces with great effort twenty to thirty persons of this type each year. 16 It is apparent that the institution of management faces a period during which much will be demanded of it.

Thus in a half-century span, capping three hundred years of preparation under capitalism, management has developed to become a central institution in Western societies, and indeed in all the national societies of the world. It is an accepted institution, but is it a profession? An institution develops succinct forms of accountability when its leadership becomes truly professional.

15 Jose Ortega y Gassett, in the keynote address on "The Social Background to European Management" at the European Management Congress, Torquay, England, October 20, 1954.

16 See Peter F. Drucker, in American Society of Mechanical Engineers, Fifty Years Progress in Management, 1960, p. 117.
MANAGEMENT AND THE CRITERIA OF A PROFESSION

I hold every man a debtor to his profession.

--Francis Bacon
in Elements of the Law, 1605

America has through the years attracted a series of discerning observers from abroad who have come to observe its society and economy. Eminent among these were DeTocqueville in the last century, and Maritain and Bruckberger in the present years. A thread of comment has run through their writings: They have professed surprise at finding here a socio-economic structure which does not fit either of the polar views of society in Europe. The United States does not practice the egoistic "European-style" capitalism¹⁷ nor does it appear to have any regard for the other extreme -- the revolutionary government by the proletariat. In fact, Father Bruckberger goes on to exhort Americans to stop using the term "capitalism" because it has only destructive connotations abroad and conveys no real meaning about the American economic system to foreigners.¹⁸

This American predilection for the moderate approach bears directly upon the present and future of the institution of management. In this

¹⁷American businessmen have also insisted for years that their capitalism has veered sharply away from "European" capitalism, although of course the intellectual public does not listen to them with the attention it devotes to the French tourists. This business attitude is apparent in the National Association of Manufacturers, The American Individual Enterprise System. As an illustration, Theodore V. Houser, former Board Chairman of Sears Roebuck and Co., devoted the early part of his opening paper to the 1959 Convocation of Sloan Fellows to a differentiation of American capitalism from its European predecessor.

¹⁸See R. L. Bruckberger, Image of America, p. 266.
country, in the twentieth century, the economic philosophy of the middle class has thrust management into the key economic role. Here, the predator will not reign in business, nor will the commissar, and hopefully not the demagogue. The manager will be in charge.

Before examining this prominent new institution with regard to its claims to the status of a profession, it will be helpful to understand its unique qualities. In common with the established professions, the professional intellectuals and opinion-formers, and the politicians, management uses ideas, words, and numbers as its tools and instruments. However, in contrast to some if not most of these other users of abstractions, management bears an explicit vested interest in the results of what it says and does. That is, management is committed to productivity, which is measurable, and thereby to a comprehensive understanding and utilization of the detailed principles and ever-changing techniques of the total physical environment of production. Management is potentially in a position to bridge the gap between those who use the processes of the mind and those who utilize the processes of the physical world, because as an institution it must be effective in both areas.

Moreover, of all these groups management bears the strongest commitment to innovation and change, always in the direction of improved industrial processes. In Chapter I, the battle of centuries was discussed, in which the acceptance of change for the sake of improvement was finally won. Now it is recognized by the social scientists that sanction of change could not come to men naturally. Rather this sanction must be established institutionally, and management has inherited from the entrepreneur the responsibility for the maintenance of innovation -- for perpetually fostering "the new and the best."
Since the nineteen twenties, sociologists have been analyzing the professions in an effort to isolate the traits which distinguish a professional in the Western occupational structures. This work has led to many lists of "definitional items" which apply to the professions.\(^{19}\) In every analysis, two items emerge as core traits, which the sociologists deem as causative in establishing professional standing. The first is the "common body of knowledge" or more explicitly, a requirement for prolonged specialized training of all members in an abstract body of knowledge. The second is a collective and individual orientation to the concept of public service, with an implied element of altruism or at least disinterestedness connected with the rendering of service.

Other important elements of a profession have been identified.\(^{20}\) A dominant element is rationalism -- the seeking out of the new and the best -- as opposed to traditionalism. Another is universalism, the previously discussed concept which insists that who states a proposition within the profession is irrelevant to the technical merits of the proposition. Thus universality focuses emphasis upon technical competency, discourages personal associations and cliques ("particularism" in the jargon of the sociologist) which might cloud the objectivity of practitioners.

The remaining key element of a profession has to do with the authority of its members. Authority in the professions is related to the ancient Roman

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magisterium, or teaching office, and may be defined as a quality which deserves deference because of the knowledge of the holder. It is an opposite, in a sense, to the concept of power in its coercive, juridical dimensions. Importantly, authority in the professions is marked by a restriction which the sociologists call specificity of function. This means that a professional is scrupulous to exercise his authority only in the fields of knowledge in which he is explicitly qualified.

These key elements of a modern professional structure may be recapitulated as follows:

(1) A common body of abstract and specialized knowledge, requiring prolonged specialized study and training.

(2) A collective and individual orientation to the concept of service to the public, rendered with altruism or disinterestedness.

(3) Rationalism, applied generally.

(4) Universalism, applied generally.

(5) Authority of knowledge, specified by function.

From these key elements, the analysts have gone on to define lesser elements which are sociologically derivative (rather than causative). Some of these are:

1. The profession determines its own standards for education and training.

2. The student professional goes through a much more extensive adult indoctrination procedure than does the learner in an occupation.

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21 Ibid., pp. 34 ff.

Professional practice is often but not always legally recognized by some form of licensing.

Licensing and admission boards are staffed only by members of the profession.

Most of the legislation concerning the profession is shaped by it, as long as the profession maintains its public acceptance.

When an occupation becomes a profession, its members gain in income, power, and prestige in the community. Significantly, the profession can always attract a higher caliber of student.

The practitioners of the profession are relatively free from lay evaluation and control.

The norms of practice enforced by the profession are more stringent than the legislative controls.

The members are more strongly identified and affiliated with the profession than are members of an occupational group.

The profession is more likely to be a terminal kind of work for members. In general, members do not care to leave it, and a higher proportion indicate that they would enter the same field if the chance were provided to start over again.

The present problem is to evaluate the institution of management in terms of these criteria, to determine if an incipient professional status is forming, and whether a professional type of accountability can be instilled in the practitioners and accepted by the public.

The first requirement, a common body of knowledge, becomes a controversial issue when applied to management. Certainly management knowledge does not consist of the so-called "hard sciences" where truth is identifiable by experiment, as in the physical sciences. However, medicine and law are not hard sciences, yet they are established professions. It is also true that management is a generalized technique rather than a specialized one, and it is thereby difficult to limit the scope of the underlying knowledge. Here again, the older professions have tended to branch out into an increasing number of specialties, resulting in a continuously broadening scope of underlying knowledge.
There are strong forces at work to build the body of management knowledge. These are the graduate business schools, the management associations, and the various management consulting organizations. The rapid growth and present condition of the business schools will be examined briefly later in this chapter, but it is sufficient to note here that the relatively few good graduate schools, via the continual improvement of their curricula, are powerfully shaping the structure of management knowledge.

Similarly, the management associations in their incessant conferences and seminars are at one and the same time extending and delimiting the boundaries of management learning. The professional management consulting organizations

23 The American Management Association was organized in 1923, has ten divisions covering all aspects of management, an extensive program of annual conferences. The AMA had 12,000 members in 1950, 28,000 in 1959; there were 1,100 meetings with 59,000 attending in 1959. See page 4 of the AMA Annual Report, 1958-1959.

The Society for the Advancement of Management resulted from the combination of the Taylor Society and two others in the early industrial engineering work.

Then there is the Comite International de l'Organisation, or CIOS (International Committee on Scientific Management), organized in 1924, which has since held twelve international congresses for the interchange of management experience. American management participates through a U.S. national committee -- the Council for International Progress in Management (CIPM). Since 1950 CIPM has planned and executed study programs for almost 2,000 managers from twenty-five countries comprising 142 different groups.

The National Industrial Conference Board (NICB), founded in 1916, exists to conduct research in business, economics and management, to assemble and analyze information about economic conditions and management experience in the U.S. and other countries, and to disseminate results thus gained by publications, conferences, and other means to business, industry, education, and the general public. In the 1950's NICB produced 175 comprehensive studies in business policy, personnel policy, and business economics. The NICB's work is supported by about 3,700 associates or sponsors -- business, labor, and educational bodies.
have built up massive files of actual case work which contain a wealth of management knowledge.

One who has observed any modern profession at work will intuitively conclude that, while the sociologists are basically correct in their emphasis upon the common body of knowledge, there is room for at least two important qualifications. First, where a common knowledge is most difficult to define, it can be replaced by a carefully developed common sense of responsibility.24 In medicine, a psychiatrist and an osteopathic surgeon at one stage in their learning share a common knowledge in the prerequisites in general medicine, but in later phases of their careers it is much more likely that they share a strong sense of common responsibility, while each progresses in a broad field of knowledge which is foreign to the other.

The second qualification is that modern professions are staffed by those who are capable of competent practice, and who utilize to a varying extent the underlying body of knowledge. Thus, members of a profession hold in common a set of abilities which enable them to practice successfully, and abilities are a better measure of the professional than is knowledge. Many efforts have been made to categorize the essential abilities of a competent manager.25 One of the most succinct statements of the required abilities of the management practitioner was made by Lawrence Appley, President of the

24 This equivalence was observed in one of the earlier analyses of the professions. See Carr-Saunders and Wilson, op. cit., p. 491.

25 A good analysis of these abilities may be found in Peter F. Drucker, The Practice of Management, Chapter 27, "The Manager and His Work," p. 341. Shrewd observers years ago noted that most of the tomes on management abilities which line the library shelves end by describing a type of man who has only lived once on earth.
American Management Association, in an address before the International Management Congress at Brussels in 1951. Appley said that the manager must be able to:

1. Maintain the economic health of an organization
2. Integrate the viewpoints of different management functions and people within it
3. Direct the affairs of an organization in proper relationship to the community, the industry, the national, and international economies
4. Instill a service motive into the organization which takes into account the incommensurables -- loyalty, tradition, friendship, understanding, courage, patience, perseverance, and spiritual values
5. Make an organization dynamic, adaptable to changes
6. Provide human satisfaction in work output and relationships

Surely a manager who could exercise each of these abilities would be welcome in any business organization. In light of the two qualifications discussed above, it may be concluded that in the areas of common knowledge and common abilities within the practice, it is difficult to find any vital distinction between management and the established professions. In the matter of a set of mutual, binding responsibilities within the practice, a better case can be made that the management institution has not evolved to full professional status. Yet even here, the current scene offers many allegations of lack of effective "peer enforcement" within, for example, medicine and law, so that the analyst who attempts to find a precise distinction will be frustrated.

Common responsibility leads directly to the second core trait which identifies a profession -- the collectivity devoted to public service, and the associated concept of disinterestedness in personal gain. (To
illustrate this somewhat elusive point: The institution of medicine is expected to provide service for its indigent customers regardless of the probability of being paid.) The social scientists have paid particular attention to the elements of service and altruism in the professions, chiefly because it is "the pursuit of self-interest" elucidated by Adam Smith so many years ago which is often alleged to separate management forever from the professions.

The sociologists begin their analysis of this point wisely, with the suspicion that, because business management and the professions have flowered so remarkably in the same social and economic structure, there must be strong elements in common in both of these institutions. If "altruistic" types of institutions prosper notably along with the "egoistic" institution of business in an acquisitive society, then what are the true differences in motivation between the practitioners in the two institutions? Parsons\(^26\) considered the goals of ambition for individuals within each type of institution and found them to be essentially the same. Each group defines success as (1) the satisfactory attainment of the technical goals of the specialty, and (2) attainment of high standing or recognition in the peer group.

In management or in medicine, these two elements of success must be articulated, i.e., achievement must lead to commensurate recognition, if the institution is to establish effective sanctions for desirable performance. Deviant behavior, such as shady practices in business management or "commercialism" in medicine, are believed to be reactions to the strains

\(^26\) Talcott Parsons, op. cit., pp. 34 ff.
resulting when the articulation breaks down. For example, in 1878 when Gould was milking the shareholders of the Union Pacific and the Kansas Pacific railroads, and at the same time reducing the roads' capacity to serve the public, he was reacting to a pattern in which recognition in his peer group -- the fraternity of barons -- had no relation to technical achievements in the art of building and maintaining railroad service. The resulting strains in the hearts and souls of lesser rail operators can easily be pictured.

This theory is far from rigorous, but the important aspect here is that the sociologists have concluded reasonably that there is no difference in typical personal motivation between a business manager and a doctor or lawyer. However, there have been clear differences between the professions and the occupations in the institutional level of public service which is expected. Business management for many years has continuously shifted its position regarding service to the public, and has modified its concepts of how much and in what manner the practitioner may reap personal tangible rewards. At some point in this process, management reaches a position where its standards of public service and personal disinterestedness are on the same relative plane as those of the established profession. It is academic to speculate whether this position was attained in 1950, or in 1960, or will be attained in 1970. The important element is the near approach.

Earlier, when the key, causative elements of a professional structure were listed, the concepts of rationalism, universalism, and specified authority were also considered. The first two of these have already been examined, and are not only integral parts of business enterprise today, but actually were introduced into the Western world in the stirrings of the
entrepreneurial revolution in the late middle ages. The third concept is
currently an active subject for analysis within management, primarily as
a result of the impacts of the grand merger of advanced technology with
corporate business.

Now, when many professionals practice actively within the corporation --
the physicist, chemist, doctor, lawyer, economist, psychologist -- the
matter of the delimitation of the various authorities of knowledge becomes
a crucial problem. Management has deliberately sought to understand better
its own authority of knowledge, and the relationship between this authority
and that of the contributing professionals. In the aerospace industries,
as an illustration, an observer of a conference between a department manager
and a chief aerodynamicist would be struck by the similarity to the typical
unctuous relationship between a physician and a dental surgeon examining a
patient whose injury unhappily belongs partially in both their domains.

Managers in many of their decisions continue to exercise power, in its
coercive sense, originating in hierarchical position, as opposed to the
authority of knowledge. Many managers have long realized what the organi-
zational scientists now confirm -- that the condition where maximum
authority\(^2\) is utilized is the condition of maximum freedom for accomplish-
ment within the organization. Yet they also understand that where the
occasion is appropriate power must be exercised to maintain an organizational
action toward established goals. In no way does this use of power disqualify
management from professional status, any more than does its use by the doctor

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\(^2\)As previously noted, authority is here used in its derivative sense
from the magisterium or teaching office, hence implies guidance rather
than control, and is exercised by virtue of the knowledge of the holder.
who is the chief administrator of a hospital or the lawyer who is dean of a university law school. Within the whole concept of specified authority there is again no apparent ground upon which management may be differentiated from the older professions.

During the interviews for this study, the topic of the profession of management came up repeatedly:

Dean, graduate business school: If the "certifiers" like Appley of the AMA have their way, and a manager must be licensed to practice, it will be a disaster for both business and management.

True, the advancement of medicine has been enhanced since its licensing requirement was instituted. But this illustrates the point I want to make. We have within business many individual contributors who are professionals. By all means, let them continue to be certified to practice, the more rigorously the better. Let the engineers and the lawyers go to the legislature regularly to tighten the registration and admission requirements. This will not stultify their fields; rather it will advance them and strengthen them as long as they don't overdo it.

But in management, the situation is totally different. First, certification would let all the legislatures in. It would become a matter of survival to our society that the matter of boundaries be wisely defined, that is, where and when does a man have to go before a board, meet requirements defined by local laws, before he can enter into business? I doubt that we are wise enough to resolve these questions appropriately.

Even more importantly, once the certification laws become established, a certain amount of inflexibility and inertia is set up. Yesterday a man visited me who is a C.P.A., an officer of one of the large public accounting and auditing firms. His profession is a good example of the fact that statutory recognition means statutory regulation. The auditing firms now face intense competition from various kinds of management consulting firms, and they are limited in their attempts to respond because the law tells them what activities a C.P.A. can legally engage in. And it takes years to change the laws. He and I estimated that the law is now about 15 years behind the practice in his field. One result is that his firm is forced to hire many specialists, mostly engineers and economists, who are not C.P.A.'s. They are now up to 60% non-accountants in their professional ranks.
My main point is that it is constructive innovation that we are defeating by this process. The C.P.A. profession will suffer from this, and the economy may be deprived in some areas of the services of those who can substantially contribute.

Now, how should management approach this question of professional status, in my opinion? They should do all the work required to train more and more men to the highest level of proficiency in the management field. And I define the management field most broadly.

In addition to noting the "millstone effect" of legal recognition as the Dean described it above, other interviewees seemed to agree with the comment attributed to George Bernard Shaw, "All professions are a conspiracy against the laity."

President, utility company: We have a strong tradition of service to the public here, and one of my chief jobs is to see that this is bred into the outlook of every manager as he starts up the ladder. But I don't like the thought of a registered profession for management. At the least, it sounds officious. At the worst, it's merely another way to a monopoly, an avenue to fewer practitioners and higher returns for those who are allowed to practice. Most of the complaints about low professional ethics and the need for tighter regulation against those who encroach upon a profession can be translated into a plea for higher fees. I would say that management should just continue striving to do the best possible job it can.

Senior partner, investment bank: Most people in business who use the term "professional management" have very little idea what they mean by it. There is a semantic problem. The term "professional manager" means a hired manager who works at managing for a living. But the idea of a "profession of management" is quite different. I'm aware of all the implications involved in a fully recognized profession for managers. I'd have to give the matter more thought to give a definitive opinion, but I'll tell you that from what I know of it now the idea does not seem all bad by any means.

Vannevar Bush, after a lifetime of splendid service to the government, to education, science, and industry, has cogently addressed himself to the question of professional management."

It is by no means fully recognized that the profession of management exists. For those who believe in our system and who would perpetuate it, there is no more rewarding effort than to see that this recognition becomes general and real. This does not mean organization or propaganda. It means in essence that the professional attitude shall become enhanced and emphasized wherever men of business gather. It means especially that the neophytes, entering the long ladder which leads to great responsibilities, become early inculcated with the professional spirit, as they see it exercised by those above them on the climb. It means, above all, that there shall be an increasing solidarity among members of the profession, not in formal ways, but in those subtle influences which are exceedingly powerful, in the growth of mutual understanding, in willingness to talk frankly in a professional way, in an exclusiveness not formally defined, but understandable, which makes it clear that true membership in the professional group is highly desirable, and to be obtained only by living the life of a professional man and securing the accolade of those who thus live.

What then may be concluded regarding the professional status of management? First, the sociological analysts have found no clear or essential distinction between the practicing manager and the practitioners in the accepted professions. Irrespective of whether management has crossed the amorphous boundary into the territory of a profession, business administration is now a vocation which can be professionally defined, professionally approached, and staffed in a professional manner. Within this vocation, men who view their work as a profession are increasingly sought, and the steady building of professional standards and ethics goes on.

In connection with the remarks of Dr. Bush regarding the neophyte, it is interesting to note that the concept of internship is gaining a foothold in management. See Donald M. King, President, Masury-Young Co., "Student Interns for YPO Companies" in the Young Presidents' Organization, YPO Enterprise (January 1961), p. 13.
It is not cynical, but hopefully constructive, to speculate on the basic reason for the headlong push of Western societies into the professions. It may well be that, in addition to its proved capacity to accelerate the techniques of service, the profession is the device par excellence which gives public sanctity to the concept of self-accountability, and provides legitimacy to a most deep-seated human need to exercise an effective, inwardly oriented responsibility — a need stemming from the roots of the Judaeo-Christian culture. The profession may be a two-edged sword by which the present generations will forge ahead, two-edged in that it both provides a haven for self-accountability to those who need it in an increasingly other-directed world, and by the same mechanism allows those who can contribute most effectively to do so.

MANAGEMENT AND MEDICINE: 1960 AND 1910

Although the modern hospital is not as a rule operated for profit, it is nonetheless the product of capitalism not only... because the capitalist process supplies the means and the will, but much more fundamentally because capitalist rationality supplied the habits of mind that evolved the methods used in these hospitals.

--Joseph A. Schumpeter
in Capitalism, Socialism, and Democracy, 1950, p. 125

It is not commonly recognized that before 1910 the profession of medicine did not enjoy the high prestige with the public which it has held for the past half-century, and which has only recently shown signs of decline. Prior to 1910 the Carnegie Foundation had established a large grant for a study of medical education, and a remarkably astute non-medical
observer, Professor Abraham Flexner of Carnegie Institute of Technology, was commissioned to direct the study. The picture of what he found, and what he recommended, is of compelling interest to the modern manager who would understand what a profession is and how it exercises accountability.

First, there was a chaotic educational system, a diploma mill which ground out "doctors" in large numbers. The students were poorly equipped and poorly motivated; the faculties were in many cases fraudulent.

In 1805 a proprietary or commercial medical school was opened in Baltimore, allied via dubious channels to a "University of Maryland" which in fact did not exist. This school prospered, and between 1810 and 1910, the North American continent saw the opening of 457 medical schools, of which only 155 survived as of 1910. "This wave of commercial exploitation practically tore from their moorings the medical schools of large universities such as Harvard, Yale, and Penn." 30

The minimum requirements for entrance as a student were, then as now, the real standards, and these were pitifully low. Here are representative comments from professors of medicine whom Flexner interviewed in 1910: 31

Well, the most I would claim is that nobody who is absolutely worthless gets in here.

The boys are imbued with the idea of being doctors; they want to cut and prescribe; all else is theoretical.

It is difficult to get a student to want to repeat an experiment. They have neither curiosity nor capacity.

Men get in, not because the country needs the doctors. But because the schools need the money.

30 Abraham Flexner, Medical Education in the United States and Canada, 1910, p. 3.
31 Ibid., pp. 30 ff.
It is a common misconception, which some businessmen share, that the advent of professional status means an emphasis upon requisite academic learning and a de-emphasis of practical experience. In reality, the opposite is closer to the truth. It is true that the medical schools before 1910 tried to teach a bit of everything "practical" (including the physical and natural sciences) which "the family doctor needs to know." In so doing, they neglected to teach anything of permanent scientific value, and at the same time did a poor job of implanting useful techniques in the medical candidates. But the central flaw which crippled these schools was their reliance upon purely empirical techniques, taught in an academic classroom.

This flaw deserves elaboration. Reference has been made to the era of scholasticism, in which medicine fully participated from the years of Hippocrates (about 400 B.C.) and Galen (150 A.D.) to the middle ages. In this era, the "word of the master" passed on from generation to generation was law, and the act of experimenting to confirm this law was unnecessary and heretical. In the sixteenth century, some doctors began to study and experiment in anatomy, and medicine passed into its second stage -- the empiric. During this phase, physicians jumped to conclusions based upon inadequate, often illogical, experiments, and once the conclusion was reached it was held tightly, usually for decades, and it was applied in the practice. There was a great deal of factionalism within the vocation, and disciples of various schools founded by master experimenters contested with disciples of opposing schools. The issues were decided by the passion of the contestants, not by the merits of the evidence.
Unfortunately, the pre-1910 medical schools operated as remnants of the empiric age. Generally a professor was committed to one of the medical sects, and in the classroom there were strong vestigial traces of "the word of the master." Students learned passively, by listening and watching. Once a student graduated and began to carry the black satchel of the "family doctor," he was never expected to sit again in a classroom. The knowledge he had acquired had to last him to the end of his days.

Then came the third era in medicine, in which the modern profession was established and in which most of the giant strides forward have been made. Flexner's summary of this era is quoted below because it is one of the most succinct statements ever made about a modern profession. 32

The third era began when practitioners discovered that medicine is part of the world of modern science. It is characterized by a severely critical handling of experience. At the same time it is both more skeptical and more assured than mere empiricism. It differs now in that it actually knows the moment at which certainties stop and risks begin; it knows at any moment the logical quality of the material which it handles. Now it acts confidently because it has facts; again cautiously because it merely surmises; then tentatively because it hardly more than hopes. Scientific medicine therefore has its eyes open; it takes its risk consciously; it does not cure defects of knowledge by partisan heat; it is free of dogmatism and open armed to demonstrations from whatever quarter. Its teaching is characterized by activity. The student no longer merely watches; he does. His own activities in the laboratory and in the clinic are the main factors in his instruction and discipline. He both learns and learns how. He cannot effectively know, unless he knows how.

From Flexner's description it is apparent that in a profession the emphasis is not on the academic; instead the profession insists upon a balanced blending of learning and doing, and a candidate is not admitted until he has demonstrated proficiency in both.

32 Ibid., p. 53.
The medical conservatives in 1910 always viewed their vocation in terms of a fundamental conflict between the medical practitioner and the medical scientist. The former operated in the field (the hospital and the home), while the latter was a denizen of a university. This attitude more than any other prevented the advent of professional status, and the demonstration that this was an illusionary conflict was the profound contribution of the Carnegie Foundation's study. The modern physician must be at home in the world of theory and in the world of practice, and his mind must shuttle back and forth between them. His ultimate task -- the work of a lifetime -- is to learn how to combine his knowledge from the laboratory with the set of facts he observes in the examination of his patients. Theory is of concern to him when, and only when, it enables him to perceive, comprehend, relate, and control phenomena.

The Carnegie study documented two other prevailing attitudes in the old vocation. Every doctor viewed his job simply as the curing of disease; the preventative function, the great area of public health, had generally not come within his vision. Similarly, the hospital was believed to exist only to help those who happened to be ill at the moment. The fact that the hospital and the clinic could generate knowledge, could prevent the ills of tomorrow, could accumulate medical capital so to speak, was not considered. Here Flexner found a perplexing problem: The hospital administrators in most cases refused to help the medical schools train young physicians. Yet the hospital was the one place where the student could learn by doing. The Carnegie investigators regarded a geographically adjacent, organizationally cooperative hospital as a basic requirement for every adequate medical school.
In the period 1910-1915, the incipient medical profession heard cries of outrage from the proponents of the several medical sects. They said in effect that there was no common body of knowledge to permit the unification of a profession. The homeopathists, the osteopaths, the physiomedicals, the followers of Rush, the followers of Hahnemann, and other medical sectarians all proclaimed that their unique knowledge would disappear, ground under in a common profession. As it turned out, some of their knowledge did disappear, but only that which was unworthy and which could not stand up to the rigors of professional analysis.

What changes grew out of the monumental 1910-1912 examination of the medical profession? There were the recommendations to set up safeguards in the law against unqualified practice, to establish methods to induce enough qualified young men into the profession while at the same time excluding the unfit. There was a deliberate intent to reduce sharply the number of practitioners, and also to close forever all types of commercial or proprietary medical schools. Subsequent events confirm that these recommendations were adopted in a spectacularly successful manner.

But more importantly, the Carnegie Foundation in this work blazed a trail for a deep change of attitude within the vocation. The principles of rationalism and universalism were formalized and instituted. The use of dogma, sharpened by the years of eloquent dogmatic argument, was relentlessly combatted. In due time, a physician taking the floor no longer had to specify in whose name -- Hahnemann, Osler, or other -- he came, nor did he have to frame his presentation in such a way that it furthered the beliefs of his sect. The Flexner report suggested that medicine undertake to develop three conditions:

33Abraham Flexner, Medical Education in the United States and Canada, pp. xiii ff.
The creation of a public opinion which shall discriminate between ill-trained and the rightly trained physician, and will insist upon the enactment of adequate protective laws.

(2) A devotion to educational patriotism on the part of those universities which are permitted to establish proper medical schools -- a commitment to the standards of common honesty, intellectual sincerity, and scientific accuracy -- and an understanding of medical standards and how they can best be supported.

(3) A rigorous attitude on the part of the members toward their own standards of practice; a sense of honor and medical patriotism toward their own profession which will enable each member to rise above the consideration of personal or professional gain.

In short, as the Carnegie study concluded, medicine had to be a profession, not a trade. And as a profession, it carried such enormous opportunities for good or ill that society was compelled to regard it as a quasi-public profession. "It is not possible to allow complete freedom of choice to any who may choose to enter it."34

In both medicine and management, there are skeletons within the family closet. In the doctor's background lies the barber, literally, and the butcher, figuratively. In the lineage of the manager is the "robber, baron," and before him the "soulless exploiter" of the mills of England, the sweat shops and the child traps of the infant days of capitalism. The intellectual observers and the unions have never allowed management nor the public to forget the horse thieves in business ancestry, and to this day often present their criticisms in an anachronistic framework.35

34 Ibid., p. xii.

In contrast, the physician is now free, and justifiably so, of the burden of his family tree. Yet who can assess the human waste and suffering in the era of the barber-butcher, caused by the self-seeking, the incompetent, the unethical? There is no way to evaluate the totality of the loss to mankind resulting from intellectual and moral deficiencies in the generations of physicians.

For example, the name of Benjamin Rush is one of the greatest ones in medical history. In 1793, in a Philadelphia yellow fever epidemic, he empirically explained the debility resulting from this disease as due to "the oppressed state of the system."30 His first four patients recovered after he prescribed purging and bleeding. It is impossible even to estimate the number of lives lost in the U.S. and abroad during the years after this "conclusive" demonstration, as the same severe treatment was prescribed over and over again.

A conclusion which must be drawn is that the medical vocation, in escaping its forebears, has presented itself to the public consensus with more success than has the institution of business management. There is no measurable correlation, but certainly the skillful establishment of a medical profession early in the present century must be related to this success.

Several observers have noted analogies between the present status of management and that of medicine immediately after the Flexner report. Since the end of the Second World War, management has come to understand the several intricate relationships of business to science, much like the physicians began to understand a similar relationship as they took medicine

36 Abraham Flexner, Medical Education in the United States and Canada, p. 52.
into its great third phase years ago. Managers have also turned an introspective look upon the educational processes which produce managerial candidates.

In 1959, the results of two major studies of American business education were published, and a comprehensive report of an international survey of management was being prepared. The Ford Foundation financed the 1959 report by Professor R. A. Gordon of the University of California and Professor J. E. Howell of Stanford University, entitled Higher Education for Business. The Carnegie Corporation of New York commissioned and supported the 1959 report by Professor Frank C. Pierson of Swarthmore College, entitled The Education of American Businessmen: A Study of University-College Programs in Business Administration. The third study, underway for several years and not yet publicly reported, is being supported jointly by the international management organization CIOS and the Ford Foundation. It is being conducted by John Shallenberger, an American consultant and corporate officer, who has comprehensively interviewed management practitioners in eighty-one countries.

The two 1959 reports are sharp indictments of the condition of business education in America. Just as Flexner stated that in 1900 there were at best perhaps one-half dozen medical schools where the faculty was devoted to a professional conviction of medicine, so these two reports imply that there are about that many professionally oriented business schools today. Those managers who have attended these few schools will find the 1959 reports a revelation, more or less shocking, concerning the state of learning in the great bulk of business schools in the land.
In 1959 there were about 160 schools of business connected with American colleges and universities, and about 400 departments or divisions of business administration. The investigators found that in general, and with the exception of only a few of the graduate schools, the academic standards of American business education are much too low. Particularly in the undergraduate business schools and in the business administration departments, the curricula suffer from lack of coherence and are deficient in analytical content. As a result of the low standards "many students who do not have either the background or the innate ability to survive a rigorous college program are admitted to the business schools."

Further, the teaching methods in most of these schools are presently inadequate and are deteriorating. There is an almost universal tendency to stress passive learning methods by the student in lieu of active participation. With the single exception of the subject of accounting, students are given little or no opportunity to engage in laboratory work or to undertake independent analysis. Mostly they listen to exposition by the instructor.

The investigators cite data showing that in 1956 there were more than 10,000 persons engaged in teaching one or more business courses in colleges and universities. Sixty per cent of these were full-time faculty members, many of whom also hold outside teaching or consulting jobs.

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37 These figures do not take into account the thousands of proprietary "colleges" of commerce and business which offer various short-term vocational courses.

38 Leonard S. Silk, The Education of Businessmen, p. 22. This Supplementary Paper from the Committee for Economic Development is an excellent 44-page summary of the two 1959 reports.
Professors Gordon and Howell define high standards for a university faculty member. He must (1) view his field as an intellectual discipline as well as a set of skills, (2) have a comprehensive and always current command of this field, (3) be a "reasonably" good teacher, (4) continually contribute to his institution's intellectual and educational planning, and (5) generate a substantial amount of significant research, especially in the improvement of business management practice. Both of the 1959 studies conclude that, in terms of standards of this caliber, most business school instructors are seriously deficient.

They go on to generalize that most business school faculties suffer from "creeping intellectual obsolescence." The studies highlight the widespread lack of a stimulating intellectual atmosphere in these institutions, and the prevalence of dullness. In particular, they note the disappointing output of significant research or new knowledge from the faculties. It is not surprising that the investigators found many instances where the status of instruction had not changed for years.

It is the official "position" of the American Association of Collegiate Schools of Business that at least 40 per cent of the total hours required for a bachelor's degree should be taken in subjects other than business, i.e., in science and liberal arts. The Pierson study concludes that this position is noteworthy only in its near universal violation in the schools. In other words, science and liberal arts are unduly neglected, and the average business student learns for the most part "techniques" in the business subjects.

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39 Ibid., p. 25.
But even within these vocational subjects, there is a harmful and growing fragmentation of the curriculum. In 1959 there was one American business college which offered 188 undergraduate courses, and many which offered more than one hundred. Each of the core subjects, such as finance, production, or accounting, has been continuously broken down into sub-specialties. Extreme examples are courses now being taught in business schools which are entitled Principles of Baking: Bread and Rolls or Hotel Front-Office Procedure.

A more fundamental problem underlies the study of business education. It may be roughly estimated that, in all American companies of more than one hundred employees, only about 100,000 persons can by any definition be considered members of top management, and in the large corporations considerably fewer. Yet the business units of American colleges and universities are turning out 50,000 graduates in business administration each year. There were actually more than one-half million of these graduates in business during the decade 1948-1958.40

These figures mean that only a negligible percentage of the country's business graduates can hope to assume truly professional executive positions. The utilization of such a proportion of American student (human) resources, and such a proportion of its educational resources, to turn out these graduates becomes a crucial question for business, for education, and for the public. Some penetrating questions must be asked, and answered. What is the justification for continuing to turn out large numbers of poor students, by poor methods, taught by poor faculties, who face poor prospects after graduation? More basically, what is a business manager? Is there any discernible similarity between a manager's function in a large,

40 Ibid., p. 11.
multi-division industrial corporation, and the manager's function in a bowling alley or a store? What is the long-term effect of these large numbers of mediocre graduates, year after year, upon the public's conception of the institutions of management and business?

And, if comparable numbers of students continue to insist upon a business education, what type of education should it be? If the majority of them will assume relatively low-level positions in industry, or will take over their fathers' small businesses, what is their most appropriate curriculum? Should they go to college at all?

The 1959 studies offer detailed recommendations which American educators and businessmen must examine closely. The investigators hold that academic standards in the business schools must be "materially" raised, should in fact be higher than for the college population in general, as they are in any other profession. The business schools must sharply advance their entrance requirements, quit their role as the dumping grounds for the college rejects. "Students who cannot do college level work do not belong in college." Then the business curricula must be shorn of vocationalism and overspecialization, must be bolstered in the liberal arts and sciences and in broader courses in policy, principles, and theory. There should be a two-year graduate program with a professional rather than academic orientation. Doctoral programs must be expanded and improved, and the quality of business research must be improved.41

41There is an implicit conclusion in these studies that the role of the undergraduate business school must be basically questioned. During the nineteen fifties, several American universities (notably Columbia) closed their undergraduate business schools and devoted their full business educational resources to a professional graduate school.
The Shallenberger study of international management concludes basically that intuitive management (as opposed to a scientific approach) still heavily dominates the entire management picture, and more so abroad than in America. Overseas, there is still great reliance on the traditional power of ownership, applied bluntly and independently of qualification by learning. To paraphrase the old blues song, a good manager is hard to find. Out of 85 million estimated managers (business and all other categories) in the world, Shallenberger believes that only about 6 million, or 7 per cent, participate in the world-wide management improvement movement. And perhaps 10 million would qualify as knowledgeable, by rudimentary professional standards.

Shallenberger noted a common "illusion" in many nations, which pictured a nation's own managers as exceptional improvisors, capable of solving tough managerial problems through their supernormal judgment and fine experience. All in all, this report supports a conclusion that, on a world-wide basis, the emergence of an active profession founded upon both practice and learning, with a clear relationship to underlying sciences and liberal arts, has hardly begun.

In the medical world of fifty years ago, in the management institution of today, these key studies have been aimed at the crux of the matter of professional accountability, which is the educational process for the candidates. Educational deficiencies are impassable stumbling blocks in

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42 The only published report to date on the Shallenberger study, financed by CIOS and the Ford Foundation, is "Intuitive Management is Still the Thing," Business Week (Sept. 24, 1960), pp. 112-114. In the course of this survey, about 5,000 managers were interviewed in eighty-one countries of the world.
the pathway to professional status. It will be interesting to observe the implementation of the recommendations of the 1959 studies, in comparison with the effects of the adoption of Flexner's recommendations after 1910.

The practitioners of medicine and management, and the other professions, must always realize that society will grant them their varying degrees of autonomous accountability, and maintain this grant, only so long as they collectively are willing and able to establish and guard their standards and their ethics. And society will continue to award them their varying degrees of prestige only so long as their collective competency, and their areas of competency, appear to warrant it. In the words of Aristotle: 43

As, then, the physician ought to be called to account by physicians, so ought men in general to be called to account by their peers.

The professions are the guardians of modern society against the four destroying horsemen of these years -- Ignorance, Incompetency, Commercialism, and Disease. The health of the public is of course vulnerable to these forces; so is the health of the public economy, and the health of the public society.

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Civilization has had to await the beginning of the twentieth century to see the astounding spectacle of how brutal, how stupid, and yet how aggressive is the man learned in one thing and fundamentally ignorant of all else. Professionalism and specialism, through insufficient counterbalancing, have smashed the European man in pieces.

--Jose Ortega y Gasset
in The Mission of the University, 1933

After World War II, the German labor unions fostered the policy of Codetermination in German heavy industry. Under this policy, organized labor gained representation on the governing Boards of Directors. A chief motivation alleged by labor for its endorsement of this approach was its fear of a future resurgence of dictatorship. German labor's stated reasoning was that the first target of a dictatorial government is to crush a free labor movement, while at the same time liquidating any opposition within big business management. Fascism was regarded as essentially an unopposable combination of government and industry. And labor looked upon German management as having demonstrated an incapacity for moral opposition to totalitarianism, perhaps even a proclivity to join with it. Hence labor would sit on the policy-determining boards, in the role of sentinel.

Irrespective of the validity of this philosophy, or the accuracy of German labor's portrayal of its own motivation, this assertion is an

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44 A historian might doubt the competency of this sentinel. In Europe before the First World War, there were many who were certain that the world labor movement, the Second International, would prevent the outbreak of war. Yet upon the approach of conflict this movement dissolved, and German labor adequately supported the Kaiser's autocratic government, as the other labor blocks supported their national governments.
arresting illustration of a managerial dilemma. In recent history, all
specialized power groups and certainly industrial management have had to
face up to the problem of how much they should and can influence the
policies of other power groups, including their federal government. If
industry is an instrument of the national purpose, and the national pur-
pose becomes totalitarian, what should be the role of the industrialist?
As the industrialist becomes a non-owning professional manager, as he
codifies his ethics, the question becomes even more difficult to answer.

This question is not new to the professional. Since the time of
Newton, the physical scientist has tended to operate in a value vacuum.
His successes have been glamorous, and he as much as any other led the
world away from the religious-scholastic school, which was preoccupied
with values, and in which true knowledge was believed to come only by
process of mental reflections, to the scientific school, which is amoral,
and in which knowledge can come only via sensory perception of experimental
results. Webster defines amoral as meaning "outside the sphere in which
moral distinctions or judgments apply." This quality of amorality has been
one of the factors leading to the present decline in the acceptance of the
scientific approach, and to the new term scientism, meaning a general
misapplication of science, or an addiction to science.45

It has been disturbing to the world to see the scientist creating
advanced weaponry, in the field of missiles for example, for any government
under which he may live, or in some cases for any government which may

45 H. Schoeck and J. W. Wiggins (eds.), Scientism and Values
(Princeton, N.J.: Van Nostrand, 1960), which is a collection of twelve
essays critical of scientism.
retain him or appropriate him. Yet it would have been naive for the world to expect otherwise, in view of the basic amorality of science and scientific methodology.

An incident in a well-known play illustrates the professional's dilemma. In 1944, as the Allied armies close in on Buchenwald and Dachau, an American army doctor, a Jew, confronts a captured Nazi medical officer. The German immediately says, "I am a non-political. I am not responsible for my people's actions. I am a professional." The American scathingly replies, "You are a human being, aren't you?"

In anticipation of the concept of the true limits of conflicting principles (which will be discussed in Chapter IV), it may be noted here that the modern professional will have to chart his course between two polar principles when he considers values. On the other hand, there is the traditional American freedom for any citizen to indulge in factionalism, to express himself openly on the issues which determine the national moral position, independently of how well prepared or endowed he may be to make the expression. On the other hand, there is the traditional professional limitation of specificity of authority, which prohibits a professional from asserting himself in areas where he is not explicitly qualified. Abuse of the former principle breeds political irresponsibility, in which a citizen defaults in one of his basic obligations in a democratic society -- his obligation to know the rudiments of what he is talking about. Abuse of the latter principle leads to the nearly complete amorality of the professional physicist who will wield his specialty for any ideology, because he does not "know" about values.

Surely the professional industrial manager will find little to attract him in either of these extremes. As he constructs his own synthesis between them in the years ahead, he must also be acutely aware of the
political concept of separation of powers, the check-and-balance system originating with John Locke and permeating American political thinking. Americans have always had a well-founded fear of any combination of different power functions, starting with the clear constitutional separation of the executive, legislative, and judicial powers. In subsequent years, the concept has been extended to mean that one who holds economic power by virtue of his position must not simultaneously hold any other form of power -- political, for example -- in the society.

It would be beyond the scope of this work to attempt to trace out the mean or the synthesis in this matter of the professional and values. It is sufficient here to note that the profession of management should avoid a factional position, and probably also a promotional approach (in a public-relations sense) in determining how far it will go in the influencing of the public consensus or the governmental position. Yet the profession will have to be value-oriented to at least some extent. It cannot affect the pose of the narrow specialist who does not care what happens in the society beyond his immediate vision. Its practitioners will upon occasion have to endure the harsh spotlight which is turned upon those who address the public consensus.

In the next chapter, where the real problem of corporate accountability is considered in detail, the subject of values will again be examined.
CHAPTER IV

THE REAL CHALLENGE OF CORPORATE ACCOUNTABILITY

I know not myself guilty in anything, and yet I am not thereby justified.

--St. Paul
I Corinthian 4
CHAPTER IV

THE REAL CHALLENGE OF CORPORATE ACCOUNTABILITY

INTRODUCTION

The defense offered by the corporate sector against the charges of lack of corporate accountability has not been well constructed. But a poorly articulated defense should be quite understandable, for the charges have been ill-defined and lacking in coherence, and in some cases founded upon illusions, as demonstrated in Chapter II. Perhaps the most impressive aspect of the gentlemanly attacks has been their variety and their frequency.

Yet one who has talked with responsible businessmen recently must be convinced that they too feel the existence of a problem within the total area of the corporation and its relationship to its present environment. Hopefully this impression has been conveyed to the reader in the excerpts from the interviews in Chapters II and III. Somewhere beneath all the smoke there is the glint of flame. And the smoke can be viewed with a mixed reaction: It is a helpful detection device, but at the same time it may obscure the factual conditions when an analysis is attempted.

In this chapter, the recently suggested structures for corporate accountability in America will be examined, and the constructive and destructive aspects of each of these will be discussed. The prospective relationship between the American intellectual and the emergent profession of management will be outlined, because of the role of the
intellectual in the formulation of the public outlook upon the corporation. Finally, the true problem of corporate accountability will be constructed, in terms of its impact upon the effective survival and efficient performance of the American corporation. In the last chapter, which follows, an approach to the resolution of this crucial and complex problem will be outlined.

AN EXAMINATION OF RECENTLY SUGGESTED STRUCTURES FOR CORPORATE ACCOUNTABILITY

The corporation that is aware of the opportunities, and not merely the obligations, of citizenship wants to go beyond what it is required to do, legally or by other pressures, because corporations cannot live on a day-to-day basis. Any major corporation needs a reservoir of good will.

--- W. T. Gossett
Vice President and General Counsel
The Ford Motor Company

The substance of five structures of corporate accountability which have been recently suggested will be examined in this section.

1. **Pluralism, and Countervailing Powers.** It is becoming increasingly clear that the future does not belong to Marxian Socialism, as its founder so confidently predicted. It is more likely that it belongs to the highly industrialized, mass-consumption, bureaucratic state, in which the rule-making authority is split up among several groups according to the tenets of pluralism. The result is a system of several -- not one and not many, but several -- stable power groups,

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1 In The John Randolph Tucker Lectures, Washington and Lee University, 1955.
none of which can impose its will unilaterally on the society, but each of which can react against decisions or potential actions which may conceivably harm it.

Reisman, in the sociological surveys preceding the writing of *The Lonely Crowd*, attempted to locate the focal point of power in America -- a task which foreign political observers have often attempted unsuccessfully. He considered the collectivity of small businessmen and professional men across the nation who control the Congress; the military men and civilians who control defense and foreign policy; the managers of large corporations, their finance committees and lawyers, who control private investment and influence the rate of technological change; the big labor leaders who control votes and productivity rates; the Southern politicians who control that quarter of the nation; the organized foreign minorities in the big cities; the editorializers and commentators who shape the public consensus. He concluded: ²

Power in America seems to me situational and mercurial; it resists attempts to locate it the way a molecule, under the Heisenberg principle, resists attempts simultaneously to locate it and time its velocity.

Out of this pluralistic strife, the concept of "countervailing powers" was born. Professor John K. Galbraith while at Harvard first applied the term, ³ although it is a clear descendant of the check-and-balance abstraction originally advocated by John Locke in 1690, as discussed in Chapter I. Locke in turn had been strongly influenced


by Newtonian physics with its emphasis upon balance, and action and reaction. In this point of view, the power of the large corporations would be continuously checked by the power of other effective groups. The game would be played, two "teams" at a time, in various arenas -- the market, the polls, the courts, the picket lines. Galbraith saw government not only as the umpire in this game, but as the promoter who should insure that only well-qualified, relatively equal teams enter the arena.

This concept of countervailing powers has the apparent advantage of relieving each participant of the strain of assuming social responsibility; each group must simply act vigorously and effectively in its own behalf. As a structure which provides accountability, countervailing power is mechanistic, much like Adam Smith's celebrated market system, where "private vices became public virtues." To those who like to place their trust in impersonal forces -- economists among others -- it has a natural appeal. For not only does it reduce the towering problem of defining social responsibility, and the attendant need to dip far into national and human values; it also avoids the need to assume human self-restraint and self-control, or inwardly imposed accountability. It has the unassailable virtue that it never requires men to act against their own apparent self-interest. And any assumption of human restraint irretrievably complicates the precise charts of the modern "neo-classical" school of economics.
However, the balance-of-power structure is deficient. Unlike Adam Smith's market system, it suffers because there is confusion about the goal, if any, toward which this oscillating system of beneficial chaos will work. A constant, gratuitous motion toward an economic Utopia over the horizon, such as the classical economists pictured to their sanguine fellow citizens, finds no reception in the sophisticated societies of the present. Modern citizens are uncomfortable in the comprehension of a random, unpurposeful system, and yet no clear concept of this system's direction has been established.

Moreover, the architects of countervailing power underestimated the vigor, the acumen, the assiduity of modern power groups in pursuing their self-interest. The sequence of beneficial strife to impasse to bitter strife to anarchy is a realistic possibility, in view of the breakdowns and near-breakdowns in social and economic process which have characterized the postwar years. In short, this system has the potential to oscillate to the point of self-destruction.

A final flaw suggests itself. The balance-of-power structure of accountability is uniquely vulnerable to collusion between any two of the effective power groups, say labor and government, or business and labor.

Accountability by countervailing powers has its attractive features, and its dangerous deficiencies. The same may be said of each structure of accountability which will be examined here, and at this point a reasonable question may be asked: Why not use this structure, accept the impersonal forces in the arena as they are
promoted by the government, but assume and nurture just enough human restraining force, or self-accountability, to make the system work and keep it working? This might be a constructive advance, and in some measure anticipates a theme which will be developed. But when this modicum of human self-repression is introduced, the concept of countervailing powers is extended so that it becomes unrecognizable. The quantity "just enough" is subject to infinite further definition. Like a little garlic, a little self-accountability is a hard entity to handle.

2. The Trustee for the Society. The corporation has often been thought of in anthropomorphic terms, i.e., as a "man writ large." Like men, it developed its physical self first, and there are those who believe that, also like men have done, it will at some point develop a soul. Adolf Berle about thirty years ago applied the term "conscience of the corporation" to express his belief that corporation managers had then become trustees for the entire community, rather than simply fiducaries for the shareholders, as the law still holds. In this broader role of trustee, Berle felt that corporate managers could learn to practice a self-restraint in deference to the balanced needs of the community. This balance would have to include the needs of all segments in the society -- employees, shareholders, customers, government, and the community at large. In essence, management would hoist onto its shoulders the burden of social responsibility, however the term might be defined.

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4See Chapter I, p. 54.
This concept of accountability sounded good, and it may be that it was adopted in some quarters of the corporate world more for its sound than for its intrinsic merits. It allowed the corporation to appear before the public consensus not as a self-seeking profit maximizer, but as a steward of the public interests, accountable for the public good. This was a feat of no small importance, and was constructive insofar as the appearance represented fact. It was inevitable that some businessmen would accept and use this concept in only its shallow public-relations sense.

Quite aside from its effect on the public consensus, accountability by stewardship was helpful within the corporations. A great many Christian men have exercised business responsibility in America, and most of them have been acutely aware of the basic conflict between the selflessness of the Judaeo-Christian tradition and the self-interest of the business creed, both of which are alleged to result in the good of the community. This philosophical antagonism has been the substance of the Sunday anti-mammon sermons in the United States since 1640.

The assumption of social responsibility permits some resolution of the conflict, in that it brings some of the ideals of Christian ethical conduct into the business environment. It enables the Christian businessman to sense more harmony between his role and the timeless values of Christendom, to avoid a "gnawing sense of cosmic anxiety."\(^5\)

In short, social responsibility lessens the strains resulting from conflicting ethics. This type of strain is present within every vocation and profession, but in business management it can be at times quite explicit.

The evolution of business thinking toward the position of community trustee is described in Chapter I, in THE DECLINE OF OWNERSHIP. Frank Abrams, when chief executive officer of Standard of New Jersey, did much to promote the concept of management as the arbitrator whose job it is to reconcile all the various interests of the claimants and contributors of the corporation, and whenever the interests of these publics diverge, to dispense justice. This was a popular school of thought within management during the late nineteen forties and early fifties.6

The American Management Association in June 1949 made an award to Fowler McCormick, Chairman of the Board of the International Harvester Company. He was cited for his good work "in the interest of the consumer, the employee, the investor, and the community, and for unwavering support of democratic principles in industry."7

The gradual decline in recent years of the community trustee attitude in management has resulted from several broad problems associated with it. An obvious defect is the almost complete lack of recognition of such a position for management within the statutes

6It should be noted here that not one of the business leaders interviewed for this study in 1960 and 1961 endorsed this concept of management as an arbitrator among the corporation's publics. However, the concept of social responsibility was treated separately, and there was divergent opinion regarding the extent to which it should be instituted.

of corporate law. The law still holds, severely and simply, that a
corporation exists "primarily for the profit of shareholders," as
elaborated in Chapter I herein. Responsible fiduciary management
in the interests of the shareholder is still the main plank in new
corporation statutes, even in the recent Model Business Corporation
Act of the American Bar Association. Wilbur G. Katz, professor of
law at the University of Chicago, wrote in 1958:

Aside from the provisions for charitable contributions, the
new concept of social responsibility has had almost no
elaboration. It is not merely that the theory has had no
further influence on the actual statutes, but in a quarter
of a century, neither the originators of this philosophy
nor their disciples have sketched with any detail or per-
suasiveness the lines of possible practical application.
And the few suggestions which have been made justify
skepticism as to the seminal quality of the new theory.

In spite of Professor Katz' critical remarks, perhaps the re-
stricted scope of the law is not a fatal flaw in the concept of social
responsibility. It may be just another case where the law does not
reflect the conditions of practice. But there are other defects.
The theory of the trustee is essentially concerned with disbursements
from the corporate usufruct -- a term deriving from Roman law, which
means "the right of using and enjoying the fruits of an estate or other
thing belonging to another, without impairing the substance." As the
man holding the keys to the usufruct, the arbitrator among the claimants,
the trustee for the community, the discharger of social responsibility,

8 See Chapter I, p. 52.

9 Wilbur G. Katz, "The Philosophy of Midcentury Corporation
Statutes," Law and Contemporary Problems, XXIII, No. 2. (Spring 1958),
the manager finds himself in a morally hazardous position.

First, since he personally is a beneficiary of the corporate usufruct, the manager finds himself both arbitrator and party of interest, both umpire and player. In equity, in corporate law, in common sense, this is an untenable place for him to be. It is of course one of the chief reasons for the original structuring of the corporation, in which the Board of Directors was established as "not part of the management team" but as an agency of independent review. Wherever the functioning of the directorate has been confused or weakened (as discussed in Chapter II), this problem of the interested party reasserts itself.

Beyond this lies another hazard. Under the nineteenth century form of corporate accountability, there were definitive yardsticks to measure the discharge of the responsibility to Ownership. But social responsibility is an amorphous concept without clear criteria. How can one define a return to shareholders which is "fair" to the community at large, a wage scale which is socially equitable, a "just" remuneration for management? The social responsibilities have never been defined in a way which makes them a useful guide or criterion for management decisions. Moreover, the public consensus is continually changing its vague concepts of social obligation. Some view the responsibilities of the corporations as merely the "enlightened" distribution of corporate returns; others have a broader vision which includes a predetermined rate of growth of the national economy, full employment, stability, an expanding defense establishment, and other major items.
Imposing as the burdens of meeting this fuzzy kind of responsibility may be, some practitioners of management implicitly define even tougher burdens: ¹⁰

To the degree that education and other community activities contribute to the success of the company and the society in which it operates, they should and do receive a share of the proceeds.

Upon close examination, this statement proves to be one of the broadest conceptions of management's social responsibilities ever pronounced. It implies that management, in dispensing corporate largesse, will undertake to judge the contribution of various activities not only to the corporation's success, but to the society.

Finally, there is the question of management's charter to operate as a trustee for the community. It has been noted that in law this charter does not exist. However, the public consensus permits many practices which are not fully sanctioned by the law. For example, the codified picket line practices of organized labor, in some cases of questionable legality, have been permitted for years. Hence the important question concerns the charter from this public consensus. Each time management representatives speak in public of their duty to arbitrate among the corporation's publics, they unfortunately raise this question of who appointed them. And they invite the inevitable question: If managers are trustees for the society, then why shouldn't the society participate in their selection and appointment?

In retrospect, this idea of social responsibility resulted from big thinking, offered significant advantages, but turned out to be replete with pitfalls. As it has been constructed, it imposes intolerable burdens upon the managers. And in its conceptual lack of integrity, it invites intervention.

3. Accountability by Constitutionalism. It was pointed out in Chapter II, under THE GENTLEMANLY ATTACKS, that there is a school of business critics who do not appear to be concerned with the distributions of corporate returns, nor with the broader picture of the corporation and its environment. Instead they view with alarm the intra-corporate environment, which they allege is damaging the capacity of its inhabitants (the employees) to participate as citizens in the national republic. Some names associated with this critical school are Huxley, Orwell, Hutchins, Latham, Buchanan, and C. Wright Mills. These people are in general humanists, and they are for the most part intensely devoted to individualism and personal freedom. Bigness in any form they consider an enemy which promotes, and is promoted by, a superabundant growth of organization and technology, which in turn ruthlessly pushes mankind toward a totalitarian control of human mind and spirit -- toward the total bleakness of Orwell's 1984.

Unlike many of the world's intellectuals, who preach constant innovation and change, if not revolution, in accordance with a superior "theory of history" they have conceived, this group of humanists distrusts innovation. They see the present faith in "progress" as a blind state of mind, a misplaced, mechanical trust much like that of
the nineteenth century classical economists in their "invisible hand" which would automatically guide the market system toward continual improvement. Robert M. Hutchins, to illustrate their case, finds a disturbing manifestation of this blindness in the incessant current use of the word "optimization." The many suffering from this misplaced faith become technocratic bureaucrats, devoted to techniques, never principles nor reasons. Bureaucracy breeds pressure and pressure groups, which replace constructive argument, for one cannot argue with "progress."

Again, the fear is of an inexorable march toward a monolithic control of all human mind and spirit.

In the matter of corporate accountability, this school concentrates on their narrow segment of interest. It must be assumed that, in the large area of the generation of suitable returns on investment and in the appropriate distribution thereof, they take management accountability for granted. Or they do not think this area sufficiently important to draw their comments. In any case, they are proposing in very general terms that constitutional protection be provided for the citizen within the corporate organization, and indeed within every group where the administrators have power over the members. (They may except the military.) A structure of corporate accountability would thus be instituted in which "due process of law" would apply for all, and a "bill of rights" would be forthcoming. In effect, this

is a plan for a homogeneous national political and social structure, in which every power sub-group is structured in the likeness of the national society.

Certainly the experienced industrial manager will react instinctively against this proposed form of accountability. But its true invidiousness lies much deeper than cursory examination will show, and can only be revealed by further study, particularly in conjunction with related topics such as organizational entropy. The proposal is devoted to laudable ends, which are in fact in exact harmony with one of the purposes of the capitalist movement from its beginning; but the suggested means will not serve these ends. Further examination will be conducted later in this chapter.

Most significantly, this school of criticism of business management, while it is not yet well articulated, is at the same time the strongest in attack, both in volume and in intensity. Its work is in large measure unscholarly, not based upon study, investigation, or research into corporate institutions. Its conclusions are often reached by inductive reflection, like that of the scholasticists of the middle ages. Its findings are presented with a heavy use of words with generally powerful connotations. It will be seen in later discussion herein that this lack of foundation in no way diminishes the

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importance of the criticism. In fact, precisely because these humanists are at work in an area where measurement is extremely difficult, their allegations of lack of corporate accountability will be among the most serious charges faced by management. It will not be feasible to make a balance sheet which assesses the validity of these charges, as was done in Chapter II for other aspects of accountability.

4. The Resuscitation of Ownership. The nineteenth-century structure of corporate accountability possesses several marked advantages: It is well articulated, clear and coherent, solidly founded in the law, and permits accurate measurements which indicate the efficiency with which responsibility is discharged. Its problems, and its decline, stemmed mostly from its negation of social responsibility, its overdrawn reliance upon the mechanistic features of a market system, and importantly from the erosion of its philosophic foundations, as described in Chapter I. Its attrition was accompanied by the wide dispersion of stock ownership, also analyzed in the first chapter.

It might be said, with pardonable over-simplification, that all of the troubles of this first governing model of corporate accountability originated in its lack of acceptability in a changing public consensus. As might be expected, there have been serious attempts to reformulate this model for twentieth-century use. The proponents of Shareholder Democracy, discussed in Chapter II, have been amateur model builders, although they have been primarily interested in returns,
only incidentally concerned with corporate business and its accountability.

There have been several more sophisticated efforts advocating the return of the Owner, in the person of the modern shareholder, to his old place atop the pyramid of accountability. These analyses generally are directed against "managerialism" and against an alleged "laboristic" distribution of wealth by means of the corporate usufruct. The platform of the Capitalist Manifesto is a representative picture of this point of view, which finds little support in contemporary political reality:

(1) Restoration of the effective ownership of capital to the shareholders, including return to them of all wealth generated by corporate capital.

(2) Use of income taxes as an instrument to cause further dispersion of private ownership of capital, mainly by equity-sharing plans.

(3) Future abolition of corporate income taxes, as the economy is transposed to a fully capitalistic one and personal income taxes are used solely.

(4) General utilization of governmental regulatory powers to effect a transition to real capitalism. For example, this would include limitations on the size of corporations to maintain free competition. Also, government would be precluded from owning and using capital in any case except where private ownership is technically unfeasible.


Directly as management accountability would be increased under these types of plans, both management power and authority would be decreased. From the position of the national economy, this could be good or bad, depending upon the competency and use of the power and authority which would be substituted.

A refurbished corporate accountability to ownership, exercised only in the economic sphere, is also urged strongly by another group, for entirely distinct reasons. These observers are motivated negatively, in the sense that they are convinced that corporate organizations should, once and for all, \textit{renounce} social responsibilities. They are not essentially concerned with the emancipation of the shareholder.

This school of thought, inhabited mostly by academicians and allied somewhat with the humanists and their "due process," bases its position upon the confusing multiplicity of public and private purposes now being fulfilled by corporate organizations. There are private companies serving public purposes, e.g., many of the defense contractors, and public organizations serving private purposes, e.g., the Military Air Transport Service which has moved many a congressman when he was not explicitly on official business, or the General Aniline Company, still "owned" under federal confiscation by the Attorney General of the United States, still selling its line of cameras and films. A spectrum of corporation purpose can be drawn:
I. The shareholder-owned, privately operated organization

II. The area of mixed public-private operation and purpose

A. Chiefly private, but under public restrictions because of privileges granted by the government.
   Example: Atomic energy firms, building reactors for utility companies, under license and subsidy arrangements from the Atomic Energy Commission.

B. Chiefly public, such as large utilities serving the public interest primarily, but still permitted shareholder ownership.
   Example: American Telephone & Telegraph Company.\textsuperscript{15}

III. The purely public business organization

A. The semi-autonomous public business unit.
   Examples: Tennessee Valley Authority, the various port authorities and transit authorities.

B. The administrative arm of the government in business operations.
   Example: The production facilities for nuclear fuel at Oak Ridge National Laboratories.

\textsuperscript{15} As this company moves to more massive advanced technology to satisfy its missions, it will find strong forces pushing it further toward the lower end of this spectrum. For example, an international communications system utilizing satellites in near-space will require extensive government participation.
All of these types of agencies have one thing in common -- they are managed by managers. And they are all approaching a state where they are explicitly concerned with the generation of wealth. One who cannot accept this statement should read the illuminating report of a recent economic study of American cities and towns by the Stanford Research Institute. One conclusion of this study is:

Our future cities may rise and fall solely on the basis of their economic performance as measured by a balance sheet. The Wall Street Journal of 1985 may feature quotations on the weekly position of each of the cities. Quarterly and annual profit and loss statements and balance sheets for each city may command as much interest among investors and analysts as reports on private companies and industries today. The city of tomorrow will have to pass the investment test that successful industries now meet.

The second group advocating a return to purely economic accountability sees this confusion of purposes as the beginning of a potentially massive breakdown of the separation of economic from political powers. They view the modern large business corporation as a superbly efficient, competently staffed organization with large resources available to it. For this reason, they believe that it will be the target for no end of charitable, religious, educational, civic, community, and other projects which need funds, management, resources, know-how, and other corporate assets. If this is social responsibility, then the corporations should have none of it. For social responsibility means at minimum two things: First, social factors exist in the political

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realm, and second, this kind of responsibility, like any other, implies a corresponding authority on the part of those discharging it. This is one brand of authority which a corporate manager has no qualification to exercise.

This critical group also believes that the "needy" social projects will exploit to the utmost the well-known guilt feeling which the businessman has been assiduously educated to feel since 1929-1932. In his yearning to embrace social responsibility, the business manager will move toward an increasingly untenable position, in which he neglects his primary wealth-generating functions while practicing an unwarranted brand of corporate citizenship. One of the essences of Feudalism was that a man's political and religious lives were inextricably mixed up with his economic life, and business statesmanship may be leading directly to a monolithic power equivalent in the twentieth century.

Thus there are two fundamental reasons why the corporations are being urged to polish up the tarnished nineteenth-century model of accountability, and both are convincing. But in this matter there is also a red-ink side of the ledger. If management beats a trail back to the cold tower of "profit maximizing for the shareholders," no matter how rational its position, it assumes a risk it can ill afford -- the further damage of the acceptability of its accountability structure.
A shareholder faction claims that a reinstitution of shareholder sovereignty will solve many problems, and will boost the functioning of the national economy. This whole effort is probably misconceived. None of its advocates since the late William Z. Ripley have entertained the idea of shareholder responsibility -- the capacity and will of the shareholder to assume the sovereignty. Truthfully, this responsibility is not exercised. The shareholder deserves, and receives, fealty, disclosure, honesty, strict protection, and returns. But no more than these.

Moreover, the analogy of shareholder democracy is poorly drawn. Of all the publics of the corporation, the shareholder is least governed by it, and democracy is based upon the consent and participation of the governed. The shareholder enjoys the inestimable privilege of dissociation when he sees fit, generally without undue harm to himself.

5. Accountability by a Profession of Management. An entire chapter has been devoted to this potential structure of corporate accountability. The professions have been portrayed as avenues to legitimacy for the exercise of a high form of self-accountability.

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A brief summary of the suggested forms of corporate accountability has been somewhat ambitiously attempted in the preceding pages. The five forms are recapitulated here:

17See Chapter II, SHAREHOLDER DEMOCRACY: REAL OR FANCIFUL?
(1) Pluralism and Countervailing Powers
(2) Trusteeship for the Society
(3) Constitutionalism
(4) Resuscitation of Ownership
(5) Profession of Management

At this point it is possible to generalize about these proposals. With the exception of the last one, they are all oriented to distribution or human rights rather than production; they are concerned with the benefits from the corporate usufruct, and generally assume (or ignore) the maintenance of those processes which foster productivity. In this attitude, their authors resemble the financier-tycoons of the last century, and the intellectuals of this century.

Again with the partial exception of the last one, none of these proposals have originated from within management, although the second one was adopted and further constructed by managers. Consequently, in the details the proposals generally reveal a lack of familiarity and understanding on the part of the authors of the twin institutions of the modern corporation and its management.

If the opinion-formers, the intellectuals, play a substantial role in formulating, or attempting to formulate, the philosophies and principles of corporate enterprise, then it will be essential that the present study consider the prospective relationship between the managers and the intellectuals.
RAPPROCHEMENT WITH THE INTELLECTUAL

He who says what is not, goes to hell.... As a grassblade, if badly grasped, cuts the arm, badly-practised asceticism leads to hell.

--The Dhammapada,
The Downward Course

The term intellectual may be used to connote one who, as a result of mental endowment and ethical inclination, rebels against some of the accepted institutions in a culture. In so doing, he may or may not serve a constructive purpose. It is well known that America's intellectuals, sometime soon after 1850, became the implacable foes of the budding American big business, and particularly of the financial operators who ran it. This was true not only of the eccentric genius, like Veblen, but also the skilled and practical innovator, like Gantt. Even in retrospect, a great modern intellectual like Norbert Wiener, who has contributed much to civilization, will pummel the hapless tycoon of yesterday: 18

In our theories of free enterprise, we have exalted him as if he had been the creator of the riches which he has stolen and squandered.

The correlation cannot be sketched precisely, but certainly the general decline of the philosophic supports for capitalism, described at length in Chapter I, was initiated and fed by the disaffected intellectuals of the last century, in England and America. It is therefore not merely of academic importance that the manager of today

understand the intellectual of today, for it is not yet resolved how the intellectual will finally regard the emerging profession of management. In the preceding chapters, the hopes of Veblen and Gantt for the managers were sketched, and the highly complimentary attitude of an eminent modern philosopher, Ortega y Gasset, toward European managers was described. But there were also the series of attacks upon management in recent years, some undoubtedly by intellectual pretenders.

The identity of intellectuals is hard to define, but Schumpeter has made a good try:\textsuperscript{19}

Intellectuals are in fact people who wield the power of the spoken and the written word, and one of the touches that distinguish them from other people who do the same is the absence of direct responsibility for practical affairs.

As previously noted, the first part of this definition applies equally to management; the second clause is the prime element of differentiation. To point up the contrast, consider Adolf A. Berle, Jr., a prolific utilizer of the spoken and written word, whose career has almost always been only on the periphery of direct responsibility. Then consider Chester I. Barnard, former chief executive officer of New Jersey Bell, who has used the power of the word both within and without the corporation, has carried direct responsibility in large amounts, and whose book, \textit{The Functions of the Executive}, has been paid the supreme compliment by social scientists -- they regard it as a scientific approach rather than business ideology.

\textsuperscript{19}Joseph A. Schumpeter, \textit{Capitalism, Socialism, and Democracy}, p. 147. In this same work, Schumpeter analyzes the sociology of the intellectual, pp. 145 ff. Also, see Clark Kerr, \textit{et al.}, \textit{Industrialism and Industrial Man}, pp. 70 ff.
The intellectual, like many forces analyzed herein, has prospered enormously in the climate of capitalism. His type was born in the sophists and their kinfolk in the Grecian culture, reborn in the monasteries of the middle ages. However, the feudal culture was not sympathetic to attacks upon the feudal system as such, and if one wanted to rebel, he rebelled at his own risk against an individual who held power. Not only was there no sanction in the middle ages for attacks upon the system, but if upon occasion a monk did indulge in some general criticisms, only a handful of people heard of his utterances because of the provincial communications. When the feudal system was finally toppled, it was not pushed by those who were inclined to carp; it was wrecked by those who, in the modern vernacular, "couldn't care less" -- the detached rationalists who were seekers of knowledge.

But in the incipient economic and philosophic revolutions of the sixteenth century, the intellectual found his birthright. He gained two priceless advantages: rationalism and the printing press. The first permitted, even encouraged, ceaseless analysis in search of knowledge. The second gave him a medium of propagation which would be steadily and infinitely improved.

In the succeeding centuries, the intellectual found that he would, in the final essence, always be championed by the proponents of capitalism. The same rationalism which permitted entrepreneurial and technological progress and innovation also permitted freedom
to the intellectual, and one could not be repressed unless the other was also. Of all the forces in a capitalistic society, the intellectual remains as the only unregulated one, for the reason of fundamental freedom. Yet complete freedom has always contained the freedom to abuse. The intellectual insists, successfully, that he can only be accountable unto himself.

What has the intellectual become in the contemporary environment? Generally he has no vested interest in any position or point of view. Along with this he may be volatile, and capable of extreme reactions to an objective situation. The group of intellectuals in any society will be divided among themselves, engaged in much infighting.

They are by nature irresponsible, in the sense that they have no continuing commitment to any single institution or philosophical outlook and they are not fully answerable for consequences. They are as a result never fully trusted by anybody including themselves. Yet they have power which can move society. 20

For the purpose of making a living, the intellectual may associate with the professions, often with journalism or as a writer for a group like the Fund for the Republic where he can freely editorialize. He usually does not seek, and rarely gains, responsible public office, nor is he apt to be found for long in a responsible chair in the educational institutions. However, behind a successful political figure, in the planning staffs and publicity bureaus where programs are made and images created, he can be found in large numbers.

What is the function of the intellectual in the contemporary environment? Basically it is to criticize. As Brendan Behan described

20 Kerr, et al., op. cit., p. 71.
the nation's writers in an earlier quote herein, so should the intellectual be loyal to the subversive principle in human affairs, placing himself squarely in opposition to what is in a culture. Generally he is not a creator of social forces, but rather an exploiter and amplifier of existing new forces. As an illustration, he was not the creator of the American labor movement, but he intervened in it, and it can safely be said that he made it a different movement than it would have been without him. He was never entrusted with labor leadership, and in fact had to exhibit a remarkable resiliency to gain any trust at all within labor. Yet, as Schumpeter points out, he verbalized the labor movement, gave it inflammatory slogans like "class war," and imparted a radical bias to it. Schumpeter concludes that

...the intellectual group cannot help nibbling, because it lives on criticism and its whole position depends upon criticism that stings; and criticism of persons and of current events will, in a situation in which nothing is sacrosanct, fatally issue in criticism of classes and institutions.

(Underlining added)

Essentially the intellectual is a scholar or scientist who has transformed himself to an ideologist. The scholar is devoted to the enlargement of human knowledge and understanding, while the ideologist is committed to fostering human action, which collectively is social action.

The "science" of economics offers an example; it is inhabited by many who suffer from a basic schizophrenia, in that they do not know whether they are scholars or ideologists. A. Smith wrote as a

21 See Chapter II, THE GENTLEMANLY ATTACKS.
22 Schumpeter, op. cit., p. 154.
scholar, and it was only circumstantial that his work was so extensively adapted to the capitalist ideology. Marx was openly and avowedly an ideologist. Whenever a modern economist becomes associated with one political faction during a campaign, he leaves the scholarly domain. When he offers his counsel to a political administration after it has taken office, for the sole purpose of enlarging its understanding, he remains a scholar. Today's economists may have forgotten what John Stuart Mill pointed out years ago -- that economics as a science is the study of the natural laws of the production of wealth, while the distribution thereof is purely a matter of values, for the consideration of the ideologist and the intellectual.

Never in history has the intellectual had so complete and protected a franchise to attack leaders and institutions as he now enjoys in Western civilization, particularly in Britain and America. And never before has he had access to such powerful means of communication and propagation for his attacks. Radio, television, electronically connected printing presses across the nation, and expanding book publication all are complemented by increasing standards of living and increasing leisure hours for the reception of communications. The franchise, and its devoted protection by the institutions which are often attacked under its aegis, are probably unique in the history of culture. They had no counterpart in the tribal societies, nor in the Roman governments, nor in feudalism. They most decidedly have no
counterpart in contemporary socialism. In the words of Josef Stalin: 23

What is democracy within the Party? Democracy for whom? If by democracy is meant freedom for a few intellectuals, cut off from the Revolution, to chatter on without end, have their own press organ...then we have no need for such democracy.

The dilemma presented here to the institution of corporate management is simply that of coexistence with a group which is inevitably and effectively inimical to corporate objectives -- by nature, by training, by cult. As the management profession emerges to become an integral part of the society, it will no longer find support from the Veblens of the society. This is a fact which must be faced.

On the other hand, management has a minimum responsibility here which cannot be avoided. It must know the nature of the attack, always. It must communicate in some fashion with the intellectuals. It can never ignore them.

This does not mean that the corporation should receive its knowledge of the intellectual attack by means of an outside director -- a "commissar" 24 -- sitting on the Board of Directors (although proposals for "public directors" of this nature are regularly made). The directorate has need not only for experienced objectivity but also for a working harmony which must be diligently cultivated among its members. Manifestly, the intellectual as described above (even

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23Cited in David Granick, The Red Executive, 1960, p. 196. It should be noted here that there has been an apparent resurgence of a group of intellectuals, in the sense of the term used herein, in the U.S.S.R. in recent years in the persons of Dudintsev, Granin, Kirsanov, Pasternak, and others, who have been subjected to varying degrees of persecution.

24See Chapter II, THE BOARD OF DIRECTORS AND ACCOUNTABILITY.
if he could be persuaded to assume the civil liabilities of a director) would disrupt the effectiveness of any directorate.

But there are other channels which might be adapted for the purpose of communicating with the intellectual. Eminent opinion-formers, hostile columnists, and other intellectuals at the national and community level might be persuaded to address the Board, the management committee, or other groups of managers in occasional give-and-take sessions. Also, responsible academicians at the institutions of higher learning -- including the few professionally oriented graduate business schools -- are generally well informed regarding the direction of the latest liberal-intellectual attack, and could usefully impart this knowledge to responsible managements.

The purpose in all this is not to refute the intellectuals. They are by nature irrefutable. The purpose is to (1) place management in a position where it can accurately evaluate their continuous charges against corporate business, and more importantly (2) allow management to reduce the substance in their charges whenever there is substance and whenever changes are appropriate. This does not at all means that an other-directed management will follow the lead of the intellectuals, allowing them in effect to initiate corporate policy. It does imply an active, informed, tough-minded effort to counteract their corrosive effects on the concept of the corporation in the public consensus.
This is at best a weak answer to a tough problem. As the title of this section implies, there is now a question whether corporate management can effect a rapprochement with the intellectuals. The answer is probably no. The best management can do is to secure better intelligence reports on the activities of its foe, and fight a rear-guard delaying action. The real answer to this problem is a keen sense of self-restraint, a professional's self-accountability, on the part of the intellectuals. But that is another subject entirely.

One fact management will surely discover in its delaying action. The attack from the intellectuals cannot be turned by justifying the corporation, or justifying capitalism, or justifying free enterprise. If it could be so turned, the attack would have long ago been destroyed, because it is comparatively easy to make a convincing demonstration that the present American system of enterprise, if allowed fifty more years, could essentially remove all economic ills from the earth.25 Thus, intellectuals are not moved by rational arguments, such as the balance sheet in Chapter II which shows that, in substance, financial corporate accountability is real. They are not concerned with substance, and hence management must always be concerned with the construction, the frequency, the intensity of their attack, as much as with the substance of it. For it is the construction, frequency, and intensity which move the public consensus.

25 One of the many dissertations available on this projection is Schumpeter, op. cit., Chapter V, "The Rate of Increase of Total Output."
...businessmen must have clear convictions about the kind of society, the kind of system they want, and they must be willing to stand up and fight for these convictions. The businessman must have...the courage of his convictions.

--Henry R. Luce26

At this point it will be helpful to recapitulate the themes of Chapters I and II. There are two distinct and determined allegations of lack of corporate accountability. The first attack is concerned with accountability for economic power in the corporate sector, and presents these characteristics: It is a mature attack, originating some thirty years ago; it is persistent, still vigorously sponsored; it is finely articulated, probably because of decades of refinement by talented opinion-formers; it was unfortunately never based upon fact, is therefore not well founded in the substance of its charges, and is subject to refutation by rational analysis.27

The second attack is concerned with accountability for power over humans in the corporate sector, and presents these characteristics: It is new in its present form, originating in recent years; it is intensely and voluminously sponsored; it is not yet clearly articulated, and may never be; the strength of its foundation is rationally indeterminate, because there are no established criteria for judgment; and it is not subject to refutation by rational analysis.

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26 In an address before the International Congress of Scientific Management, June 28, 1957.

27 See Chapter II, FINANCIAL ACCOUNTABILITY AS IT NOW EXISTS.
Both of these attacks have prospered chiefly because of deficiencies and confusion in the form (or structure) of corporate accountability, and the first one has been allowed to exist over a protracted period only because of this form deficiency. The existence, frequency, intensity, and quality of construction of these allegations are in themselves serious factors for the consideration of corporate management, irrespective of their substance.

It is significant that these allegations do not present the real problem of corporate accountability. Recently some of the proponents of the idea that there is a deficient accountability for corporate economic power have been bemused in a re-examination of their own position. Professor Mason has asked himself "why managements apparently responsible to no one and enjoying substantial freedom of action always or generally act in the public interest." He goes on to consider possible explanations -- that the economy is not so managerial (i.e., is more competitive) than many suppose, or that if all the facts were available it might be concluded that managements do not always believe in manner beneficial to the public, or that in their professional training, wisdom, and judgment (i.e., self-accountability) managements make enlightened decisions. Mason

\[28\] It is interesting to note that its refutation in substance has come belatedly, and then from the business school and not from any institution (including management) within the corporate sector.

concludes that the answer lies partly in all three explanations.

If the observers cannot formulate the true problem of accountability, management must undertake the task. Management is crucially and centrally concerned with both the survival of the business corporation in its modern form as the primary wealth-generating organism of the society, and the effective performance of the corporation in this role of wealth generation. Presumably the outside observers are also concerned with the survival and effectiveness of the wealth-generating function (although as recognized earlier herein many of them have no commitments to existing institutions). Starting from this assertion, it might be possible to encapsulate the true problem of accountability in one sentence: The present compromised structure of accountability causes a situation outside the corporation which jeopardizes its effective survival, while it at the same time causes a situation inside the corporation which weakens its capacity for effective performance.

However, this capsule needs elaboration. The current and real problem of corporate accountability breaks down into three areas -- the environment inside the corporation, the environment in the society outside the corporation, and the link or bridge between these two environments.

(1) The Intra-Corporate Environment. The people who work in the corporation for the most part do not understand the form of their accountability, unlike their counterparts of fifty years ago. Unfortunately, this lack of understanding often increases with increasing responsibility in the corporate hierarchy, because it is relatively
simpler to instill accountability in form (and substance) at lower levels. If employees do not understand their accountability, they do not understand modern business enterprise.

The manifestations of this lack are many, and only some of the more apparent ones can be mentioned here. First, consider the matter of profit, and its role in the company and in the economy. A knowledge of accountability in the modern business scene must presume a knowledge of rudimentary economics; yet most workers, many professionally trained employees, and too many managers, in their economic illiteracy, resist profit. They do not understand that profit is the money which covers the cost of risk, that it is in the words of Peter Drucker30 the "one absolute requirement of survival." In actuality, consciously or subconsciously, they believe that a modern economy can by some alchemy be operated without profit, even though most of them would recoil at the word "socialism." This lack of comprehension is unhappily reflected on every corporate income statement in the land.

There are further outcroppings of this deficiency, all inhibiting effective corporate performance. Witness the current difficulties in the organizational integration of corporate units and peoples, i.e., in orienting a whole large organization toward the fulfillment of corporate goals. One reason this is difficult is because management does not possess a clearly articulated accountability

for the use of human beings. Then there is also the acute problem of the policy direction of innovation, which is currently one of the most important social and economic factors in the society. In forming innovation policy, management must consider key factors -- the rate and direction of change, the potential gains, the risks of failure, the destructive effects on existing vested interests -- all of which have to be evaluated within the framework of general accountability. The better understood the framework, the more effective the policy.

(2) The Extra-Corporate Environment.\textsuperscript{31} If the accountability of the corporate sector -- its discipline of enterprise -- is not comprehended within the corporation, there can be little hope for understanding within the society in general. Yet enlightened managers understand that the corporate form won its measure of legitimacy from the state only after centuries of struggle; that each corporation comes into being under the privilege of a charter from the state; and that the corporation exists, grows, and operates under the continued sufferance of the society. In America the public consensus fairly effectively determines state policy, and changes in the policy of sufferance are instituted by means of politically initiated, legally framed intervention by the state in corporate affairs. There

\textsuperscript{31} Scholars now call the study of the relationship between the corporation and its surroundings the ecology of the corporation. The term is borrowed from biology, and is not considered to be in sufficiently general usage to be utilized here. It is predictable that it will be a commonplace part of management vocabulary within five years.
is also a well-developed theory that American institutions, including corporations, respond to inchoate legislation from the state, i.e., just-begun legislation which implies further legislation in the same pattern.

Hence if the corporation is to maintain its dwindling latitude for entrepreneurial decision-making in the generation of wealth, it must gain and hold a secure place in the public consensus. This requirement is jeopardized when the public and those opinion-formers who shape its consensus do not understand the nature of corporate accountability. Since the founding days of the American Republic, the nation's citizens have been preoccupied with the form of the political safeguards which protect life, liberty and the pursuit of happiness. Now they want to know not only that the corporate sector has not usurped undue power in the society, but also what means are in existence to prevent this from happening.

The problem of the corporation in its environment is compounded by an American trait. Americans have shown a willingness to grant large concentrations of economic power because they have generally recognized that it is needed to produce, supply and distribute goods and services. But they are intractable in their concern about grants of power over human beings, and for this reason the previously cited criticisms of corporate use of this type of power may be readily received in the public consensus.

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The Link between the Intra-Corporate and Extra-Corporate Environments. There is presently a gulf between public policy (and public behavior via the instrument of government) on the one hand, and corporate policy and business behavior on the other. This gulf has not been bridged by the political scientist, the economist, nor the manager. Of these, only the economist has tried, and in this attempt he has failed singularly. During the interviews this question was discussed:

Dean, graduate business school, and a director of major companies: We can't succeed in understanding the corporation in its environment in terms of three-hundred-year-old political theory from Locke, or later theory from Jefferson; or in terms of one-hundred-and-fifty-year-old classical economic theory. These offer a good foundation, give us some insights, but someone has to build a modern superstructure over them. The theories of the firm set forth in modern economics don't begin to shed any light on the way a modern corporation operates, or should operate.

In the absence of a link of understanding, the corporate manager is uniquely handicapped when he tries to carry out an important duty—the anticipation of social climate and national economic policy, and the subsequent translation of these into corporate responses. Query: When the national policy, in a specified mood, sets a target of a given mix in growth rate, stability tolerances, employment level, and pricing policy, how does the manager structure the corporate profit objectives, investment plans, employment projections, in order to serve both effective corporate survival and efficient corporation

33 Out of the economists' attempts has come a terminology: Macroeconomics, the study of the aggregate behavior in the national economy of many firms; and microeconomics, the study of economic behavior within a firm.
performance?

Economics at the time of its birth was essentially microeconomics -- the classical theory of a proprietor operating his firm in his own self-interest. Shortly thereafter the unfortunate term "profit maximizing" must have been born, and the following generations of economists have shown no limit in their inclination to expand its original, simple meaning to the dimensions of a blanket which must cover all human motivations in industry. The complex drives and actions of modern managerial man, who must push his horizon further and further into the future as the impact of his decisions lengthens, are draped with a simplifying camouflage which all but destroys their true shape.

Several years ago at an annual meeting of the American Economic Association, a well-known economist questioned the narrow approach of his profession in the interpretation of the corporation. He noted that a long line of "provocative" essays and books from other disciplines analyzing the corporation had failed to divert economists from their habit of treating the corporation simply as a maximizing individual. He concluded:

...it is no doubt true that if we as economists were to take account of the many dimensions of the corporation in our theory, we would take on a very great burden. It would mean that we would lose some of our professional distinctiveness and that we would become social scientists with specialization in economics rather than economists.

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Hence the economist understands and contributes in macro-economics -- national income determination, monetary and fiscal policies, and allied subjects -- while the manager is understandably oriented to the environment inside the corporation. They each use the same terms -- price, market, competition, among others -- not realizing that they intend different meanings. They do not understand each other's problems, yet the reflections from the other realm are vitally important when each makes his policy decisions.

Upon closer examination, the missing link really bears the dimensions of accountability. If the answerability of corporate management were clearly defined, it would encompass the relationships between corporate policy and public policy.

* * * *

These three factors make up the true problem of corporate accountability -- a problem which bears directly upon the crucial duties of modern corporate management. The manager can take refuge, as businessmen before him have done, in the pragmatic aspects of the situation; he can indulge in the American Character, which is alleged to prefer "practical, speedy action" to depth of understanding. But this would be abdication, and means that someone else would resolve the question of the corporation and its responsibility.

A sense of accountability which is real and governing is more than a nicety which the academicians say that corporate business should have. As described in Chapter I, a fine sense of accountability
was omni-present in the nineteenth-century industrial, commercial, and mercantile society. Everyone who assumed responsibility in that environment knew to whom or what he was accountable, and more importantly he knew why he was accountable, and how this accountability integrated with what he and his society were out to do with their world. There is unanimous accord, even from the far left,\(^\text{35}\) that there was no lack of initiative in these people — they built the industrial and corporate structure which later generations have inhabited. Observing their initiative and their vitality, the contemporary manager can draw his own inferences regarding the role played by their accountability.

\(^{35}\text{Schumpeter, op. cit., p. 7, refers to the Marxian approval of the works of early capitalism.}\)
The survival of human institutions depends not upon heaven but upon man. Yet there appears to be something in the nature of man that takes what he has constructed not merely for granted but as guaranteed for all eternity. The greatest hazard to institutions is not the problem of survival through the earliest years of their inception but survival after they have become established. At this point, the patterns of the past are preserved without thought of what they signify—merely because they are there.

--Richard Eells,
in The Meaning of Modern Business
1960
CHAPTER V

A PROFESSIONAL APPROACH TO CORPORATE ACCOUNTABILITY

INTRODUCTION

In a pluralistic society, where the conflicting desires of several power groups are in continuous balance, the one cardinal sin in any group is not knowing what it wants. If management will avoid this sin, it must heed the words of Henry Luce quoted in the preceding chapter, determine what kind of society it wants, and stand up in public for its convictions. In so doing, management will establish a value system upon which it can base a clear structure of accountability.

But this is much easier said than done. During the interviews for this work, it was apparent that many managers feel that the large corporate institution is caught in a dilemma, and that any way out is fraught with hazard. The confines of this dilemma were visible in the discussions of the preceding chapters regarding the various structures of accountability. For example, an exit from the dilemma by the route of the assumption of "social responsibility" proves to be no exit at all. Similarly, an attempt to return to "pure" economic accountability only increases the hazard.

Ethics is essentially the study of values, the comparison of alternate means to an end. Hence the problem management faces is compounded of two elements: ethics and technical complexity. These are the problems of a profession, and the time has come for management to adopt a professional approach to its problems. It must become
theoretical, as the medical vocation did fifty years ago, whenever theory supports practice. It must become thoughtful, even philosophical, whenever philosophy clarifies objectives.

Several years ago, when the Harvard Business School was still formulating its postwar plans, its Dean described the type of manager his school would strive to produce. This manager would, of course, be able to work with people, be able to make decisions, and instinctively accept responsibility. But more than these, he would understand the basic forces at work in our society and recognize the weaknesses and deficiencies in our system. He would have a clear understanding of his objectives, lying mainly in the area of furnishing both material and other human satisfactions.

One theme of this chapter will be that management can no longer wait for others to solve corporate problems, including that of accountability. It can sortie out from its besieged fortress and boldly, ethically, intelligently solve its problems -- the preservation of the free market, the functioning of the directorate, the privileges of the shareholders, and the others. As in any other profession, a degree of faith will be required, and must be built up, on the part of the laity.

The efforts herein to resolve the question of accountability will inevitably become enmeshed in a normative approach, that is, in an analysis of what ought to be, as opposed to the prerequisite analyses in the preceding chapters of what is and how did it become so. This new approach is a necessary evil; it is not intended as a preachment.

nor does it involve an assumption of omniscience on the part of the
writer. However, corporate accountability no longer can be examined
in terms of simplifying amorality, nor in a framework of "non-valued
entities" and "non-existing values."

In actual fact, no one person is qualified to comment upon what the
ethical standards of the profession of management should be. These must
be built, progressively and steadily, by consensus of the practitioners.
But a first step can be taken here, which may or may not be in agree-
ment with a later consensus. At best this work can represent but a
very small contribution toward the resolution of the central problem of
corporate existence and progress in the nineteen sixties -- the
question of corporate accountability. At best it can constructively
provoke further management consideration of this crucial question.

This chapter is devoted to sketching the rudiments of an active,
informed, and professional approach by corporate management to the
accountability problem, in both of its two aspects previously described.
But first it will be necessary to establish certain of the principles
which will be applied.
PRINCIPLES FOR THE APPROACH TO ACCOUNTABILITY

...excess and defect are characteristic of vice, and the mean, of virtue.

...in all things the mean is praiseworthy, and the extremes neither praiseworthy nor right, but worthy of blem.

--Aristotle, Ethica Nicomachea
Book II

Man has realized, for a very long time, that he should not be an extremist, that in all his life he must select his way between opposing principles. This inference has not been limited to any one epoch nor to one culture. For instance, in the Hindu writings of the second century before Christ, one can find this advice:2 "You must be free from the pairs of opposites."

Paul Tillich, Professor of Theology at Harvard, in his profound insights has found three basic conflicting principles throughout human history and human life.3 These have been termed the polar elements of being -- dynamics vs. form, freedom vs. destiny, and individualization vs. participation.

The conflict between dynamics and form is illustrated by the continuous flight from law to chaos and back to law which has characterized man's life in society, religion, and culture. Law, hierarchy, and order when practiced in the extreme are stultifying to human vital powers, hence are superseded by a swing to chaos where vitality is

2The Bhagavad-Gita, Book II, The Yoga of Knowledge.

reintroduced and order suffers. As Tillich says, "There is a con-
tinuous breaking of vitality by form and of form by vitality."

The question of dynamics and form is particularly applicable in the
world of industry and management. As discussed earlier herein, account-
ability may exist in either of these two dimensions. These polar
elements have also been discernible throughout the history of enter-
prise\textsuperscript{4}, in the record of continuous conflicts between entrepreneurial
forms (where the economic power is dispersed widely throughout the
market) and bureaucratic forms (where human, controlling decisions
regulate production and distribution). In the bureaucratic form,
market influences are overridden by other influences, which may be
military, dynastic, ideological, religious, or corporate. In the study
of the history of enterprise, historians have found that the bureaucratic
form has generally prevailed, with rare intervals of entrepreneurial
freedom.

Freedom and destiny are in conflict on the government scene, and in
business. Freedom in the extreme can become arbitrariness. If a free
agent perceives no basic relation between himself and the objects of his
choice, then his choice becomes capricious or meaningless, and no one
choice is objectively preferable to any other. America started as a
fortunate, wise blend of freedom with destiny. Communism is an example
of an extreme commitment to destiny -- a destiny artificially introduced
via a "superior theory of history."

\textsuperscript{4}See W. T. Easterbrook, in Harvard Research Center on Entre-
preneurial History, Change and the Entrepreneur, 1949, p. 32.
Within the sphere of business, there has always been a concern over the ultimate purpose for which freedom is sought. Adam Smith warned repeatedly that production was merely a means to an end -- consumption. Others have pondered over consumption as a means to a further end or destiny. Clarence Randall, an eminent American industrial executive, viewed production as merely a tool to be used by society for its own advancement. The real objective is to release human energy for the cultivation of mind and spirit, for "the achievement of those ends for which providence has placed us on this earth." Management must be aware that "pure" freedom in its polar sense is not an adequate objective.

The third set of elements -- individualization and participation -- contains a paradox. The man who is extremely individualistic is also one who participates strongly. That is, extreme individualism is loneliness; it is "the lonely crowd" which becomes submerged into collectivism. An example may clarify: The depersonalized proletarians in a Chinese commune all "participate" in elections, demonstrations, and other planned events. Thus in a sense mass behavior and individualism are not polar, but exist together in the extreme. It is the modified individualist -- the one who can actually work with other human beings and at the same time contribute of himself -- who represents Aristotle's virtuous mean and who must be sought in American-type industry.

During the recent age of black-and-white ideology, the virtuous mean was neglected. In 1932, President Abbott Lawrence Lowell of Harvard wrote a short but impressive volume in which he reminded his fellow men that abstract principles must not be evaluated in terms of whether they are true or false. The real question is how far are they true. To what extent does the inherent truth in a given principle justify its extension and application in each changing circumstance? Aristotle had said that moral good is served by the mean, that both defect and excess are vices, the former falling short of what is right, the latter exceeding what is right. Lowell added:

A great part of the art of life and of civilization lies in ascertaining the true limits of conjugate principles.

President Lowell listed many of the polar principles between which responsible Americans must steer the mean course. In economics, there were laissez-faire vs. state regulation and competition vs. cooperation. In the social area, there were personal liberty vs. uniformity, consent vs. coercion, ambition vs. modesty, credulity vs. skepticism, and others.

This philosophy of the mean has a clear application to the problem of corporate responsibility. The question is no longer which structures are right. Social responsibility is right; shareholder democracy is right; profit maximizing is right. The real effort is in determining the "true limits" of the several sets of polar principles interwoven in the subject of corporate accountability. This effort can be approached by management in either of two ways. The passive approach is to let each

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6A. Lawrence Lowell, Conflict of Principle.

7Ibid., p. 20.
mean be set by others, by the circumstantial interplay of forces in the arena of pluralism without benefit of a management position. The professional approach is both active and informed, the result of (1) a studied position which so complex a matter deserves, and (2) an effective presentation in the arena. The latter approach will of course result in a structure of accountability more in keeping with the values of corporate management.

Another of Paul Tillich's deep insights can aid management in dealing with the complexities of values. His construction of the concept of the demonic is a support to those who would act and be responsible for results. In the demonic concept, every human act produces an insep- erable mixture of good and evil. The activist, the seeker after good results, must assume the risks of the interwoven evil if he will accomplish. An illustration in industry is the process of technological innovation -- the power loom led to the destruction of the hand weaver's craft, of his way of life. Each new innovation will eliminate the value of existing real capital which technically might be usable for many more years. Each time a manager is creative, he is destructive.

Tillich states that capitalism is a powerful example of the work of the demonic. Capitalism fosters "the most successful production of goods which has ever existed." Similarly, it is the most artful method of distribution that can be conceived. In short, it is a truly creative force, but coupled with it inseparably is a destructive force of great strength. Some manifestations of the destructive force were set forth in the historical sections of Chapter I of this report.

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Another abstraction with potential application to the corporation is \textit{federalism}. It is an old concept from political science which is being re-examined currently in view of sociological findings about the limitations of "functional" organization structures, and the effectiveness within industry of the smaller group\(^9\) organized across functional lines. A federal organizational structure is one in which a number of smaller organizations are united, with the intent to preserve the personality and individualism of each of the smaller units, while establishing within the whole structure a distinct character which permeates all parts.\(^{10}\)

This definition of federalism is really an assignment of a task, and it is a task which many industrial managers would like to be able to accomplish. It is apparent that, if the political scientists in analyzing federal structures have distilled out any knowledge, this knowledge would be valuable in corporate industry. Also from the definition, it can be seen that the concepts and lessons of federalism can be applied at many levels within a multi-division corporation, and also can be applied in an analysis of the corporation as an organism within the national society.

\(^{9}\)The smaller group has best demonstrated its prowess in advanced technology industry, where it is called a project. For a discussion of project organization, see Paul O. Gaddis, \textit{"The Project Manager"}, Harvard Business Review (May-June 1959).

\(^{10}\)The character and sociology of federalism are discussed in William S. Livingston, \textit{Federalism and Constitutional Change}, 1956, Chapter I; and in Roscoe Pound, et al., \textit{Federalism as a Democratic Process}, 1942, passim.
Further discussion of federalism in itself is beyond the scope of this paper, but it should be established here that this concept from political science will be a useful tool for the professional manager in approaching the problem of accountability, especially as accountability is related to corporate use of human beings.

The last abstraction which will be established here for use later in this chapter is the most difficult one. It is drawn from the fields of physics, thermodynamics, and statistical mechanics, and is referred to as entropy. In recent years, partially as a result of Norbert Wiener's construction of the new science of cybernetics, entropy has been found to have applications in organizational science.\textsuperscript{11} In physics, the energy within a closed system is available from heat differentials, and the lesser these differentials the lesser the available energy. It is fundamental that in any closed system the differentials tend to decrease, and therefore any such system gradually runs down, reaches a final state of heat equilibrium in which there is no energy, only formless chaos. Scientists, in a mood of cosmic pessimism, view the universe as a closed system gradually deteriorating toward this kind of death, typified by the German word \textit{Wärmetod} -- the universal heat death.

Entropy is the abstract quantity which represents this general tendency of a system to run down. Hence another way to state the proposition of the preceding paragraph is that in any closed thermal system, entropy always increases. In a sense, entropy is the enemy

\textsuperscript{11}See Norbert Wiener, \textit{The Human Use of Human Beings}, Chapter II, "Progress and Entropy."
of life, or life and energy are both antientropic. However, the systems of prime interest to humans are not closed or isolated but rather are connected, or "coupled" as the scientists say, with other systems in their environment. An active volcano is a system which has been well coupled with a heat differential or energy source and thereby becomes what Wiener would call an "island of locally decreasing entropy" in a general universe where entropy is increasing. For whatever purpose providence designed the volcano -- perhaps to relieve dangerous stresses within the crust of the earth -- it is a very effective instrument. Thus it is purposeful, energetic, vital, even orderly in the large sense; all these are antientropic conditions existing in a universe where in general -- and in the vast majority of situations -- the obverse adjectives apply.

How is the concept of entropy used in organizational science? Heat and energy were related to the old physics, but in recent years scientists have been able to associate energy with information. In a political and socio-economic organism, say a federal type of government, there may be some few cells which are highly coupled in the reception and transmission of real information, which utilize this information well in determining their own behavior, and become in effect local zones of energy and purpose. These few are the entropy-reducing sub-units in the entropic environment of the whole organism; they are not only the agents of growth and progress but also of survival. These few effect their own survival and also that of the whole organism if there are enough of them.
The theory is refined far beyond this point. For example, these few successful antientropic sub-units -- the life-givers -- develop a method of learning from their environment. This enables them to stand up to the entropic stream of corruption and decay, to rebuild their successful pattern faster than the stream can tear it down. This brief glimpse of a deep subject must suffice for present purposes.

Every corporate manager can grasp the concept of entropy because he has seen its destructive effects in his experience. He knows that in the representative large multi-division corporation only a very few departments are the life-givers. He knows that within the usual department only a few individuals inject vitality and purpose. In the advanced technology industries, he has seen the demon of entropy take over large laboratories which originally fulfilled great purposes. He suspects that, among the myriad organizations which exist in the American socio-economic structure, a fraction of a per cent are the entropy-reducers.

The several concepts and principles considered in this section will be useful in the following sections, where an approach to accountability is constructed.
THE PERIL OF CORPORATE CITIZENSHIP

I must say, I believe that humanism will eventually prevail; but I am afraid that at the same time the world will become a huge hospital, with everyone nursing his neighbor.

---Goethe, 12 1787

Management in America must understand the scope of the analysis which is now being conducted into the corporate use of corporate powers. This broad and determined analytical investigation has been founded upon the basic American mistrust of concentration. Its general purpose, openly avowed, is to find out how to make corporate power "as tolerable as possible."13 It is being prosecuted by lawyers, politicians, economists, sociologists, journalists, and by the intellectuals (in the connotations of the term previously discussed herein). All of these feel that the examination of business is fully within their charter, and in any case where they may have usurped a charter, the public has not really objected.

Therefore it does management little good to question the justifiability or the sanction for the analysis. Management in this situation has only one right, and that is to insist that the investigation be in accord with the highest standards of objectivity, and that the investigators be self-accountable for every nuance of their pronouncements. Thus far, neither condition has prevailed.

12Italienische Reise II, Naples, 1787.

As defined previously, one aspect of the analysis is concerned with accountability for corporate power over human beings. Here is a representative sample of the concern:\textsuperscript{14}

The corporation, in its generic sense, has for a long time been generating and nurturing a set of habits of feeling, action, and thought that are only now becoming recognizable and articulate, and they appear to be incompatible with our understandings of the principles of the bill of rights by which we think we have been living our common life.

The central question here is: What is the nature of the corporation's accountability to the society for those whom it employs? The polar principles which flank the answer may be determined by referring back to the antithetical models of accountability in Chapter I. In the structure of classical economics, the manager is an owner, all others who labor within the corporation are employees, and labor is a commodity. The corporation is accountable to the society only for hard but fair bargaining with each supplier of labor in the matter of wages. The self-regulating feature of the labor market will take care of all other aspects of the general accountability within the society to those who work within corporations.

This bare but fully comprehensible accountability is in its essence an anti-feudal device. Note that it is exercised completely within the economic dimension. The manager has no power whatsoever over the employee in any other dimension --- political, social, or religious. If the labor market is functioning, as it was always assumed to be, each employee has the effective and easily exercised right of dissociation, and subsequent re-association with some other buyer of his wares.

Now consider the polar twentieth-century model of corporate accountability. In this case the management knows it must observe social responsibility, and in the absence of a better definition this may be construed as the balancing of the employee's interests with those of other contributors and claimants: community, government, shareholder, customer, supplier. To the maximum extent practicable, the whole work force is turned into a corps of lifetime employees, and as a social scientist has remarked,\textsuperscript{15} "membership in an endearing institution has replaced relations of ownership and employment all the way up and down the corporate ladder."

Under the dictates of this extreme modern version of accountability, much is given to the employee, and in one sense much is demanded of him. Among the receipts which he expects are an increasingly progressive distribution of national income, personal treatment within the corporation which is "right" by changing standards, protection, status, various forms of security, a pleasant work environment, diversion, and education. As contemporary companies in all cases approach this model in varying degrees, an observer may find the following manifestations:

The employee spends his leisure hours at a country club built and maintained by his company. He furthers his education in part-time curricula conducted or sponsored by the company; his children compete for company scholarships at universities. His charitable contributions are influenced or established by company policies. His personal estate-planning function is inextricably mingled with his company's offices, in the matters of life and health insurance, pension, deferred compensation, even borrowing of funds for personal use. In a growing number of ways, his socio-economic future is a function, not of the relationship between his competency and the community economy, but of this committed personal-corporate relationship.

The employee becomes a citizen of the corporation, in this limiting case of the twentieth-century model of accountability. As citizenship becomes his lot, the corporation demands total loyalty of him. This is but a reflection of the polar version of the corporation, in which political orientation begins to eclipse economic intent. The corporation crosses the hazy line which separates an economic organization from a political government. But it is all for an originally good purpose, in that the corporation now assumes responsibilities in several forms for the human beings in its whole environment. This polar model of corporate accountability for the use of human souls is not simple like its opposite; it is exercised in varying degrees within three dimensions -- political, social, and economic.

The task here is to outline an approach to the true mean between these conjugate versions of accountability. First it is necessary to define "socially responsible" corporate behavior with regard to employees. Social scientists who have studied this matter tend to regard it as essentially a problem which requires the enlightenment of management. They find too many contemporary managements burdened with fallacious theories of human behavior, applying concepts which in sociological research have been proven to have little or no foundation.\(^\text{16}\) Examples of untrue hypotheses which still

\(^{16}\text{Douglas McGregor's recent book, The Human Side of Enterprise, is an articulate plea for management to discard outworn and unreal theories, and to profit from scientific knowledge of the realities of human behavior, in the governance of industrial enterprise. Also, see the results of the 1950 conference on management's social responsibility at New York University's business school, in Chase, et al., The Social Responsibilities of Management. This book contains contributions from an economist, a social scientist, a corporation chairman, and a labor leader, all of whom engaged in a panel discussion before the conference.}
guide some managers and other leaders in the society are that pecuniary
gain is the only real incentive which motivates employees; that men are by
nature lazy; that class struggle is natural to men; or that power is the
only effective means of control in an organization. One is reminded of the
physicians of the last century who persisted in applying "bleeding and
purging" for a variety of ills, even after some of their colleagues had
demonstrated the lack of validity of this "cure."

The social scientists are asking for the development of social per-
ception on the part of management. It is not said that management, as an
institution, has shown no progress in this area, but that it has been
lagging and confused -- in short, unscientific. Lawrence Appley has sum-
marized the range of cultural outlook, which management has shared to some
extent, on the matter of human relationships:17


(1) Savagery -- the other fellow is my enemy and to be
destroyed.

(2) Slavery -- the other fellow is to be conquered and put
at my service.

(3) Servitude -- the other fellow is to serve me for con-
sideration and ask no more.

(4) Welfare -- the other fellow should be helped up when
down, without too much concern for what got him down.

(5) Paternalism -- the other fellow should be cared for,
and I will decide to what extent.

(6) Participation -- the other fellow has something to
contribute to my efforts and can help me.
(7) Trusteeship -- that for which I am responsible is not mine. I am developing and administering it for the benefit of others.

(8) Statesmanship -- the other fellow is capable of being far more than he is, and it is my responsibility to help him develop to his fullest potential.

Is the criticism from the social scientists, which they have justified on the basis of factual observations of corporate conditions during consulting visits and other studies, an indictment of the morality of management? Quite apparently it is not. It is rather an indictment of the competency and value perception of management within its own field of specialty. It is practice and ethics which are impugned -- the twin elements of a profession. What is being said is that management first does not know, and then does not practice, the right way to human productivity in industrial enterprise. This is not a judgment in the moral sphere at all; it is simply a well-founded criticism of the professional capacity of management.

Then the first limiting boundary in building the mean between the polar concepts of accountability is a true professional approach to human organization in enterprise -- a balanced use of theory and practice by a management which both knows and knows how. As management comes to operate in the higher end of Appley's range of social perception cited above -- beyond trusteeship into statesmanship and then into further refinement -- human relations will develop a degree of complexity which is truly at the professional level. Adoption of this first boundary will prevent management from veering too close to the unpalatable (and actually ineffective in the modern environment) nineteenth-century concept of pure economic accountability.
On the other hand, there is nothing in it to deter management from excess in the other direction, from becoming enmeshed in the vagaries of the twentieth-century concept. Hence this first boundary is not enough.

The building of a second boundary depends upon a further analysis of socially responsible behavior by corporate management. In the 1950 conference at New York University on the social responsibilities of management, the management participant was William B. Given, Jr., Board Chairman of the American Brake Shoe Company. He stressed that "every company has a long-term debt to those who contribute to its success," meaning primarily its employees. He then enumerated his company's vision of what it must provide its employees:

(1) Security of employment
(2) Security in retirement
(3) Security against misfortune
(4) Healthy working conditions
(5) Opportunity for advancement
(6) Recognition and self-respect

Each of these is a worthy step in the assumption of social responsibility, typical of the attitude of many corporations since 1950. The motivations to this type of program may be several -- a moral conviction that employees deserve these perquisites, a conviction that the program contributes to the effective survival of the company, a conviction that it fosters more efficient performance.

Yet each step in the direction of this program's items 1, 2, and 3 is breeding a peril for the corporation and the society. It is a representative picture of the demonic concept at work, as discussed in the preceding

\[18\] Chase, et al., op. cit., p. 72.
section. Management, seeking to undertake constructive action toward social responsibility, in response to the unions and based upon its moral and professional convictions, invokes a potential evil at each step of the way.

The evil is the reconstruction of feudalism which waits at the end of the line. "Every company's long-term debt to its employees" inevitably breeds a long-term obligation in the reverse direction. The base pattern of feudalism was allegiance, fealty, total loyalty, in return for security in all forms. This pattern covered all dimensions of human living -- political, economic, social, and religious. Significantly for corporate enterprise, the feudal pattern fostered none of the human attitudes and talents which were later found necessary for capitalism. 19

Like the true demonic, this evil is inseparably bound up in every sincere attempt by management to help its employees by expanding the corporate interest in them. Each such attempt erodes the one prime difference between the Soviet structure of managerial accountability and American practice. 20 In feudalism or communism, the individual has no freedom of dissociation or change in his economic life, and his whole life is thereby restricted.

Consider the more pronounced tendencies in the labor position revealed at the same 1950 conference. Stanley H. Ruttenberg, representing organized

19 See Chapter I, INTRODUCTION and THE PHILOSOPHIC SUPPORTS FOR CAPITALISM. Also, Chapter III, THE DEVELOPMENT OF THE MANAGERIAL ROLE.

20 See Milovan Djilas, The New Class, passim, for a realization of the fundamental difference. Essentially, it is this: In the communist culture, one who is excluded from his economic task is excluded from the whole society.
labor, urged that management assume a general form of responsibility for job continuity. For example, if a corporation has subcontracted for years to firms in City X, it should assume responsibility for employment conditions in those firms and that city. Implicitly, it would breach its obligations if it should cause discontinuity of employment in that city, say by changing subcontractors.

The existence of this peril for the corporation was discussed during the interviews for the present study.

**Director, major companies:** Corporate managements still try to inculcate total loyalty in their people, like some of the old proprietors used to attempt. However, now the methods are more sophisticated and more persuasive. But this effort is the biggest mistake modern management can make. I never like to try anything which, if I succeed in it, will kill me. Yet that's exactly what these managements are doing.

Outside observers now like to characterize the business corporation as a "quasi-political institution." If our corporations become private governments, they will find that our American kind of people make tough citizens. They demand more of their government than any corporation can give and still remain an effective wealth-generating organization. Managers don't understand, and scholars don't point out to them, that there is one basic reason why corporations can never be governments. And the reason is that the original association of a person with an industrial corporation is voluntary; it's not by birth, indenture, slavery, or any other involuntary means. It's just not like citizenship.

I realize the investment that companies have tied up in their people, particularly certain kinds of people. But total loyalty and citizenship are still very dangerous ideas inside a corporation. The employee still must be able to realize many of his satisfactions outside the corporation.

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21 Chase, et al., op. cit., pp. 28 ff.
Other interviewees commented upon the same subject:

Executive Vice-President, manufacturing company: We don't demand total loyalty from our people, and thank heaven we don't get it. Not only is there plenty of room for vigorous argument inside this company, but we like to have people who take part in outside activities which have nothing to do with the company or its business.

A United States senator, a conservative Republican, offered a curious dissent:

U.S. Senator: I realize the company pension trusts are growing at a very sharp rate, but I think it's a good sign. It means this government's social security old-age program will have less pressure on it, and the government may be able to back out of some of its ambitious cradle-to-the-grave commitments. Free enterprise will be handling more and more of the pension problems, and that's the way it should be.

It is precisely this problem of over-committed loyalty, in both directions, which the humanists fear is leading to the eventual dissolution of human spirit. It is the problem which sparked their vigorous attack, already described herein, and which maintains that attack. William H. Whyte, Jr., the FORTUNE editor who is a prominent spokesman for the humanist school, puts it this way: 22

No one wants to see the old authoritarian return, but at least it could be said of him that what he wanted primarily from you was your sweat. The new man wants your soul.

Clark Kerr, Chancellor of the University of California, counsels in this manner: 23

The danger is not that loyalties are divided today but that they may be undivided tomorrow.... I would urge each individual to avoid total involvement in any organization...to struggle against the effort to absorb.

22William H. Whyte, Jr., The Organization Man, p. 440.

23Ibid., p. 51.
The humanists are closely linked with those critics of industry who want to see constitutionalism and "due process of law" instituted within the corporation. With regard to this subject, the difference in outlook between managers and scholars is quite well illustrated in their respective attitudes toward the concept of federalism, previously defined. The political scientists and the lawyers look upon federalism primarily in terms of its capacity to protect the employee from discrimination and abuse under corporate power, and consider that a federal political structure always has a written constitution with a bill of rights. The extremists would like to introduce suffrage into the corporate decision-making process.

Conversely, the manager looks upon federalism as an organizational approach which will permit the corporation to retain individuality and vitality in working groups, while at the same time orienting these groups to serve the corporate objectives. If federalism at the same time protects employees or reduces corporate powers over humans, so much the better. No manager worth his salt ever complained about losing some degree of power, in the coercive sense, if in so doing he gained greater effectiveness in his organization. But the manager's chief target in considering federalism is to build up entropy-reducing sub-units -- a term which will be meaningful if the explanation of entropy earlier in this chapter was clear. He has no conception of a place for formal suffrage in corporate federalism.

For representative points of view, see A. Chayes and Kingman Brewster, Jr., both attorneys, in Mason, op. cit., pp. 25 and 72. Actually, there is no rigorous definition of federalism which requires that a written constitution be involved.
What of the expressed need for constitutional protection of corporate employees in America? The advocates of the corporate bill of rights are in reality asking for a completely homogeneous political structure in the land, in which each organization would be a political microcosm closely resembling the national macrocosm. Thus all organizational decisions in the land would in some way involve suffrage and the individual vote. Nowhere in the words of the founding fathers of the republic, in the books of philosophy, in law or common sense, can they find support for this great political sameness they desire in American organizations. Sameness fosters organizational entropy, and entropy indicates the rate of approach of organizational death. Any manager of industrial experience, whether or not he has ever heard of entropy, knows that constitutionalism and suffrage within the corporation will bring its death.

How can the offense of the constitutionalists be blunted? It can be negated by a philosophic truth which they themselves have used. The corporate purposes and industrial productivity are not the ends of life; they are merely means to a greater end. Individuals must continue to receive their ultimate satisfactions and their ultimate protections outside the corporation. In this whole of life, the U.S. constitution and its bill of rights are the greatest political instruments ever conceived. But corporations are not governments; they do not have citizens; and it was never intended that constitutionalism be applied within them.

Management thus establishes, and makes known its values. The corporation is still an economic organization, and a certain coldness of purpose must prevail within it. There is fundamental truth in the old cliche "business is business" -- the same kind of truth which resides in the law's
"justice is blind." The demanding complexities of wealth generation preclude extreme or polar versions of humanism and suffrage within the corporation.

An analogy will emphasize the point:25

The block structure of society, in which there is no social mobility of persons between blocks, is totally out of keeping with the American character. Yet it is perfectly exemplified in the modern hospital, where nurse, doctor, and orderly are each members of a social block with no prospect of migration between blocks. To the present writer's knowledge, there has never been any clamor from the humanists regarding this breach of American ideals; they have not advocated political homogeneity which includes this type of American organization. They also understand that constitutionalism and suffrage, if introduced into the hospital, would destroy the hospital's reason for existence. During surgery, there may be consultations, to be sure, but there is no voting.

As management establishes its values and its position, it at the same time builds the second boundary of its limiting mean between the defect and excess of polar concepts of accountability. This boundary will serve to prevent management from an excess of misguided social responsibility, just as the first one kept it away from the defect of pure economic accountability.

Management's mean position on the question of corporate accountability to the society can now be recapitulated. On the one hand, management will recognize the "rights" of employees in the social dimensions -- the rights to share properly in the corporate usufruct, the rights to self-fulfillment and personal growth. It will assist the development of corporate employees by means of its own professional competency -- adequate knowledge and practice -- in the areas of human behavior and organizational science, including where appropriate an understanding and use of entropy, federalism, and related topics.

On the other hand, management will help its employees develop, and will observe their rights, in the name of their company's economic purposes, and not out of a sense of indissoluble bond or feudal fealty connecting the employees to the company. Management will avoid encroaching upon the whole lives of the employees; it will not demand corporate citizenship nor total loyalty. It will ever be conscious that corporate purposes are but a means to an end. It will fight by all ethical means the introduction of due process and suffrage into the corporation.

This type of exercise leads to constructive policies which can guide management through the hazards of conflicting concepts of accountability. The exercise appears prohibitively complex in writing, but would be not nearly so complex when handled by dedicated, articulate executives in, say, the executive committee. Like all policies which are to be effective, these would have to be professed, practiced, and continuously refined.
CORPORATE ACCOUNTABILITY FOR ECONOMIC POWER:

A SYNTHESIS OF MEANS

Neither political nor social freedom for the individual, as ultimate goals of American life, can be imagined without the working reality of American capitalism.

-- Eugene V. Rostow
Dean, School of Law
Yale University

Those who view the corporation from the outside, and who seek to make its power "as tolerable as possible," have three ways open to them as they go about their task. First, they can act to promote competitive markets (or, more correctly, to restrain anti-competitive practices). Second, they can foster ever-increasing intervention and regulation into the governance of economic organizations by external political agencies, generally by units of the federal government. Third, they can urge institutionalization within the economic organizations of the requisite accountability for their actions. The central thesis of this writing has been that it is only the third approach which can be effective. Yet this approach has been relied upon to the least extent, both inside and outside the corporations.

Arnold Toynbee, in his massive explorations of the history of civilizations and cultures, noted that the rate of progress of a civilization is not impressive whenever goals are imposed upon it from an external source, as for example an adjacent superior or commanding culture. But when goals are internally established and accountability internally exercised within a civilization, its progress can be notable.

This theme can be found throughout history up to the present research of the social scientists, who confirm the limitations of coerced accountability. Daniel Webster phrased the theme in this way: 27

Confidence is a thing not to be produced by compulsion. Men cannot be forced into trust.

The first and second approaches noted above rely upon the fear of the law, and they have never been easily nor fully effective. The third approach relies upon fear of the disapprobation of peers, always a superior force in a civilized society, but this approach has never been tried in industry. Primarily it has not been tried because it would have to be internally motivated, and management is only now emerging as a coherent professional entity which could undertake such a task.

Management must now institute a fully professional concept of its function, and the core of professional status will be self-established accountability for all powers which are exercised in the name of management. A professional structure for management accountability will suffer in one respect in comparison with earlier structures, in that it inevitably will be complicated. Witness the analysis in the preceding section where guidelines were constructed for managerial responsibility for the use of human beings in industry. Yet physics, or medicine, and surely law, are complex beyond the understanding of the laymen who in the aggregate make up the public consensus. The structures of accountability built up around the practitioners in these fields are similarly complex.

Hence a prerequisite element for professional accountability is public faith. Faith generally must be built up by a circular process — demonstrated

27 Speech before the U. S. Senate, 1833.
self-accountability builds public faith, which in turn permits further
development of self-accountability. A key building block at the start is
the institution of rigorous and publicly accepted entrance requirements
for candidates for the profession. In this nation, advanced education as
the rigorous entrance requirement is accepted easily because of a pre-
disposition in favor of formal learning in the national character. The
advanced education generally includes an "adult socialization" process,
in which the profession's standards of behavior are sternly imprinted on
the candidates. The boot strap operation by which modern medicine pulled
itself to professional status, by means of a rebuilding of the educational
process, is described in Chapter III.

Many managers will react against the proposition which is being de vel-
oped here. They will reply that there is much public clamor against the
corporate sector which would preclude public faith in a management pro-
fection. Or, some will say that the public really doesn't trust the
lawyer, doctor or physicist, in spite of their professional accountability.
Others will point out the inbred attitude of organized labor, which allegedly
will never allow the establishment of a management profession.

None of these common objections are valid. There was acute public
distrust of the medical vocation before 1910, but it was overcome. And
one who claims that the public doesn't trust the modern physician loses
sight of everyday American occurrences. It is commonplace that an American
citizen will entrust his very life on the operating table to men whose
credentials he has barely checked or is incapable of checking. Defective
professional conduct by the surgeon, the anestheologist, the assistant
surgeons, or the nurses could easily take his life. What the patient really
trusting implicitly are the institutional standards of a profession. Similar analogies could be drawn of implicit faith in the integrity and confidence of attorneys. It is only the exceptional and minority cases of malpractice which mar this picture.

The basic attitude of organized labor in America is likewise no barrier to managerial professional accountability. At the inception of the national trade union movement, a fundamental decision was made in which labor accepted the ability of the American corporation and its management to produce goods and services in increasing quantities. Labor's battle would be in the area of the distribution of the rewards of productivity. By this decision labor committed itself to the American mode of corporate enterprise, and basically entrusted the management of this enterprise to managers. Under this decision, American labor has resisted every effort to involve it directly in management, for example by way of representation on the directorate. The decision has never been revoked in the subsequent development of the labor movement. Again, within the pathological fringes of labor leadership, there have been men who did not share this attitude, but this does not change the principle.

The conclusion must be that American management can establish inward accountability if it will. In reality there is little in the way of attractive alternates open to it. In the establishment of its accountability, management must heed Aristotle's virtuous mean -- it must avoid the

28 For a discussion of the formulation of the original decision, see Dr. Edwin Nourse, in Chase, et al., op. cit., pp. 47 ff.

29 This fact was confirmed by an eminent American labor leader in a Sloan Program seminar in Washington, April 1961.
stultifying effects of a formally certified profession on the one hand, and avoid the deleterious effects of too many unqualified, publicly unacceptable practitioners on the other.

In fulfilling this difficult but necessary destiny, management will succeed in building public faith in its functioning. Such faith can be the only effective modern substitute for the simplicity and general understanding of the former model of business accountability in the nineteenth century. Some of the contemporary attitudes toward the corporation, such as the movement to return the shareholder to the controlling corporate position, by virtue of his holdings, can only be founded upon nostalgia for the good old simplicity of the last century. Unfortunately the whole environment of the present has bypassed simplicity. A world of increasing complexity, in which the layman's capacity to understand is continually being outdistanced, has but two alternatives -- chaos, or effective self-accountability on the part of all who bear the authority of knowledge.

Once management joins in a wholehearted effort to establish professional accountability, it can proceed to structure the details of this accountability. The most pressing problem will be the aforementioned lack of a bridge of understanding between public policy and corporate policy between the macrocosm and the microcosm. The problem is customarily considered in terms of economics, but this is an unduly narrow conception. Actually, there is also macrosociology and microsociology, and political science may be similarly subdivided. As an illustration, federalism as a concept may be applied in the larger environment and in the intra-corporate or smaller environment. On the national scale, one form of federalism would be the preservation of economic powers dispersed at local levels
within corporations, much like political power is retained at local levels as a check upon central political power. Intuitively, it can be concluded that an understanding of phenomena at one level would enhance understanding at the other.

However, the central problems caused by the missing link are still in the economic field. The decisions in monetary and fiscal policy, and in many other areas, made in Washington of course affect the prospects and conduct of the nation's businesses. Also, the decisions made within the larger American corporations -- price and price-cost relationships, investment, locations, research and innovation, product character, selling methods -- affect the national economy directly, in the matters of the efficiency of use of resources; stability of output, employment, and price levels; aggregate technological progressiveness; and "equity" of national income distribution.

It is significant that the bridge between micro- and macro- economics has never been clearly perceived since the golden days of nineteenth-century laissez-faire, when all that was needed was a good job of maximizing within the firm, and the "invisible hand" would take care of macro-economics.

In modern times the approach to the bridge has always been confused. There was the statement, "What's good for General Motors is good for the country" -- a rational view which posited that the health of a large

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31A Jesuit attorney in a recent article discusses the possibility of sealing off the central government from unchecked economic power by constitutionally restricting it from encroaching beyond a certain point upon the economic powers of the corporations. See Paul P. Harbrecht, S.J., "The Economic Republic," Social Order (National Jesuit Social Science Center), Vol. 10, No. 7 (September 1960), p. 303.
corporation powerfully affects the health of the economy. The argument should never have been whether this politically inept, economically wise statement was true or false, but rather, what was the true limit of its application to specific situations. Peter Drucker intelligently suggested another view — that it is the corporation's duty to make the national objectives become its own objectives, to make whatever is in the public good become its own self-interest. This position discreetly implies that, if a shift is required, the corporation will do the shifting. But it still leaves the details of the bridge unclear.

The profession of management at last can supply the link. First, management must hold that managers who are running a corporation can make no accommodations to national economic goals which they perceive as non-economic for their firms. If a 5 per cent national growth rate is specified, the managers of a corporation cannot support it by any measures which adversely affect the wealth-generating capacity of their firm. In other words, managers still must serve the interests of their firm first, as they did in the past. Then where is the bridge of understanding?

The bridge will be built by an active management profession. As this profession grows in number and caliber of practitioners, an asset will come into being which may be termed management capital — an available know-how which is surplus to the immediate, urgent needs on the firing line within the corporations, know-how which can be plowed back

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32 Based upon informal discussions with leading economists at Cambridge and in Washington, the present writer will state that probably most contemporary economists will agree with this position.
into the whole economy to nurture future growth. The profession will assume its share of responsibility for the health of the economy, much like the medical vocation learned in 1910 that there was also a preventative function of crucial importance in medicine.

But managers will not serve this end when they are on duty at posts of responsibility within their companies. They will serve it when, by the leave of absence and other mechanisms, they move into government and educational posts for which they have prepared themselves. In government, they will relieve a universally admitted problem -- the incapacity to attract enough competent administrative personnel. They will inject a comprehensive knowledge of micro-economics into macro-economic planning. To paraphrase Clemenceau, they will hold that the economy is too important to leave to the economists. In this manner, knowledgeable national planning by joint efforts of professional managers and economists will induce societal economic policy within the corporations.

At this point management will have established an adequate foundation upon which to begin building the detailed superstructure of corporate accountability -- a task which will require years in the doing. In addition to the approach to accountability for the use of power over humans (as detailed in the preceding section), management will have to consider at least the following elements in this superstructure.

33 Managers should assume some of the teaching posts in the professionally oriented graduate business schools. Management should insist that those universities which have associated business schools understand managerial needs in the corporate world, much like medicine insisted upon an academic understanding of the requirements of medical practice in 1910.
Importantly, each of these elements will have ramifications both within the corporate microcosm and in the national macrocosm, and to a growing extent also in international dimensions. Only a management profession which straddles all of these areas can hope to succeed in formulating this new accountability.

Here are the elements which must be systematically considered, and for which a form of management accountability must be constructed:

1. The preservation of the international free market within the Western world; the knowledge and know-how of the modern corporate competition.

2. Corporate productivity and growth; the production of quality goods and services at the lowest prices; the relationships between corporate productivity and growth of the economy, and efficient use of national resources; fulfilling the required national generation of capital.

3. The role of profits in the corporation; their reflection in growth, stability, and other aspects of the national economy.

4. The rights and privileges of the shareholder; the establishment of succession mechanisms for top management; the role of the directorate.

5. Maintenance of unhampered communication between the public consensus and the corporation, in both directions.

6. The appropriate application of the behavioral sciences; the definition of the obligations to employees; the effects of corporate actions upon national employment levels.

7. The maintenance of entrepreneurial vitality; the preservation of entropy-reducing units within the society.

8. The inter-profession relationships with the economists, the lawyers, the academicians, the politicians, and the intellectuals.

9. The relationships between private and public corporations (including municipalities, counties, cities, states; civic associations, and other forms of human organizations); the definition of bilateral obligations.
The deliberate examinations in each of these areas will encounter the polar values of excess and defect, and will necessitate the construction of the mean. To illustrate the nature of the conflicts, consider in brief one area -- the preservation of the free market. In this area, there has been continuous conflict and lack of understanding between macro-policy and micro-policy since the inception of public regulation of the competitive aspects of the market -- the Sherman Act in 1890. Significantly, the conflict is still almost completely unresolved; never has misunderstanding been so profound as in 1961. Upon close examination the conflict at its base will be found to be that of dynamics versus form -- one of the fundamental conflicts found in human history by Tillich.

The public consensus has been almost totally preoccupied with the form of competition in the market, in keeping with the historic American political emphasis upon form in accountability. Thus the public is interested in the potential for harmful concentration of economic power in any market situation. This too is understandable, in view of the abusive and mushrooming cartelization of 1890, when there were no professions in the present sense of the word, no institutional concepts of restraint in management. The force of the law was required, and by dogmatic definition monopoly power was equated with abusive power.

In actuality, the public now has little choice in primarily emphasizing form, because the dynamics of the contemporary market are beyond public understanding. The public has been forced to rely upon the lawyer's translation of nineteenth-century economics into statute.
However, since the emergence of a management profession, there have been repeated attempts by those who have lived within the corporation to define the dynamics of the contemporary competition. These attempts have not been fully successful, partly because the institution of management has not been fully accepted, but they certainly can be used as a constructive start in defining managerial accountability for the preservation of the free market.

These management analysts have maintained that competition, in itself, is too narrow as a definition of public interest; they have suggested more rational goals as the factors which Americans really want to preserve in their economy. The analysis, as it proceeds further, must be two-pronged. First, it will be engaged in the formidable task of defining the present complex dynamics of the corporate market place, and second, it must concurrently consider a normative approach which will establish what these dynamics should be -- an even more formidable task.

34 See David Lilienthal's version of the new competition in Big Business: A New Era, Part V, pp. 181 ff.; Oswald Knauth's treatment of contemporary competition in Managerial Enterprise, Chapter 2, and particularly p. 33. (Knauth had been trained as an economist before he started a long business career.) Also, Eugene V. Rostow in his 1959 analysis, Planning for Freedom, offers a valuable commentary upon competition, monopoly, and oligopoly in modern America from the point of view of the law scholar. See pp. 114 ff., and pp. 274-307. Joseph A. Schumpeter's criticism of the rationality of the present concept of competition has been previously mentioned herein, and may be found in Capitalism, Socialism, and Democracy, Chapter VII. From the liberal side of the aisle, J. Kenneth Galbraith in The Affluent Society poses searching questions about the wisdom of conventional competition.

35 Lilienthal, op. cit., p. 181. He offers seven rational objectives, all involving the application of values, which he urges as substitutes for "competition" in the economists' definition.
If management succeeds even in partially establishing itself as a profession, it will be allowed the professional privilege of at least partially constructing legislation affecting its processes. Thus the public will at minimum have the benefit of some amount of enlightened counsel when it next prescribes the required form for competition. It will be found that the American public will characteristically accept new findings based upon analysis, in lieu of the years of outworn dogma.

The limiting mean between these polar concepts of dynamics and form, locked in decades of protracted conflict on the issue of the free market, can and must be determined by the profession of management. First, management will have to articulate the structure of the free market. Then most significantly it will have to establish the *why* of this market structure, not legally, but morally, ethically, and philosophically, so that all managers who enter into the market, and indeed all employees, will understand the rationale at least to a degree approximating the understanding of the classical free market which used to pervade business organizations.

Once management determines this structure, and establishes why it is needed, then it can proceed with the task of defining how the profession will maintain it. Here again, it is assuming a broad function for the health of the economy, similar to the medical assumption of the preventative public health function fifty years ago.

The foregoing is an outline of the professional approach to one of the nine broad elements of management accountability described above. A similar approach will be required in each case, resulting in a comprehensive structure for professional management accountability -- a synthesis of means, a positive pathway between hazards on either flank.
The time is late for management to assert itself effectively in shaping its own destiny and that of the corporate institution. Just how late it is may be evaluated from the recent comments of an eminently qualified British analyst of corporate business, speaking at a seminar at M.I.T. When asked about the capacity of British industrialists to influence the destiny of their own corporate business, he replied to this effect, "I fear that executives in the U.K. are concerned with the next restriction that the government will impose on them, to the extent that they have no energies to devote to asserting their own ideas."

Management, in successfully building a broad practicing profession and a viable self-accountability, will become the last potent defender of both capitalism and freedom in the economic sphere. And, if freedom in its economic dimension falls prey to totalitarian control, all other aspects of human liberation and self-development in the political, religious, and social dimensions will soon follow. Thus it is not an overstatement to say that management finds itself, like Horatius at the Tiber, manning a key bastion of human freedom. It is only seldom that any institution of men has the opportunity to assume the proportions, and the obligations, of the heroic. History will verify that the heroic, once assumed, has one commanding feature -- it nearly always works.
A. BOOKS

I. Corporate Accountability: General. The books in this group, which present different facets of the subject and are written from varying points of view, are requisite to a general understanding of the problem of accountability in its several dimensions.

A series of comprehensive analyses, edited by two prominent business scholars, of the effects of changing technology upon the manager, and upon managerial accountability.

A provocative review of one observer's latest opinions about the current status of corporate accountability in the United States; a statement of the necessity for the development of a collective "conscience" by corporate management.

An early, extensive evaluation of the separation of control from ownership in the United States corporation; a prediction of the ultimate effects of this separation which has not been confirmed by the passage of time.

A prediction that a managerial "class" will eventually displace ownership in the control of the American corporation; the entire context is of technocratic class warfare.

A plea for more effective communication between corporate managers and economists; privately printed, but available in the Dewey Library at M.I.T.

A symposium by an economist, a social scientist, a corporate executive, and a labor leader in which non-definitive but helpful structures of the social responsibility of management were presented.
An early analysis of the inherent social responsibilities of the corporation in the United States, which has assumed the proportions of a classic.

An analysis of the incisive decisions of four great American industrialists; a compendium (in Chapter VI) of the common contemporary allegations of lack of accountability in the large corporations; a rudimentary evaluation of the contributions of proprietary managers in recent corporate history.

A description of the essential differences between enterprise and bureaucracy; a definition of the advantages and shortcomings of each.

A valuable series of insights into managerial functions and accountability in Communist industry; including descriptions of the quasi-legal and extra-legal maneuvers in which Communist managers must engage to fulfill their objectives.

The most representative work of the dominant contributor to the managerial movement during the nineteen fifties; a convincing portrait of the role which the manager must assume; and a succinct description of the social responsibility of management in the Conclusion of the book.

A detailed examination of the philosophy of the modern large business corporation in relation to its total environment, which contains many insights into the matter of corporate accountability.

An enlightened analysis of the managerial version of the American business creed, with insights into managerial accountability.
A proposal for one form of corporate accountability, discussed in Chapter IV of this report.

A systematic analysis, and codification, of the several virulent strains of the continuous attack on big business, which yields some insights into the effects of accountability, or lack thereof, in fostering attack.

An analysis, based upon an extensive factual investigation, of the control of the modern corporation, including the role of ownership; somewhat dated in 1961.

A study of the structure of managerial accountability in Communist industry; an examination of the impact of "omniscient" central planning upon managerial conduct and accountability.

A picture of post-war German industrial management which provides an illuminating contrast with the American managerial movement, mainly in the authoritarian German structure of accountability with its retained emphasis upon ownership.

A collection of historical analyses of the development of entrepreneurial capacity in Western culture, including many observations regarding the accountability of the entrepreneurs.

A practical exposition of the maintenance of organizational vigor in a modern corporate organization, by an eminent professional manager who is president of the largest U.S. corporation.

A discerning analysis of the various routes to the industrial society by different cultures, the declining differences as industrialism is approached, and the fall of ideology; with informative comments on the role of the manager, and his accountability in a pluralistic industrial society.


A portrayal of the essential differences between contemporary corporate enterprise and the classical version, particularly in the functioning of the market; by an experienced manager who was formerly an economist.


A justification of bigness from the point of view of its contributions to the society; an exposition of the hazards of bigness as the author sees them; a proposal (in Part V) for a Basic Economic Law which will provide a positive substitute for the negative approach of anti-trust legislation.


An invaluable collection of the observations of a group of eminently well qualified scholars, who examine the accountability of the modern corporation in all dimensions: financial, legal, economic, social.


An articulate recommendation to the thinking corporate manager that he profit from the knowledge generated in the behavioral sciences, and that he cease using incorrect theories of human conduct in the governance of industrial enterprise.


A very detailed exposition of the beliefs in economics of one segment of American industry, compounded mostly from classical economics.


Mainly, a depression-era protest against the alleged disenfranchisement of the corporation shareholder by bankers and/or management; also, a portrayal of the abuse of social responsibility by the corporate sector in the nineteen twenties.

A German political economist, who makes no attempt to conceal a deeply felt sense of moral values, herein delivers a powerful rebuke to both the collectivists and the nineteenth-century traditionalists of economics.


A significant modern attempt to bridge the gaps which have separated political science, law, and economics, by an author who is admirably competent in these fields; a moderate's effective plea for the preservation of capitalism coincident with social progress; Chapter 15, Is Freedom Interesting Enough? (with an affirmative answer) is an illuminating commentary upon a frequent allegation by the intellectuals.


A penetrating analysis of the present status and future prospects of capitalism, by a political economist who both admires its virtues and perceives its faults; requisite reading for all who would understand the hazards which capitalism must survive; an evaluation now only somewhat out of date.


A comprehensive treatise on the creed which American business leaders profess in their public statements, compounded of the classical strain (nineteenth-century economics) and the managerial strain (twentieth-century managerial movement).


A corporation executive and public administrator, of liberal bent, describes why managers can no longer explain their actions by self-interest, enlightened or otherwise.
II. Corporate Accountability: Law, Finance, and the Directorate.


An analysis of the ways and means of American corporations in winning friends among the shareholders.


An examination of the effects of the growth of financial intermediary institutions upon corporate growth.


A modern St. George out to slay the dragons -- the top managers of the large corporations -- and revitalize the American shareholder.


A review by two eminent "professional shareholders" of their yearly efforts to force the concepts of "Shareholder Democracy" upon corporate managements.


The standard reference on the growth of the several types of financial intermediary institutions, and some of the resultant effects on the economy.


The present standard text on corporation law.


A tough-minded appraisal of the functioning of the modern corporate board, from the point of view of a corporate attorney with considerable experience as a director.


An elaboration of alleged lack of corporate accountability to ownership, and particularly the disenfranchisement of the American shareholder.
A current compilation of facts about the identity of U. S. shareholders; helpful, but lacking any pertinent information about the concentration of holdings.

A description of the functioning of the university Board of Trustees in the United States, which offers some illuminating insights into the functioning of the corporation directorate.

Contains recent examples of the effects of SEC regulatory action upon the conduct of American corporations.

Whetten, Leland C. Recent Proxy Contests: A Study in Management-Stockholder Relations. Atlanta, Georgia: Georgia State College of Business Administration, 1958.
A study of the political campaign aspects of recent proxy contests, including the more bitter ones.

III. Corporate Accountability: The Philosphic Supports


IV. Corporate Accountability and the Professions


B. COLLECTIONS

The following books are collections on general management topics. Although they are not oriented primarily to corporate accountability, they nevertheless contain many discerning treatments of accountability and allied subjects.


C. SPEECHES AND PAPERS OF LEARNED SOCIETIES


D. PERIODICALS


