

CORPORATIONS New Style

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by Frederick Lewis Allen

**W**E CUSTOMARILY SAY that our economic system is capitalistic; yet the word connoted half a century ago, and connotes today in Europe, a way of doing business quite different from the current American way. Or the contrasting terms "free enterprise" and "socialism," each of which carries an overload of traditional meaning which is not very helpful in defining what we may intend to convey about the exact state of economic and political affairs today.

And take the corporation. Most American business is done by corporations, ranging in size from virtually one-man affairs to mas-

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*Frederick Lewis Allen is editor-in-chief of Harper's Magazine. This article is excerpted from his latest book, "The Big Change," Harper & Bros., N. Y. Copyright 1952 by Frederick Lewis Allen.*

sive enterprises like General Motors, which today spends more money annually than the United States Government used to spend in the nineteen-twenties (even including the expenses of the Army and Navy). Nearly half of all gainfully employed Americans are on the payroll of a corporation; if we exclude farmers and other self-employed people from our reckoning, the proportion is much larger. Yet the very nature of American corporations, especially the big ones, has so changed since the days when most of us first heard the term — or since the textbooks were written that first introduced us to the corporate concept — that we have difficulty in grasping the reality of what we actually see when we look at them.

The change has been very important to all of us. Let us there-

fore try to see the corporate institution of today with fresh eyes.

To begin with some generally familiar facts: A corporation is traditionally supposed to be controlled by the people who put up the money to launch and develop it; they take shares of stock in it, and as stockholders they elect directors to look after the running of it for them, and the directors select and supervise the managers who do the actual running. Thus, in theory, and in the letter of the law, the stockholders are the ultimate authority. This is still true in most young companies, which need capital to get going, and in many small ones, anyhow. But in most successful American concerns which have grown to maturity, and especially in the very big ones which between them do a very large proportion of American business, the stockholders are no longer in control in any real sense: they are subordinate in authority and importance to the management.

It is the management which determines policies and makes decisions. Important decisions must be ratified by the directors, to be sure; many if not most directors feel a heavy sense of responsibility, and there is some evidence that this sense of responsibility has been growing in recent years; yet their contribution to the actual running of the corporation tends to be somewhat negative, if only

because few of them are living from day to day with the problems laid before them. As for the stockholders, the law still says that they must ratify some sorts of major decisions, so a legal rigmarole has to be gone through by which the stockholders will say OK at their annual meeting. But this annual meeting is ordinarily a farce.



The officers of the company, exuding a synthetic affability, may be faced with a few embarrassing questions and a few adverse speeches, but the great majority of stockholders have sent in proxies favorable to the management, and the protesters are therefore annihilated by a gentleman who rises to cast several million votes against them.

Suppose a stockholder doesn't like the way the corporation is being run? Only if he is eccentric, or a special sort of crusader, or a politician (union or otherwise) trying to make a stir, does he try to oppose the management of a really big company. What he does, instead, is to sell his stock and get out.

The management regards him with far more respect than it regarded its minority stockholders at the turn of the century, when it might tell them nothing at all about the company's progress, or at the most produce for them a batch of bloodless statistics. Now he is given full and lively reports, full of photographs of the company's more picturesque operations, and graphs in which the money spent in this and that way is represented by pretty piles of coins.

The stockholder is viewed very much as the customer is viewed: not as an owner but as someone who had better be wooed lest he take his patronage elsewhere.

With potential opposition melting away through the sales exit, the management is very much in the saddle — and in most of these larger companies it is virtually self-perpetuating. How else could things be run in, let us say, the American Telephone Company, which has over a million shareholders, no one of whom owns more than one-tenth of one percent of the stock?

Looking at this segment of American business, we would almost find it appropriate to call our present economic system "managementism" instead of "capitalism."

For to a very large extent successful corporations today are self-financing. They roll their own

capital, by paying out only part of their earnings in dividends and using the rest to buy new machinery, build new plants, acquire new subsidiaries. This method of superseding the banker was rare among big corporations at the turn of the century, but it became very popular in the nineteen-twenties, and it is standard among them today. The head of a large and successful corporation with ample funds is therefore likely to regard Wall Street somewhat as he does his doctor: better be polite to him because the awful day might come when he could give one orders, and anyhow his occasional services and check-ups are useful; but in the meantime the doctor is not one's master. Similarly, nobody in Wall Street is the successful corporation head's master, Mr. Vishinsky and his like to the contrary notwithstanding.

In this as in many other matters, the Soviet propagandists — and many foreign observers of America who are far less unsympathetic — not only distort the truth about America but distort a truth more than twenty years out of date.

Is the big and successful corporation its own master, then? Not quite.

To begin with, it is severely circumscribed by the government. As Professor Sumner H. Slichter has said, one of the basic changes which have taken place in America

during the past fifty years is "the transformation of the economy from one of free enterprise to one of government guided enterprise. . . . The new economy," says Dr. Slichter, "operates on the principle that fundamental decisions on who has what incomes, what is produced, and at what prices it is sold are determined by public policies." The government interferes with the course of prices by putting a floor under some, a ceiling over others; it regulates in numerous ways how goods may be advertised and sold, what businesses a corporation may be allowed to buy into, and how employees may be paid; in some states with Fair Employment laws it even has a say about who may be hired.

**M**ANAGEMENT is severely limited, too, by the power of labor unions. This is almost wholly a negative power: the union can tie the corporation up, but cannot run it, or even administer the provisions of a contract arrived at between it and the company: that it has to leave to the management. But the obstructive power of union leaders may be very great; the people who say that the man who in recent years has come closest to Pierpont Morgan in the exercise of personal power in the national economy is John L. Lewis are not

very far off the beam. In unionized plants a series of contracts have served, in effect, to enact what has been well described by Peter F. Drucker as "the new common law of the industrial plant and office" as to hiring and firing, seniority rights, the handling of grievances, overtime work, vacations, and a lot of other things. In many cases this body of common law may be beneficial in the long run to the corporation as well as to its employees, but it certainly reduces the independence of the management.

Finally, the management must always steer its course with an eye to how its actions will look, not only to its employees, its stockholders, its customers, and the government, but also to the general public. The heads of little businesses may engage in deals which will not stand public scrutiny, and sometimes get away with grand larceny; the heads of big businesses are aware that this is exceedingly risky. For they know they are under close critical observation. Detailed reports to the Securities and Exchange Commission, detailed reports to the tax gatherers, and the possibility at any moment of being investigated by the Federal Trade Commission or by a congressional committee, leave them with about as much sense of privacy as a goldfish. A goldfish has got to be good. These men have acquired, too, for the

most part, a healthy respect for the commercial value of general popularity, and feel that it is incumbent upon them to win friends and influence people. And this obligation, too, diminishes their opportunities to do as they personally please.



But that isn't the quarter of it.

For the very nature of corporate business has been undergoing a change.

To pick out one word that comes as near as any other to describing the change, one might say that business is becoming professionalized, in the sense that more and more men in business are engaged in doing the sort of thing that we associate with the professional man (lawyer, doctor, engineer, professor) and doing it more and more in a spirit resembling that of the professional man.

When at the end of the first decade of this century the president of Harvard University, composing the citation for the degree given by the new Harvard Graduate School of Business Administration, called business "the oldest

of the arts and youngest of the professions," there was considerable levity among the hard-shelled — and not simply because the language he used reminded people of the identity of the oldest of the professions. They thought the whole idea preposterous. Business, a profession! What an innocent notion! Business was a rough-and-tumble battle between men whose first concern was to look out for number one, and the very idea of professors being able to prepare men for it was nonsense. As a matter of fact, many a tough-fibered tycoon of those days was dubious even about employing college graduates, whom he regarded as toplofty, impractical fellows who had to unlearn a lot before they were fit for the business arena. One rough measure of the change that has taken place since then is to be found in the fact that this very professional school of business at Harvard has won widespread respect, and financial backing as well, from among big corporations; and that many of these corporations, at their own expense, send some of their most promising officials, at the age of forty or thereabouts, to fit themselves for enlarged responsibilities by taking the school's thirteen-week course in Advanced Management. This does not mean that a great university has departed from its scholarly traditions to shelter a

trade school; it means rather that an important part of American business, as now operated, requires of its leading men what are essentially professional skills and abilities.

**W**HAT of the attitude of such new-style managers as these toward the general public interest? Here one should walk very warily indeed, recognizing that speeches by a corporation head may be window-dressing arranged by a public-relations department and that, in general, protestations of virtuous intent cannot always be taken at face value. Nevertheless something seems to have happened.

The Great Depression had much to do with it. The top men of America's big corporations remember the doghouse which they inhabited in those days; and though some of the elder ones are still unreconstructed Washington-haters, and there is hardly a man in authority today who does not on occasion splutter at some of the restrictions — and monumental paper work — imposed upon him by the government, a great many of the younger and more nimble-minded of them have acquired a genuine distaste for the shenanigans of the nineteen-twenties, a firm intention not to butt their heads against the political and social facts of life as their prede-

cessors did, and a hard-learned but unfeigned awareness of the principle that, in the long run, as Peter F. Drucker has put it, "No policy is likely to benefit the business itself unless it also benefits the society." The war had something to do with the change, too, bringing together as it did businessmen, government men, labor leaders, physical scientists, social scientists, and assorted professional men in government undertakings in which they learned to appreciate one another's competence and point of view. I do not mean that our business executives have put on haloes; I prefer the way in which the attitude of these men was described by Ralph Coghlan of the *St. Louis Post Dispatch* at the Corning conference of 1951 — a conference, by the way, which dealt with "Living in Industrial Civilization," and brought together in a two-day powwow businessmen, sociologists and other scholars, journalists, and government officials, and was staged by a business concern, the Corning Glass Company. Said Mr. Coghlan: "When I was growing up, the word 'soulless' corporation was a very common term . . . Well, in my lifetime I have seen a remarkable change in this. I don't know whether it could be said that corporations have obtained souls, but at least they have obtained intelligence." ■