June 1951

Corporate Management as a Locus of Power

Beardsley Ruml

Follow this and additional works at: https://scholarship.kentlaw.iit.edu/cklawreview

Part of the Law Commons

Recommended Citation

Beardsley Ruml, Corporate Management as a Locus of Power, 29 Chi.-Kent L. Rev. 228 (1951).
Available at: https://scholarship.kentlaw.iit.edu/cklawreview/vol29/iss3/2

This Article is brought to you for free and open access by Scholarly Commons @ IIT Chicago-Kent College of Law. It has been accepted for inclusion in Chicago-Kent Law Review by an authorized editor of Scholarly Commons @ IIT Chicago-Kent College of Law. For more information, please contact dginsberg@kentlaw.iit.edu.
CORPORATE MANAGEMENT AS A LOCUS OF POWER

Beardsley Ruml*

The world crisis of the twentieth century, which has had its most recent violent manifestation in the Korean affair, springs as we all know from ideological conflicts of the most profound character. These conflicts pertain to the nature of the individual, the nature of truth, and the question as to the existence of good and evil. The fact of the crisis has caused the Western democracies to re-examine their political, social and economic institutions and in this re-examination many inconsistencies have been found which are being gradually but definitely reconciled. One of the areas of re-examination has been that of business enterprise as it affects the dignity and freedom of the individual. In this setting, this discussion is presented.

Business is one of the most pervasive facts of modern life. Practically everybody who lives in a city, town, or village does business with business several times a day, and practically everybody else has something to do with business many, many times in every year. We depend on business for the things we eat and wear, for the home we live in, for most of our amusements and recreation, for going places and knowing what is going on in the world. Most of us depend on business for the kind of jobs we have. Many of us own some part of a business or receive some income from lending business our savings. Business is so common that we take it for granted and use it without thinking much about it, just as we do any other familiar facility.

What is it that business does in our complicated modern world? First, and primarily, it is the job of business to get things ready for use. Second, in doing this work of production and distribution, business concurrently provides people with productive

* An address delivered at a joint luncheon of the Section of Corporation, Banking and Business Law and the Section of Taxation, of the American Bar Association, at Washington, D. C., September 19, 1950. Reprinted with permission from Proceedings of Section of Corporation, Banking and Business Law 1950, American Bar Association, Chicago, pp. 67-77.
activity—something useful to do—and a social setting in which to do it. Third, and finally, business makes a place where the inevitable savings of the people can be put to work.

How does business do these things? A business does these things by making rules, enforcing its rules when possible, and compromising them when necessary.

It is in no sense a figure of speech to refer to a business company as a private government. A business is a government because within the law it is authorized and organized to make rules for the conduct of its affairs. It is a private government because the rules it makes within the law are final and not reviewable by any public body. Some might say that the reason a business is a private government is because it is owned by private individuals, but it seems to me that the existence of private authority is more significant than the element of ownership. It is important to note that this private government, the corporation, or business, existing through the authority of the public government, is in no sense an interloper. On the contrary, it is the method we have chosen by which to get done, for the welfare of all of us, the work it is for private business to do.

A business carries on its operations through a multitude of decisions under its own rules. The rules made by a business to govern its operations must not be inconsistent with the law of national, state, and local governments from which it derives its authority and from which it receives protection. However, within the law, a business has great latitude in the rules it makes and in their enforcement.

I. The Governed

If business is private government, who are the governed? We are the governed! We are governed by business in one or all of four possible capacities: (1) as stockholder, (2) as vendor or supplier, (3) as customer, or (4) as employee.
A. THE STOCKHOLDER

Let us take these four capacities in which any of us may stand in relation to business and examine them. In what sense is the stockholder subject to the rule-making powers of the business in which he has placed his savings? One might have thought that it would have been the other way around, that the stockholders, being the owners, would have the rule-making power instead of being subjected to it. The stockholders collectively elect a board of directors, and the board of directors elects a management. At the time of an election, the stockholders have the legal right to change the directors and hence to change the managers. They also have the right to vote on specific rules for the running of the business that may have been proposed in a proxy statement. But, except at the time and place of a stockholders’ meeting, the stockholders ordinarily have no rule-making power. A large stockholder may have large influence on the rules that the managers adopt. This influence may come as a result of the power he may exercise at a later meeting of stockholders, or it may be deference by the managers to a holder of property in the business. A small stockholder also may have large influence if his suggestions are helpful to the management. Access to management for the expression of ideas and criticism is frequently available to the smallest stockholder.

The freedom of the company in taking actions affecting the interests of stockholders is subject to legal limitations that experience has shown to be desirable, and the stockholder may go to the courts to enforce his legal rights. But the enforcement of legal rights is not the same thing as the power to make rules. It is only the power of protection against illegal rules.

Under the private government of business, the stockholders are definitely among the governed, even though they may choose the boards of directors under whose authority the rules affecting them are made. Their position is something like that of the citizens of the State of Illinois, or any other, who vote for the senators and representatives who pass the laws which they in turn obey.
The laws regulating corporations are intended to give basic protection to the stockholders against business rule-makers, just as our constitutional rights are intended to protect us as citizens against the law-making and law-enforcing agencies of public bodies—federal, state, and local. In addition to the laws, the stockholder has a final safeguard against business rule-making that he may find uncongenial—he may sell his stock. True, he may not be able to sell his holdings for as much as he paid for them. And, if he wants an income on his savings, he may become a stockholder-citizen under another business government which may please him little better or no better at all. Nevertheless, he can free himself at a price if he wishes; he is not locked in. The company he keeps, he keeps by choice.

B. THE VENDORS

The second group among those governed under the rule-making of business are the vendors or suppliers of raw or semifinished materials, manufactured articles for resale, or services of one kind or another, utilities, transportation, and the like. The vendors are usually, but not always, other businesses which are making rules of their own for the business which is to them a customer.

The rules applying to vendors cover all the specifications made by the purchaser on the things that are purchased, the price that will be paid, when it will be paid, the quantities, qualities, and nature of the things supplied, the date of delivery, provisions for return of damaged or unwanted goods, restrictions on the sale to others, and all the rest. The contract or understanding in which these terms are embodied is like a treaty between two sovereign states. In entering into such a business treaty, both parties give up in some measure their freedom of subsequent action. They give it up because it is advantageous as compared with the alternative of making no arrangement at all.

Under ideal conditions, each business that is a party to a contract accedes willingly to the rules imposed by the other. Such
conditions are met most fully when the vendor has some other independent company to whom he can sell his goods if he wishes, and when Company X has another independent source from which it can supply its needs. It is then possible to discuss terms in a spirit of give-and-take, and to reach a compromise which, at the moment of decision at any event, seemed the best choice among real alternative possibilities.

Such equal conditions are not uncommon in the relations of one business to another. Yet inequality of bargaining power will always exist; when it is too great, imposed terms may be the result. The use of force is just as ugly in establishing the rules of a business contract as it is anywhere else. The coerced contract is of course resented in business, but it is not considered a wrong business practice. Many businessmen, large and small, welcome situations in which they are on the upper side of a business squeeze, and their resentment when they are on the lower side is not taken too seriously by their colleagues who happen to be spectators for the moment.

As a matter of fact, one test of survival efficiency in business consists in not being subjected to coercion too frequently or too severely at any one time. The last coerced act on a business is the step just next to bankruptcy. The inefficient or unwanted business cannot be protected from rule by force, because its own nature determines that it shall be weak when another is strong.

C. THE CUSTOMERS

The third group of the governed are the customers. The businesses which are customers of other businesses we have dealt with in our consideration of vendors. Most customers, the tens of millions of them, are individuals buying things and services at retail. Superficially, the individual customer seems to be at a great disadvantage in being subjected to the decisions of business management as to what he shall be offered, where and when he can get it, and how much he will have to pay for it. The business management can make its rules and back them up with ad-
ministrative organization, physical plant and equipment, money in the bank, and propaganda.

But the inequality is not so great as it appears—in fact, the strength may be with David Consumer if he does not have to buy, or can postpone his buying, or can find something else that will do, or some other place to get it. Then the imposing property and organization and resources of the Goliath Corporation become clumsy handicaps before David's power of choice. The company and its rule-making managers find themselves faced with a debilitating condition called "idle plant expense." Idle plant expense will slowly but surely force the business rule-makers to modify their rules to meet the views of the governed.

Does this mean that the customers make the rules? Not at all. It only means that when the customers have the power of choice, the rules that are made will be acceptable to them. Business management will still decide what will be offered and when and where and for how much. Neither individually nor collectively do customers have the ability to make rules or to enforce them. But collectively the customers determine what rules shall in the end survive.

The customer requires the aid of public government in order to make his power of choice worth anything to him. This aid takes the form of giving him the information he needs as to what is available and at what price. Laws covering labeling, misbranding, and the like are all measures that strengthen the effectiveness of customer choice. When there is no choice to the customer, when a single company is the only source of supply, as is true of telephone service or electricity or sometimes transportation, the customer is helpless if the product or service is indispensable for health and comfort. In these cases of natural or artificial monopoly, the more important rules of the company affecting the customer are regulated by public government.

D. THE WORKERS

The fourth group of people governed by private business are the employees, all of them. The president of the company, the
vice-presidents, the deputies and assistants, the superintendents and managers, foremen, bosses, and workers—male and female, part-time and full-time, employed or unemployed—all are governed by the rule-making of private business. Some of these governed are themselves subordinate rule-makers, promulgating codes and issuing instructions with the authority of the business-state by which they are employed. For most people, the rules that most intimately affect their lives are made by their employers. Most of the employed and of those who wish to be employed, but are not, look to private business for employment. The rules affecting employment made by private business are therefore of paramount importance to the individual. These rules determine for the individual where he shall work, when he shall work, what he shall do, who will give him orders, who will take orders from him, his promotion and discipline, the amount he gets paid, and the time and duration of his holidays and vacations.

The employees, all of them, are weak as compared with the company that makes the rules and enforces them. To compensate for this weakness, we must look to three off-setting balances. The first is the labor laws of public government, the second is the trade union or other private organization of employees, and the third is the chance of getting a job working for some other company or of getting by without doing any work at all. But neither labor laws nor trade unions can do more than give the broad framework of conditions of employment and occasional protection to the individual in extreme cases of maladministration. Just as the true strength of the customer in the apparently unequal negotiation with the business company was found in the ability of the customer to go elsewhere to do his business, so too the strength of the employee lies in his ability, when he has it, to get another job from another employer or to get along without doing any work. The laws and the unions may help provide a basic setting for private business rule-making, but they can never do enough to give to the employee a real feeling that in conforming to the rules affecting him he has exercised responsible free choice. Even for the executive, the ability to get a job elsewhere and the
courage to do it are the only conditions under which subjection to business rule-making is supportable by free men. It is obvious that under the large-scale unemployment of the 1930’s, the reality of freedom, guaranteed politically, under the Constitution, was actually lost under the economic exigencies of the period. It was lost, not because business set out to destroy it, but because where there is no choice of rule-makers, as under mass unemployment, no rule however beneficent can be accepted by the individual as a matter of responsible consent. The economic system as a whole coerces him even though the particular employing company does not intend to do so.

Thus we see the tolerable freedom of the governed under the private rule-making of business, of the stockholders, of the vendors, of the customers, and of the employees of all rank comes from the opportunity of all to say, “No! I will do my business with another business.” When the governed man can say “No,” he has powers as great as those of the strongest business.

II. The Governors.

To find out realistically how things happen, let us, the governed, approach a business from the outside and work our way in. We can come at the business either as an employee, a vendor, a customer, or a stockholder. From whatever point we come, we run into an employee whose job it is to attend to us. If we are looking for work, we see an employee of the employment department; if we call to discuss the job we have now, we talk to the executive to whom we are responsible. If we are a vendor with something we want to sell to the company, our first contact is with a representative of the purchasing agent, or the buying office. If we are a customer and wish to buy something for ourselves, or if we wish to discuss something we have already bought, we meet a salesman or an adjuster. If we are a stockholder, we first talk to an assistant treasurer, or an assistant secretary, or an assistant to the president. In every case, we find that the company is represented by a subordinate someone who has authority
to make certain decisions. In every case, the someone who represents the company gets his authority from a superior source in the company's management, a source which combines legislative, administrative, and judicial powers. This superior executive may be overruled by an executive superior to him unless he himself happens to be the chief executive. From whatever angle we approach a business, as we rise higher and higher through the levels of authority, we finally come to a chief executive who is usually the president of the company.

A. MANAGERIAL OFFICERS

In most things in a business the president is the boss. Working through his subordinates, he gets done the things that have to be done. In many cases he also decides on the policies that will be followed in doing them. He can buy and sell, hire and fire, construct or tear down. Among the few things he cannot do by himself are to declare a dividend, open a bank account for the company, sell its securities to the public, or dissolve the business. Nor can he appoint himself to his own job.

Sometimes a company has an officer who is called chairman of the board. The powers and duties of a chairman do not follow a consistent pattern. In general, the powers over policy that are reserved from the president, and are not reserved to the board of directors, are exercised by the chairman. The chairman has particular supervisory responsibilities including observation of the work of the president. It is doubtful if the chairman would give instructions to the president as to how he should operate the company even if he had the power to do so. If he did give such instructions, he would himself be the chief administrative officer under another name, and the president would then be his assistant. What is important is to realize that there are two related, separable, top functions: (1) that of long-time policy-planning with broad consideration of the company's relations to trends within the industry, in other industries, in the government, and in international affairs, and (2) that of day-by-day central coordination of operating decisions covering every phase of doing
efficiently the things it is the business of the company to do. In many companies, these *two* functions are carried on by *one* person.

**B. THE BOARD OF DIRECTORS**

The powers that are withheld from the president and chairman, or chief executive officer under whatever title, are held by the board of directors.

Where does the board of directors get its powers? They come from the laws of the state in which the company gets its charter to do business. These laws specify what things the board of directors may do and what things are reserved even from them to the stockholders. But since stockholders ordinarily have no powers except at a stockholders' meeting—and such meetings are infrequent and special meetings are hard to call without the consent of the directors—for practically all purposes, the board of directors is supreme. This description of where the power in a company is located is reasonably realistic with one exception, and here the situation differs greatly from company to company. The president or chairman of a company generally recommends to the board of directors what he thinks the board should do even in the field of the board's own powers. In some companies, such a recommendation is tantamount to a decision, and although the recommendation may be discussed and the president may change his mind, the directors never reverse him. A reversal would be taken as a vote of no confidence, and his resignation would be on the table forthwith. In other companies, the executive officer encourages the board of directors to come to its own decision on the matters that are its proper concern, for example, on the declaration of a dividend. The officer may advise the board what he as an individual would do, but he has no feeling of chagrin or embarrassment if the board, after talking it over, feels differently.

The directors of a company are persons of considerable importance in rule-making powers of a business. Consequently, it is a matter of some interest how the members of a board of directors are chosen and how they are continued in office. At
this point, the form and the substance of the location of power in business are far apart.

The form of election of directors is a quasi-democratic procedure for the affirmation of the delegation of power to candidates for election and re-election. The procedure accepts on principle the assumption that the final power over business rule-making resides in the owners of the property, and that the larger the relative ownership the larger the right to express preference for the individuals to whom delegated powers should be assigned. Without raising questions as to these assumptions, it is fair to note that in substance the selection of directors does not conform to the intention that the election procedure implies. The fact is that the stockholders elect the directors but they do not choose them. They are chosen by the board of directors itself, which makes the nomination.

The reason for this lack of correspondence of form and substance rests on two practical considerations: (1) the stockholders cannot choose directors because they are not organized as a political body in a way to make their franchise elective; (2) real choice of directors by stockholders would be an extremely costly and disruptive procedure, damaging to efficient management, to business profits, and to the interests of the stockholders themselves. The stockholders have invested their savings in a business to make profits and income, not to assert rights in the delegation of power. They do not want to be organized politically as stockholders; they want to be let alone. In this, the management agrees with them. The occasional crisis situation can be ignored, since the political organization of stockholders to oust a management is generally so crude as a technique of obtaining stockholder consensus that it is little more than a caricature of the “democratic” procedure it purports to be.

III. The Locus of Power.

We have not been able to put our finger on the exact point of final power in a company, but we have narrowed its location down to the board of directors and the two principal officers, the
chairman and the president. Within the circle of directors and principal officers, the locus of power differs in different companies and the same company from time to time. Sometimes it changes even in the same meeting on different issues. If the chairman or president is an extremely strong or self-willed individual, he holds the reins in a firm hand. He may use the members of his board of directors as a sounding board, as a source of advice, as a means of access to influence in quarters outside his own company. But the most dominating governor is likely to pause if three or more directors differ audibly with his decision. The next time it may be three other directors who differ, and the time after that another three. Minorities are helpless alone, but several minorities may mean a revolt. Whenever ownership and management are held by different people, it can never be said that the board of directors does not matter. The locus of power may, for a moment or on a particular issue, be held by a single director. Generally this occurs when a strong will holds a negative opinion. It is rare that a single individual on a board of directors can get positive action taken contrary to the wishes of the officers.

The decisions that must be made by a company require that a final source of authority be instantly available. Accordingly, an executive committee, with power to act for the board of directors between meetings, is set up; and in this committee, the details of questions of policy and operations are examined. Many decisions are made by the executive committee that need only be referred to the board for information and ratification. Included in the membership of the executive committee, there will be one or more of the executive officers of the company.

The power element in a company is more nearly an area than a point, a pattern within the executive committee. It shifts within the boundaries of the board of directors, the executive committee, and senior officers. Sometimes the focus is sharp, sometimes it is blurred. It may include one combination of personalities at one time, another at another. Power in a company within this area seems to go to him who wants it and is able to
exercise it. For the effectiveness of the company in doing the things that a company is supposed to do, this shifting character of the locus of power is desirable. It keeps an administration from becoming too brittle. It creates a narrow circle where there is a normal and healthy competition for internal status and recognition. Carried too far, such competition can be destructive to united efforts, but ordinarily the influence of the board as a whole moderates the intensity of personal ambitions and divisive tendencies. When the board itself divides, and continues a division over a period of time, again a pathological condition exists that is harmful to the business.

From this circle of the board of directors and the two principal officers come the rules, the instructions, and the delegation of specific responsibility, the provision of means and the outlines of ways. Here is found the coordination of the parts and of partial efforts. Within this circle the character of the company takes form; into it come experience, inspiration, and criticism from the organization as a whole; and from it flow judgments which give back to the organization direction and discipline.

A. IS A BOARD OF DIRECTORS GOOD ENOUGH?

Considering the central position of the board of directors as an institution, not only in the government of a single business but in the government of business generally, it is in its present form an inadequate instrument of power. It is a vestigial remain from a time when investors paid attention to their businesses and when offensive and defensive alliances in business were the order of the day. The most that can be said for the board of directors as it exists today is that it provides an arena in which the ablest, most powerful, and most persistent members of the board can generally have their way. Such men have the traits that make businesses successful, and their survival in the shifting locus of power in a company means that they survive not only for their own good, but for the good of the company too. The board of directors tends to screen the fit from the unfit, and to that extent to provide the rule of the fit for the conduct of the business.
CORPORATE MANAGEMENT

Need anything be done? If the board of directors is a vestigial and obsolete institution, sooner or later it will disappear in its present form. This disappearance may come by transformation or it may come by collapse. Collapse is a clumsy and uncertain way of moving from yesterday into tomorrow. Transformation gives an opportunity to consider the question of what is wanted and to choose the preferred method of getting from here to there.

B. WHAT DO WE WANT?

What is it that we want in a board of directors? First, we want a rule-making body superior to the executive officers that will contribute to the efficiency of the business. Second, we want a rule-making body that is sensitive to the interests of all who are affected by the company as a private government.

When we examine these interests, a curious fact appears. The interests of the four parties at interest are in part identical in that each of them benefits by an efficient, well-managed, growing business. For the stockholders this means the possibility of larger dividends and a higher market price for their stock. For the vendors it means a better outlet and prompt payment for the things they supply. For the customer it means better service, better quality, and a wider range of products from which to choose. For the employee it means steadier employment, higher pay, and better conditions of work. But at any given level of activity and efficiency of a business, the interests of the four groups of the governed are in conflict. At a given level of activity, higher dividends can come only from lower prices to vendors, higher prices to customers, or lower labor costs. Vendors can get better consideration only at the expense of stockholders, customers, or employees. Customers must pay higher prices if the desires of stockholders, vendors, and employees are to be met, and the employees can improve their earnings only at the expense of the other three parties at interest. A board of directors, therefore, has a double task, first, to provide the company with an efficient, aggressive management, and second, to make sure that
at any given level of activity and efficiency, the groups at interest, whose interests are necessarily in conflict, get a square deal.

C. TWO IMPractical suggestions

There have been two suggestions as to how the several parties at interest in the operations of a company might be effectively heard. One suggestion is that each of these groups should be represented by directors of their own choosing. The other is that there should be a "public" director on the directing board, an appointee of the Securities and Exchange Commission or of some other public agency. Neither suggestion meets the requirements of the situation in more than a formal way, and both should be rejected as unrealistic and undesirable.

The idea of representation of parties at interest other than stockholders appeals to those who are attracted by the machinery of republican democracy, and who would extend it to all fields where discipline and order make it necessary to have rule-makers and rules. The fact is that no group can be represented by an elected agent unless it has been organized to express itself politically. It must have a sense of common interest and a willingness to take the trouble at an appointed time and place to assert the privileges of an electorate. There must be understanding, not only of issues, but of the capacity of the person who stands for election. Sound choice requires elaborate procedural arrangements, opportunities for discussion and information, candidates, nominations, and campaigns. The necessary conditions cannot be established in practice for stockholders; nor can they be established for employees if we include employees of every rank and skill; nor can they be made to function for customers or vendors. A scheme of representation of these interests would be a travesty on democratic procedures. It would result in business political gangsterism that would destroy the efficiency of business management. It would inject, into circles requiring the most intimate confidence, individuals whose reliability was uncertain and whose motives and ambitions would be in doubt. A board elected in such
a manner would be injurious to the true welfare of the four groups who have an interest in the success of the business.

The second idea, that of "public" directors, appointed by some designated public agency, appeals to some who distinguish only two parties at interest in a business: one, the owners; the other, the general public. But in reality there are four parties at interest, not two. In some matters these four interests are the same and in other matters they are in conflict. No "public" representation on a directing board could meet the essential requirements of this rule-making situation. The special and specific interests of a company's stockholders, its vendors, its customers, and its employees justify the creation of an opportunity for expression, but it is they, not an undifferentiated public, that should be heard by the company's rule-making authority.

D. ONE MODEST STEP

If we reject these two methods for broadening the composition of a corporate board of directors, what suggestion can be proposed? No drastic or universally applied scheme of altering the composition of boards of directors should be contemplated. The situations in different companies call for different measures, or perhaps in some companies for none at all. Further in modifying an agency like a board of directors, it is a good thing to take a step at a time, to let adjustment and habit build familiarity with the new, and then move forward with knowledge and conviction that the direction is the right one.

Accordingly, my suggestion is, as a first step, that one director be elected or re-elected and that he be asked to act as "trustee" for one of the three parties at interest, other than the stockholders. Such director-trustee might be assigned the interests of either the customers, or the vendors, or the employees, depending on the nature of the company's business. He would be the nominee of the management and of the existing board of directors and would be elected in the usual way by the owners of the company, the stockholders. During the experimental period of whatever
length, no public announcement would need to be made that such a policy had been adopted. In a formal sense little is changed, but an important difference would occur in the deliberations of the board. Let us suppose that this first director-trustee has been asked to act for the customers of the company. Although he owes his nomination to his fellow directors, and his election to the stockholders, nevertheless he has accepted a trusteeship—a trusteeship which has been created voluntarily by those choosing him so to act as trustee. Now as he sits on the board, the interests of the customers of the company are his single interest. It is his duty to know what these interests are and to see to it that they are considered when matters affecting them are decided upon. Such a director-trustee should be chosen for his ability to make another’s case his own. The one limitation that should be observed is that there should be no conflict of interest in the individual director himself; for example, a large stockholder should not be chosen as trustee for the interests of customers. The director-trustee should have time to work on his job and to think about it. His duties would not require his full time, but they would involve more application of effort than does the conventional directorship. Such a director should be properly compensated for the service he performs.

If the first director-trustee works out usefully, the next step would be a director-trustee for each of the other interests—all depending on the nature of the company and whether the groups are important enough in the particular case to warrant specialized consideration. In this way, three of the four parties at interest will have someone designated to speak for them. Presumably the stockholders, the fourth party, will be the concern of the remaining directors. But to make sure that equally thoughtful attention will be given to all the stockholders, one director should be explicitly charged with responsibility for all ownership interests and be paid for taking the time required in doing so.

The board of directors would then consist of four paid director-trustees, the chairman and the president, and such other officers and directors as the needs and traditions of the company
dictated. Under such a directing board, the interests of the governed will be at least represented and the actions of the company's administrative officers will take place in a frame of reference where the interests of all will have been heard. The four director-trustees would sit, not as "representatives" of the interest for which they speak, but as designees of their fellow directors to give particular attention to their trustee assignments. Since in any case these four special directors would be interested, even from the standpoint of their special interest, in the growth and prosperity of the corporation, and would be individually and collectively only a minority of the board as a whole, it seems improbable that the divisive interest thus deliberately built into the board at a low level of power but at a high level of articulate responsibility would be harmful in any way to a clear-cut and effective corporate program.

E. NEED ANYTHING BE DONE?

The question will arise, need anything be done at all? Granted that the customers, the vendors, and the employees do have an interest in the kind of business rules to which they are asked to conform, they have no present rights in the matter. The stockholders have the rights; if they do not choose to exercise them, that is their right as well. Meanwhile, the business goes on meeting on every side the test of competition, and preserving its authority as long as the governed consent to the rules that are imposed. A policy of doing nothing usually seems to be the prudent policy at any particular time for any particular group of people. Yet, after something has gone wrong, in retrospect it is possible to see that adjustment to the times and circumstances would have preserved a continuity of experience and tradition which, though modified, would not have been dissipated.

In considering whether business should do anything to give a voice to interests other than those who have rights to express themselves, we must remember that each business derives its power and its form from public government in which all these "interests" do have "rights." If these interests some day want
new rights in the government of business, they can be acquired through orderly public legislative processes.

Today the obvious interests of the several parties subject to business government are not properly safeguarded under the present form of control of business power. Since they are not, someone will some day, perhaps at a most inconvenient time, make it his crusade to turn these interests into rights. If, before this happens, the interests of all parties are protected by business itself, it is unlikely that formal intervention would occur on grounds of abstract political theory.

The reasons for taking steps to modernize the boards of directors of companies are reasons of efficiency, prudence, and justice. Fortunately, there is no critical situation that presses for action, but unfortunately there is under such circumstances an understandable hesitancy about altering existing and known power relationships. However, the mere passing of time brings with it the necessity for specific changes in the personnel of a board of directors. These occasions, if used to a purpose, may lead to the transformation of the central agency of corporate power so that it represents more nearly the interests of those whom business governs.

IV. Safeguarding the Locus of Power.

Because business has become one of the most pervasive facts of life, the operations of business have acquired a political as well as an economic significance in the lives of ordinary citizens. The locus of this political and economic power is in corporate management. We have depended on enterprise and competition as our methods of placing business powers where they are presently found. These methods have proved on the whole successful as far as economic development is concerned, but they alone are inadequate to meet the newer responsibilities of business. Corporate management, being the locus of business rule-making, has the opportunity to initiate the transformations that will conserve the successes of private business government and that at the same time will safeguard the community from abuses in the exercise of private power.