2

The Corporate Directors

Control of economic resources provides a continuous and important base of power in any society. A great deal of power is organized into large economic institutions—corporations, banks, insurance companies, and investment firms. These economic organizations decide what will be produced, how much it will cost, how many people will be employed, and what their wages will be. They determine how goods and services will be distributed, what technology will be developed, what profits will be made and how they will be distributed, how much money will be available for capital investment, what interest rates will be charged, and many similarly important questions.

THE CONCENTRATION OF ECONOMIC POWER

Economic power in America is highly concentrated. About 5 million corporate tax returns are received by the U.S. Internal Revenue Service each year. Approximately 22,000 (0.4 percent) of these returns come from corporations that receive over $50 million in annual revenues. Yet these large corporations account for nearly 70 percent of total corporate revenues in the nation (see Table 2–1). In contrast, the nearly 4 million corporations that receive less than $1 million in annual revenues account for only about 5 percent of total corporate revenues.

America's 500 largest corporations—"the Fortune 500"—collectively

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TABLE 2–1 The Concentration of Corporate Revenues

	Size of Corporation (in millions of annual revenue)				
	Under $1	*$1–5*	*$4–50*	*Over $50*	*Total*
Income Tax Returns					
Number (000)	3,791	626	192	22	4,631
Percent	81.9	13.5	4.2	0.4	100.0
Reported Revenues					
$ millions	783	1,326	2,551	10,220	14,890
Percent	5.2	8.9	17.2	68.6	100.0

Source: Statistical Abstract of the United States 1999, p. 546.

take in about $7.2 *trillion* in revenues each year, and these corporations collectively control about $18 *trillion* in total assets. These 500 corporations account for roughly 60 percent of all corporate revenues and all corporate assets in the nation.

The nation's 100 largest nonfinancial corporations are listed in Table 2–2. (The nation's largest banks, insurance companies, and investment firms are listed separately in Chapter 3, "The Money Elite.") The five largest nonfinancial corporations—Exxon Mobil, Wal-Mart, General Motors, Ford Motors, and General Electric—account for over 20 percent of the revenues of nonfinancial corporations in the United States.

America's traditional industrial giants—Exxon Mobil, General Motors, Ford Motors, General Electric, IBM, AT&T, and Philip Morris—continue to occupy dominant places in the corporate world. But in the last decade the booming retail economy has moved Wal-Mart, Kroger, Home Depot, Sears Roebuck, Kmart, Target, Albertson's, J.C. Penney, and Costco—upward in the corporate rankings. Sam Walton's Bentonville, Arkansas, Wal-Mart is now the nation's single largest corporate employer with more than one million people on its payroll. High-tech is the fastest growing sector of the American economy; but established firms like General Electric, IBM, AT&T, and Hewlett-Packard, have managed to stay ahead of newer firms like Compaq, Intel, and Dell.

Thus, there has been both stability and change at the top of the corporate world over the last century. Some of America's industrial giants—Exxon Mobil, General Motors, Ford Motors—have held top positions in the nation's economy throughout the century. In contrast, other leading corporations—U.S. Steel (now USX), Bethlehem Steel, Republic Steel, Anaconda Copper—have been displaced largely as a product of global competition.

The hottest game on Wall Street throughout the 1980s and 1990s has been "M and A" (mergers and acquisitions). Big corporations are getting even bigger by merging with or acquiring other corporations (see Table 2–3). In

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TABLE 2–2 The Nation's Largest Nonfinancial Corporations

1	Exxon Mobil	51	Lockheed Martin
2	Wal-Mart	52	Honeywell
3	General Motors	53	Tosco
4	Ford Motors	54	American Express
5	General Electric	55	Sprint
6	Enron	56	Southern
7	IBM	57	Alcoa
8	AT&T	58	Dow Chemical
9	Verizon	59	Microsoft
10	Philip Morris	60	PG&E
11	SBC Communications	61	AutoNation
12	Boeing	62	Georgia-Pacific
13	Texaco	63	TXU
14	Duke Energy	64	El Paso
15	Kroger	65	Briston-Myers-Squibb
16	Hewlett-Packard	66	Phillips Petroleum
17	Chevron	67	Walgreen
18	Home Depot	68	Coca-Cola
19	Compaq Computer	69	PepsiCo
20	Lucent Technologies	70	Tech Data
21	Sears Roebuck	71	Sara Lee
22	Merck	72	SuperValue
23	Procter & Gamble	73	AMR
24	Worldcom	74	Caterpillar
25	Motorola	75	CVS
26	McKesson	76	Viacom
27	Kmart	77	UAL
28	Target	78	Sysco
29	Albertson's	79	Electronic Data Systems
30	USX	80	Cisco Systems
31	Intel	81	Xerox
32	J.C. Penney	82	Federated Department Stores
33	Conoco	83	Raytheon
34	Costco	84	FedEx
35	Safeway	85	Pharmacia
36	Dell Computer	86	TRW
37	Ingram Micro	87	Johnson Controls
38	United Parcel Service	88	IBP
39	Pfizer	89	Minnesota Mining & Mfg.
40	Dynegy	90	Qwest Communications
41	Reliant	91	Weyerhaeuser
42	DuPont	92	Delta Air Lines
43	Delphi Automotive	93	Sun Microsystems
44	Johnson & Johnson	94	Emerson Electric
45	Utilicorp	95	Rite Aid
46	International Paper	96	Valero Energy
47	United Technologies	97	Publix Supermarkets
48	Bellsouth	98	Occidental Petroleum
49	Walt Disney	99	May Department Stores
50	Conagra	100	Goodyear

Source: Derived from data provided in *Fortune,* April 16, 2001.

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TABLE 2–3 Big Deals: Largest Corporate Mergers, Acquisitions, Ranked by Value

Rank	Corporation	Merger	Date
1	AOL	Time Warner	2000
2	Exxon Corp.	Mobil Corp.	1998
3	Travelers Group	Citicorp	1998
4	SBC Communications Inc.	Ameritech Corp.	1998
5	Bell Atlantic Corp.	GTE Corp.	1998
6	AT&T Corp.	Tele-Communications Inc.	1999
7	Vodafone Group Plc.	AirTouch Communications	1999
8	AT&T Corp.	MediaOne Group Inc.	1999
9	NationsBank Corp.	BankAmerica Corp.	1998
10	Elf Aquitaine	Total Fina SA	1999
11	British Petroleum Co. Plc.	Amoco Corp.	1998
12	Qwest Communications Intl.	US West Inc.	1999
13	WorldCom Inc.	MCI Communications Corp.	1998
14	Daimler-Benz-AG	Chrysler Corp.	1998
15	Viacom Inc.	CBS Corp.	1999

Source: Data from *Wall Street Journal Almanac 1999*; updated by author.

1990 the total annual value of mergers was $205 billion; by 1998 the total annual value of mergers had grown tenfold to $2,480 billion.[1] The merger of Exxon and Mobil in 1998 was said to partly reconstitute the nineteenth-century Standard Oil Company monopoly of John D. Rockefeller, reversing the nation's most famous antitrust case, *U.S. vs. Standard Oil* (1911). Citicorp made itself the nation's largest banking company, renamed Citigroup, when it acquired Travelers Insurance, and Bank of America kept pace by acquiring NationsBank (see Chapter 3, "The Money Elite"). Chrysler is no longer listed among America's largest corporations because it was swallowed by Germany's Diamler Benz. The largest merger of all, America OnLine (AOL) and Time Warner, created the world's largest media empire (see Chapter 4, "The Media Moguls").

THE GLOBALIZATION OF ECONOMIC POWER

The concentration of economic power in a relatively few large institutions is not an exclusively American phenomenon. On the contrary, the trend toward corporate concentration of resources is worldwide. It is not only large American corporations which have expanded their markets throughout the world, invested in overseas plants and banks, and merged with foreign corporations. Large European and Japanese firms compete very effectively for world busi-

[1] Statistical Abstract of the United States 2000, p. 563.

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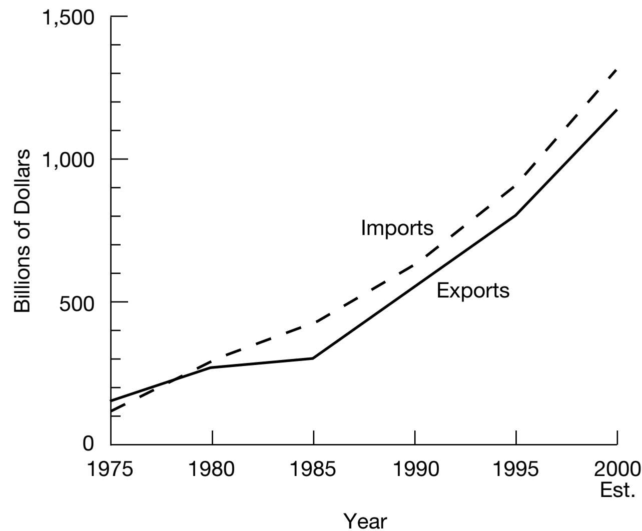
FIGURE 2–1 The Growth of World Trade in the U.S. Economy



Source: Data from *Statistical Abstract of the United States.*

ness. Just as American companies have greatly expanded investments abroad, so too have foreign companies sharply increased their business in the United States. The result is the emergence of truly supranational corporations, which not only trade worldwide, but also build and operate plants in many nations.

Today, almost one-quarter of the world's total economic output is sold in a country other than the one in which it was produced. The United States currently exports about 11 percent of the value of its gross domestic product (GDP) and imports about 12 percent. Exports and imports were only about 3 percent of GDP as recently as 1970 (see Figure 2–1).

The *world's* largest non-American industrial corporations are listed in Table 2–4. Foreign corporations sell their products in the United States (oil, automobiles, chemicals, electrical products) and also buy American corporations, which become subsidiaries of the foreign multinationals. For example, Royal Dutch Shell owns Shell Oil; British Petroleum owns Standard Oil of Ohio; Tengelmann (Germany) owns A&P supermarkets; Nestlé owns the Libby, Stouffer, and Beech-Nut corporations; Unilever owns the Lever Brothers and Lipton companies; Bayer owns Miles and Cutter Laboratories (Bayer aspirin); and so on.

In brief, the central feature of the American and world economy is the concentration of resources in relatively few large corporations. Most of this concentration occurred many years ago. "The long-established norm of market structure and behavior is that of *oligopoly*, that is, the constrained rivalry of

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TABLE 2–4 World's Largest Non-American Corporations

Rank	*Corporation*	*Rank*	*Corporation*
1	DaimlerChrysler	16	ING Group
2	Mitsui	17	Sony
3	Mitsubishi	18	Honda Motor
4	Toyota Motor	19	Nissan Motor
5	Itochu	20	Toshiba
6	Royal Dutch Shell	21	Fiat
7	Nippon Telephone	22	Nestlé
8	Marubeni	23	Fujitsu
9	AXA	24	Tokyo Electric
10	British Petroleum	25	Total Fina Elf
11	Volkswagen	26	NEC
12	Siemens	27	Vivendi
13	Hitachi	28	Unilever
14	Matsushita Electric	29	Fortis
15	Nissho Iwai	30	Sinopec

Source: Data derived from *Fortune* "Global 500 List" at www.fortune.com.

a few interdependent sellers who compete mainly by means of product differentiation."[2] In recent years, concentration has continued to increase, although at a slower rate than early in the twentieth century. It is clear that society is *not* going to return to a small, romanticized, perhaps mythical, world of individual enterprise.

INSTITUTIONALIZING THE GLOBAL ECONOMY

Historically, America's corporate and financial elite supported high tariffs in order to protect its domestic marketplace. Tariffs on foreign imports forced up their prices and gave U.S. firms sheltered markets. Not only did this improve the profit margins of U.S. corporations, but also it allowed them to operate less efficiently: management became top heavy; its products, especially automobiles, were frequently poor in quality; and the workforce was larger and wages for workers were higher than they otherwise would be if U.S. firms had to face foreign competition.

But America's corporate and financial elites gradually came to see the economic advantages of expanding world trade. U.S. firms that dominated the domestic market in the 1950s and 1960s (steel, automobiles, aircraft, computers, drugs, electronics, agriculture, and so on) began to look abroad to

[2] Edward S. Herman, *Corporate Control, Corporate Power* (Cambridge, Mass.: Cambridge University Press, 1981), p. 1.

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FIGURE 2–2 U.S. Tariff Rates

Source: Data from *Statistical Abstract of the United States.*

expand their own sales. American corporations became multinational corporations. They began by expanding their sales and distribution staffs worldwide, and then later began to shift manufacturing itself to low-wage, low-cost countries.

Globalization of economic power required reductions in tariffs and trade barriers around the world. America's corporate and financial elites began to lobby Congress for reductions in U.S. tariffs. The result was a rapid decline in average U.S. tariff rates (see Figure 2–2). In effect, the United States became an open market.

International economic agreements and organizations were arranged in order to facilitate the new global economy. Leadership in global economic policy was provided by the Council on Foreign Relations (CFR) and its multinational arm, the Trilateral Commission (see Chapter 6). The Trilateral Commission was created by CFR BoardChariman David Rockefeller in 1972 to bring together a small group of top economic elites from the United States, western Europe, and Japan.

In addition to initiating annual economic summits of the presidents and prime ministers of the wealthy, industrialized nations, this new global elite put in place a series of policy decisions designed to advance international trade, including the General Agreement on Tariffs and Trade (GATT), the World Trade Organization (WTO), the World Bank and International Monetary Fund (IMF), and the North American Free Trade Agreement (NAFTA) (see Table 2–5).

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Table 2–5

Institutionalizing the Global Economy

The World Trade Organization and GATT. The World Trade Organization was created in 1993. Today the WTO includes 130 nations that agree to a governing set of global trade rules. (China and Russia have applied to join.) The WTO is given power to adjudicate trade disputes among countries and monitor and enforce trade agreements, including GATT. GATT, the multinational General Agreement on Tariffs and Trade, was created following World War II for the purpose of encouraging international trade. Over the years GATT has been dominated by banking, business, and commercial interests in Western nations seeking multilateral tariff reductions and the relaxation of quotas. In 1993 the GATT "Uruguay Round" eliminated quotas on textile products; established more uniform standards for proof of dumping; set rules for the protection of intellectual property rights (patents and copyrights on books, movies, videos, and so on); reduced tariffs on wood, paper, and some other raw materials; and scheduled a gradual reduction of government subsidies for agricultural products.

The International Monetary Fund and the World Bank. The IMF's purpose is to facilitate international trade, allowing nations to borrow to stabilize their balance of trade payments. When economically weak nations, however, incur chronic balance of trade deficits and perhaps face deferral or default on international debts, the IMF may condition its loans on changes in a nation's economic policies. It may require a reduction in a nation's government deficits by reduced public spending and/or higher taxes; or it may require a devaluation of its currency, making its exports cheaper and imports more expensive. It may also require the adoption of noninflationary monetary policies. Currently, the IMF as well as the World Bank are actively involved in assisting Russia and other states of the former Soviet Union to convert to free market economies.

The World Bank makes long-term loans, mostly to developing nations, to assist in economic development. It works closely with the IMF in investigating the economic conditions of nations applying for loans and generally imposes IMF requirements on these nations as conditions for loans.

NAFTA. In 1993 the United States, Canada, and Mexico signed the North American Free Trade Agreement. Objections by labor unions in the United States (and independent presidential candidate Ross Perot) were drowned out in a torrent of support by the American corporate community, Democrats and Republicans in Congress, President Bill Clinton, and former President George Bush. NAFTA envisions the removal of tariffs on virtually all products by all three nations over a period of ten to fifteen years. It also allows banking, insurance, and other financial services to cross these borders.

FTAA. Heading the current agenda for institutionalizing global trade is the "Free Trade Area of the Americas." The objective is the negotiation of a tariff-free, rules-based, free trade Western Hemisphere to include thirty-three nations. A meeting of western hemispheric nations in Quebec City in 2001 set a goal for such an agreement for 2005. Recent U.S. presidents, both Democratic and Republican, have pressed Congress for "fast track authority" for trade agreements, essentially requesting that Congress pass presidentially negotiated trade agreements without amendments. So far, Congress has refused to do so.

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WHO CONTROLS CORPORATE AMERICA?

In the formal, legal sense, the board of directors "controls" the modern corporation. The typical corporate boardroom consists of about 15 people—presidents, officer-directors, and directors. Collectively the nation's top 100 corporations are formally governed by about 2,500 people—or about one one-thousandths of one percent of the U.S. population. These 2,500 top executives and directors of nonfinancial corporations comprise the first segment of our definition of the nation's elite. "Inside" directors—those who are also top management officers in the corporation—usually dominate board decision-making. Inside directors usually include the chairman, CEO, or president and the top senior vice-presidents. About 40 percent of corporate directors are inside directors. Outside directors—persons who serve on the board but who take no direct part in managing the corporation—usually defer to the judgment of the inside officer-directors. About 60 percent of all directors are "outside" directors. Outside directors are chosen to serve on the board by the inside directors, usually the chairman and chief executive officer (CEO), who also decide on their pay and perks. Most outside directors are themselves current or retired chief executives of other large corporations; their loyalties tend to be with their fellow CEOs running the corporation. Sometimes part of the price of a large loan from a major bank or insurance company to an industrial corporation will include a seat on the board of directors of that corporation. Outside directors representing financial interests do not usually take a direct role in decision-making; they perform a general watch-dog role over their investment. However, *all* directors have a legal responsibility to the owners (stockholders) of the corporation to protect their investment. All directors are formally elected by the stockholders, who cast their votes on the basis of one share equals one vote.

The millions of middle-class Americans who own corporate stock have virtually no influence over the decisions of directors. When confronted with mismanagement, these stockholders simply sell their stock, rather than try to challenge the powers of the directors. Indeed, most stockholders sign over "proxies" to top management so that top management may cast these proxy votes at the annual meetings of stockholders. Management itself usually selects its own "slate" for the board of directors and easily elects them with the help of proxies.

A few outside directors of large corporations represent public relations efforts by top management to improve the image of the corporation. For example, corporations frequently select college presidents, prominent women, and minorities for their boards. It may be true that these corporations really want the counsel of these people; however, one suspects that they also want to promote an image of social responsibility. It is doubtful that these particular people are influential in corporate decision-making.

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The globalization of the economy has inspired some American corporations to add top foreign corporate executives to their boards.

Finally, there are the corporate directors—whether inside officers or outsiders—who represent family owners. Family ownership and domination of large corporations has not yet disappeared in America despite marked decline in family control of corporations over the last several decades.

Thus, corporate board members can be divided into types. The following percentage approximations of various types of corporate directors are estimated for the 2,000 members of the 100 largest industrial corporations:[3]

Insiders	
Manager-directors	44%
Outsiders	
Former managers	6
Financial representatives	8
Ownership representatives	13
Substantial business with corporation	11
Charitable, civic, or educational representatives	5
Other	13
Outsider total	56%

Managers usually triumph in the boardroom. The inside directors, although only a minority of most boards, usually vote as a solid, unified block under the direction of the president. Their block voting strength on the board is augmented by their greater depth of knowledge of the organization, its technology, and its business problems. Insiders work full time on corporate affairs, continuously communicating with each other. Outsiders have no such information or communication base.

Outside directors, with some exceptions, are "invited" to serve on boards by the managers. They are "guests" in the boardroom. They usually have a sense of loyalty to the president who put them on the board. They are passive on most management decisions. "No one likes to be the skunk at the garden party."[4] They may advise on special areas of competence; they may help coordinate decision-making with major suppliers or buyers; and by their presence on the board they may help assure the outside world that the organization is in good hands. The only important exceptions to these usually passive outside managers are those who still represent large stockholder interests.

A brief glimpse inside the boardrooms of IBM and AT&T (see Table 2–6) gives some indication of the principal ties of a large corporation. We have classified these directors as inside and outside, and we have classified

[3] Estimates from materials presented in Edward S. Herman, *Corporate Control, Corporate Power*, Chap. 2.

[4] *Business Week*, September 8, 1986, p. 60.

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TABLE 2–6 Inside the Board Room

At IBM	
Inside	*Outside Corporate*
Louis V. Gerstner Jr. Chairman and CEO	Cathleen Black President, Hearst Co.
Douglas T. Elix Senior Vice-President	Kenneth I. Chenault President, American Express
Samuel J. Palmisano Senior Vice-President	Juegan Dorman Chairman, Aventis S.A.
J. Thomas Bouchard Senior Vice-President	Minoru Makihara Chairman, Mitsubishi
William A. Etherington Senior Vice-President	Lucio A. Noto Vice Chairman, Exon Mobil
David M. Thomas Senior Vice-President	Alex Trotman Chairman (ret.), Ford Motor
John M. Thompson Senior Vice-President	Ludewijk VanWachem Chairman, Royal Dutch Petroleum
Nicholas M. Donofrio Senior Vice-President	Charles V. Knight Chairman, Emerson Electric
Outside Public Interest	
Nannerl O. Keohane President, Duke University	
John B. Slaughter President Emeritus, Occidental College	
Charles M. West President, M.I.T.	

At AT&T	
Inside	*Outside Corporate*
C. Michael Armstrong Chairman of the Board and CEO	Kenneth T. Derr Chairman, Chevron
Amos B. Hostetter Chairman, AT&T Internet	George M. C. Fisher Chairman, Eastman Kodak
John D. Zeglis Chairman, AT&T Wireless	Donald V. Fites Chairman, Caterpillar
	Ralph S. Larsen Chairman, Johnson & Johnson
Outside Public Interest	John C. Malone Chairman, Liberty Media
M. Kathryn Eichoff Economics consultant	Lewis A. Simpson Chairman, GEICO Insurance
Donald F. McHenry Former U.S. Ambassador to the U.N.	Sanford I. Weill Chairman, Citigroup
Michael I. Sovern President Emeritus, Columbia University	

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outsiders as those who represent ties to other corporations and banks and those who we believe were appointed to their posts as representatives of the "public interest."

THE MANAGERS: CLIMBING THE CORPORATE LADDER

The top echelons of American corporate life are occupied primarily by people who have climbed the corporate ladder from relatively obscure and powerless bottom rungs. It is our rough estimate that less than 10 percent of the presidents and directors of the top 100 corporations are heirs of wealthy families. The rest—the "managers"—owe their rise to power not to family connections, but to their own success in organizational life. Of course, these managers are overwhelmingly upper middle class and upper class in social origin, and most attended Ivy League colleges and universities. (The social origin and background of top elites are discussed in Chapter 6.) The rise of the manager is a recent phenomenon. As recently as 1950, we estimate that 30 percent of the top corporate elite were heirs of wealthy families. (Indeed, even since 1980, Henry Ford II stepped down as chairman of Ford Motors, and David Rockefeller retired as chairman of Chase Manhattan.) How can we explain the rise to power of the corporate manager?

Today the requirements of technology and planning have greatly increased the need in industry for specialized talent and skill in organization. Capital is something that a corporation can now supply to itself. Thus, there has been a shift in power in the American economy from capital to organized intelligence. This is reflected in the decline of individual- and family-controlled large corporations and in an increase in the percentage of large corporations controlled by management.

Following the Industrial Revolution in America in the late nineteenth century and well into the twentieth century, the nation's largest corporations were controlled by the tycoons who created them—Andrew Carnegie (Carnegie Steel, later United States Steel, and today USX); Andrew Mellon (Alcoa and Mellon banks); Henry Ford (Ford Motors); J.P. Morgan (J.P. Morgan); and, of course, John D. Rockefeller (Standard Oil Company, later broken into Exxon, Mobil, Chevron, Atlantic Richfield, and other large oil companies). But by the 1930s control of most large corporations had passed to professional managers. As early as 1932, Adolf Berle and Gardiner Means, in their classic book *The Modern Corporation and Private Property*, described the separation of ownership from control. The theory of "managerialism" became the conventional wisdom about corporate governance.[5]

[5] However, for some Marxists and others on the left, managerialism was denied, because it complicated the theory of class struggle in a capitalist society. They argued that great families retained "latent" power—power to be exercised when something goes seriously wrong. Some Marxists, however, accepted the managerial thesis and simply focused on managers as "the leading echelon of the capitalist class." See Paul A. Baran and Paul M. Sweezy, *Monopoly Capital* (Newark: Monthly Review Press, 1966).

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It was recognized early on that corporate managers might run their firms in ways that serve their own best interests rather than those of the owners; for example, paying themselves multimillion-dollar annual salaries and providing themselves with lavish corporate-paid lifestyles. But for decades, individual and institutional stockholders largely ignored this potential principal-agent problem. Stockholders' power was fragmented and dispersed; there was not much they could do, other than sell their stock, even if they knew that managers were taking personal advantage of their position. But perhaps a more important reason that managers were largely unchallenged was that the American economy prospered from the 1940s through the 1970s. Governance of the U.S. corporation seemed to be working well, rewarding both managers and owners.

Liberal economist John Kenneth Galbraith once summarized the triumph of managerialism:

> Seventy years ago the corporation was the instrument of its owners and a projection of their personalities. The names of these principals—Carnegie, Rockefeller, Harriman, Mellon, Guggenheim, Ford—were well known across the land. They are still known, but for the art galleries and philanthropic foundations they established and their descendants who are in politics. The men who now head the great corporations are unknown. Not for a generation did people outside Detroit in the automobile industry know the name of the current head of General Motors. In the manner of all men, he must produce identification when paying by check. So with Ford, Standard Oil, and General Dynamics. The men who now run the large corporations own no appreciable share of the enterprise. They are selected not by the stockholders but, in the common case, by a board of directors which narcissistically they selected themselves.[6]

How does one climb the corporate ladder? It is not easy, and most who begin the climb fall by the wayside at some point in their careers.

> Just to be in the running, a career riser must discipline himself carefully. He must become a seasoned decision-maker. He must cultivate an aura of success and sustain his upward momentum on the executive ladder. He must be loyal to a fault, tolerably bright, fairly creative, politically agile, always tough, sometimes flexible, unfailingly sociable and, in the minds of his company's directors, seem superior to a dozen men who are almost as good. He must also be lucky.[7]

Today, more than ever before, getting to the top requires the skills of a "technocrat"—knowledge of bureaucratic organization, technical skills and information, extensive formal education (including postgraduate degrees), and proven ability to work within legal constraints and governmental regulations. Very few sons and no daughters are taking over the presidencies of large corporations owned by their families. Fewer than 10 of the nation's 500 largest

[6] John Kenneth Galbraith, *The New Industrial State* (Boston: Houghton Mifflin, 1967), p. 323.

[7] Howard Morgans, former president of Procter & Gamble, as quoted in "Proud to Be an Organization Man," *Forbes*, May 15, 1972, p. 241.

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corporations are headed by men whose families had previously run the corporation.[8] Top corporate management is drawn from the ranks of upper-middle-class, well-educated, white, male management, financial, and legal experts.

Perhaps the most significant change over the years has been the rising number of top corporate and governmental executives who have acquired graduate degrees. Today over half of the corporate presidents of the 500 largest corporations have advanced degrees, including M.B.A.s (masters of business administration), law degrees, and Ph.D.s. (See Chapter 7.)

An increasing number of top corporate leaders are coming out of finance and law, as opposed to production, operations, advertising, sales, engineering, or research. Lawyers and accountants now head two out of every five large corporations. This is further evidence that finance, taxation, and governmental regulation are the chief problems confronting large corporations. The problems of production, sales, engineering, and transportation have faded in relation to the pressing problems of money and power.

Getting to the top by climbing the ladder of the giant corporation is not only difficult, it is also risky. The chances of any one individual making it to the top are infinitesimal.

> Yet hundreds of thousands of executives willingly devote entire careers to working their way up through these giant corporations. On the lower rungs of the ladder, when they are in their 20s, all of them dream of reaching the top. As they advance into their 30s, and receive more responsibility and more money, the dream flowers brightly. Some time in their 40s and 50s, however, most realize they aren't going to make it. They are sorely disappointed, but it's too late to change. Comfortable and secure, they stay. Then each year there are perhaps a dozen or so—the lucky men who go all the way.[9]

THE INHERITORS: STARTING AT THE TOP

Unquestionably, the Rockefellers, Fords, du Ponts, Mellons, and other families still exercise considerable influence over America's economic resources. However, research on family holdings in large corporations is not easy. Table 2–7 lists major family holdings of large corporations as revealed in a variety of sources. But it is not possible to tell from such a list whether a family really "controls" the operations of a corporation, or whether control has been passed on to the managers. It is possible for families who no longer hold active management positions in a corporation to exercise "latent" power—that is, to use their control blocs of stock as a restraint on management. Sometimes families interfere only when something goes seriously wrong.

[8] Charles G. Burch, "A Group Profile of the Fortune 500 Chief Executives," *Fortune*, May 1976, p. 174. See also *Business Week*, October 23, 1987, p. 37.
[9] "Proud to Be an Organization Man," p. 244.

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TABLE 2–7 Historic Family Ties to Corporations

Corporation	*Family*
DuPont	du Pont
Ford Motor Co.	Ford
Alcoa	Mellon
Wal-Mart	Walton
Exxon	Rockefeller
Mobil	Rockefeller
Sears, Roebuck & Co.	Rosenwald
IBM	Watson, Fairchild
Dow Chemical Co.	Dow
Corning Glass Works	Houghton
International Paper Co.	Phipps
W.R. Grace & Co.	Grace, Phipps
Weyerhaeuser	Weyerhaeuser
Winn-Dixie, Inc.	Davis
Campbell Soup Company	Dorrance
H.J. Heinz Co.	Heinz
Firestone Tire & Rubber	Firestone
Olin Chemical	Olin
Ralston Purina Co.	Danforth
Hilton Hotels	Hilton
Howard Johnson Co.	Johnson
Great Atlantic & Pacific Tea Co. (A&P)	Hartford
Woolco	Woolworth
McDonnell Douglas Aircraft	McDonnell
International Harvester	McCormick
Coca-Cola	Woodruff
Eli Lilly & Co.	Lilly
Duke Power Co.	Duke
Rockwell Mfg. Co.	Rockwell
Gerber Products Co.	Gerber
Deere & Company	Deere
Borden Co.	Borden

The Ford Family. Until 1980, Henry Ford II, grandson of the Ford Motor Company founder, served as chairman of the board. "The first thing you have to understand about the company is that Henry Ford is the boss. . . . He *is* the boss, he always was the boss since the first day I came in and he always will be the boss." These are the words of Arjay Miller, who spent twenty-three years climbing the rungs of Ford management to become president of the company, only to find that Henry Ford II actually ran things. Miller eventually resigned to become dean of the Graduate School of Business at Stanford University.[10]

[10] Quoted in Victor Lasky, *Never Complain, Never Explain* (New York: Richard Marek, 1981), p. 86.

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Henry Ford II grew up in a very narrow society; he was a member of a rich, insulated family that was dominated by his grandfather—known to be an exceedingly suspicious, prejudiced, and willful man. Young Ford attended Hotchkiss School and later Yale University. However, he failed to graduate in 1940 after admitting that he had cheated on a term paper. He enlisted in the U.S. Navy and served until his father died in 1943; President Roosevelt directed the secretary of the navy to release Ford to return to the family business.

Ford started in the automobile industry at the age of twenty-five as vice-president of Ford Motors, serving under his aged grandfather. A year later he took over the presidency. His initial decisions were to replace the one-person autocratic rule of the company with a modern management structure, recruiting bright, young management types (the famous Ford "Whiz Kids," including Robert S. McNamara, who later resigned as Ford president to become secretary of defense; Lee Iacocca; Arjay Miller; and Charles B. Thornton, later to become chairman of Litton Industries). He also initiated a modern labor relations program and ended the company's traditional hostility toward labor unions. As commonplace as these policies appear today, they were considered advanced, enlightened, and liberal for the Ford Motor Company at the time.

Over the years Ford proved himself a capable director of the company, despite some occasional and even colossal mistakes. (The Edsel fiasco cost the company over $300 million.) Ford worked long hours at the company headquarters in Detroit. He personally approved style changes in Ford cars and test-drove them himself. He was active on the board of the Ford Foundation and conscientiously reviewed research and grant proposals with other board members. His younger brothers, Benson and William Clay, eventually became Ford vice-presidents and board members. (William Clay Ford married the daughter of tire manufacturer Harvey S. Firestone, Jr., and purchased the Detroit Lions professional football team.)

Henry Ford II helped launch the National Urban Coalition and organized the National Alliance of Businessmen to provide more jobs for minorities. He was a prime mover in Detroit's urban renewal and redevelopment program, Renaissance Center. It was Ford himself who convinced his old rival, General Motors, as well as Amoco, Kmart, Parke-Davis, and Western International Hotels, to invest in the central city project. When cost overruns forced up the price of the project, Ford "arm-twisted" many Ford suppliers—U.S. Steel, Firestone, Budd Company—to come up with the additional funds.

Like many people born to wealth and power, Ford's personal style was far from that of the bland organizational person. He was frequently unpredictable, sometimes abrasive, often profane; he expressed his opinions directly. His public and private actions were often controversial. (He divorced his wife of many years and married a beautiful, young Italian actress in 1965; in 1980, he divorced her to marry an American model.)

The Ford Foundation was created before the death of the elder Henry

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Ford. Originally, it supported charities in the Detroit area; its assets were primarily Ford stock. As the company prospered, the value of the foundation assets increased. In 1951, Henry Ford II asked Robert Hutchins, chancellor of the University of Chicago, to take over the foundation and make it a national force in civic affairs. Hutchins immediately funded some projects that "the Chairman" did not like; Hutchins was cut loose to become head of the Fund for the Republic, a smaller, Ford-funded foundation. The Ford Foundation supported moderate black civil rights organizations, including the Urban League, with Henry Ford II's approval. In 1966, McGeorge Bundy, Presidents Kennedy and Johnson's national security adviser, became the Ford Foundation head.

Bundy gradually sold off the Ford stock from the foundation assets. Bundy and Henry Ford clashed over the liberal programs of the Foundation. Finally, in 1976, Ford resigned from his directorship of the Ford Foundation. In his resignation letter, he pointedly advised the foundation to direct more attention to strengthening the capitalist system. "The Foundation is a creature of capitalism. . . . I'm just suggesting to the trustees and the staff that the system that makes the Foundation possible very probably is worth preserving."[11]

By 1980, Henry Ford II faced many troubles. The Pinto car had to be recalled for a faulty gas tank—the largest recall in auto history. Brother Benson Ford died of a heart attack. The break with Lee Iacocca was troublesome. Henry went through another divorce and remarriage. His nephew, Benson Ford, Jr., sued him over his father's will and demanded a seat on the Ford board, which Henry denied him. And in 1980, the Ford Motor Company lost $1.5 billion—the largest annual loss until then in the history of any American corporation. (Of course, General Motors lost money that year, and Chrysler would have gone bankrupt without favorable U.S. government loan guarantees.) Henry Ford II resigned as chairman of the board of Ford Motors.

William Clay Ford Jr., the fourth-generation favored son of the family, became Chairman of the Board of Ford Motors in 1999 at age 44. Ford prepped at Hotchkins and attended Princeton. After graduation he went directly into Ford's top management. But not all of the company's managers believed that he was ready for leadership of the now worldwide industrial giant. Yet with three family members on the Board of Directors—his father, William Clay Ford; his cousin Edsel B. Ford; and himself—and the Ford family continuing to hold the largest block (40 percent) of Ford stock, "Bill" Ford easily assumed the driver's seat. His leadership was immediately tested when allegations arose that Ford Explorer models had design flaws that contributed to the failure of their Firestone tires and contributed to many injuries and deaths on the road. (Ford and Firestone are currently engaged in a bitter feud over responsibility.) Chairman "Bill" Ford says that his job is to provide "the long-term direction of the Company," and his CEO, up-from-the-ranks

[11] *Newsweek*, January 24, 1977, p. 69.

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Lebanese immigrant Jacques Nasser, is charged with the responsibility for day-to-day operations. (Nasser was assigned responsibility for taking the heat on the Firestone issue; William Clay Ford's mother is Martha Firestone.) Ford perceives himself as an environmentalist, even though his company's gas-guzzling SUVs now account for 50 percent of its revenues. His vision is to transform the vast Rouge factory complex that his great-grandfather built into a global showcase. His motto is "sustainability": he apparently believes that Ford Motors must accommodate itself to environmental concerns over the long run.

PAYCHECKS OF THE CORPORATE CHIEFS

Top corporate executives in the United States reward themselves with truly astronomical paychecks. The average CEO of a major U.S. corporation is currently paid over $12 *million* annually. That is 475 times more than the average blue-collar worker. And the recent trend has been skyward; since 1990 the average CEO paycheck has risen from $2 million to over $12 million.

American corporate executives pay themselves many times more than executives of corporations located anywhere else in the world. The ratio of CEO pay to the average manufacturing employee (475 in the United States) is only 13 in Germany and 11 in Japan. Indeed, the huge differential between American and German executive salaries has reportedly complicated the global merger of Daimler-Benz and Chrysler.

Corporate executive "compensation packages" combine annual salary and stock options. Stock options vary from year to year. *Forbes* magazine reports that Computer Associates' owner and CEO, Charles B. Wang, took $650 million total compensation out of his corporation in 2000, creating a new record.[12] Other executives in the *Forbes* top list gave themselves more "modest" packages: Louis V. Case, AOL, $117 million; Louis V. Gerstner, Jr., IBM, $107 million; John F. Welch, Jr., General Electric, $107 million; Stanford P. Weill, Citigroup (see Chapter 3), $85 million; Michael D. Eisner, Walt Disney (see Chapter 5), $50 million.

CORPORATE COUNTERREVOLUTIONS

Traditionally, the top managers of large corporations were considered impregnable; nothing short of bankruptcy could dislodge them. Corporate managers ran the American economy, perpetuating themselves in office; they ruled without much interference from outside directors, stockholders, employees, or consumers. But beginning in the 1980s, new challenges to the

[12] As reported at www.forbes.com. See also "Executive Paywatch" at www.aflcio.com.

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imperial position of top management arose, most notably from: (1) a new activism by outside directors and large stockholders, checking the power of corporate chief executives and occasionally forcing their retirement; and (2) a rise in "hostile takeovers" led by corporate raiders who acquire corporate stock and voting power in order to force the ouster and replacement of existing management.

The new activism by outside directors and large stockholders, particularly institutional investors—pension funds, mutual funds, insurance companies, and banks—is partly attributable to the failure of some American corporations to remain competitive in global markets.[13] Traditionally, poor economic performance by management resulted in the sale of the corporation's stock by institutional investors, who simply shifted their investment to more profitable corporations. The chief executives of poorly performing corporations might suffer some public embarrassment from falling prices of their companies' stock, perhaps even some shouted insults at annual stockholders' meetings, but their positions of power generally remained secure. However, as institutional stock ownership has grown to over half of all stockholding in the nation, top corporate managers have come face to face with more informed and aggressive representatives of owners.[14] Mutual and pension fund managers as well as managers of banks and insurance companies are more likely than small individual investors to take action against the managers of poorly performing corporations in which they have invested funds. Traditionally, fund managers routinely voted with management, but today they are taking a much more aggressive role in corporate governance. Because the funds now own so much stock, it is not always possible for them to "dump" it without suffering heavy losses, and fund managers have a legal responsibility to protect their own investors. Hence, these managers, acting on behalf of stockholders, are clipping the powers of the corporate chiefs and even on occasion getting some fired. According to *Fortune* magazine: "The fact is, the institutions' fingers are on the most celebrated CEO ousters."[15]

THE BATTLE FOR IBM

Consider the rise and fall of John F. Akers, former chairman and chief executive officer of IBM, once America's premier corporation. Akers attended Yale University, majored in engineering, and served four years as a U.S. Navy pilot. He joined IBM in 1960 as a sales representative and rose rapidly up the corporate ladder, becoming a vice-president in 1982. But already IBM was facing

[13] See Margaret M. Blair, "Who's in Charge Here?" *Brookings Review* (Fall 1991), pp. 8–13.

[14] Institutional ownership of stock grew from 15 percent of all outstanding sharers of U.S. corporations in 1965, to 30 percent in 1980, to 50 percent in 1992. See *Fortune*, January 11, 1993, p. 36.

[15] *Fortune*, January 11, 1993, p. 35.

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tough competition from Japan and from newer, leaner, aggressive U.S. companies like Microsoft, Apple, and Wang. IBM continued to focus its business on large, expensive "mainframe" computers, while the market turned increasingly to smaller, cheaper, personal desktop computers.

Akers was made president of IBM in 1983. He tried to steer "Big Blue" in new directions and to cut costs. Reorganizations and layoffs resulted in thousands of lost jobs in a company that once prided itself on employee morale. But the red ink continued to flow, and stockholders were crushed. IBM stock fell over 70 percent in value (from a 1987 high of $175 to a 1993 low of $48). While many individual and institutional stockholders were publicly critical of Akers, he defiantly held on to his job, claiming the backing of his board. But finally in early 1993, following a report of the corporation's record $5-billion annual loss for 1992, the IBM board forced Akers's resignation following an acrimonious meeting.[16] Prior to resignation Akers had been co-chairman of the Business Roundtable (see Chapter 6) and a director of the New York Times Company, Pepsico, the Metropolitan Museum of Art, the California Institute of Technology, and the United Way of America.

Louis V. Gerstner, Jr., made his career as a corporate "fixer"—a manager skilled at turning around the fortunes of depressed companies. So when the IBM board ousted Akers, it sought out Gerstner—an outsider who would bring new thinking to the stodgy corridors of Big Blue and resuscitate the sick giant.

Gerstner earned an engineering degree at Dartmouth before going on to Harvard Business School for his M.B.A. He began his career in 1965 as a corporate fixer with a leading management consulting firm—McKinsey & Company. In 1978 he accepted a senior management position with American Express and was named president six years later. He is credited with having introduced the glitzy gold card program that jacked up the company's revenues. In 1989, following one of the largest corporate mergers in history—R.J. Reynolds (tobacco) and Nabisco (foods) merged as RJR-Nabisco, currently the nation's twelfth-ranked industrial corporation—Gerstner was lured away from American Express to run the new food and tobacco giant. Its principal owners, the financial firm of Kohlberg, Kravis and Roberts, had funded the merger with billions in junk bonds, nearly sinking the new company with a huge debt load. But in four years, Gerstner cut costs, introduced new products, and reduced the debt load by half. He won the dubious reputation as one of the nation's toughest "slash and burn" CEOs, ruthlessly firing managers and selling off divisions that failed to produce profits.

The IBM board's public search for a new CEO generated an embarrassing squabble between insiders and outsiders. Insiders wanted someone with a technical background who was knowledgeable about the computer industry. Several well-known "techies" turned the job down; rescuing IBM may be the

[16] *Time,* February 8, 1993, p. 54.

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toughest job in corporate America. IBM's outside board member James E. Burke, former chairman of Johnson & Johnson (drugs), finally convinced the board to hire a nontechnical outsider to "bury the old culture" at IBM.[17] Gerstner was recruited from RJR-Nabisco to bring new life to America's largest computer manufacturer.

Gerstner lived up to his "slash and burn" reputation, shrinking the IBM workforce and making significant cost reductions. More importantly, he expanded the corporation's focus well beyond large mainframe computers to network computing, PCs, and "integrated business solutions." IBM's stock rose again to over $100 per share. The Corporation acquired several software companies, including the highly successful Lotus Development Corp. And in 1997 IBM's supercomputer, "Deep Blue," defeated World Chess Champion Garry Kasparov, the first time a computer had won against a world champion. In 2001, eight years after his arrival as IBM's chairman, Gerster had established his full control over the corporation.

HOSTILE TAKEOVERS

The threat of hostile takeovers represents another challenge to management control of corporate America. A hostile takeover involves the purchase of enough stock in a publicly held corporation to force the ouster and replacement of existing corporate management.

A hostile takeover begins with a corporate "raider" buying the stock of a corporation on the open market, usually with money borrowed for this purpose. The raider may wish to keep his early purchases secret for a while to avoid rapid rises in the price of the stock; but federal Securities and Exchange Commission rules require disclosure when a person acquires 5 percent of a corporation's stock. The raider may then offer a takeover bid to existing management. Management may reject the bid outright or try to buy back the stock purchased by the raider at a higher price, that is, to offer the raider "greenmail." If the raider and management cannot reach agreement, the hostile takeover proceeds. The raider arranges to borrow additional money—perhaps several billion dollars—to make a purchase offer to the target corporation's stockholders, usually at a price higher than the current stock exchange price. Management may search for a "White Knight"—someone willing to offer even more money to purchase the corporation from its stockholders but who promises to keep the existing management. If the raider wins control of the corporation, he replaces management.

Following a successful takeover, the corporation is heavily laden with new debt. The raider may have borrowed billions to buy out shareholders. The investment firms that provide the loans to finance the corporation's pur-

[17] *Business Week,* April 5, 1993, p. 20.

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chase may issue "junk bonds" with high interest rates to attract investors to these risky ventures. The corporation must pay off these bonds with its own revenues. Additionally there may be many millions of dollars in bond-sale commissions and attorneys' fees to pay out. The raider may be forced to sell off parts of the corporation or some of its valuable assets in order to help pay off part of the debt. Thus, the target corporation itself must eventually bear the burden of the takeover battle.

Of course, the raider originally targets the corporation because its stock price is low compared to the value of its assets and/or its potential for future profits. The raider believes that the low price of the stock is a product of poor management performance. The raider hopes that with new management the corporation can improve its performance, pay off its debt, and produce greater profits. And the raider must convince the investment firms who provide the takeover money of the accuracy of his predictions.

Why does a corporation emerge as a target of a hostile takeover? Why have takeovers become so pervasive in the last decade? One explanation is inflation; the cost of replacing existing assets far exceeds the value placed on these assets. It is therefore cheaper to buy existing plants, buildings, machinery, inventories, and the like than to produce new ones. It is cheaper to buy known oil reserves held by oil companies than to search for new oil. Another explanation focuses on mismanagement by isolated, arrogant, lazy American management. Managers not only have allowed American industry to fall behind foreign competition, but they have also failed to put the assets of their corporations to their most productive use. Return on invested capital and world market shares have dwindled. The corporate raiders offer a way to "throw the rascals out" of the boardroom and reinvigorate American enterprise.

Government antitrust and tax policies combine to encourage mergers and takeovers. Tax policies contribute by allowing corporations to deduct from their taxable income the interest on loans used to acquire other companies. Both the U.S. Department of Justice and the Federal Trade Commission are responsible for enforcing the nation's antitrust laws. These laws forbid "monopoly" and "combinations in restraint of trade" (Sherman Antitrust Act, 1887), "unfair method of competition" and "efforts to reduce competition" (Federal Trade Commission Act, 1914), and the acquisition by one corporation of another "where the effect of such acquisition is to substantially lessen competition" (Clayton Act, 1914). But the interpretations placed on these laws in recent years have given increasing attention to *world* market conditions. It is argued that increasing concentrations of corporate assets in the United States through mergers do *not* "substantially lessen competition" because these firms are competing in a world market against giant Japanese and European multinational corporations. Indeed, in such a world market, it is even argued that the U.S. government should *encourage* mergers of U.S. firms in order to strengthen them against foreign competition.

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Are corporate takeovers good or bad for America? There is no easy answer to this important question. The raiders claim that their activities force improvements in efficiency and productivity. Even the potential threat of a takeover forces corporate managers to streamline their operations, eliminate waste, increase revenues, raise profits, and distribute profits to their shareholders rather than spend them on the comforts of management. The raiders argue that American management has grown soft, lazy, and self-satisfied; that, as a result, the American corporation has lost its competitive edge in the world marketplace.

Opponents of the corporate-takeover movement argue that fear of the raider forces management to focus on near-term profits at the expense of long-range research and development. Management must keep the current price of its stock high in order to deter a takeover attempt. Even worse, management often resorts to "poison pills" to deliberately weaken its own corporation to make it unattractive to raiders; it may increase its debt, buy other poorly performing corporations, devalue stockholders' voting powers, or provide itself with "golden parachutes" (rich severance benefits) in the event of ouster. The corporate raiders enrich the shareholders and speculators, but they do so at the expense of the industry itself.

The debt incurred in corporate takeovers is a concern to employees, consumers, and taxpayers. While the original stockholders are paid handsomely by the raider, the corporation must labor intensively to pay off the debt incurred. The corporation may be broken apart and its separate pieces sold, which may disrupt and demoralize employees. Consumers may be forced to pay higher prices. If the corporation cannot meet the high interest payments, bankruptcy threatens. The corporation's heavy interest payments are tax-deductible, thus depriving the U.S. Treasury of corporate tax revenues. And the diversion of American capital from productive investments to takeovers threatens to weaken national productivity.

THE LIMITS OF CORPORATE POWER

Elites do not like to acknowledge their own power. Kenneth Olsen, CEO of Digital Equipment, offered a typical elite response to the question of power: "I've got no power. All I can do is encourage people, motivate people to do things. I've got no power over them."[18] Why do elites say things like this? It is not merely modesty nor intent to deceive. "Power" in a democratic society has acquired a pejorative meaning—tyranny, arbitrariness, absolute rule. And this connotation conflicts with the requirements for successful corporate leader-

[18] Quoted in *Forbes*, May 30, 1988, p. 120. Inasmuch as Olsen was deposed as CEO by his board in 1992, his earlier disclaimer of power appears prophetic in retrospect.

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TABLE 2–8 Pressures on the Corporate Elite

Compared with five years ago, would you say that the following individuals or institutions have gained influence over decisions in companies such as yours, lost influence, or kept their influence?

	Gained Influence	*Lost Influence*	*Kept Influence*	*Not Sure*
Institutions holding big stock blocs	47%	2%	42%	9%
Raiders and potential raiders	58	2	24	16
Investment bankers	46	13	36	5
Stock analysts	48	4	43	5
Government regulators	41	20	34	5
Environmentalists	37	14	40	9
Consumer groups	28	14	49	9
Labor unions	2	54	34	10

Let me read you a list of people, institutions, and other factors that might be the source of pressure on companies to focus on the short term, rather than on long-term growth. Tell me which three or four you believe exert the most pressure on companies to focus on the short term.

Banks holding debt	12%
Bond-rating services	14
Boards of directors	15
Financial press	34
Institutional shareholders	58
Investment bankers, takeover advisers	45
Securities analysts	65

Source: Survey of 400 chief executives of corporations in the top 1,000, reported by *Business Week*, October 23, 1987, p. 28.

ship today. Hence, corporate elites deny they have power, but they acknowledge that they have the principal responsibility for "how the company is run."

Yet top corporate elites feel more constrained today in the exercise of their authority than in the past. Many believe that the era of the all-powerful CEOs is over. No large corporation can be directed from the top in the fashion a generation ago of William Paley's CBS, Armand Hammer's Occidental Petroleum, or Harold Geneen's ITT.

The greatest constraint on corporate power is the global market. Thirty years ago the American market was isolated; each sector of industry was a self-contained oligopoly with three to eight major manufacturers competing in a limited fashion. Top corporate elites were relatively unconstrained in deciding about products and prices, technologies and innovations, capital flows

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and investments. But today, global competition severely limits American corporate decision-making. The United States remains the world's largest market, but large shares of the U.S. market have been captured by foreign competition in nearly every industrial sector.

Top corporate elites believe their own power is more limited today than a few years ago. They believe other elites have gained in power relative to themselves. They acknowledge that labor unions have lost influence in American life, but they believe that institutional investors and bankers, Wall Street analysts, government regulators, and most of all, corporate raiders, are gaining power (see Table 2–8).

America's corporate elite has come under severe criticism for its failure to plan for the long term, to direct funds into research, and to develop strategies to confront global competition. It is charged with myopic concern with short-term profits, tomorrow's stock prices, and next quarter's earnings.

Elites agree that the criticism is justified, but they claim that their failure to focus on long-term growth strategies is a result of pressures from institutional investors, Wall Street analysts, and corporate raiders.

SUMMARY

Economic power in America is highly concentrated. A relatively small number of corporations—500 out of 5 million—account for roughly 60 percent of all corporate revenues and assets in the nation. Indeed, the nation's five largest nonfinancial corporations account for over 20 percent of the revenues of all nonfinancial corporations in America. This concentration of economic power is increasing gradually over time, in part as a product of acquisitions and mergers.

Economic power is gradually becoming globalized. World trade is expanding rapidly; today about one-quarter of the world's output is sold in a country other than the country that produced it.

America's corporate elite strongly supports globalization. Over the years, the United States has become an open market for goods produced all over the world. American corporations, once protectionist in their views, came to support the elimination of tariffs and trade barriers in the United States and throughout the world. Leadership in global economic policy was formed with the creation of the Trilateral Commission in 1972. The global elite saw the advantages of becoming institutionalized. The World Trade Organization grew out of the General Agreement on Tariffs and Trade. The World Bank and International Monetary Fund were also created to stimulate global trade. The current model for global trade is the North American Free Trade Agreement. Currently, corporate elites in the United States are seeking to expand it to a hemispheric "Free Trade Area of the Americas."

Power over corporate assets rests in the hands of about 1,500 officers

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and directors of the nation's 100 largest nonfinancial institutions. These managers, not the stockholders or the employees, decide major policy questions, choose the people who will carry out these decisions, and even select their own replacements.

Most of these corporate chiefs have climbed the corporate ladder to their posts. They owe their rise to power to their skills in organizational life and to their successful coping with the new demands for expertise in management, finance, technology, and planning. Individual capitalists are no longer essential in the formation of capital assets. Most industrial capital is raised either within the corporation itself or from institutional borrowing.

Corporate boardrooms are inhabited by "inside" directors (top officers of the corporation, including the CEO) and "outside" directors (often current or retired CEOs of other corporations). Outside directors may also represent financial institutions with a large stake in the corporation, and they may represent family owners. Virtually all large corporations also appoint a few notable "public interest" representatives to their boards. But corporate decision-making is usually dominated by the inside manager-directors rather than the outside directors.

America's corporate chiefs pay themselves extraordinarily well—about 475 times more than their average worker—a ratio that exceeds any other executive-worker pay ratio in the world.

In recent years challenges to managerial control of the corporation have arisen from (1) a new activism by outside directors and large stockholders, and (2) the threat of hostile takeovers often led by corporate "raiders." Slow growth and global competition have inspired outside directors and large stockholders to oust some prominent corporate chieftains. Corporate raiders claim to reinvigorate American enterprise and competition by ousting poorly performing managers and reorganizing corporate assets to maximize their value. But critics claim that takeover activity wastes capital resources, demoralizes managers and workers, and burdens corporations with excessive debts.

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