Chapter 8 The Publicly Traded Corporation

§ 1. The Contemporary Publicly-traded Stock Corporation

Today's large- and medium-sized publicly-traded stock corporations (PTCs) evolved from earlier models of close corporation partnering capitalists organizations, which had in turn evolved from still simpler models of partnering capitalists and proprietor-capitalist organizations. This genesis of business institution habits and traditions did not proceed from academic theorizing. Most of the organizational principles were copied and adapted from a monarchy political model. The innovators of these evolving forms of business organization were practical men behaving pragmatically as they solved various business problems. Examining case histories within this evolutionary process serves to make an interesting study of satisficing problem-solving behavior. A scientific examination of organization principles, on the other hand, is not bound to tracing the natural history of business organizations. Today's large- and medium-sized PTCs employ the majority of wage-laborer entrepreneurs in the United States, and so it is fitting to begin a study of civic business institution with them.

The most distinctive feature of a PTC is that it is a business entity having no deontological owner or proprietor (chapter 5, §7). A PTC is a peculiar commercial mini-Society with its own system of governance and a membership identifiable only with significant labor. It is often embedded in one political Society (nation) but in some cases its membership extends to multiple political Societies ("multinational corporations"). As a mini-Society it can often be theoretically treated as a social unit if it is not too heavily granulated into competing internal mini-mini-Societies, but in treating it so there is an important and relevant observation first made by Toynbee in relationship to the study of history and political Societies. In some important ways a corporation is analogous to a political nation and a business industry is analogous to what Toynbee called a "civilization." Just as nations are embedded in Toynbee civilizations, corporations are embedded in industries. And just as the welfare of nations is affected by the welfare of their civilizations (other nations), so also is the welfare of a corporation affected by that of other business entities in its industry.

Toynbee wrote,

> The chapters which caught our eye in our glance backward over the course of English history were real chapters in some story or other, but that story was the history of some society of which Great Britain was only a part, and the experiences were experiences in which other nations besides Great Britain were participants. The 'intelligible field of study', in fact, appears to be a society containing a number of communities of the species represented by Great Britain – not only Great Britain herself but also France and Spain, the Netherlands, the Scandinavian countries and so on . . .
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> The forces in action are not national but proceed from wider causes, which operate on each of the parts and are not intelligible in the partial operation unless a comprehensive view is taken of their operation throughout the society. Different parts are differently affected by an identical general cause because they each react, and each contribute, in a different way to the forces which that same cause set in motion. A society, we may say, is confronted in the course of its life by a succession of problems which each member has to solve for itself as best it may. The presentation of each problem is a challenge to undergo an ordeal, and through this series of ordeals the members of the society progressively differentiate themselves from one another. Throughout, it is impossible to grasp the significance of any particular member's behavior under a particular ordeal without taking some account of the similar or dissimilar behavior of its fellows and without viewing the successive ordeals as a series of events in the life of the whole society. [Toynbee (1946), pp. 2-3]

Toynbee found that political Societies undergo growth, stagnation and arrest, breakdown, and disintegration according to how well or how ill its member nations meet the series of challenges that confront it. He also found that the disintegration of Societies – i.e., the fall of civilizations – proceeds principally from internal social factors and not from the actions of outside Societies. Hence came his most famous quotation, "civilizations fall from within." How a Society organizes its governance, how well or ill its people are bound to one another by social contracting, how healthy or unhealthy its leadership dynamic is – all of these are factors affecting the ability of a Society to meet and overcome the challenges with which it is confronted.

The same is generally true of commercial mini-Societies and the greater Society of commerce in which they are embedded like the nations in Toynbee's "civilizations." Success or failure of a commercial mini-Society is determined by how it responds to general economic forces affecting all the commercial mini-Societies that are part of its same business industry (the commercial counterpart of one of Toynbee's civilization). Viewed from this context, microeconomics (the theory of the firm) can be regarded as a partial empirical theory of *external* economic forces. It is not, however, a complete theory because microeconomics does not deal with the opposite side of the situation, i.e., with the *internal* forces that act to either hold a commercial mini-Society together, so that it can overcome its challenges, or to disintegrate that mini-Society into uncooperative factions who hinder its ability to meet its challenges and thus bring about its business failure. This treatise is concerned with internal forces because how commercial mini-Societies respond to them has a great deal to do with civic vs. uncivic free enterprise.

The peculiar monarchy form of governance employed by most corporations is the greatest single *internal* threat to the corporation's welfare. Monarchy/oligarchy governance is not merely an *a*social form of governance but is actually the *anti*social form of governance (figure 1) because it provokes granulation of the corporation mini-Society into factions that coexist in state-of-nature relationships with one another [Wells (2012), chap. 11, pp. 373-404] moderated only by the laws of the *political* Society in which the corporation is embedded. The classical phenomena of labor-management conflict experienced by many large American PTCs is a direct consequence of this monarchy form of company governance [*ibid*., pp. 381-385, 396-404].

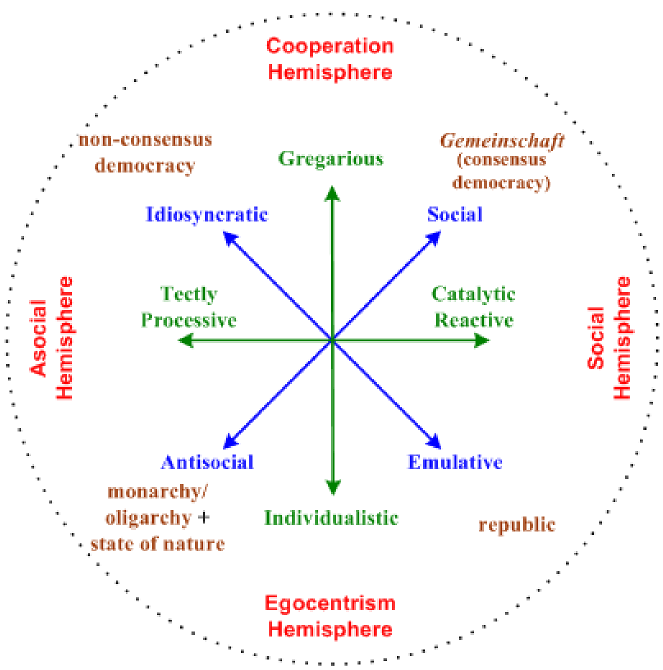

Figure 1: Circumplex model of the four historically typical forms of governance [Wells (2012), chap. 11].

Good governance is essential for all organizations in which the membership must cooperate with each other over sustained periods of time in order to accomplish common goals. Governance is never an easy task and is one of the necessary ancillary functions of the organization. I call it an ancillary function because governance *per se* is never one of the primary objectives for which any Society is formed. It exists *only* so the cooperations among members necessary for the Society's continued actual *Existenz* are better effected. Governance is therefore *always* subservient to the common interests that bring its members together. A corrupt government is one whose agents pervert this role and strive to rule rather than to serve. Monarchy/oligarchy is corrupt governance.

The most typical forms of governance empirically encountered (figure 1) are characterized by two primary dimensions of interpersonal relationships [Wells (2012), chap. 8], the polarities of which divide the sphere of possible systems of governance into a social vs. asocial hemisphere and a cooperation vs. egocentrism hemisphere. Social vs. asocial refers to Community vs. non-Community character in relationships among the population. Cooperation vs. egocentrism refers to the degree to which members' actions are determined and carried out with a focus on globally common interests vs. a focus on private special interests. The four empirically typical forms of governance labeled in figure 1 occupy the quadrants of the overall sphere of governance forms. These quadrants are the *Gemeinschaft* (cooperative and social), republic (egocentrism and social), monarchy/oligarch (egocentrism and asocial) and non-consensus democracy (cooperative and asocial) forms. The particular institution of governance a Society effects always has an educative rebound effect on that Society in that: (*i*) it promotes or hinders members' valuing of the Community vs. lack of value for it; and (*ii*) it promotes habits of being aware of and taking into consideration the common interests vs. habits of acting strictly according to egocentric special interests. The institution of governance has this educative effect whether it intends to or not and whether the effect works for the good- or ill-being of the welfare of the members of the Society [Mill (1861), pp. 18-23].

A PTC is in most ways the most peculiar form of commercial mini-Society because it alone, among the seven logical business categories, has no deontological owner. However, this same lack of any deontological owner also makes it a business organization form with the most natural potential to resemble the political Society of a republic with its paramount principle of citizen sovereignty. The resemblance is only potential rather than actual because the actuality depends on the method of the corporation's actual governance. PTC governance is confronted with special challenges that arise from its peculiar financial and authority structures. One example challenge is the practical difficulty encountered in being able to actually identify who its members are.

Identification of the membership of a PTC requires considerable labor because this membership is more or less constantly in flux. In the first place, a corporation's stockholders trade their shares of stock on stock exchanges nearly every trading day and so identifying its shareholders requires a great deal of record keeping. Many stockholders enact their trades through brokerage firms and their shares are often held there "in street name." It becomes the legal responsibility of the brokerage to maintain records of which stocks its clients own and to pass along to them all relevant information published by the corporation, including notifications of shareholders' annual meetings and voting material. Generally a PTC's board of directors and managers do not know who all the shareholders are. The question of who owns shares of stock in a PTC is further complicated by the fact that most Western nations also allow a legal fiction by which another commercial entity (e.g., a bank or a holding company) is said to "own" some of its shares. In this case shares are said to be "owned" by an "artificial person" [Garner (2011)]. Because an artificial person is a fiction defined by legal fiat, *deontological* ownership of stock shares is left in a more or less undetermined state unless it should happen that the artificial person entity is dissolved by an action such as a bankruptcy and liquidation proceeding. In that case, the stock shares are assets of the bankrupt or liquidated commercial entity and are legally re-assigned to its creditors – some of whom might also be artificial persons. As I said, identification of shareholder-members is not a trivial thing to do. That is why Andrew Carnegie, who disapproved of PTCs, wrote,

> In the great corporation the shares are generally bought and sold upon the stock exchanges and the real owners are unknown. All depends upon salaried officials, who may or may not have a dollar in the enterprise. [Carnegie (1900), pg. 87]

In the second place, there is also a non-negligible amount of turnover among the employees of a PTC. The larger its population of employees is, the more turnover occurs. It is of course true that employment records are kept up-to-date by a PTC's accounting and other agents in order for wages and benefits to be properly administered. However, on any given day if someone wants to know who a PTC's employees are on that day, it requires labor by one or more employees in order to gather and present that data. Hiring and termination of employees is somewhat analogous to births and deaths occurring day by day in a nation, one principal difference being that hiring and termination is better accounted for within a PTC than births and deaths are in a nation. In addition to hiring and termination events, a PTC often must also account for the retirements of its employees (especially if retirees are owed retirement benefits), which is a factor that generally has no analogous equivalent in political Societies. In some cases PTC's "outsource" the task of keeping track of retirees to another company that specializes in providing this service, much as it "outsources" the task of keeping track of its human shareholders to divers brokerage companies.

I think it is likely you can easily apprehend from these two examples how important a well-functioning system of corporate governance is for a PTC. The task of its governance goes far beyond the obvious and often more straightforward tasks associated with day to day operation of a PTC's immediate commercial activities. One might be inclined to think the difficulties of its governance should summon up efforts to provide the best possible form of corporate governance, and if you think this is so then I agree with you. However, the fact is that, rather than the best form of governance, the great majority of PTCs are governed under the most simpleminded form of governance – namely, the monarchy/oligarchy form that was probably first invented by bandit chieftains around the time of the invention of civilization. Dyer wrote,

> There is practically no direct evidence regarding the political and military structure of the earliest civilizations, when various tribes in the Middle East were first learning how to grow crops and domesticate animals, and when the first villages began to grow into towns. But war must already have been changing into a disciplined business with political and economic purposes that we would understand, for as early as 7000 B.C. there was at least one fortified town: Jericho. . . . The citizens of Jericho felt they had wealth worth defending and they lived in a world where others would try to take it from them by force and could not be stopped by lesser defenses.
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> It was in this earliest period, and over the next four thousand years . . . that armies and states must have evolved into more or less the forms in which we know them today, but we know nothing about the details of the process for writing had not been invented. By the time written records started about five thousand years ago, the state and the army were already fully formed institutions of great antiquity. Nevertheless, it is possible to deduce how these twin institutions emerged and grew steadily in scale and power until they towered above the mortal men who supported them. . . .
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> Precisely who invented the first real armies, and how, we can never know. It may even have come about in different ways in different places. In one case a village militia might have discovered the rudiments of discipline and gained experience in a series of inter-village squabbles, and then been taken in hand by a prehistoric Napoleon who saw the possibilities in a systematic program of conquest. (He may have been more interested in loot, slaves, and rape than in creating the basis for a complex and productive farming economy, but his conquests would nevertheless produce the latter effect.)

> In another case, an agricultural area may have been captured by warriors from a tribe of hungry non-farmers who then turned themselves into a military ruling caste. . . . There was more to these earliest states than just an army, of course. They had to have an administration that organized the work of irrigation and collected the tithes of grain . . . that fed the ruler's courts, the soldiers, and the bureaucrats themselves. The centers of administration became the first cities, where a non-farming population pursued not just the tasks of government but a rapidly diversifying variety of trades and services. . . .
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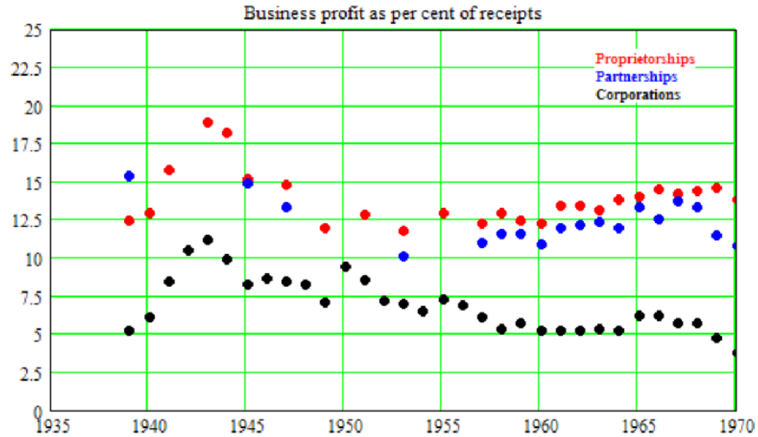
> There was also, in the ancient kingdoms, a persistent phenomenon that is all too familiar to the citizens of modern states: the intoxication of power. Though no man can have absolute power, the illusion of it is engendered at all levels in a state administration that is backed by the right and ability to punish or even kill those who disobey. . . . Thus those who controlled the first civilized states – which were all, without exception, totalitarian tyrannies – felt entitled to torture and kill their own subjects for any act of defiance and to massacre entire populations of foreigners who threatened their power. [Dyer (1985), pp. 15-18]

Commercial enterprises are not permitted by the Societies in which they operate to be so bloodthirsty as the tyrants of the first civilizations. Their closest equivalents to the exercise of raw force subsist in such things as terminations, mass layoffs of employees, and uncivic methods of business competition. Nonetheless, a hierarchical structure of rulers-and-ruled has been passed down through mimesis to typical contemporary PTCs. It is only recently that a few business organizations have begun to question the model and experiment with different ones [Wells (2014), chap. 6, pp. 154-157]. It is true that for organized cooperation by many people, "men must be governed," but there is more than one way to govern, and monarchy/oligarchy is not at all the best way for doing so in any *civic* Enterprise. In many ways it is the worst. At its best it is the most mediocre system for governance and leadership of any found in actual practice. Can any institution governed and led by mediocre methods produce anything better than mediocre results? The answer is 'no' and America's Fortune 500 corporations prove it year after year.

The diversity of different businesses and business entities makes finding general measures of business performance that can be used for comparisons difficult. There is, however, one measure of performance that speaks directly to the effectiveness with which a business is managed and its capital is employed. This is the ratio of net profit to total business receipts.

Figures 2 graphs Census Bureau data for this performance measure for U.S. proprietorships, partnerships, and corporations from 1939 to 2008. The data sources are: Bureau of the Census (1976), Series V 1-11; Bureau of the Census (1977), pg. 550, no. 892; Bureau of the Census (1985), pg. 516, no. 868; Bureau of the Census (1990), pg. 521, no. 859; Bureau of the Census (1991), pg. 525, no. 861; Bureau of the Census (1993), pg. 531, no. 847-848; Bureau of the Census (2006), pg. 487, table 724; and Bureau of the Census (2011), pg. 491, table 744. Net profit and business receipts data from these tables were used to calculate the percentages shown in figure 2.

Profit is the single most important measure of success vs. failure in any business enterprise. It comes exclusively from the receipts a business takes in annually, and so the ratio of profit to net business receipts is a direct measure of how well or poorly a business is being managed. The data in figures 2 illustrates a stark contrast between the performance of U.S. proprietorships and U.S. publicly traded stock corporations. Since the Census Bureau began collecting profit and receipt data in 1939, in not one single year have U.S. corporations ever outperformed proprietorships in this key metric of performance. The performance gap between the two is not insignificant. It runs from about 2× up to 5× in favor of proprietorships throughout the period. As a capitalist, I cannot help but conclude from these consistent results that the hired-help managers of America's corporations are mediocre businessmen who waste capital in comparison to proprietors.



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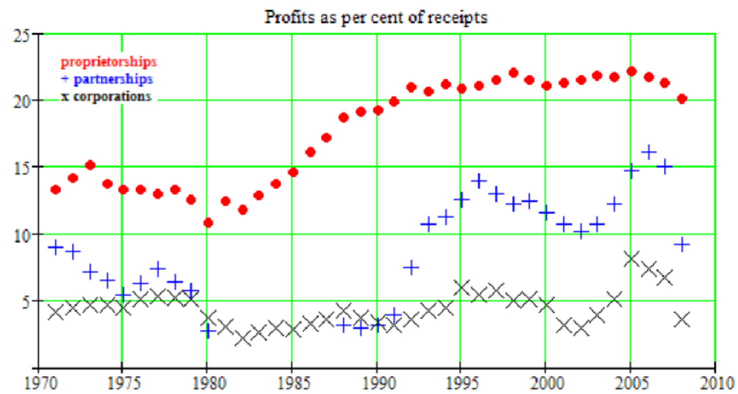

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Figure 2: Percentage of net profit to business receipts ratio for U.S. proprietorships, partnerships, and corporations from 1939 to 2008. A: 1939 to 1970. B: 1971 to 2008. Source: Bureau of the Census. See text for specific citations.

If PTCs accounted for only a small fraction of business receipts in the U.S., this finding would be interesting but not especially important to the welfare of the nation. Unfortunately, this is not the case. Census Bureau data clearly shows that business receipts for corporations has been more than fivefold greater than for proprietorships since 1960 and more than tenfold greater since 1980. The mediocrity of U.S. corporate management is a significant hindrance to the general welfare of the United States. The thesis propagandized by some businessmen, schoolmen, and politicians, i.e., 'government and public agencies ought to be run like corporations', is revealed to be an absurdity when viewed in this light, although a case might be argued that the proprietor of Joe's Donut Shoppe would manage them better than the CEO of General Motors would.

The tradition of organizing corporation governance according to a monarchy/oligarchy model is by now so old that most people, including many industrial and managerial psychologists, do not seem to conceive that other forms of governance for it exist. The minority who do usually dismiss the idea out-of-hand without serious examination of the practicality, or lack thereof, of other possible governance structures. Managerial psychologist Harold Leavitt wrote,

> Industrial organizational structures even seem to be designed with authority in mind. We build organizations in the shape of pyramids because that shape makes the execution of authority easier. Pyramids create differences in rank and status, and the people in the higher

> ranks can use their authority to influence lower ranks. Superiors in industrial organizations naturally turn to authority whenever a change problem arises with subordinates. The very idea of *delegating* authority rests on the assumption that authority can help people who have more of it to change the behavior of people who have less of it. In fact, we even usually define the "superior" in a relationship as the person with more authority.
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> Like other tools, authority can be used expertly or blunderingly. And like other tools, it must be used by men. Top managers have long since unhappily recognized that the delegation of large quantities of authority to middle and lower echelons is no guarantee of effective supervision. If anything, some executives seem to supervise better with less authority than with more. And, contrarily, some supervisors function better with more of it than with less. The issue is not only how much authority but how it is used and by whom. [Leavitt (1972), pg. 134]

Leavitt uses the word "authority" as a synonym for "rulership." This misuse of the word 'authority' is a starting point for many important problems encountered in the governance of corporations. There is a real difference between the Critical real-explanation of 'authority' and that of 'rulership'. Typical PTCs are instituted with rulers-and-ruled hierarchies. This institution runs from the apex of the rulership pyramid down to its base, and it is institutionalized by legal edicts that mandate this typical structure for corporations. The starting point is the peculiar two-tiered arrangement of a board of directors and a hierarchy of top managers ("officers").

In principle, the board of directors is supposed to represent all the shareholders and is, under the fiction of ownership-by-the-shareholders, responsible for determining the broad policies of the PTC and for the hiring and firing of its top officers. Typically it is organized with a chairman of the board (who is nominally the supreme head of the corporation), a set of inside directors (often made up of people who also hold top management positions as employees) and a set of outside directors (who, again in principle, are supposed to bring broader considerations into the board's determinations of policies and decisions). Under the terms of legal incorporation, the board is required to meet periodically, review the corporation's performance, and make particular key decisions. When the corporation's founders occupy the chairman position and at least some of the inside director positions on the board, governance of the PTC often retains many features typically found in the governance of close corporations. Once the founders are gone, however, most boards of directors come under domination by the PTC's top management wage-laborers and the PTC settles into a comfortable mediocrity typical of most PTCs. Robert Townsend, who as CEO led the Avis Rent-A-Car Company to achieve its first-ever profits, wrote,

> The huge, successful company is a dinosaur, but it has one decisive advantage over the middle-sized outfit that's trying to grow public; also over the established company that's in trouble enough to be ready for change. The advantage: most big companies have turned their boards of directors into non-boards. The chief executive has put his back-seat drivers to sleep.
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> This achievement has to be understood to be admired. In the years I've spent on various boards I've never heard a single suggestion from a director (made as a director at a board meeting) that produced any result at all.
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> While ostensibly the seat of all power and responsibility, directors are usually the friends of the chief executive put there to keep him safely in office. They meet once a month, gaze at the financial window dressing (never at the operating figures by which managers run the business), listen to the chief talk superficially about the state of operation, ask a couple of dutiful questions, make token suggestions (courteously recorded and subsequently ignored), and adjourn until next month. [Townsend (1970), pp. 31-32]

So much for the legal myth of shareholder ownership of a PTC.

The top management structure of a PTC typically consists of a chief executive officer (CEO), a chief operating officer (COO), and a chief financial officer (CFO). There are often additional vice presidents with specific functional responsibilities. The CEO usually stands in the role of the monarch, while the COO and CFO can be likened to king's ministers of the company. The COO looks after the operational day-to-day activities of ruling the PTC; the CFO analyzes, reviews, and reports on the company's finances. All three officers exhibit a tendency to create staff positions that may or may not have any discernible benefit to the corporation as a whole. Often those lower officers act much like courtiers to a monarch's court. Townsend acidly remarked,

> The assistant-to recommends itself to the weak or lazy manager as a crutch. It helps him where he shouldn't and can't be helped – head-to-head contact with his people. . . . There are some intelligent people doing assistant-to work: getting between the boss and the people who report to him, usurping power, crossing wires, and draining the organization's strength and zeal. You can't really blame the assistant-to. He wound up there because the boss got overworked and then followed his instincts. Instead of giving pieces of his job to other line officers, or carving out a whole job and giving it to someone to run with, he hired an assistant-to, and immediately became much less effective than he was when he was just overworked.
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> Another problem. You can't tell an assistant-to by his title. Some are called V.P. or Senior V.P. or Executive V.P., or even Chairman of the Executive Committee. . . . In my book anyone who has an assistant-to should be fined a hundred dollars a day until he eliminates the position. [*ibid*., pp. 5-6]

Part of the capital wasted by a typical PTC goes into paying the salaries of *hirdmen* whose actual activities often do nothing whatsoever to contribute to the business success of the organization. But more important still are other debilitating effects caused by the basic institution of rulership by monarchy/oligarchy.

§ 2. Debilitating Effects of Monarchy/oligarchy Management

I have known many corporate managers over the past forty years, ranging from CEOs of large companies to work crew foremen. While I judge some of them to be incompetent, the majority of them are intelligent, earnest individuals. Therefore, if their behaviors and actions contribute to the mediocrity typical of PTCs, the cause of mediocrity is not incompetence and must be sought elsewhere. It is found in the nature of the leadership dynamic that institution of monarchy/oligarchy governance fosters in corporate interpersonal relationships. To set the table for the following discussion, allow me to relate this anecdote: One time around 30 years ago, my boss's boss confided the following to me. "I had a dream," he said, "that they took all the managers out to the parking lot and shot them. They'd call out a name, the guy would go with them outside, there'd be a *bang!* and they'd call out the next name." The man who confided this to me was an effective manager whose projects were big moneymakers. I had always enjoyed working under him, and our company was generally acknowledged to be exceptionally well managed. It was listed as an 'excellent company' in Peters & Waterman (1982), and its stock made up part of the Dow Jones Industrial Average. What, then, must working for a mediocre company be like?

No person accepts employment with any business entity in order to be subjugated and ruled. He joins it because by doing so he believes he will grow his own *Personfähigkeit* and be better able to fulfill his Duties to himself and to those in his personal society. Although occasionally one meets an individual who is unconscientious about or incompetent in his work, such individuals are the exception to the rule and constitute a small minority of wage-laborers. The great majority of people are capable and conscientious *if given the chance to be so*. That so many people never get a chance to be the best they can be is directly attributable to the *system* of management they are required to work within. As Mill famously wrote,

> A State which dwarfs its men, in order that they may be more docile instruments in its hands even for beneficial purposes, will find that with small men no great thing can really be accomplished [Mill (1859), pg. 97].

The same is true of companies and management.

Psychologically, there are four important concepts that interlink and are basic to analysis of the pyramidal/hierarchical management structure of monarchy/oligarchy organization: frustration; conflict; dependency; and ambivalence. All people in all business mini-Societies, regardless of the form of its governance, experience these factors to some degree. The question that is relevant to managerial organization and corporate governance is: how are these factors affected in terms of intensity and severity by the method of governance?

In psychology terminology, the term *frustration* has two primary usages:

> **frustration** Technical usage of this term in psychology is generally limited to two meanings. **1.** The act of blocking, interfering with or disrupting behavior that is directed towards some goal. . . . **2.** The emotional state assumed to result from the act in 1. It is typically assumed that this emotional state has motivational properties that produce behavior designed to bypass or surmount the block. [Reber & Reber (2001)]

In terms of governance and management, it is the second of these usages that is pertinent to the discussion here. More properly, usage 2 should be called a "state of frustration" because when psychologists use the word "frustration" what they usually mean is an emotion rather than an emotional state. For example, Leavitt writes,

> Frustration is a "feeling" rather than a "fact." It is a feeling that arises when one encounters certain kinds of blocks on paths to certain kinds of goals. These feelings arise when the block seems insurmountable and when failure to surmount it threatens one's personal well-being – when the goal involves the self. [Leavitt (1972), pg. 38]

Psychology has no crisp real-explanation of 'emotional state' and a proper understanding of this term requires us to call upon principles of the mental physics of *homo noumenal* human nature [Wells (2009)]. Within the context of the current discussion, Leavitt's description of 'frustration' is adequate for gaining a sufficient working appreciation of the phenomenon.

I will merely mention in passing here that a much more detailed and causative understanding of the Reber & Reber definition is attained by study and comprehension of the general model illustrated in figure 3 below. The practical meaning of the term ***emotional state*** is *the totality of the representations of conscious Desires in reflective judgment, intuitions in the synthesis in sensibility, and representations of appetition in practical Reason*. The combination of these representations produce observable emotivity of motoregulatory action expressions and non-observable ratio-expression of regulatory Ideas in speculative Reason that orient the employment of the process of determining judgment. The moment-by-moment representations of emotional state determine judgmentation and the motivational dynamic [Wells (2009), chaps. 7, 9, and 10]. A technical understanding of all this is essential for motivational psychology but, fortunately, the less technical descriptions of the idea provided by Leavitt and others will do for the purpose of appreciating elements of managerial psychology in this treatise.

I regard it as certain that you are acquainted through experience with phenomena of frustration because these are principal stimuli for learning and the development of intelligence. However, managerial psychologists tend to use the word in somewhat more restrictive contexts. Leavitt tells

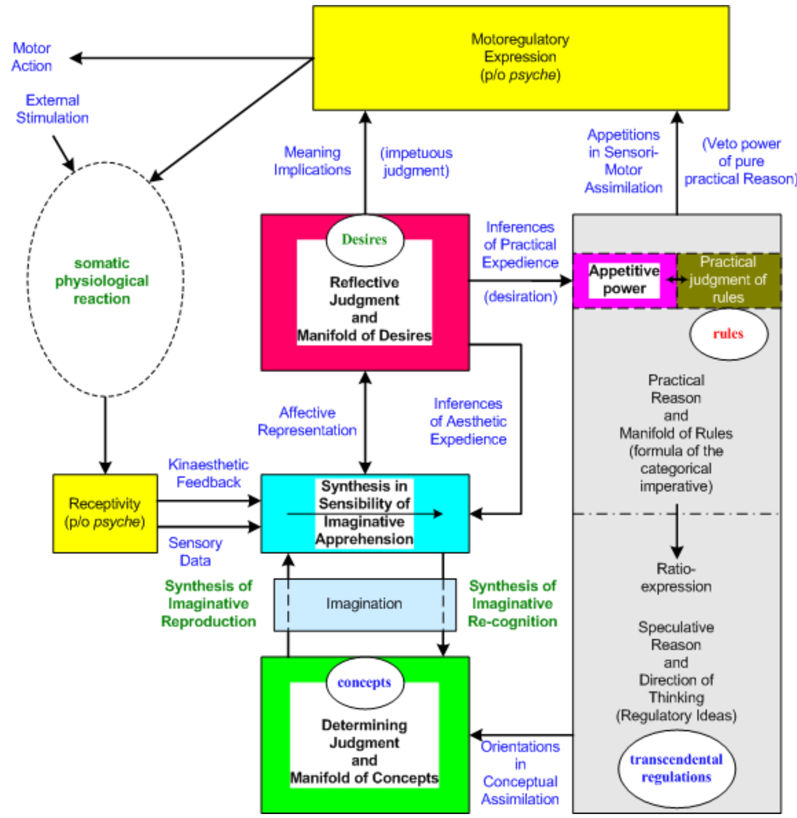

Figure 3: Mathematical model of the structure of the phenomenon of mind.

us to make a distinction between situations that should properly be called frustrating and others that should properly be called "depriving":

> Many obstacle situations are depriving rather than frustrating because the obstacles do not seem insurmountable or the goals are not central to the self. Some people may therefore meet fewer frustrations than others because they have more ways around more obstacles or because they are self-confident enough so that their self-esteem does not have to be proved again by every new problem they encounter. . . .
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> Other people – parents, peers, managers – have a good deal to do with the development of self-confidence and hence with the ways people deal with obstacles. For self-confidence is tied to success, and success is in large part what other people decide it is. [Leavitt (1972), pp. 38-39]

Situations and circumstances in which two or more people must cooperate are also and always situations and circumstances when the potential for one or more of them to experience frustration is latent if these individuals define 'success' differently and according to different goals. This is often (but not always) the situation when one person is the manager of the other because it rarely is the case that both persons' goals are precisely the same. Furthermore, frustration may be felt by either or both in consequence of each others' actions or lack of actions. In order for obstacles that arise and "block" progress toward the achievement of goals to be merely depriving, and therefore constitute merely temporary setbacks, the persons who are attempting to cooperate must have their goal differences be such that their goals are not contradictory (i.e., achievement of a goal by one of them does not necessarily result in blocking the achievement a goal by the other). In this regard the methods of management are important determiners of whether or not this is the case. These methods in turn are strongly connected with the nature of managerial governance.

This brings us to the second factor: conflict. In psychology, "conflict" is

> **conflict** An extremely broad term used to refer to any situation in which there are mutually antagonistic events, motives, purposes, behaviors, impulses, etc. [Reber & Reber (2001)]

In managerial psychology the term is often likened to frustration, i.e.,

> Conflict may be thought of as a class of frustration, the class characterized by a pulling in two directions at the same time. The obstacles one meets are not brick walls but drags that pull back as one goes forward. Conflict situations are frying pan-and-fire situations, or donkey-between-the-bales-of-hay situations. And this class of psychological situations underlies both major emotional upset and irrationality in everyday problem solving. . . .
>
> Some of the same generalizations that apply to frustration also apply to conflicts. Some conflict situations involve important central needs that appear to be inescapably opposed. Others involve relatively unimportant needs or offer so many substitute possibilities that we hardly recognize their existence. As with frustration, serious trouble arises from conflicts between intense central needs involving long-term critical goals, where no satisfactory alternatives are visible. Such conflicts can be a real threat to personality. . . .
>
> Much supervision is an attempt to control others through the use of conflict. For example, the threat of discipline to prevent some unwanted behavior is an attempt to introduce a conflict into another person's (B's) perceptual world. Where B had only one need, to get what he wanted, now he has a second and conflicting one, to avoid the punishment that getting what he wants now entails.
>
> Such control through conflict cannot be classed glibly as either good or bad. For the most part such measures do not introduce dangerous conflicts because they do not set up situations that involve feelings of guilt or threaten people's feelings of self-esteem. They are largely external to the personality. But insofar as some people may see rules as a challenge to their basic autonomy, the reaction may be intense.
>
> Other uses of conflicts as devices for controlling behavior can get more serious. Suppose, instead of the threat of discipline, we choose to try to develop "positive" feelings of loyalty and duty to the company – suppose we try to build a "company conscience" into our employees as we do into our children. If we succeed, we are setting up *internal* conflicts this time. Now it is not the boss the employee must worry about, but his own feelings of guilt. People who thus begin to feel honor-bound can get themselves into an intense emotional tizzy. And the probabilities of an irrational emotional blow-off are consequently greater. Paternalism is that kind of problem. . . . For those with strong needs for independence, the resulting conflict is essentially internal and it includes the possibility of violent reactions.
>
> There are many other places in industry where one may find serious long-term emotional conflicts. Many of these center in the same fundamental desires for independence and autonomy, on the one hand, versus one's desires for dependence and support, on the other. The whole pattern of industrial organization encourages this sort of conflict. [Leavitt (1972), pp. 40, 44]

Scientifically, the thesis Leavitt presents here is considerably weakened by the use of vague terms such as "emotion" and "needs." However, phenomenal appearances usually labeled by these terms do have underlying connections to imperatives of obligation a person constructs in his manifold of rules and maxims of Duty he constructs in his manifold of concepts (figure 3). Situations in which contradictions to either are stimulated are those that result in the behavioral manifestations Leavitt characterizes as "intense" and "emotional." Those which contradict maxims of obligation-to-Self in regard to one's personality are those which can trigger violent reactions, depending on other constructs in the person's manifold of rules.

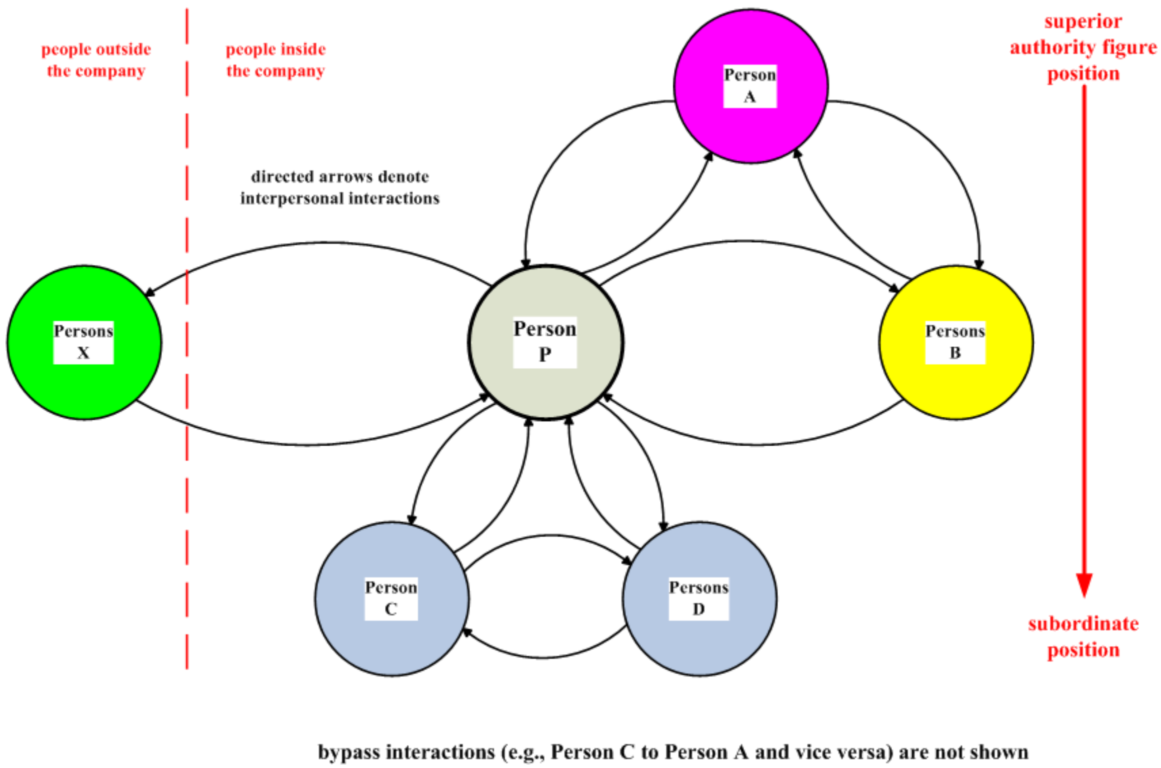

Figure 4: Simplified illustration of the schema of a work group social molecule of Person P in a pyramidal management structure. This social molecule makes up a part of Person P's personal society. It is an embedding field structure for the social-chemistry of interpersonal interactions occurring within the context of Person P's workplace. Person A is his immediate manager/supervisor, Persons B are his peers at his level in the management hierarchy, Persons X are members of his personal society who are not members of the corporation, Person C and Persons D are persons subordinate to Person P in the company structure. The model is simplified because it omits depiction of interpersonal interactions not immediate to Person P.

Because every leader's action is, at root, aimed at setting up a disturbance to a follower's state of equilibrium [Wells (2010a), chap. 4], a manager's role as an authority figure does indeed call upon him to take leader's actions that provoke conflicts in the mind of the follower in the sense Leavitt describes above. A manager's principal role as an authority figure is to stimulate and guide the leadership dynamic of his work group. There is, however, a fine distinction between the general action of setting up a tension ("conflict") in a follower and the use of coercion as a means of producing this tension, whether this coercion is legalistic in a connotation of discipline Leavitt describes above or moralistic in Leavitt's second connotation of conflict described above. The latter, especially, is fraught with unknowns in empirical working environments. The complexity of *interlocking* social molecules in the workplace (figure 4) not only amplifies these unknowns but also introduces more likelihood of provoking the sorts of conflicts which involve people's obligations- and Duties-to-Self that are productive of more severe conflict situations.

Pyramidal-hierarchical management which habitually dominates the monarchy/oligarchy form of corporate governance is generally the most conducive to precisely these sorts of conflicts. This can be illustrated by examining the generic form of social molecules [Wells (2012), chap. 9] that pyramidal corporate organization logically mandates[1]. The directed arrows depicted in figure 4

[1] William Oncken, Jr. (1912-1988) was a popular and well known management training consultant in the 1960s and 1970s. He was the first to use the idea of a "molecule of management" as a vivid metaphor in his seminars [Oncken (1984), pp. 19-65]. I first heard him use it in 1977 when I attended one of his seminars.

denote interpersonal interactions between individuals or between an individual and a group of other individuals. For purposes of clarity, the figure omits what I call "bypass" interactions, such as interactions between Person C and Person A which "bypass" Person P. These interactions are both verbal and non-verbal communication transactions between the people in the network. Individuals have what psychologists call "interpersonal styles" of verbal and non-verbal communication interactions, and these styles immediately affect the stimulation of personal tensions capable of producing both frustration and conflict situations [Wells (2012), chap. 8]. Not shown in the figure are the relationships between persons and their workplace tasks; these tasks are another potential source of frustrations or deprivations experienced by persons in the work group. Carnegie described two such cases in his *Autobiography* [Carnegie (1920), pp. 35-36].

A pronounced characteristic of the hierarchical monarchy/oligarchy system of organization is its non-negligible tendency to widely *propagate* frustrations and tensions within the organization. For example, suppose Person A is Person P's "boss." Further suppose Person A also has a "boss" and other peers at his level in the pyramid. The interpersonal relationship and tensions produced between Person P and Person A in this network can secondarily produce other frustrations or conflicts between Person A and members of *his* workplace social molecule. Thus something Person P does (or does not do) in the morning can end up producing a frustration or conflict for some other Person Z (not shown in the figure) that afternoon. There is, in other words, an interdependency between people in the corporation that is neither shown nor intended by an "organization chart" depiction of the company's managerial hierarchy. This is a *field effect*, and monarchy/oligarchy hierarchies tend to propagate field effect frustrations and conflicts throughout the organization.

This brings us to the notions of dependency and ambivalence. Leavitt made passing reference to both of these in the quotation above. In social and personality psychology, 'dependency' is used to mean "the reliance to a higher degree than normal of one person on another (or others) for emotional, economic, or other support" [Reber & Reber (2001)]. In a typical hierarchical system such as that characteristic of contemporary PTCs, a person's manager or supervisor often has a great deal to do with such things as how much money that person is paid, whether or not he will be considered for promotions, and even whether he gets to keep his job. Even in those companies where the immediate supervisor or manager is not the principal determiner of these things, many employees regard him as a person with the power to be the principal determiner of these things. In this context an employee can be said "to depend on" his immediate manager or supervisor (and their managers as well). Whether or not the employee "relies on" them "to a degree higher than normal" is debatable. The term is ill-defined in managerial psychology. How Leavitt and many other managerial psychologists *use* the term is explained in the following way:

> A second characteristic of industrial organization is the hierarchical, unequal distribution of power among the members. Roughly, power follows the pyramid: higher levels have more of it; lower levels, less. An earlier chapter pointed out that this distribution is brought about primarily through the delegation of authority. Through authority . . . given people at higher levels, power is generally distributed through the organization so that more stays at the top than shifts to the bottom.
>
> The other side of this coin is the psychological one. This distribution of power through authority means that people lower in the organization probably feel more dependent on higher levels than the other way around. So the hierarchical systems of authority, in serving other organizational purposes, also causes feelings of dependency. [Leavitt (1972), pp. 295-296]

Oncken's metaphor was the germinating idea for my later development of the embedding field method of "social-chemistry" introduced in Wells (2012). The last time I looked, the company Oncken founded in 1960 was still in business and was still offering this training seminar to corporate clients. The company celebrated its 55th birthday in 2015.

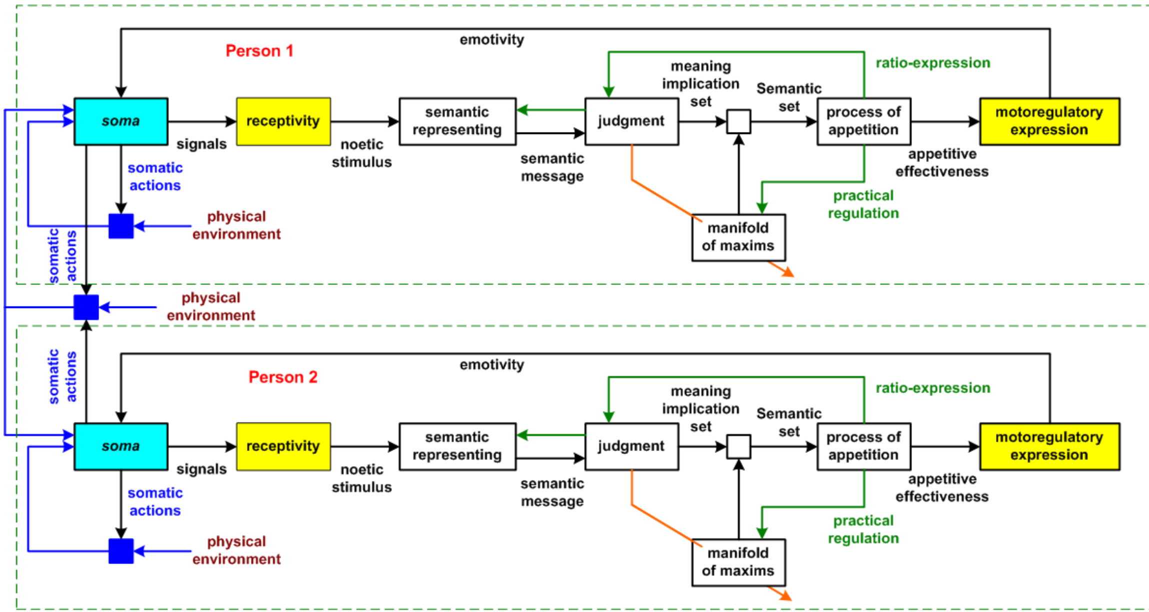

Figure 5: Two-person interpersonal interaction model [Wells (2011)].

As I mentioned earlier, Leavitt uses the word 'authority' as a synonym for 'rulership'. It cannot be said with objective validity that "the hierarchical system of authority" *causes* feelings of dependency; rather, it must be said that this system of rulership is a social environment that sets up numerous contexts in which people are more likely to interpret situations in such a way that their personal maxims of prudence lead them to *judge* that they are in a situation of dependency. In every interpersonal interaction involving a communication transaction, the message one person intends to convey to the other is never received and interpreted by that person in precisely the same way as the first person intended [Wells (2012), chap. 8]. Figure 5 presents a mathematical model of two-person interpersonal interactions [Wells (2011)].

If Person 1 in this figure is the manager or supervisor of Person 2, Person 1's words and externalized expressions are interpreted by Person 2 according to meanings Person 2 *assigns* to them based on his own judgments. His assignment is, in turn, determined by concepts he has constructed in his manifold of concepts and practical maxims he has constructed in his manifold of rules. This is called ***semantic representing*** in figure 5. Some of this interpretation depends on suppositions Person 2 makes about not only his relationship with Person 1 but also those he makes based on presuppositions he forms from his past experiences and from learned popular cultural stereotypes of "the boss-employee relationship." For example, a great many movies and television dramas depict "the boss" as a somewhat sinister person whose wrath is to be feared by his underlings. Cultural images like this exert a powerful effect on presuppositions many people develop and the stereotypes they form of boss-employee relationships and take with them into the workplace. This is one reason many companies assign a great deal of importance to manager training; most assign less importance to the flip side, i.e., "managee training." Oncken was one of the relatively few management training consultants who recognized this flip side and included some of it in his training courses [Oncken (1966; 1984)].

The net effect of all this is that, whether it is actually warranted or not, many employees in the traditional monarchy/oligarchy governed company *think* its hierarchical structure of governance *does* place them in a position of dependency. Nor does it end with this. A great many managers in typically organized PTCs *likewise* think their subordinates *are* dependent upon them, especially if these managers think they are dependant on their own managers. This tends to lead to paternalism and to the most widely used system of ***mis***management in the corporate world: *Taylorism*.

A person judging himself to be dependent on another judges *himself* to be powerless. Hand in hand with such judgments comes another debilitating effect: ambivalence. Leavitt wrote:

> One important outgrowth of dependency . . . is ambivalence: the tendency simultaneously to like and dislike being dependent. That most of us like dependency is apparent when we lose it – when the lonely, independent assignment . . . ultimately comes our way. . . . Dependency, by splitting people down the middle, can affect organizational behavior in important ways. It can cause tensions in relationships between subordinate and superior, limiting freedom to communicate and increasing concern about the meanings of the superior's behavior. The signs of these difficulties show up everywhere in industry. At the office party the boss drops in and the atmosphere changes; some people drift away; others talk a little louder or a little faster. Idiosyncrasies in the behavior of peers are passed over quickly, but the boss's oddities become legendary; his moods become prime subjects for gossip; his occasional off-hand remarks are scrutinized microscopically for their hidden but significant implications. . . . To a greater or lesser degree, any assigned job becomes, in this medium [of dependency], two jobs. One job is to carry out the assignment, to get the job done; the other (but not always secondary) job is to please the superior. [Leavitt (1972), pg. 296]

When Leavitt says "most of us like dependency" he does not mean to imply most of us like it in all its forms and in all situations. We like it when what we have to do seems daunting and when we know "we are not in it all alone," that others are bearing some of the load, and that we can rely on them to do their part. Societies are the most visible examples of phenomena for which it can be truthfully said that "most of us like dependency." People make social contracts with one another precisely because cooperation – which always involves some degree of codependency – is something that works to their personal benefits. A person who despises dependency in all forms and in all circumstances would be the ultimate example of someone with a severe antisocial personality disorder and the ultimate example of a pure sociopath.

But at the same time, most people also despise having to rely *too much* on others because this degree of dependency implies helplessness and too great a lack of the liberty to make one's own self-determinations. Both of these are contrary to practical imperatives of obligations-to-Self in regard to one's personality. The contrariety provokes intense feelings of *Unlust* and disturbances to equilibrium. Suspicion and distrust take root in feelings of *Unlust* that go with judgments of unwanted dependency. *Choosing* to submit to dependency is sometimes an act of *desperation*:

> Joseph, out of desperate necessity, had finally been forced to trust the first person, with the exception of his mother, he had ever trusted in his life. It was a trust that was really only a partial mistrust, but it had to be risked. [Caldwell (1972), pg. 181]

Sometimes judgments of suspicion and distrust arising in a relationship a subordinate regards as one of excessive dependency are accompanied by feelings of *Unlust* so intense they produce behaviors by the subordinate that a psychologist-observer would call neurotic or even paranoid.

Judgments of dependency and ambivalence underlie many of most destructive practices of Taylorism in management. Cooperation and corporate unity are hindered or even compromised by them. Granulation of a corporate mini-Society into mini-mini-Societies of uncooperative Toynbee proletarians often proceeds from them. Leavitt wrote,

> Partly to protect their relationships with their own superiors and partly on rational grounds, superiors tend to demand that subordinates objectively justify their actions, often in advance of the actions themselves. . . . This requirement may force people's dependency underground, so that they act more and more independently, though they really would like a shoulder to weep on. The results of chronically unexpressible feelings of dependency can

be serious, sometimes physically harmful, for the individual.

> The same conditions can be organizationally harmful, too. Most executives are probably familiar with the problem of reporting back to top management some unhappy discovery about the adverse effects of one of top management's pet ideas. Often it is personally dangerous to communicate such information, despite behests by superiors to report the facts "objectively." Even the good subordinate may end up with a watered down, selective report of what he has observed, though he cloaks it in the paraphernalia of facts and figures. . . . One result of this "evaluation fear" may be the loss of a most useful organizational tool – the sensitive, intuitive judgment of experienced people. [Leavitt (1972), pg. 297]

By "partly to protect their relationships with their own superiors," Leavitt is referring to the phenomenon of reciprocity of dependency in pyramidal management structures. One popular way of describing management is to say, "Management is the art of getting results through others." These "others" are, of course, the manager's subordinates. One principal reason for setting up a multi-level pyramidal management structure is so the "responsibility and authority are delegated" to the managers at the various levels for specific aspects of the business operation. In every PTC that institutes pyramidal governance, delegating "responsibility and authority" to a manager *also* means "assigning accountability for results" to him as well. In practice 'accountability for results' generally means the manager will be blamed for poor performance by his group and, sometimes, he will be rewarded for their good performance. Oncken put it this way:

> Suddenly your boss (regional sales manager) is transferred and you are offered the job. You expected they would pick you – you are the man with the best sales performance. What else counts?
>
> After a couple of months you begin to wake up to what the promotion <u>really</u> meant. Your vice president should have explained to you two vital facts about your new job before you accepted it so that you could have had a reasoned refusal to accept it.
>
> The facts:
>
> 1. From now on you no longer sell;
> 2. From now on you are accountable for the selling that will be done by the remaining nineteen who weren't good enough to get promoted, plus one trainee.
>
> Put this way, the promotion looks like anything but a reward. In exchange for a raise in pay, a wall-to-wall mahogany "foxhole" and a secretary, you have given up doing the things you do best and love to do most, and taken on responsibility for seeing that nineteen others, who aren't even in your league as a salesman, meet their quotas. Suddenly you see your raise in pay not as a reward for anything but simply as compensation for damages done to your career and your personal happiness. [Oncken (1966), pg. 4]

The nature of a management job is such that the manager is forced to depend on those he manages to achieve the goals *his* superiors hold *him* accountable for. Thus, dependency relationships run both up and down the pyramidal hierarchy, and this is *reciprocity of dependency*. You should note that this effect reoccurs at each management level within a hierarchy from the lowest level supervisor up to the CEO (who is 'accountable' to the board of directors – Robert Townsend's "back seat drivers"; when a company has failing performance, it's the CEO who gets fired, not the chairman of the board – unless CEO and chairman are one-and-the-same person).

Monarchy/oligarchy governance, with its pyramidal hierarchy of rulership, inherently invests in 'superior' authority figures the power to discipline and inflict sanctions on subordinates. It does not matter whether a manager intentionally coerces subordinates by means of this power or not. The mere fact that he *could* do so is often a sufficient condition for subordinates to act under their practical maxims of prudence rather than out of those reciprocal maxims of Duty which are bases of company citizenship. In other words, the nature of the governance system encourages people to give their own self-interests priority over the common interests of the company. Acting from this basis in self-interest tends to develop attitudes and behaviors that socially granulate the company mini-Society into competing internal mini-mini-Societies who coexist in a semi-state-of-nature work environment. This tends to lead to uncivic behaviors within the company mini-Society which, in turn, tends to produce mediocre performance of business operations. Once a company becomes widely infected with such attitudes and behaviors, uncivic behavior naturally tends to seep into relationships with non-member outside stakeholders. Uncivic free enterprise is an almost unavoidable consequence. Monarchy/oligarchy governance is a method of governance that could be said to be *designed* to destroy cooperation and promote internecine internal conflict and competition. The only thing preventing this from being said is that the company's institution of governance usually cannot properly be said to be "designed" at all; it is usually the case that it is set up by mimesis – mimicking how others do it – and thereafter evolves according to contingent accidents of experience and the satisficing nature of human problem-solving.

In this chapter, I focus on PTCs. However, one should remember that monarchy/oligarchy governance is not exclusively confined to PTCs. Examples of it are found in all four of the other employer categories (table I, pg. 242 below). Monarchy/oligarchy governance *itself* debilitates business performance, not the logical classification of a business entity. The question is: how?

§ 3. Authority and Authority Figures

A principal cause of this debilitation arises from extremely widespread misunderstandings of what 'authority' is and who 'authority figures' are. These misunderstandings lead in turn to fundamental misunderstandings of what 'leadership' is – misunderstandings which result in companies being misled.

What is the Critical real-explanation of authority? This is a question I addressed in an earlier work [Wells (2010a), chap. 6, pp. 225-231]. Modern narrow usages of the word in business and politics are associated with the power to coerce obedience. In a wider usage that subsumes this narrow usage under it, the word is used to convey the idea of the power derived from opinion, respect, esteem, or the influence of character or office. Thus, the idea of 'authority' is tied to the notion of a *power*, i.e. the idea of the matter of an ability *to do* something, explained in terms of what that ability is able to do. In Critical terminology, a 'power' in this context is called a *Kraft*. It is a popular language usage to *personify* this idea of 'authority' by identifying it with a person who may be appealed to for support of an opinion or act (as in, "Professor So-and-so is the foremost *authority* on the reproductive system of mollusks"). However, the object of this latter usage is properly called an 'authority figure' rather than an 'authority' because the root idea of 'authority' carries the connotation of a power and not of a person who holds or wields that power.

These are popular usages but these usages derive from an older and deeper practical meaning from which the idea obtains its *root* real-connection with natural phenomena. This root meaning is found by tracing the Latin word from which the usages in English were derived. This word is *auctoritas* ("authority"), a noun which was, in turn, derived from the Latin word *auctor* ("author"). That noun, in turn, is itself derived from a verb, *augere* (to cause to grow, increase). It is from the verb that the idea gets its real-connection with natural phenomena. Real objective validity for the idea of 'authority' is established at root from the *practical* idea of *augere*. This root also ties the idea of 'authority' to human agency, *viz*., the ability of a human being to be the cause of some effect. One should be careful to note here that it is not the human being *per se* but rather the *Kraft* possessed by the human being that is correct context for the idea of 'authority'.

Once you properly understand this *root* explanation of the idea of 'authority', I think it likely you will have little difficulty seeing and comprehending the popular usages of the word that have derived from it over time. These popular usages are special cases, transferences, or metaphors of the Critical *Realerklärung* of authority. Formally, ***authority*** is *possession of the* Kraft *of causing something to become greater, to increase, to be strengthened, or to be reinforced in some way*.

Equipped with this real understanding of the idea of authority, one can now understand the objectively valid meaning of what a 'manager' is. In the contexts of governance and leadership, a manager is a person who *holds the office* of an authority figure within the Community of an association of people. An ***authority figure*** is *the position of an agent of leadership governance charged with the duty of causing the association's general success and welfare to become greater, to increase, to be strengthened, or to be reinforced*. Success and welfare are measured in terms of Progress achieved and Order maintained in their Community. A person who holds such an office is expected *by his Community* to be able to *demonstrate* through his actions that he does indeed *personally* possess the *Kraft* of authority. Stated formally, ***expectation of authority*** is *the demand by citizens of a Community that a person holding a position as a designated authority figure possess the* Kraft *of authority and will actualize it for the benefit of their common association*.

This objectively valid explanation of who a manager is ties the idea of being a manager firmly to an idea of *deontological* morality that has meaning only within the context of an industrial conglomerate that is organized as a *civil* Community – i.e., a business association in which the members are bound together by a social contract and have common civil rights and civil liberties with a common system of governance. In such a Community, a manager is a *servant* of the body politic of that Community. This proper *deontological* understanding of who a manager is stands the traditional and widespread notion of the-manager-as-a-ruler on its head.

The ancient Athenians seemed to understand this proper context, although difficulties attend the translation of the ancient Greek word *archon* and its related forms; these difficulties make the point somewhat controversial among English translators. One connotation of the verb 'rule' is "to make a ruling" in the manner of a judge or an arbitrator. Bearing in mind that the Athenians overthrew their king and established the world's first non-consensus democracy, this is the *only* proper context for the word "rule" when it appears in translations of Plato's *Politeía*. Plato wrote,

> That was why, friend Thrasymachus, I was saying just now that no one of his own will chooses to hold rule and office and take other people's troubles in hand to straighten them out, but everybody expects pay for that, because he who is to exercise the art rightly never does what is best for himself or enjoins it, when he gives commands according to the art, but what is best for the subject. That is the reason, it seems, why pay must be provided for those who are to consent to rule, either in the form of money or honor or a penalty if they refuse. . . . Don't you know that to be covetous of money or honor is said to be and is a reproach? . . . Well, then, that is why the good are not willing to rule either for the sake of money or of honor. They do not wish to collect pay openly for their service of rule and be styled hirelings nor to take it by stealth from their office and be called thieves . . . So there must be imposed some compulsion and penalty to constrain them to rule if they are to consent to hold office. . . . But the chief penalty is to be governed by someone worse if a man will not himself hold office and rule. It is from fear of this, as it appears to me, that the better sort hold office when they do, and then they go to it not in the expectation of enjoyment nor as to a good thing, but as to a necessary evil and because they are unable to turn it over to better men than themselves or to their like. For we may venture to say that, if there should be a city of good men only, immunity from office holding would be as eagerly contended for as office is now, and there it would be made plain that in very truth the true ruler does not naturally seek his own advantage but that of the ruled so that every man of understanding would rather choose to be benefited by another than to be bothered with benefitting him. [Plato (*c*. 4th century BC), Bk I, 346e-347e]

From this understanding of the real-explanations of authority and the expectation of authority attached to the office of manager, it follows that no PTC governed by monarchy/oligarchy can be a *civil* Community. Further, if the corporation is embedded within the political Community of a Republic, then there arises an additional consideration springing from the fact that every person is always and at the same time a member of multiple mini-Communities. As a citizen, he is a member of his political Communities (local, state, and national); as an employee he is a member of the Community of an industrial conglomerate. If the latter is an uncivil Community – which is always the case for a PTC operated under monarchy/oligarchy governance – then the industrial conglomerate's internal governance stands in an *outlaw* relationship with the greater Society in which employees are citizens. That greater Society is then faced with the question: Can a civil Community tolerate the presence of institutionalized *outlaw* elements within it? Is it to ignore injustices perpetrated within that outlaw mini-Community or give those injustices the sanction of law? It seems to me that the answer to this *must* be 'no' because tolerance of injustice is itself an injustice in the civil Community of a Republic. There can be no institution of *justice for all* in a Society which tolerates practices of *uncivic* free enterprise within it.

§ 4. Leadership

Managers are expected to be leaders in the work groups they manage. But, as has just been explained, managers are also expected to be public servants of the body politic of their industrial conglomerate. Some see these two roles as contrary to one another. They are not, but to properly understand why they are not it is necessary to understand what 'leadership' is.

Every instance and occasion in which we say 'leadership' is present always involves at least two people: a leader and a follower. Leadership, therefore, is not a personal trait or skill. It is a social dynamic. If an executive refers to the managers under him in a corporate pyramid as "the leadership" of a company, this is incorrect because "leadership" is not a personal trait nor is it an assignable task. There is a key distinction between leadership and a leader. The Critical real explanation of leadership was deduced in Wells (2010a), where it was found that ***leadership*** is *the reciprocal relationships between two or more people by which the Self-determination of action by followers is stimulated by the actions of a leader*. ***Leadership action*** is *the entirety of actions by a leader* ***and*** *a follower such that a state of tension is produced in the follower which results in his taking some action.*

At first encounter the terms 'leader' and 'follower' might quite likely seem to be self-evident in their meanings. However, these are further examples of those many seemingly primitive terms that cannot be taken for granted or assumed to be understood in the same way by all persons. In particular, you hopefully noticed that the real explanation of 'leadership action' calls for a state of *tension* to be produced in the follower by the leader. 'Tension' is not the same thing as coercion or intimidation (although both of these do produce tension). The technical real explanation of what 'tension' is dips fairly deeply into the human nature of Self-determination and readers who are not knowledgeable of this theory will need a little help to understand this real explanation. ***Tension*** is *an object referred to by a feeling of* Lust *or* Unlust *subsisting in the motivational dynamic with 2LAR structure {expression of interest, affirmation of reevaluation, enforcement of law, groping for equilibration}*. What does this mean? To explain it we will call upon figure 3 as a visual aid.

Critically, motivation is the accommodation of perception and motoregulatory expression is its assimilation. Experiencing tension begins with an affective perception in which there is a feeling disturbing to your state of equilibrium. This affective perception is *essentially* autistic; i.e., you cannot put it into words and can only describe it by using objective metaphors other people will more or less apprehend because they have experienced similar feelings (e.g., "it made my hair stand up"). Now, the process of practical Reason absolutely will not tolerate loss of equilibrium and will initiate regulating actions to try to eliminate the disturbance and restore equilibrium. These actions can be said to "express an interest" in eliminating the disturbance. They proceed by calling into action the operations of the process of determining judgment (figure 3), an act that occurs through ratio-expression in speculative Reason ("affirmation of reevaluation") and results in the reintroduction of concepts into the synthesis of apprehension in sensibility. These reintroduced concepts alter the state of perception ("accommodation of perception") and *this* is motivation. The altering of perception alters affective perception ("groping for equilibration"), which then alters ratio-expression. This "feedback loop" process plays out until equilibrium is restored ("enforcement of law"). Along the way, the person emotes observable expressions of action (motoregulatory expression), and these actions are his observable behaviors. What is special about these behaviors is that *they are different from how you would have behaved if you had not experienced a feeling of tension*.

This end, getting you to do something you wouldn't have done otherwise, is what a leader is trying to accomplish. A ***follower*** is *a person whose act of Self-determination is stimulated by the actions of another person*. That other person is his leader. There are several things about this that are important to understand. First, there is nothing necessarily manipulative or sinister about what the leader is doing. One time at football practice when I was a kid, my coach told me, "Son, if you try to block like that, someone's going to break your ribs." Need I say that I immediately changed what I was doing? Just the thought of having my ribs broken was disturbing enough for me to engage in a new behavior. The coach was my leader and I was his follower in this instance.

Second, the person acting as a leader has a purpose for wanting the follower to do something different. If what the person is already doing or is about to do suits this purpose, then no leader's action is required at all. Otherwise, if what the follower does conforms to the satisfaction of this purpose, the leader's action is called a *successful* leader's action. If, in response to the leader's action, the follower does something contradictory to the leader's purpose, the leader's action is called an *unsuccessful* leader's action. In 44 B.C. Julius Caesar intimidated the Roman Senate into appointing him dictator-for-life (a successful leader's action), but this action also provoked a group of senators into assassinating him (an unsuccessful leader's action). If the follower does something contrary to but not contradictory to the leader's purpose, the leader's action is called a *non-successful* leader's action. The mere fact that a person expresses a leader's action does not necessarily mean he will get the follower to do something that serves the leader's purpose.

Third – and perhaps most important of all – *the person who is acting as the leader can and often does change from moment to moment*. This is especially the case in the workplace when the task at hand involves cooperations among a group of people. This fluidity in who is acting as a leader at any given moment is why leadership *must* be understand as a social dynamic. To put it more specifically, a ***leadership dynamic*** is *the potential power of spontaneity in the reciprocal relationships between two or more people by which the Self-determinations of actions by followers are stimulated by the actions of momentary leaders*. This has two important consequences.

First, any person in a work group can at any time act as a leader. Being a leader has nothing to do whatsoever with any official appointment. It especially doesn't have anything to do with being appointed manager. A manager is a person who holds the office of an authority figure within the Community of an association of people. As an authority figure, he is tasked with *the governance of the leadership dynamic of the group* he manages, but this does not mean that he acts at all times as a leader. What it does mean – and this is the second consequence – is that his task is to ensure that *appropriate* others "step up" and act as leaders at *appropriate* times for *appropriate* durations. This is what is meant by "governing the leadership dynamic of the group." Naturally, from time to time the manager himself must take some leader's action – especially actions *that stimulate someone else into being a leader* for awhile. This is part of the expectation of authority that goes with being a manager and is demanded of him by members of his work group molecule.

In this understanding of leadership and who a leader is, there is nothing whatsoever that implies rulership. A ruler usually must act as a leader. Indeed, the nature of rulership more or less forces a ruler to take leader's actions far more often than an effective authority figure finds necessary. Leadership is not rulership. Townsend and others have bemoaned an alleged shortage of "leaders" in business today. This is hogwash; if there were no leaders, very little would ever be successfully accomplished by wage-laborers in a corporation. Leaders are not rare. On the contrary, they are like tree leaves that go unnoticed for the verdure of the forest. The mistake Townsend and others make is the mistake of thinking leadership is rulership. He wrote,

> Something is happening to our country. We aren't producing leaders like we used to. A new chief executive officer today, exhausted by his climb to the peak, falls down on the mountaintop and goes to sleep. Where are our corporate Ethan Allens and John Hancocks and Nathanial Greenes, to say nothing of our George Washingtons, Ben Franklins, and Thomas Jeffersons? [Townsend (1970), pg. 80]

To answer Townsend's question in the language of the 1960s, corporate leaders have been forced to "go underground" by institutions of management that mistake leadership for rulership, confuse being a manager with being a ruler, and institute rulership instead of management. Schools of business do nothing to correct this very fundamental misunderstanding; rather, most of them perpetuate it by teaching it. Governance by monarchy/oligarchy practically enshrines it, but this is a shrine to vanity. For all of the many good points Townsend made and the many excellent insights he had, he was a man too much habituated to the mannerisms of Caesar Augustus and too little habituated to the mannerisms of George Washington.

There is a great deal more to say about this topic, but it has already been said in Wells (2010a). I therefore refer you to that source for more about the human social-nature of leadership.

§ 5. The Factors of Ownership and Stereotyping

Internal governance practices of typical PTCs, aided and abetted by the legal myth of shareholder ownership, lie at the root of well documented mediocrity in business performance by these industrial conglomerates. In addition, the semi-state-of-nature social environment produced by monarchy/oligarchy governance lies at the root of many well documented "labor-management" conflicts between manager and non-manager wage-laborer entrepreneurs in these conglomerates. Both effects are exacerbated by population size, i.e., by the number of employees. The method of governance hinders the ability of these organizations to establish social contract relationships necessary for binding the business entity into a unified corporate person within which the employee-entrepreneurs and shareholder-entrepreneurs can achieve the levels of cooperation and leadership necessary for corporate performance at superior levels of corporate *Personfähigkeit*.

Monarchy/oligarchy governance is not unique to publicly traded corporations. Examples of it are found in all the classifications of employer business categories (table I), including employer sole proprietor-capitalist businesses. This governance has dominated U.S. businesses from the time the Economy Revolution of 1750-1800 changed business sociology in America. Why, then, are these issues so markedly prevalent in publicly traded corporations in comparison with the other types of employer businesses? Why do employer sole proprietor-capitalist businesses consistently outperform corporations and partnership businesses in terms of the profit to receipts ratio (figure 2) and productive employment of capital? How does having a *real* owner change things?

These are very fundamental questions involving the social-natural sociology of industrial conglomerates. What will be shown in the following chapters is that deontological ownership is a key

Table I

Logical Classifications of Business Categories

nonemployer sole proprietor-capitalist
employer sole proprietor-capitalist
nonemployer partnering capitalists
employer partnering capitalists (including mutual companies/cooperatives)
close corporation partnering capitalists
publicly traded corporations
publicly traded partnerships

factor. Another is the size of a conglomerate's member population. Size in and of itself, however, is not a root cause. Rather, it is a circumstance affecting a more fundamental factor arising from human nature and characteristic of human judgmentation. This factor is ***stereotyping***, the process of forming judgments about people based on abstract models of people. Individuals make stereotype models to help themselves make determinations and predictions about behaviors of other people. Stereotyping has profound effects on interpersonal interactions, communications, conflict, and cooperation [Wells (2012), chap. 10, pp. 319-328]. Stereotyping cannot be avoided.

Ownership conditions have profound effects on the sorts of personal interests individuals have in the business conglomerate and when these interests are affected by circumstances. Ownership interests (or the lack thereof) combine with stereotyping to produce gradations in the degree to which monarchy/oligarchy governance of an organization is prone to producing antisocial granulations within its Community. The asocial forms of governance (non-consensus democracy and monarchy/oligarchy) are more prone to the social granulation of an organization than are the social forms (*Gemeinschaft* and republican governance), but none of these four typical governance forms are immune to causes of granulation.

Hard data on the number of industrial conglomerates classified by numbers of employees are available from the Census Bureau only for around the past twenty-five years (figures 6 and 7). Figure 6 shows the number of employing firms classified by their numbers of employees from 1990 to 2008. The smaller the class number, the fewer are the number of employees per firm. Employment ranges for each class size are provided in the figure caption. The data is taken from Bureau of the Census (2011), table 762, pg. 504. The number of firms is in thousands of firms.

Although the smallest firms outnumber the largest ones by two orders of magnitude, the percentage of the labor force employed in each category of firm follows a much different trend as shown in figure 7. Although the number of class 6 firms (over 500 employees) is by far the smallest, these firms accounted for 50% of U.S. employment in 2008. Class 4 firms (20 to 99 employees per firm) account for the second highest percentage with class 5 firms (100 to 499 employees) accounting for the third highest percentage. What this means is that over 80% of American wage-laborer entrepreneurs are employed by firms that are too large to be governed effectively by a *Gemeinschaft* form of business governance.

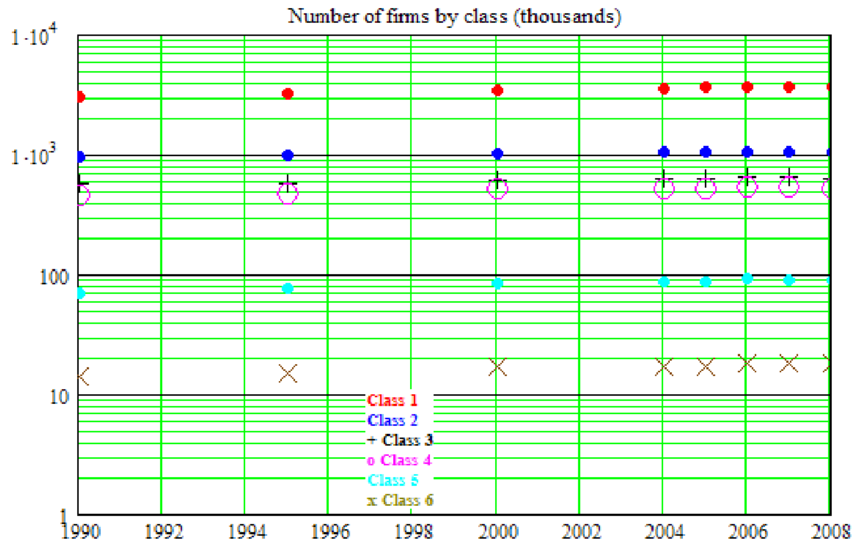

Figure 6: Number of firms by class of employee population from 1990 to 2008. Class 1: 0 to 4 employees; Class 2: 5 to 9 employees; Class 3: 10 to 19 employees; Class 4: 20 to 99 employees; Class 5: 100 to 499 employees; Class 6: over 500 employees.

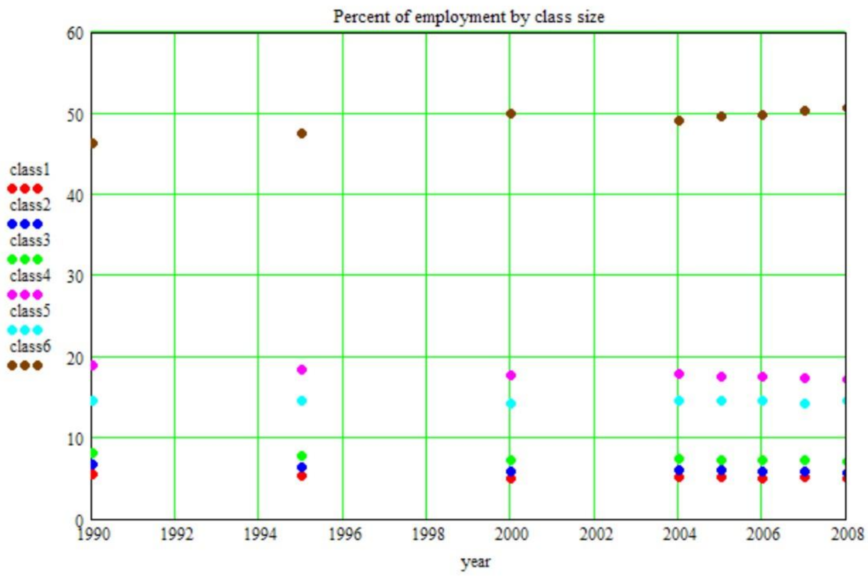

Figure 7: Percent of U.S. labor force employment by class size of employing firm from 1990 to 2008. Class 1: 0 to 4 employees; Class 2: 5 to 9 employees; Class 3: 10 to 19 employees; Class 4: 20 to 99 employees; Class 5: 100 to 499 employees; Class 6: over 500 employees.

It also means around two-thirds of American wage laborers work in industrial conglomerates where there is a high likelihood that most workers do not know most of their fellow workers very well. For each person, most of their associates in their workplace mini-Society are either more or less strangers or only casual acquaintances. In an environment such as this, interpersonal relationships and relationships between mini-mini-Societies within the conglomerate are determined by stereotypes. This tends to promote social granulation within the organization and hinder the effectiveness of its leadership dynamic. In this sort of workplace environment, excellent business performance is possible only if the way the business is governed is itself excellent.

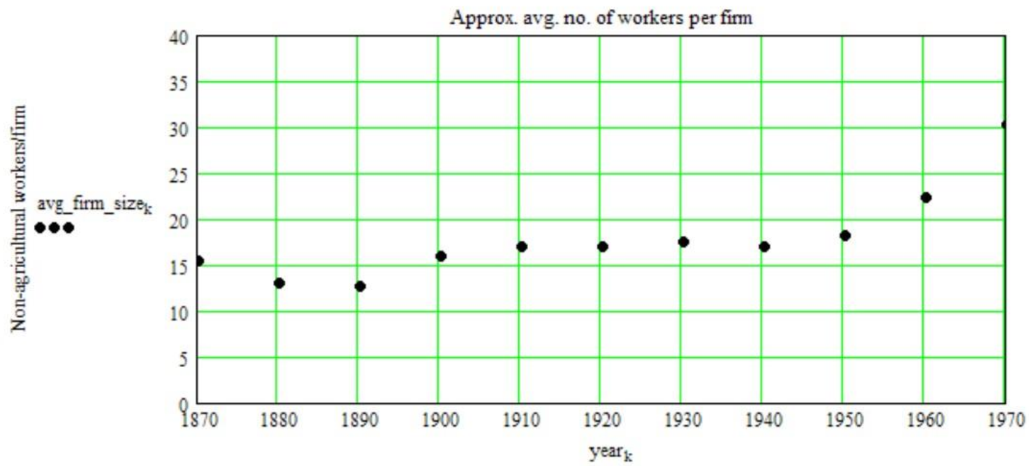

Figure 8: Approximate average number of non-agricultural workers per firm from 1870 to 1970 computed from census data. Source: Bureau of the Census (1976), Series D 16,17, pg. 127.

Although a few class 6 firms (more than 500 employees) existed in the U.S. in the late 19th century, the phenomenon of employment dominance by fewer large firms is a latter half of the 20th century phenomenon. Figure 8 displays the approximate average number of non-agricultural workers per firm estimated from census data from 1870 to 1970. This period spans the time of the growth of the United States from an agricultural nation to a dominate world economic power. For almost this entire period, the economic engine of the U.S. consisted primarily of classes 1 through 3 business firms. From the so-called "Gilded Age" of 1880-1900 to the present, large business firms have been accorded "rock star" celebrity by the news media and many business writers, but the fact is that the oft repeated slogan, "small businesses are the backbone of the U.S. economy," ***was*** quite true during the period of America's greatest economic growth. It is also true that all during this period monarchy/oligarchy governance of firms was by far the most typical form of business governance. After 1950, an ominous phenomenon appeared. §6 below discusses it.

In these classes 1-3 firms, it is quite possible for monarchy/oligarchy governance to work reasonably well. First, it is possible for the monarch (usually a proprietor-capitalist) to know each person employed by the firm well enough that the dehumanizing effects of his stereotyping are minimized. Second, the employees themselves are likewise able to know each other well enough for the effects of their stereotyping of each other to be well-moderated by their actual interpersonal experiences with one another. These factors mitigate against the formation of a potentially hostile state-of-nature environment in the workplace even if the organization is governed by a monarch. It is true that for this mitigation to be thorough-going, the proprietor (monarch) himself must possess a level of skill in interpersonal relationships sufficient to prevent the formation of anti-bonding personal relationships between himself and the employees. This is a skill level such that the employees respect him as a person and vest in his person an amicable expectation of authority. In Dickens-like terminology, such a proprietor is a Mr. Fezziwig rather than a Mr. Scrooge[2].

This style of governance mirrors in the business world what Greek political philosophers wrote concerning monarchy. Aristotle wrote,

[2] "It isn't that," said Scrooge, heated by the remark and speaking unconsciously like his former, not his latter self. "It isn't that, Spirit. He has the power to render us happy or unhappy; to make our service light or burdensome; a pleasure or a toil. Say that his power lies in words and looks; in things so slight and insignificant that it is impossible to add and count 'em up; what then! The happiness he gives is quite as great as if it cost a fortune." [Dickens (1843), pg. 554] (Scrooge was speaking of Mr. Fezziwig).

> The words 'constitution' and 'government' have the same meaning, and the government, which is the supreme authority in states, must be in the hands of one, or of a few, or of the many. The true forms of government, therefore, are those in which the one, or the few, or the many govern with a view to the common interest; but governments which rule with a view to the private interest, whether of the one or the few or the many, are perversions. . . .
>
> Our customary designation for a monarchy that aims at the common advantage is 'kingship'; for a government of more than one yet only a few 'aristocracy' (either because the best men rule or because they rule with a view to what is best for the state and its members); while when the multitude govern the state with a view to the common advantage, it is called by the name common to all the forms of constitution, 'constitutional government.' . . .
>
> Of the above mentioned forms, the perversions are as follows: – of kingship, tyranny; of aristocracy, oligarchy; of constitutional government, democracy. For tyranny is a kind of monarchy which has in view the interests of the monarch only; oligarchy has in view the interests of the wealthy; democracy of the needy; none of them the common good of all. [Aristotle (4th century BC), 1279^a22-1279^b10, pg. 2030]

Aristotle's list lacks only the republic, which can be described as "a *selected* few governing *for* the all." A constitution is a form of social contract and sets governance the task of serving the common interests and Welfare. In the case of a business firm, the common interests and Welfare are those of "the business" and not "the proprietor." This is the homologue of Aristotle's "kingship." Such is the difference between a Mr. Fezziwig and a Mr. Scrooge[3].

Proprietorships, many publicly-traded partnerships, and many close corporations operate under monarchy governance, as I have said. Private partnerships and some close corporations, in comparison, most frequently operate under Aristotle's "aristocracy" governance (if they govern for the common interests and Welfare) or oligarchy (if they govern for the partners' interests and Welfare only). It is again possible to institute "aristocracy governance" in small firms for the same reasons as stated above for benevolent monarchy. In all cases, however, stereotyping *out of necessity* becomes more pronounced as the organization becomes larger. Governance of any firm faces its greatest period of challenge as the firm grows out of the class 3 category and makes a growth transition through class 4. Assuming that a small firm began its growth and success with a Mr. Fezziwig-like governance in the first place, it is during this transition into and through a class 4 employer-firm when its governance is most likely to degenerate into the sort of pyramidal-hierarchical monarchy/oligarchy form of governance that typifies most publicly-traded corporations ruled by non-capitalist non-proprietor managers.

So it is that ownership interests and stereotyping are primary factors of success or failure as well as of civic versus uncivic free enterprise. It follows that these *social-natural* factors must be examined in more detail. The next chapter undertakes this examination.

§ 6. Universal Conglomerates

During my discussion of figure 8, I stated that an ominous sign appeared after World War II.

[3] Some later writers, whose understandings of business history and facts seem to be rather distant from the truth, have portrayed Dickens' Fezziwig character as a somewhat hopeless and hapless romantic who was out of step with the machine age and, ultimately, a failed businessman. Screenwriter Noel Langley (1951) is one such example. Later caricatures such as these have no basis in Dickens' portrayal of Fezziwig. They write of "old values and way of life" being "swept away" in the 19th century. This exaggeration is gainsaid by the data provided in figure 8 and only reinforces the "rock star" celebrity accorded to large firms. I think it is regrettable so many Americans seem to be as ignorant of history as they are of economics because this ignorance works to the disbenefit of us all and tends to perpetuate tolerance of uncivic free enterprise.

Its symptom is expressed by a sudden sharp uptrend in the approximate average number of employees per firm. I trust two things about this symptom are easily enough apparent to you. First, if this average is growing larger it means a higher percentage of the workforce is employed by larger (class 4, 5, and 6) firms and various employment market environments are evolving toward oligopsony, beyond which would lie monopsony employer environments.

Second, it means industries coming to be dominated by these large firms are economically evolving toward oligopoly and monopoly supplier market environments with a number of economic disadvantages to consumers and innovative free enterprise these market environments entail. A third consequence, less easily noted than the first two, is that these growingly dominant firms are precisely those where, because of their size and absence of real owners, the mediocrities and injustices of monarchy/oligarchy governance are at their most rank stages of evolution.

The energetic powering this phenomenon is the corporate merger. Figure 9 graphs the numbers of U.S. mergers and acquisitions from 1895 to 2003. Observable in this data is a very pronounced and persistent uptrend in mergers and acquisitions beginning around 1950-51 and continuing over the entire period. This correlates directly with the census data on numbers of employees in figures 8 and 7.

Industrial conglomerates *are* mini-Societies. They *do* behave in many ways like their counterparts in political Societies because more or less the same causative factors of human nature are at work in both of them. The phenomenon apparent from the data I present here has a homologue in a phenomenon that comes through clearly enough in Toynbee's study (despite his proclivity for engaging in dreary flights into mysticism with which he frequently belabors his readers). This is the phenomenon of *universal states* that appear after civilizations have broken down and are making their approach to a final disintegration and fall. Toynbee's study found that emergence of universal states was a hallmark symptom of pending fall in fifteen out of the twenty Toynbee civilizations he identified [Toynbee (1946), pp. 373-374]. Of the remaining five he noted,

> We have seen that universal states are usually provided by dominant minorities indigenous to the society for which they perform this high-handed service. . . . We have, however, also noted cases in which the moral debacle of the dominant minority has been so

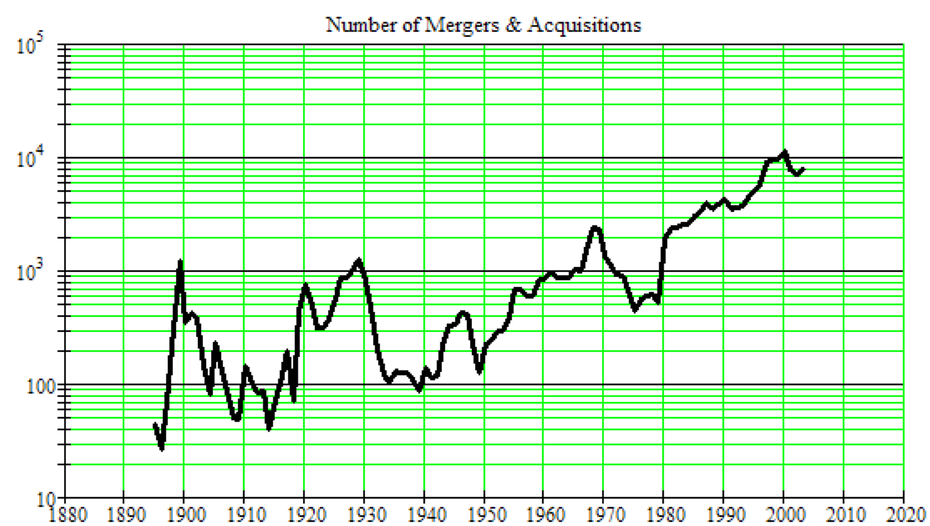

Figure 9: The number of U.S. mergers and business acquisitions from 1895 to 2003. Source: Bureau of the Census (1976) Series V 38, pg. 914; (1979) no. 957, pg. 574; (1981) no. 905, pg. 537; (1987) no. 842, pg. 504; (1990), no. 883, pg. 534; (1998) no. 884, pg. 556; (2005), no. 741, pg. 499.

> rapid that, by the time when the disintegrating society has been ripe for entering a universal state, there has no longer been any remnant of the dominant minority still possessed of the empire-building virtues. In such cases, the task of providing a universal state is not usually allowed to remain unperformed. Some alien empire-builder steps into the breach and performs for the ailing society the task that ought to have been performed by native hands. [Toynbee (1946), pg. 422]

This does not contradict Toynbee's main finding, *viz*. that civilizations fall from within. In those few cases of an "alien empire-builder" stepping in, the Toynbee Societies in question had already entered into their disintegration and fall.

What is ominous about the trend in figures 8 and 9 is that this data points to the analogous lesson to be taken from history in regard to the breakdown and disintegration of civilizations. Firm class size data is indicating that the business homologue of this political situation is long underway now in the U.S. economy. Across a broad spectrum of economic enterprise – from book publishing to software to consumer electronics to &etc. – dominant firms, few in number, are emerging as smaller independent companies are swallowed up by merger and acquisition.

In a number of cases, this fact tends to be concealed by the fact that the *firms* acquiring old establishments tend to allow these no-longer-independent companies to keep their old names despite the fact they are now merely *divisions* of a parent firm. A principal reason for this is that once-independent firms often have a sort of "brand recognition" attractive to a loyal customer base. By keeping the old company's name visible to buyers, the acquiring firm avoids marketing issues arising from loss of "name recognition" it would otherwise have to face. The acquiring firm's intent is not to deceive but the practice does tend to obscure statistical analysis. For example, census bureau statistics for 1977 reported there were 1,745 book publishing establishments in the U.S. employing 60 thousand people, of which 346 establishments had 20 or more employees [Bureau of the Census (1990), no. 926, pg. 554]. In 2008 it reported there were 3,097 establishments, of which 1,045 were corporations, employing 95.2 thousand people [Bureau of the Census (2011), table 1128, pg. 709]. However, these statistics are somewhat misleading.

Most people, when they think about book publishers, think about those companies who publish books they usually find in a bookstore. These traditional publishers are called "trade book publishers." However, there are also academic publishers (who publish textbooks), professional publishers, and companies who provide self-publishing services. The Census Bureau statistics do not attempt to distinguish among these different *genera* of book publishers. A directory put out by PublishersGlobal in 2015[4] lists 2,692 American publishing houses, of which only 209 are book publishers. This directory does not list many thousands of tiny "self publishers" (such as your author's website). Of the "trade book publishers" industry, as of 2015 there were only *five* dominant firms who account for over half of all consumer book sales revenues. These are:

1. Hachette (a subsidiary of the French company Lagardère);
2. HarperCollins (a subsidiary of News Corp.);
3. Macmillan (a subsidiary of the German company Verlagsgruppe);
4. Penguin Random House (a subsidiary of Bartelsmann);
5. Simon & Schuster (a subsidiary of CBS Corp.).

This means just what you think it does: over half of the U.S. mainstream consumer books are published by five companies that "belong" to other "parent" companies. The supplier market is an oligopoly market challenged by competing "e-book" suppliers such as Amazon.

In the case of economic mini-Societies, the homologue of Toynbee's universal state might be

[4] www.publishersglobal.com/directory/united-states/publishers-in-united-states .

called a "universal conglomerate" that represents a governance unification of what had been an industry of independent companies. In the case of a universal state,

> One of the most conspicuous marks of disintegration . . . is a phenomenon in the last stage but one of the decline and fall, when a civilization purchases a reprieve by submitting to a forcible political unification in a universal state. . . . We have already defined the nature of these breakdowns of civilizations. . . . We have also described the nature of these breakdowns in terms of a loss of the creative power in the souls of creative individuals . . . On this showing, the nature of the breakdowns of civilizations can be summed up in three points: a failure of the creative power in the minority, an answering withdrawal of mimesis on the part of the majority and a consequent loss of social unity in the society as a whole. [Toynbee (1946), pp. 244-246]

Falling civilizations have not recognized that the emergence of a universal state is the next-to-last phase of their *Existenz* and is followed by their fall and disappearance. Quite to the contrary, they have seen the universal state as a sort of salvation able to deal with the Toynbee challenges they have been failing to overcome. Toynbee wrote,

> For the present, then, we are concerned with the universal states, and we may begin by asking whether they are ends in themselves or means towards something beyond them. Our best approach to this question may be to remind ourselves of certain salient features of universal states that we have already ascertained. In the first place, they arise after, and not before, the breakdowns of the civilizations to whose bodies social they bring political unity. They are not summers but 'Indian summers', masking autumn and presaging winter. In the second place, they are the products of dominant minorities; that is, of once creative minorities that have lost their creative power. This negativeness is the hallmark of their authorship and also the essential condition of their establishment and maintenance. This, however, is not the whole picture; for besides being accompaniments of social breakdown and products of dominant minorities, universal states display a third salient feature; they are the expressions of a rally – and a particularly notable one – in a process of disintegration that works itself out in successive pulsations of lapse-and-rally followed by relapse; and it is this last feature that strikes the imagination and evokes the gratitude of the generation that lives to see the successful establishment of a universal state set a term at last to a Time of Troubles that had previously been gathering momentum from successive failures of the repeated attempts to stem it.
>
> Taken together, these features present a picture of universal states that, at first sight, looks ambiguous. They are symptoms of social disintegration, yet at the same time they are attempts to check this disintegration and defy it. The tenacity with which universal states, once established, cling to life is one of their most conspicuous features, but it should not be mistaken for true vitality. It is rather the obstinate longevity of the old who refuse to die. In fact, universal states show a strong tendency to behave as if they were ends in themselves, whereas in truth they represent a phase in a process of disintegration and, if they have any significance beyond that, can only have it in virtue of being a means to some end that is outside and beyond them. [Toynbee (1957), pp. 2-3]

In the economic case, Toynbee's "loss of creativity" within a ruling dominant minority has its counterpart in the most conspicuous characteristic of large corporations: Taylorism. I will discuss Taylorism later in this treatise. For the present, the data presented above is a warning sign of an evolving economic and political catastrophe. Mergers are a *symptom* of this, not a cause, and so simply forbidding mergers as a general rule does not address underlying causes nor does it ward off pending catastrophe. There is no one simpleminded "magic bullet" to correct the underlying partial causes of economic breakdown in the United States. The universal conglomerate is only an outcome of unmet challenges which confront an industrialized Society such as ours. Factors such as failure of the American institution of public education in the 20th century [Wells (2013)] and the usurpation of the power to rule by the national political parties in America [Wells (2010b), chap. 4, §3] are far more serious factors than the phenomenon of corporate mergers. Mergers are themselves primarily consequences of mediocre corporate governance when the hindrances of monarchy/oligarchy governance give rise to the *incompetence* of Taylorism. If mergers were to be prohibited it would hinder the development of universal conglomerates – and for most people this could be very beneficial – but would not do anything to fix the economic conditions that universal conglomerates are a response to. It follows that we must look to the institution of corporate governance in order to address real causative factors responsible for conditions causing the symptom of economic dominance of industries by a few large firms.

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