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The Lawyer's Role In Modern Industry

By J. D. Wright

LET'S GO back to what might have been a typical day in your life not too long ago.

After working with legal problems all day, you drove home in an automobile and sat down to a dinner cooked on a modern gas or electric range. Sometime after dinner you relaxed and turned on the television set. The picture on the screen may have been that of a long pointed vertical object — like a stubby lead pencil standing on end — and perhaps you recognized it as one of America's ballistic missiles — possibly the intercontinental Atlas or the intermediate-range Thor.

If you've read much about missiles you may have realized that the upright pencil stub on your screen was in reality a shell of gleaming metal that stood one hundred feet tall and weighed one hundred tons. Inside that shell were countless thousands of precision parts and complex electrical circuits to guide the missile to its target. At the end of the count-down, a cloud of smoke and steam appeared at the base of the missile — the awakening of the giant engines which, in a matter of moments, generated the tremendous thrust necessary to lift it into the air and start it on its flight.

All of these events had one thing in common — each involved one or more of the products of modern industry. The missile that rose from its pad, the television set that made you a witness to the launching, the stove that cooked your dinner, and the automobile that carried you home — all represent one or more branches of industry — aircraft, electronic, appliance and automotive. Other industries provide the clothes you wear, the house you live in, the furniture and furnishings that make it livable, and perhaps, either directly or indirectly, a large part of the income you enjoy.

All of us have become heavily dependent on modern industry for everything we use at home and at work. Modern industry, in its turn,
depends on people to keep it going — people with a wide variety of skills and talents to design, produce and sell its products, and to provide the accounting, personnel and other services it needs to be successful. Still other people must purchase the goods which industry turns out. High among those people who are vital to every modern business corporation are the legal advisers who help to organize it and keep it functioning within the law. Under today's maze of government regulations and requirements, industry simply cannot operate without benefit of legal advice.

There are state and federal laws which govern our relationships with the stockholders who put up the money for our buildings and equipment. Labor laws govern many of our relationships with the people who work for us. Patent laws protect the work of our engineers. Antitrust and fair trade laws affect our dealings with suppliers, customers and competitors. Liability laws protect the people who eventually come in contact with or are affected by our products. Tax laws shape the nature of many of our transactions and appropriate a large part of our earnings. In short, almost every business move brings us into contact with laws and regulations of some sort. Legal counsel is vital to the conduct of modern industry, and the need for good legal counsel in business is continually growing.

Just how does the lawyer fit into this picture?

Traditionally, we tend to think of the lawyer as an independent practitioner, surrounded by law books, whose services are available to any and all clients. Today, however, many lawyers have accepted employment within industry, some as salaried attorneys, and some in entirely different capacities. Some have become corporation specialists with a single client, and others have simply become businessmen with a legal background. Whatever the arrangement by which he is employed and compensated, the lawyer can make a very real and important contribution to the industry he serves. In today's lush jungle of laws and regulations, it is essential for the corporate executive to have a competent legal advisor close at hand as well as have a smattering of legal knowledge himself.

It is important to realize that we are talking about modern industry — the business world of today. Industry today is an entirely different thing from industry of the 1900 era, and the year 2000 will undoubtedly see business operating on a basis that we would consider fantastic were we to preview it today.

Business and law are fluid, changing things that adapt themselves to the times and to the march of civilization. Business provides both the products which most of us use and the payrolls on which we live. Be-
cause it is such a vital part of our national growth and prosperity, and because our entire economic structure is dependent on it, business is subjected to laws and regulations in the public interest.

At any rate, the two fields have shown an amazingly parallel history. Statistical studies of the legal profession have indicated that the number of lawyers and the income of lawyers have grown approximately in proportion to the growth and volume of business in America, rather than according to population growth.

DOWN THROUGH THE YEARS

Let's take a brief look at what has happened to business during our relatively recent history, and see what factors have caused the increasing need of the businessman for legal advice.

In 1800, when our nation was young, there were 335 business corporations in the United States. There is little record of how many other small business enterprises existed in that early period, but certainly it was no more than a small fraction of the approximately 225,000 business concerns that were operating by 1860, when we had risen to fourth place among the nations of the world in the production of goods.

In the earliest years following the Industrial Revolution, business operations were relatively simple. Anyone who had an idea and wanted to go into business, scraped up some money, set up his operation, hired workers as cheaply as possible from a bulging labor force, and was on his way.

If a businessman wanted to incorporate, he probably went to a lawyer to have the corporation papers drawn up, and consulted the lawyer whenever he got into trouble, but in the main he ran his own affairs and governmental regulations were few and easy to follow. There was, of course, no such thing as an income tax in those days, and blue sky security laws were unheard of. Whatever pay the worker received was his to take home, free of taxes and deductions, and neither the employee nor the employer were burdened with any type of governmental reports or regulations as to their income, prices or terms of sale, rates of pay or hours of work.

Profits of some of these concerns pyramided and occasionally little companies grew into giant trusts. In the main, however, corporate ownership was in the hands of the individual who started the business or in the custody of small groups of people. Competition often was cutthroat, and questionable financial dealings were not uncommon within and between the tightly controlled groups.

By 1890 the nation's production had increased five-fold over the figure of 30 years before, and our country ranked first in output among the
nations of the world. Corporate ownership also had undergone a change. The individual owner, the man who started and ran his own business, had in many cases given way to the speculator as business grew in size and the number of corporate shares on the market increased. During this period men often became company presidents by buying control of the company via the stock market, and many vacated their offices in the same way, by selling their stock.

The legal profession, we sometimes forget, also was a vastly different thing in those days. Law was largely an apprenticeship profession. The training period consisted of a long — and generally unpaid — term as a clerk in an established law office. Little or no money was available to pay law clerks because in those days most attorneys developed their cases on their own time. They charged only for their actual presentation, not for their preparation.

The beginning of the twentieth century brought a turning point both for business and law, and knitted closer ties between the two.

About this time, several New York law firms made the revolutionary announcement that in the future they would hire only graduates of accredited law schools as clerks, and that they would pay these clerks $600 a year.

Simultaneously, two things were happening in business, which now numbered more than one million concerns. The nation's streetcar companies were in serious trouble. Watered stock had led to bankruptcies, and these brought to light a vast network of interlocking interests, questionable assets and dubious liabilities. In the White House, President Theodore Roosevelt, armed with the Sherman Act, was attacking the trusts. As his efforts gathered force he also intervened in a coal strike on behalf of the public, replaced the Department of Labor with the Department of Commerce and Labor, and instituted laws involving rebates to favored corporations, railroad rates, food and drug sales, and employers' liability for workmen's compensation.

Litigation resulting from the troubles of the streetcar companies and prosecutions under the Sherman Act, was complex. The cases went deeper and involved more people and more side interests than had been the pattern in the past. To handle this new situation, lawyers were called into the cases, frequently not as individuals, but in teams. The practice of corporate law by groups of specialists had begun. Gradually the stock in American corporations became more widely held, and control of the larger companies slipped away from individuals and small groups. A new type of corporate executive began to appear on the scene — the career man. In most large corporations today the officers are employees, hired to administer the company's work. Most of them
own only a small percentage of stock in the companies they head, and they retain their jobs at the pleasure of the stockholders.

A published survey covering presidents and board chairmen of more than 400 large corporations in 1950, as compared with a similar survey in 1900, showed that during this 50-year span the percentage of such chief executives who had received some college training rose from about 40% to more than 75%. The percentage with college degrees rose from 28% to 62%, and the number holding law degrees rose from 8% to 12%.

Another survey covering the top three men in 300 companies, showed that of those with college training, some 38.5% specialized in business economics, 28.9% in science or engineering, 16.9% in law and 12% in arts. Of the 152 men with legal training in this group, some 104 — or about 12% of the total group — made their living from law at one time or another, either as an attorney inside a corporation or in private practice.

As the heads of companies became professionals, more of the complex problems of running a big company were turned over to staffs of experts in the various management fields. Management became more of a team affair, and with the increasing complexity of legislation and the growing awareness that the corporation's place in society carried with it the responsibility for leadership and good corporate citizenship, the corporate law department became an important part of that team.

THE CORPORATE LAW DEPARTMENT

Corporate law departments, the teams of salaried attorneys who advise and aid management in the conduct of business, have grown into their present position of importance during a relatively short period of time.


In the 1940's, came the various emergency controls on prices, wages, material and manpower. Priorities, allocations, deferments, renegotiation, and other innovations in governmental regulation of business became a part of our normal way of life. Taxes, which had been increas-

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ing rapidly, now became a dominant factor in the operations of nearly all corporations. Payroll deductions and government reports multiplied from year to year. The Internal Revenue Code of 1954, enacted in August of that year, together with related regulations, covers more than 1,500 printed pages. Executives could no longer hope to keep up with and understand all the laws and regulations which they were required to follow in their business operations. Corporate counsel had become a necessity.

Where the entrepreneur once called upon his lawyer to get him out of trouble, business executives of a later day began to rely on lawyers to prevent trouble. Executives needed someone to interpret the meaning of the host of voluminous and complex laws that came pouring out of Congress and state legislatures. The new generation of manager did not seek an interpretation in an effort to evade the law — he simply needed help in understanding and keeping track of laws so that he could run his business without accidental violation and the resulting difficulties.

Much of the lawyer's work may consist in developing and effectuating the policies or projects which the business executives initiate. Often an important agreement stems from an oral understanding between officers of the organizations involved, and is transmitted to counsel in a brief conversation or a few written notes, from which the latter must amplify and consummate the transaction in accordance with existing laws and regulations. This may take months of additional negotiations and discussions on the part of counsel, and the original notes often develop into hundreds of pages of agreements and other documents. Usually the executive can give but a small part of his time to this project, and pays little attention to the multitudinous legal problems which such an agreement may create. This, as far as he is concerned, is the job of the company's lawyers.

A number of reports and surveys in recent years have provided some interesting statistical material in regard to the lawyer's growing participation in the world of business.

It is apparent from these reports that corporate law departments have in many cases reached substantial size. In 1952 a report was published which counted 1,996 lawyers employed by 231 of the larger corporations, all of which had legal staffs of three or more persons, and six of which had legal staffs numbering fifty or more. Most of these staffs have undoubtedly grown in size since 1952. At Thompson Products we now have a staff of eight lawyers, all of whom are kept thoroughly busy throughout the year.

One survey indicates that in 1950 a total of 11,274 lawyers were employed within industry in the United States.\(^4\) In addition, industry also depends to a considerable extent on the services of law firms and lawyers outside the corporate walls. The same report indicates that the nation’s non-salaried lawyers — including both self-employed and partially self-employed — received 47.9%, or almost half, of their total gross incomes from service to business.

It is obvious that interest in the affairs of business is not limited to members of corporate law departments. The many thousands of smaller business enterprises, which either cannot afford or prefer not to employ full time counsel, are a major source of income for the general practitioner. Also, in the great majority of cases, the internal law departments of the larger enterprises refer their more difficult legal problems and court cases to an independent firm of attorneys.

Nevertheless, industry is finding it necessary to employ an ever-increasing number of full-time lawyers. In 1956 the American Bar Foundation published *Lawyer’s Census — The Distribution of Lawyers in the United States*. This publication showed that 15,063 lawyers were employed in private industry in 1954 — a substantial increase from the 1950 figure of 11,274 quoted above.

Statistics do little except to underline the growth and point up the trend existing in industry. It is apparent that there is a trend towards employment of lawyers within industrial corporations. In view of the trend, it may be of interest to examine just what it is that these lawyers do in their daily work and how law departments function.

It is necessary in this connection to deal somewhat in generalities. No one practice is generally accepted today, and for every specific example I might list, you could probably cite a number of companies which follow an almost exactly opposite approach.

Some companies — and Thompson Products is one of these — centralize their law departments as staff functions. Others favor a decentralized plan with company attorneys stationed on the scene at various plants and divisions.

Some companies maintain relatively small law departments, or in many cases a single attorney, to handle routine matters only, and such concerns make extensive use of outside counsel in other affairs. Others — and Thompson again is in this group — handle most of their affairs internally, but turn to outside counsel on occasions when the service of a specialist is indicated, or when litigation is threatened or commenced.

Some corporate law departments are composed of groups of specialists,

each with his own field of interest, while others favor the general practitioner approach. In our law department at Thompson Products, most of our attorneys have a specialized field of interest, but their work closely approximates a general corporate practice. The day's activity is dictated by the problems at hand, rather than by strict lines of specialization.

Employment of attorneys in a corporate law department offers many advantages both to the company and to the attorneys employed therein. There are, however, distinct differences between corporate employment and an independent corporate practice. A substantial part of the work of corporate counsel is in the field of preventive law. It is not so much the job of the company attorney to win cases in court as it is to keep the company out of court by spotting possible trouble before it arises and advising management on the best means of avoiding it.

The argument is occasionally advanced that outside counsel is in a better position to do this job effectively by virtue of their detached and objective position. The salaried attorney may be placed in a position in which he must tell his employer that the employer's pet project is a potential trouble-maker and ought to be abandoned. The argument holds that the attorney who depends on a salary for his livelihood may be tempted to modify his views in order to stay in the good graces of the man who is responsible for his employment, and that by doing so he may not always act in the best interests of the company.

I, for one, do not hold with this argument. In the first place, the attorney who becomes associated with a company and who expects to remain with that company becomes concerned with its long-range future, if for no other reason than his own selfish interest. He quite naturally wants to see it grow over the course of his working years because then his position, too, will grow in importance and in economic stature.

In the second place, it would be a most short sighted attorney who would avoid his employer's possible immediate displeasure by allowing him to head, unwarned, toward serious trouble later on. It would appear that a few instances of bad advice of this type would result in a vacancy in the law department.

On the credit side, corporate counsel has the distinct advantage of regular day-to-day contact with the operation of the business and with the people who are managing it. When a problem arises, he is fully aware of the background of the situation and knows exactly where this problem fits into the overall company picture. In a complex and diversified corporation there simply is no such thing as an isolated problem. Everything that arises has a direct bearing on a half dozen or more other departments or sections of the company.
The salaried attorney, being acquainted with all of the company executives, knows to whom he should go for the information he needs in making a decision. He knows which man is likely to give him the whole story and which man may be inclined to give only those facts which support a desired opinion. His relationship with executives is more casual than would be the case with outside counsel. His sources in the company will frequently talk to him more freely than to an outsider.

As a result of his daily participation in company affairs, the salaried attorney develops an acute sense of timing which often is not shared by his brethren in private practice. He may be called upon for advice concerning a pricing policy or a contract. Aware of the immediate situation, he knows that a decision is required within minutes or a competitor may wind up with the business that his company could have obtained. An outside attorney contacted by telephone in the midst of problems of other clients might well be unaware of the conditions and less inclined to probe the matter with the same sense of urgency.

From the viewpoint of the corporate executive, his close relationship with the salaried attorney enables him to become better acquainted and to know the attorney's capabilities and his strengths and weaknesses in the various fields of law. I would hesitate to suggest that any attorney is ever found guilty of ignorance or error on a matter of law, but nevertheless it is helpful to know just how far I ought to rely on the expressed opinion of a member of the legal profession — and it is much easier to know this in the case of the salaried attorney than in the case of the lawyer in a law firm who is consulted only on relatively infrequent occasions.

The salaried attorney also knows the types of problems on which he is likely to be consulted, and can become something of an authority on these matters. He can usually find time during the working day to read the latest releases and current legal services and periodicals which are likely to be of concern to him or to his work, inasmuch as he does not have to try to keep up with all of the current developments in unrelated fields of law. In the business world of today we find that specialists are required in almost all branches of endeavor, and law is no exception. The general practitioner who is concerned with earning a living cannot afford to spend too much time on uncompensated research and general reading, whereas the salaried lawyer can properly consider much of his reading as part of his job. He is expected to keep up to date on the branches of law that affect his work, and it is expected that the corporation that gets the full benefit of his knowledge will bear the cost of his continuing legal education.
In the case of Thompson Products we have a diversified business, and operate through a number of subsidiaries and affiliates as well as through our own divisions. In order that the function of our law department may be more clearly pictured, it may be well to describe the operation of Thompson Products very briefly. Your own familiarity with law will enable you to appreciate the complexity of running a business of this type, and to understand why the members of our law department always have more than enough to do.

We operate under what is known as a line and staff organization structure, in which the production and sales functions are included in the line organization, and general service departments, such as the law department, are part of the central staff group. In order to decentralize operations as much as possible, we have split the line operating groups into what we consider the smallest practical autonomous units, which we refer to as divisions, each of which is headed by a manager. We have thirteen of these divisions. Control of policy is established by a Central Policy Group which includes representatives (one of whom is the corporate counsel) from various phases or departments of the company's activities. Broad policies are established by this group for the areas within which Thompson's thirteen divisions operate.

We operate manufacturing facilities in 15 communities in the United States and Canada. One of our divisions maintains branch offices and warehouses throughout the United States, and transacts business in approximately 85 foreign countries. Inasmuch as every state and country has its own laws and regulations, and all of them try to collect some form of taxes, it is necessary for our counsel to keep up to date on a large variety of contract and tax laws.

Thompson Products has employees in most of the states of the United States, subject to the entire gamut of state, federal and local laws involving labor, working conditions, unemployment and workmen's compensation, safety, health and welfare. Maintaining labor and human relations policies that are fair and equal to all employees and yet conform to the variety of different state and local laws is a major task in itself.

Since most of our products are supplied to other corporations on a contractual basis, we have all sorts and shades of interrelationships with our customers that are not present in the manufacture of products for consumer sales, and these not only complicate contract provisions, but present special patent considerations as well.

Our diversification shows an amazing effect in some of the more routine items. Thompson Products, for instance, pays more than 150 separate federal, state and municipal taxes, an activity that requires a
great deal of study and coordination between the legal and accounting departments.

To keep up with the tangle of government regulations under which we must operate, comply with all the laws, regulations, and orders, and file all the required reports, it is apparent that the corporate lawyer needs some degree of specialization. For a general practitioner to keep fully informed on all regulations that affect us, he would necessarily have to give up much of the rest of his practice. The attorney who can be relied upon to solve an intricate corporate problem must have more specialized knowledge than the average practicing lawyer can be expected to acquire. In fact, the principal reason for consulting a lawyer outside of our own law department from time to time is to find someone who is even more of a specialist on one phase of corporate law than the members of our regular staff.

THE LAWYER AS THE CORPORATE CONSCIENCE

In addition to performing the multitude of legal duties necessary to the normal flow of business life, corporate counsel in the United States has moved quite naturally into a position as the company conscience, or counsellor of business citizenship.

Industry is inseparably connected with the economic well being of society, and the pattern long has been established that business affairs may be regulated by law for what appears to be the good of society. We noted earlier, as we briefly developed the changing form of business down through the years, that abuses, or what seemed to be abuses, of the power and position of industry, were quickly translated into restrictive legislation.

During its unrestrained years, lasting into this century, shady financial maneuverings and a disregard of human values by a very few businessmen had the effect of placing business in general in an unsavory position in the mind of the public. Today, after several decades of good works and human relations progress, business has made great strides in living down this reputation but nevertheless still carries some of the old stigma.

The progress that has been made probably can be attributed to the new philosophy of management and to the hard work and vision of all members of the management team. Without detracting at all from the other team members, it must certainly be acknowledged that the corporate lawyers have played a major role in this forward movement, and had good reason for doing so. The corporate counsel is bound by his code of ethics to raise his voice against any improper or illegal proposals that come to his attention.

Legalistic requirements and regulatory restraints now restrict the cor-
poration and its executives to a straight and narrow path. Any deviations from that path may result in severe penalties, primarily financial, but in many cases criminal as well. The corporate counsel is the watchdog that barks at his employer's heels whenever he starts to stray from the path of corporate righteousness.

The salaried lawyer, as we have previously noted, is usually a practitioner of preventive law. This entails not only staying within the bounds of existing law, but also watching the business and financial morals of the company in an attempt to forestall any necessity for the imposition of new restrictive laws or regulations.

As long as business is suspect in any sizeable, vocal segment of the public, there exists this threat of new laws which might further cut the remaining business freedom. Such laws can best be forestalled by building public confidence in the social awareness of the corporation. This generally means going beyond the minimums expected and doing more than is required — making the corporation the leader in social progress, rather than an unwilling follower. For this reason, personnel, human relations and civic leaders have found an ally in corporate counsel, and business has begun to lead the way toward responsible corporate citizenship.

Business leaders have helped to obtain more liberal laws involving company funds which have made it possible for a corporation to donate money to charities, schools, hospitals and community projects. For the past ten years at least, corporate contributions to charity in the United States have been consistently greater than the non-corporate collections of the nation's community chests.

Corporations have led the way in employee relations, safety, health, vacations, retirement plans and other benefits. We at Thompson and our stockholders have long taken particular pride in being consistently and voluntarily in the forefront in offering improved benefits. Similar pride is shared by many other firms — and by the attorneys and others who won company and stockholder backing for these programs.

In acting as part of the corporate conscience, the lawyer has found one of his most important and challenging roles in modern industry.

THE LAWYER-EXECUTIVE

The member of a corporate law department, or of a consultant law firm, in the normal course of his work comes in close contact with every phase of the operation of a company. He develops familiarity with the workings of each department and the relationships between the various departments. Also in the course of his work he comes into frequent contact with company executives and directors and his abilities become
known to them. It is only natural, therefore, that there is a regular flow of attorneys into the upper executive ranks of corporate structure. Some historical surveys have indicated that while the participation of other groups in executive ranks have ebbed and flowed with the times, the percentage of attorneys has followed a stable and steady pattern.

In many cases, my own being one of them, the executive effectually departs from the practice of law when he accepts a position as a corporate executive. In other cases, however, employment in the law department may be a stepping-stone to an office, without necessitating a complete departure from the legal field. It is now probably more the practice than the exception to include at least one lawyer on the corporate board of directors, which in many cases leads to the lawyer-director becoming an officer of the corporation as well.

One corporate office — that of company secretary — is particularly the domain of attorneys. For the legal counsel of the company to hold the post of secretary has now become a generally accepted practice. There is, of course, a valid reason for this. A corporation is a creature of law and many of its important functions are precisely regulated by the laws of the particular state. The rights of stockholders, the rights and obligations of directors, and the proper means of calling and conducting meetings of either group are carefully set down. Failure to comply with any of these requirements could invalidate decisions important to the course of the business and could result in delays, confusion or lawsuits.

The corporate secretary is usually the chief contact between management and the stockholders. He handles the details of stockholder meetings, stockholder correspondence and the wording and issuing of proxies. He records the minutes of the directors meetings and serves as a check that all legal requirements have been met in any action taken by the directors. He is, in short, the custodian of proper procedure in the corporation's official life.

But the post of secretary is not always held by an attorney and is by no means the only executive position to which the corporate counsel can aspire. Many corporations have now given the law department greater recognition by electing its head to the position of Vice President and General Counsel. Six of the country's largest industrial corporations include one or more lawyers as both officers and directors of the company. In many cases the young attorneys who left private practice to join the law departments of corporations have eventually risen to top executive positions through their work in the law department. This group includes men like Roger M. Blough, Chairman of the Board of United States Steel; Philip Dunham Reed, Chairman of the Board of
General Electric; L. L. Colbert, President of Chrysler Corporation; Thomas F. Patton, President of Republic Steel; Clyde T. Foster, President of Standard Oil Company of Ohio; and many others that will immediately come to the mind of the reader.

Large law firms, which serve as outside counsel for many industries, have also added to the executive ranks by producing men like Winthrop Aldrich and John Jay McCloy (who stepped into the chair of the Chase Bank) and others who have moved into prominent positions of public service. Many corporations in search of a chief executive have chosen a practicing lawyer, usually but not necessarily from a prominent law firm. Three recent presidential candidates and the heads of many important government departments have also come from law firms, and in each case these were men who had become well known to the business world through their representation of leading business and industrial corporations.

Whether one is a newly hired novice or an experienced executive; whether he is engaged in proxy writing or in a position as the corporate conscience, the lawyer's role is not only vital to modern industry, but it offers a challenging, creative and rewarding life to the individual who chooses this type of legal career.

J. D. Wright

*The facts and figures contained within this work were taken from Martindale-Hubbell Law Directory (16th ed. 1955)*