Michigan Law Review

Volume 51 | Issue 7

1953

CORPORATIONS--OFFICERS AND AGENTS-AUTHORITY OF MANAGER TO ENTER INTO A LIFETIME EMPLOYMENT CONTRACT

Peter Van Domelen S.Ed.
University of Michigan Law School

CORPORATIONS—OFFICERS AND AGENTS—AUTHORITY OF MANAGER TO ENTER INTO A LIFETIME EMPLOYMENT CONTRACT—In 1924, the plaintiff, while working as an employee of the defendant corporation, suffered an injury which resulted in the loss of his leg. During his period of convalescence the plaintiff was visited by the district superintendent of the defendant corporation and was assured that the corporation would pay for his medical expenses and furnish him with a lifetime job in exchange for his promise to forbear from suit. Upon recovery, the plaintiff returned to work and served the defendant in various capacities until 1949, at which time he was discharged without cause. The plaintiff brought an action to recover damages for breach of contract and the trial court entered a judgment in his favor. On appeal, *held,* reversed. A lifetime employment contract is not enforceable against a corporation unless there is proof that the superintendent had definite authority, either under bylaw or action of the board of directors, to make the contract or unless the contract was ratified or its benefits accepted with full knowledge of the circumstances. *Pullman Co. v. Ray,* (Md. 1953) 94 A. (2d) 266.

A managing agent of a corporation ordinarily has the implied authority to hire employees when such employment is usual and necessary and within the scope of the corporate purposes.[1] But it is also generally accepted that a lifetime employment contract does not fall within the reasonable limits of this implied authority.[2] While in the principal case there was the additional factor that the superintendent had the authority to settle claims, this would not seem to warrant deviation from the general rule, and the court is supported by ample precedent in its refusal to imply authority to make a lifetime contract under these circumstances.[3] This extreme reluctance to imply authority is due not only to the unusual character of such a contract, but also stems from the notion that a

[1] Atholwood Development Co. v. Houston, 179 Md. 441, 19 A. (2d) 706 (1941); Slocum v. Seattle Taxicab Co., 67 Wash. 220, 121 P. 67 (1912); 1 MECHEM, AGENCY, 2d ed., §988 (1914).

[2] Heaman v. E. N. Rowell Co., 261 N.Y. 229, 185 N.E. 83 (1933); General Paint Corp. v. Kramer, (10th Cir. 1932) 57 F. (2d) 698; Carney v. New York Life Ins. Co., 162 N.Y. 453, 57 N.E. 78 (1900). See annotation in 49 L.R.A. 471 (1900).

[3] See cases collected in 87 A.L.R. 1277 (1933), supporting the view that a claim agent does not have the implied authority to make a lifetime employment contract in settlement of a claim for injuries. While some of the cases cited in this annotation held that the corporation was bound by the lifetime contract, those decisions can be distinguished either on the ground that they were based on the apparent authority of the claim agent or due to the fact that the question of the agent's authority was not litigated.

long-term contract is objectionable per se because it tends to bind the hands of future directors.[4] While some courts have gone so far as to hold that even a board of directors has no power to make a contract of employment for the lifetime of the employee,[5] or even beyond the term of office of the present board,[6] the general rule appears to be otherwise. If the lifetime contract is authorized by the corporation and based on adequate consideration, it will ordinarily be sustained.[7] It is submitted that the necessities of corporate practice make this the sounder approach and, in any event, the future directors could generally discharge the lifetime employee with the corporation responding in damages for breach of contract. Even though this power is now recognized in the directors, the courts have consistently refused to take the next step and imply this authority in a subordinate officer.

Absent any express authority, the court held the contract unenforceable because the corporation had neither actual nor constructive knowledge on which to base ratification or estoppel.[8] While this lack of knowledge precludes binding the corporation on either of these theories, it is submitted that the way is still open to apply the principles of apparent authority which would not require knowledge of the benefits on the part of the corporation.[9] Three elements are needed to hold the corporation liable under this theory: (1) there must be some affirmative acts stemming from the corporate principal which clothe the agent with appearance of authority; (2) it must be reasonable for the plaintiff to rely upon this appearance of authority; (3) the plaintiff must in fact rely upon this apparent authority to his detriment.[10] In the principal case, the first and third requisites seem to be satisfied, the fighting issue being whether the plaintiff was justified in supposing that the superintendent had authority to make the lifetime contract, which is a question of fact for the jury. With justified detrimental

[4] The rationale of this theory is that corporation statutes contemplate the right of stockholders to change the management of the affairs of the corporation by providing for periodic election of directors. If corporate directors can enter contracts giving persons of their choice employment for life, the power of the stockholders, as well as the future directors, will be to some extent dissipated.

[5] Clifford v. Firemen's Mut. Ben. Assn., 232 App. Div. 260, 249 N.Y.S. 713 (1931), affd. 259 N.Y. 547, 182 N.E. 175 (1932); Beers v. New York Life Ins. Co., 66 Hun 75, 20 N.Y.S. 788 (1892).

[6] Edwards v. Keller, (Tex. Civ. App. 1939) 133 S.W. (2d) 823; Beaton v. Continental Southland Savings & Loan Assn., (Tex. Civ. App. 1937) 101 S.W. (2d) 905.

[7] Heaman v. E. N. Rowell Co., Inc., supra note 2; Riefkin v. E. I. Du Pont de Nemours & Co., (D.C. Cir. 1923) 290 F. 286; Pennsylvania Co. v. Dolan, 6 Ind. App. 109, 32 N.E. 802 (1892).

[8] For the distinction between these two theories see MECHEM, OUTLINES OF AGENCY, 4th ed., §220 (1952).

[9] In the principal case, a vigorous dissent was entered on the ground that the facts warranted application of both the theory of estoppel and apparent authority. However, the dissenting judge then proceeded to find that the corporation had sufficient knowledge, either actual or chargeable, to invoke estoppel. This ultimate finding would seem to cast doubt upon whether a strict application of apparent authority was advocated even in the dissent.

[10] Richmond Guano Co. v. E. I. Du Pont de Nemours & Co., (4th Cir. 1922) 284 F. 803; AGENCY RESTATEMENT §7 (1933); 2 C.J.S., Agency §96 (1936) and cited cases.

reliance as the basis of apparent authority, knowledge of the contract on the part of the principal would seem to be immaterial. Those cases which have enforced lifetime employment contracts against corporations have generally done so under the theory that the agent was possessed of this apparent authority in his relations with the particular employee.[11] However, the Maryland court is not without precedent in refusing to consider apparent authority in connection with this problem.[12] Perhaps it can even be said that the numerical weight of authority follows this view. But in this line of cases, there has generally been no mention of apparent authority in the reported decisions and the reasons for rejecting this theory must, therefore, be left to conjecture. Possibly the foremost reason for this omission is again found in the reluctance to permit transactions which may bind future directors and the courts have refused to permit a question which could have this consequence to be placed in the hands of a jury.[13] It is submitted that this danger is more illusory than real and that the better reasoned cases have applied the test of apparent authority to the problem of long-term employment contracts.

Peter Van Domelen, S.Ed.

[11] Eggers v. Armour & Co. of Delaware, (8th Cir. 1942) 129 F. (2d) 729; Royster Guano Co. v. Hall, (4th Cir. 1934) 68 F. (2d) 533; Louisville & N.R. Co. v. Cox, 145 Ky. 667, 141 S.W. 389 (1911).

[12] Horvath v. Sheridan-Wyoming Coal Co., 58 Wyo. 211, 131 P. (2d) 315 (1942); Babicora Development Co. v. Edelman, (Tex. Civ. App. 1932) 54 S.W. (2d) 552; Rennie v. Mutual Life Ins. Co., (1st Cir. 1910) 176 F. 202.

[13] It is also suggested that the courts may have felt that, as a matter of law, a reasonable man is never justified in assuming that a corporate agent would have this authority. Query the role of constructive notice of the charter (and/or bylaws) under this test. In this connection see comment in 17 BOST. UNIV. L. REV. 176 (1937).