reasonable income and keeping the company out of the bankruptcy courts."

Further, Mace, in this conclusion, also recognized in 1970 a key issue directors face today (almost 40 years later): "The problem of the modern director is to define his role so that he does not meddle with day-to-day management but nevertheless knows what is going on and makes his influence felt in the determination of broad policy."

Mace made other important contributions by editing a regular column in *HBR*, titled "From the Board Room," beginning in 1975 until 1977, when he was succeeded by Ken Andrews, *HBR*'s editor at the time. Andrews, who had long taught Business Policy, the capstone required course in the MBA program, had himself served on corporate boards and thus had a strong interest in them. Of the many columns he wrote, the one which most bemused Andrews was when he proposed that boards have a "strategy committee." He later told me this column stimulated more mail than any of the others from directors who felt such a committee would undercut a primary purpose of the *entire* board. Andrews stuck to his guns, arguing that asking the entire board to discuss strategy was impossible because of its large size.

## New attitudes, new ideas

After these columns disappeared from *HBR*, there was a hiatus in board-related writing at HBS until the publication of *Pawns or Potentates* in 1989 and then the spate of faculty-authored articles and

## A steady and steely eye on governance

*Ed. Note*: Jay Lorsch has regularly reported in to *Directors & Boards* on the evolution of governance and how boards work. Here are excerpts from several of his past articles as well as a passage from his groundbreaking book, *Pawns or Potentates*.

**Boardroom** — the word alone conjures up visions of power, wealth, and privilege in the minds of most Americans. Almost every publicly owned corporation in America has a boardroom, impressively designed and furnished in a fashion that does nothing to undermine the popular view. The boardroom's core, the symbol of its power, is a massive highly polished table around which the directors are presumed to make the decisions that govern the corporation and affect the wealth of its owners — the shareholders — and the livelihood of its employees.

This symbol of power seems as appropriate to the company's employees, including many of its managers, as it does to the general public who invest their savings, directly or indirectly, through mutual or pension funds in the shares of the companies. This perception of the role and power of the board of directors meshes, too, with the traditional legal view of corporate governance.

Directors, however, are less sanguine about their power and capacity to govern. While they don't see themselves as pawns of management, as did their predecessors of a decade ago, they acknowledge a number of constraints on their ability to govern in a timely and effective manner. Such constraints include their own available time and knowledge, a lack of consensus about their goals, and the superior power of management, particularly the CEO-chairman.

These are the major conclusions of our research into corporate governance in U.S. publicly owned companies, an investigation prompted by the obvious malaise of U.S. business performance over the past decade.

— *Pawns or Potentates: The Reality of America's Corporate Boards*, Harvard Business School Press, 1989

**We recommend** that those companies that do not have a nonexecutive chairperson designate one of the outside directors as the lead director. The lead director would be consulted by the chairperson/CEO on: (1) the selection of the board committee members and chairs, (2) the board's meeting agendas, (3) the format and adequacy of the information directors receive, and (4) the effectiveness of the board meeting process. The lead director would also coordinate an annual evaluation of the chairperson/CEO by the outside directors.

Finally, if the outside directors are confronted by a crisis because of the incapacity of, or failure of performance by, the chairperson/CEO, they would have a designated leader in place and would not lose time in organizing to deal with the problem.

While the immediate reaction of many chairperson/CEOs to this proposal is negative, we believe it is a critical factor in making boards more effective. In fact, we believe that in many boardrooms today such a leader is already recognized by management and the outside directors.

— "The Lead Director," Spring 1993, an excerpt from "A Modest Proposal for Improved Corporate Governance," an article by Martin Lipton and Jay Lorsch published in *The Business Lawyer*

**Changing the quality** of a typical board's membership has traditionally been a slow and very difficult process. Most of the new faces on boards, even today, appear because existing members have reached retirement age or tenure limits. Deadwood persists because boards typically have had a hard time getting rid of subpar performers. Directors simply have found it very difficult to face up to noncontributing peers. They are colleagues, often long-standing ones, and it is difficult to ask such people to resign. Further, very few boards have any concept of offering education and development for their members (or much motivation to do so). So even those board members who would otherwise grow into their roles in an exemplary way if given the right kind of training are at a disadvantage. The assumption is that every director knew all he or she needed to know before joining the board and can now dispense that wisdom at the boardroom table.

The difficulty of improving the quality of board members is exacerbated by a perceived

*Back to the Drawing Board* in 2004. During these 15 years, attitudes among HBS faculty about corporate governance changed dramatically.

The reverence and deference with which boards were treated by our predecessors diminished. Boards, like other high status institutions in America, were fair game for criticism! And they had many critics among lawyers, shareholders, the media, and now HBS professors. Not only were we critics, we had hands-on boardroom experience and we had concrete ideas about how directors could do a better job, and were not shy about expressing our opinions — see, for example, "A Modest Proposal for Improved Corporate Governance" (1992) in *The Business Lawyer*, which I wrote with Martin Lipton, or my most recent *HBR* article, "Leading from the Boardroom" (2008) with Robert Clark.

In fact, I believe that one thing that distinguishes me and my HBS colleagues from most other scholars who study and write about boards is that we have not only studied them close up by interviewing directors and soliciting their opinions in written questionnaires, and by writing teaching cases for our courses and seminars in the MBA and executive education programs, but we have actually served on boards. We understand that they are truly complicated human and social institutions and that improving them requires an understanding of that complexity. ■

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shortage of good, qualified directors. Everyone wants the same few people — who are almost always older men with substantial management experience. Everyone seems to want prominent CEOs or people who were recently CEOs of major corporations. But do the math: There are more than 10 board seats for each CEO position; if this is the only talent pool from which directors are sought, there is always going to be a shortage of talent.

— "A Visit to Board 'Central Casting,' " Fall 2003, an excerpt from *Back to the Drawing Board: Designing Corporate Boards for a Complex World* by Jay Lorsch and Colin Carter, Harvard Business School Press

**There is an untapped pool** of talent that shares most of the positive qualities of active CEOs. They would be commonly labeled as retired CEOs (and other very senior executives). I hesitate to use the term "retired," because the executives I have in mind are certainly not out of active work. They have left their first careers as leaders of major companies but are still in their early to mid-sixties and are energized to enter second careers.

The fact that second-career directors have more time and flexibility than active senior executives makes them valuable board members not only in the regular course of events, but also when their company faces special issues — such as a succession crisis or a major acquisition. In these instances, directors are often required to interrupt their normal schedules. In my experience, second-career executives are willing and able to do this, while active CEOs usually cannot. This is why so many second-career directors have been at the center of boardroom changes.

It is important to note that adults are living longer and healthier lives. People in their 60s and 70s continue to affect profoundly the law, medicine, nonprofit institutions and, of course, several branches of the government. The business community should take far greater advantage of this pool of talent.

— "Second-Career Directors," Spring 1995

> **There has been a big swing in the influence of boards *vis a vis* management, which has been quite healthy.**

**In seminars,** symposiums, and boardroom discussions about creating more vital boards, one of the hot new topics is what directors should do about evaluating their own performance. As boards become more involved in monitoring and evaluating their CEO's and company's performance, many directors are asking the natural next question: Shouldn't there also be an evaluation of the board's conduct and activities?

In such discussions and as a few leading-edge boards evaluate themselves, directors are concerned with two aspects of the board's conduct. One is how well the whole board is doing in carrying out its responsibilities; the other is the performance of individual directors. Leading-edge boards are having more success in evaluating their overall performance than in evaluating individual directors.

— "Performance Assessment In the Boardroom," Spring 1994

**When the book** [*Pawns or Potentates*] was published, I suddenly found myself in the middle of what I called the "circus" of corporate governance. It was clearly a case of being in the right place at the right time, because the book was published in an environment where there was an immense amount of interest developing in corporate governance generally, and in boards specifically, on the part of institutional investors, the legal establishment, and directors themselves. And I have been involved in corporate governance ever since.

The big issue that we dealt with in the book, reflected accurately in the title, was whether directors were going to be the pawns of the CEOs or were they going to be the potentates — which is what the law indicates they should be. At that time, they were probably more like the pawns. Today, they are more like potentates. There has been a big swing in the influence of boards *vis a vis* management, which has been quite healthy.

— "An Oral History of Corporate Governance 1976-2001," interview with *Directors & Boards* Chairman and Publisher Robert Rock for the journal's 25th anniversary edition, Fall 2001

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