Back to the Drawing Board: Designing Corporate Boards for a Complex World
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Colin Carter is retired from Boston Consulting Group and serves on the boards of two publicly listed Australian companies. Jay Lorsch is a professor at Harvard Business School, the co-author of Restoring Trust in American Business (2005) and Pawns or Potentates: The Reality of America’s Corporate Boards (1989). Professor Lorsch is also a director of Computer Associates International, Inc.

The authors push beyond structural devices to improve corporate governance – such as increasing the percentage of independent directors, reducing the number of boards on which each director serves, and electing a board chairman other than the CEO – to discuss the imperative for boards to define their roles in the light of the needs and circumstances of their companies. The authors suggest that the factors most likely to make a board effective are “the dedication, energy, time commitment, and skills of the directors, the quality of their information, the leadership of board discussions, and the level of openness, transparency, and trust in the relationships among directors and top managers.” (p. 36)

The authors note that in selecting new board members, boards should
- Widen the talent pool beyond CEOs by considering businesses or professions where women or minorities are well represented,
- Think strategically about the skill mix,
- Raise the performance bar through periodic assessments of current directors,
- Insist on an education process for new directors, and
- Be realistic about compensation. (pp. 114-15)

They describe six essential characteristics of each director: intellectual capacity, interpersonal skills, instinct, interest, a commitment to contribute, and integrity. (pp. 116-17) The authors urge that these characteristics are more important than whether the director is a CEO, noting that most CEOs argue that CEOs make the best directors, while most non-CEOs argue the opposite. (p. 116)

The authors note that boards generally have very little gender or ethnic diversity, but warn against tokenism, arguing that each board seat is precious and that each director should possess the six minimum attributes listed above. (p. 123) The authors note that the shortage of women and minorities is the “logical outcome of the view that the only good directors are CEOs and ex-CEOs – and we note that 99 percent of the CEOs of S&P 500 companies in 2002 were male,” but that “[t]here is room on a good board for directors who haven’t been CEOs, and a logical step is to look to those business professions where women and minorities are already well represented.” (p. 123)

Reviewed by Lissa Broome, UNC School of Law