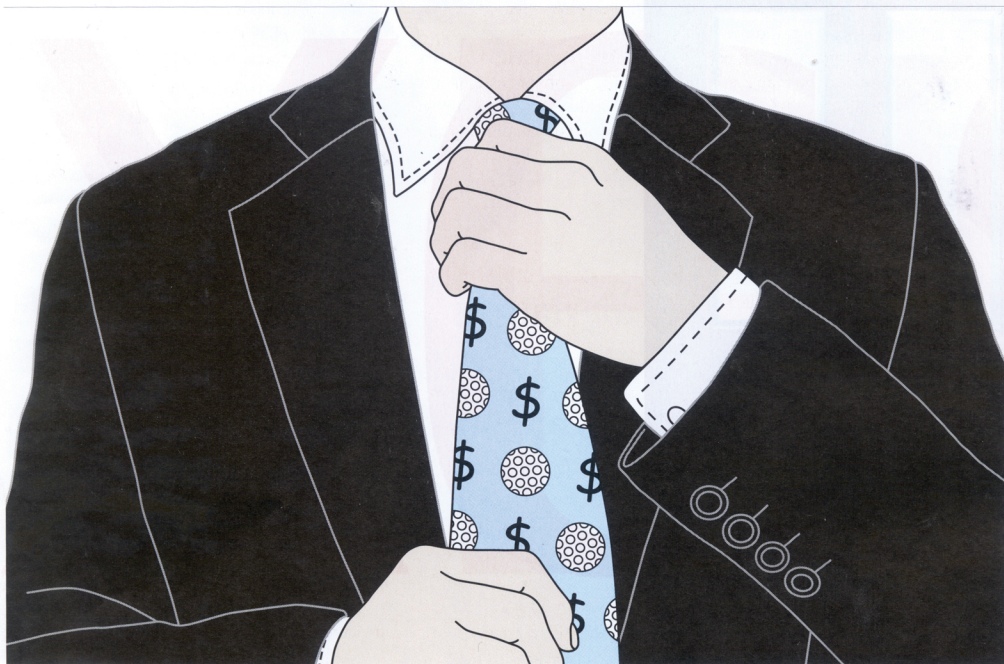


forethought

A survey of ideas, trends, people, and practices on the business horizon



GRIST

Directing for All the Wrong Reasons by ROGER MARTIN

Last spring, I gave a rather unpopular speech at a dinner attended by 400 of Canada's most important directors. The dinner was held by the Institute of Corporate Directors to celebrate four of its most distinguished fellows, and I used the opportunity to argue that directors, shareholders, and regulators are deluded in thinking that boards, as currently designed, play a meaningful role in overcoming the inherent conflicts between managers' and shareholders' interests. Professional managers, as Michael Jensen and William Meckling famously

warned in their 1976 *Journal of Financial Economics* article "Theory of the Firm," can't be completely trusted to act in the interests of shareholders and neither, I argued, can directors.

At the heart of this problem is motivation. The unstated assumption is that while managers have problematic motivations, directors' motivations are pure. It is critical to test that assumption by asking, What drives executives to become members of a public company's board? I can think of only six reasons, and only one of them is good.

Here are the five bad reasons for becoming a director: to garner favors from the organization (remember that until relatively recently, CEOs of big companies sat on the boards of their lead banks expressly to ensure that their firms wouldn't get cut off in the next credit crunch); to learn about an interesting industry (this is a more common motive than you might think yet offers no benefits whatsoever to shareholders); to receive lucrative compensation; to enjoy the prestige of the position; and to indulge in the board's social community.

In each case, the self-interested motive creates a disincentive to speak up in any way that would create discord with other board members or management or, worse, threaten one's position on the board. As a result, directors have as big a conflict of interest as the managers they are charged with overseeing!

The only *good* reason to join a board is to serve the public by protecting capital providers from the worst motives of managers. Only directors who view themselves primarily as public servants, and are seen by the public that way, are free of the self-interest that feeds the problem. So what would be the model for such a public-service-oriented board? I believe that directors who care about the integrity of boards must form a global club whose members contractually obligate themselves to give 15% of their annual director compensation to a registered charity. Fifteen percent is a meaningful amount, but not so great that it would turn directorship into a charitable act. It does leave the standard directors' fees at something close to market rate but ensures that club members are publicly accepting a marginally unattractive compensation—a prerequisite of service.

Belonging to the club would conspicuously demonstrate a director's commitment to public service and offer a member the social benefits of being perceived as a good person. It also would provide a self-reinforcing support structure for good governance, giving club members the social backing needed to make difficult decisions that might be unpopular with management but would be in the **best** interest of shareholders.

Smart investors would want to know the number of club members on a company's board because the more club members, the greater the board's public-service orientation and the less potential for conflicts of interest. A high ratio of club members to nonmembers would indicate management's commitment to integrity, as club directors would have lit-

tle tolerance for self-interested or corrupt management and would take their public service elsewhere. And because having club members on boards would make companies more attractive to investors, corporate reports might eventually declare the number of club members on a board, just as they now indicate the number of women and minority directors.

The directors' club would be good for shareholders, managers, and directors

themselves. But as long as directors seek their positions for the wrong reasons and continue to complain about how hard their job is and how underpaid they are, they'll remain deluded about their power to protect shareholders' interests.

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STUDIES SHOW

Making Mentoring Pay by MARC ABRAHAMS

Mentors, say those who study the development of great executives, managers, and entrepreneurs, are crucial to a successful business career. But below the celebrated top rungs, and apart from certain obvious high-skill specialties, how important is mentoring really? Judging from how rarely seasoned employees are paired with those from the rank and file, you'd think the verdict was in—there's little to be gained in mentoring the masses.

Carlo Morselli and Pierre Tremblay of the Université de Montréal and Bill McCarthy of the University of California at Davis attack the question in a novel way in their recent study "Mentors and Criminal Achievement," published in the journal *Criminology*.

"Our analysis," they write, "focuses on the effects of mentors on two aspects of criminal achievement: illegal earnings and incarceration experiences.... Protégés with lower self-control attract the attention of some criminal mentors, who provide the structure and restraint that lead to a more prudent approach to crime. This approach involves fewer and more profitable offenses that lower the risks of apprehension and, perhaps, promote long-term horizons in crime." The data, Morselli and Tremblay say, do show that earnings are higher for criminals who had mentors. "Our findings," they conclude, "suggest that strong foundations in crime offer an advantageous position for continuous achievement, and the presence of a criminal mentor is pivotal for achievement over one's criminal career."

When deciding who in your organization would benefit from a mentor, consider looking beyond the usual suspects. Who among middle management, or even on the shop floor, might blossom with a little "structure and restraint" administered by a colleague who knows the ropes? You might be profitably surprised.

MARC ABRAHAMS (*marca@chem2.harvard.edu*) is the editor and cofounder of the scientific humor magazine *Annals of Improbable Research* (www.improbable.com). In this regular *Forethought* column, he unearths studies that shed the oblique light of multidisciplinary research on the science of management.

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