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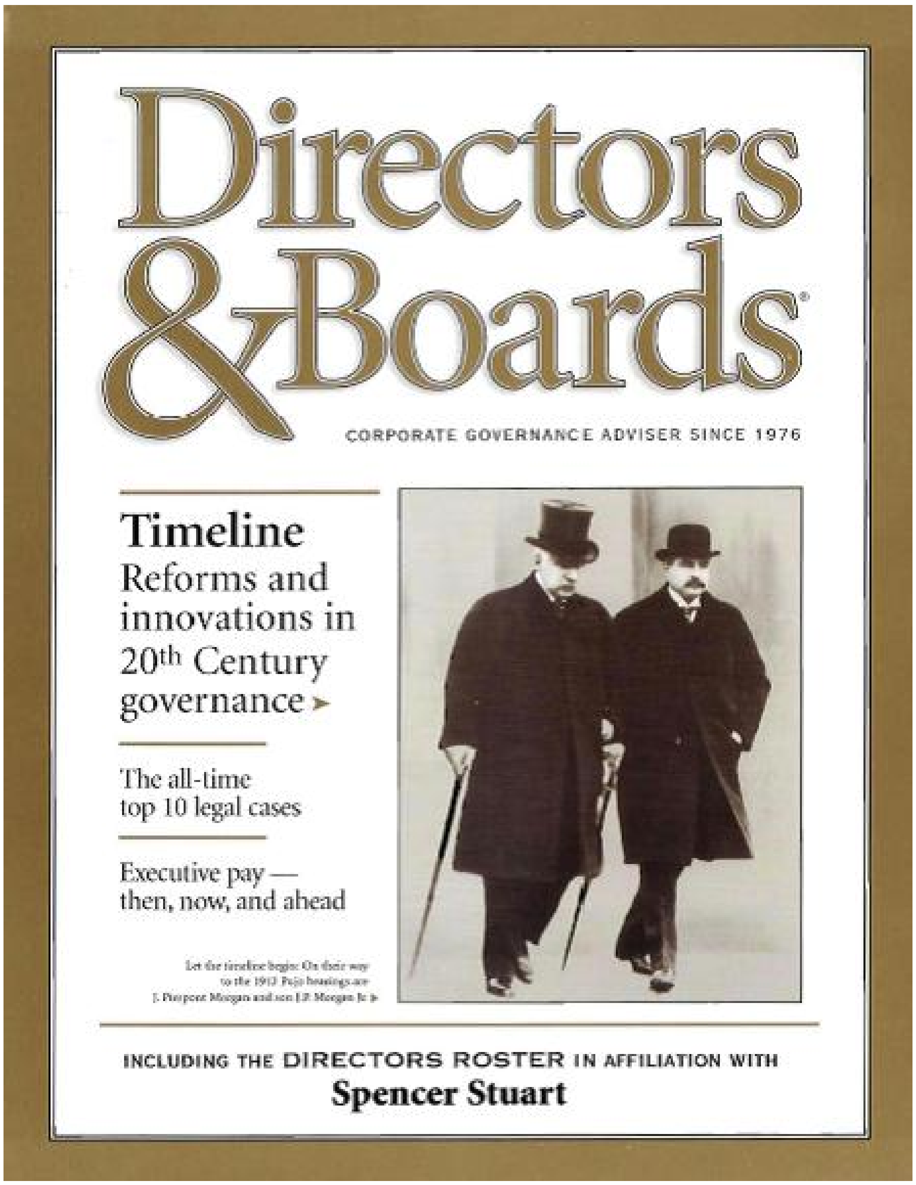
ENDNOTE

A timeless model: J. Keith Louden

By Gary Lutin



Picture caption: "Let the timeline begin: On their way to the 1912 Pujo hearings are J. Pierpont Morgan and son J.P. Morgan Jr."

(See December 20, 1912 *New York Times*: "Money Monopoly an Impossibility, Morgan Asserts")

Note: For a subsequent reference to this tribute, see Fourth Quarter 2011 (35th Anniversary) *Directors & Boards*: "Keith Louden knew it all | He was the director's director"

A timeless model: J. Keith Louden

He brought order and professionalism to the governance of the post-World War II American corporation.

BY GARY LUTIN

AS WE GROPE toward a new standard for governing the next millennium's global corporation, I find myself testing all the advice of current experts on the imagined reactions of the man who wrote the old rules, the late J. Keith Louden.

My thoughts have nothing to do with nostalgia, any more than Louden's ever would have. The value I seek is Louden's mastery of change. There is a great deal to be learned from the man who brought order and professionalism to the governance of the post-World War II American corporation.

Louden's extraordinary influence on a generation of leaders was based on two exceptional strengths: practical wisdom, and his effective delivery of it. Every bit of advice he offered me, and I believe all the advice he offered to the world, was explained in terms of his direct experience with what did or did not work.

There was nothing theoretical about him. He learned how to organize functional groups as a management executive, became an expert on director responsibilities by serving on many boards, and achieved recognition from his counseling of colleagues. Then, after that, he wrote a book. Brief biographical notes may highlight his readily described credentials as an author and teacher, but he was first and last a practicing model

J. Keith Louden (1905-1994)

of the corporate director.

The essential values of Louden's example are just as applicable today as they were 10 or 30 years ago. What many consider to be an outdated advocacy of board collegiality, consensus decisions, and privacy of proceedings was not based on Louden's acceptance of current fashions but on a thoroughly reasoned belief that every member of a corporate board shared a common fiduciary duty to all shareholders and therefore sought a common objective, so that any differences in views should be candidly discussed until everyone understood all the relevant issues and could thus agree on how to proceed.

Louden often explained the corporate board's common purpose by contrasting the identical responsibilities of its directors with the differing responsibilities of delegates in political legislative bodies, where each member represents separate and often competing constituency interests. One of these legislative models got things done and made things work, he would point out, and the other didn't. Observing any board functioning under Louden's skilled guidance, there was no need to guess which model worked.

Not all of Louden's views were in fashion or even generally accepted during his time. For example, his idea of board composition was virtually the same as models promoted by most of today's investor activists. The CEO, according to Louden, should be the only management member of the board, with occasional exceptions for a temporary second spot to groom a successor, and the board's chairman should always be an independent outside director. Familiar with all sides of the relationships, and particularly with the management perspectives he had experienced as an operating executive for 40 years, Louden knew that

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J. Keith Louden was recognized as the leading authority on board management during the formative decades of the American post-World War II corporate organization. His books, from the 1966 edition of *The Corporate Director* to the 1982 revision of *The Director*, continue to serve as standard boardroom manuals. His pioneering seminars and retreats for directors, organized as founding chairman of the AMA's President's Association and later by his consulting firm, The Corporate Director Inc., were the forerunners of today's programs at Harvard, Stanford, Wharton, and the NACD. Louden's expertise was based on actual corporate management experience, gained from industrial company executive positions and from serving as a director of more than 25 large to small corporations. He served from 1981 until his death as a member of the editorial advisory board of DIRECTORS & BOARDS.

Gary Lutin is a former investment banker who started working actively with Louden in acquisition partnerships during the early 1980s, when Lutin was in his 30s and Louden in his 80s. At the time Lutin and Louden met, Lutin & Company was a five-year-old independent firm which had established recognition in the specialized area of capitalizing ambitious growth programs for mid-size industrial companies, relying on investment-grade financing before the more adventurous days of junk bonds. Louden's expertise in corporate governance provided sufficient control of management risk to allow the firm's funding of acquisitions with relatively conservative institutional investor participants.

Timeless model

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nobody could be expected to objectively monitor performance for which he shared any executive management responsibility.

And he was serious about independent directors being independent. When it was conventional practice to include a company's lawyers and investment bankers on the board, Louden argued bluntly against any directors whose advice could and should be engaged on a fee basis, particularly since they might be biased by interests in generating opportunities for themselves.

Louden's ability to communicate his conventional and unconventional wisdom was supported by a virtually universal perception of his absolute personal credibility. This was based largely on his frequently startling candor. It offended a few people but assured everyone that he could be relied upon to say honestly what he was thinking.

I was personally convinced that I could rely on Louden within minutes of our first meeting. It was about 1980, in the days before management buyouts could be easily financed, and Louden was visiting my investment banking firm to seek our funding of some acquisitions with his management oversight. When Louden presented his plan for managing acquired businesses, it included an unvarnished explanation of his unwillingness to tolerate the conventional practice of allowing investment bankers or lawyers on the board, emphasized by references to the various corruptions which resulted from their conflicting interests. Not knowing my views on the subject, he added some reasonably tactful comments suggesting that my personal level of integrity was probably exceptional but that corporate board policies should not be modified for individual cases. It was a memorable and very sound start to our relationship.

More than anything else, though, Louden's credibility as an expert on director responsibilities was based on his performance. Anyone who served with Louden, or just observed him, knew without any doubt that he could be relied on to do his duty. He was always serious about accepting any responsibility, and then absolutely unquestioning about fulfilling it. But there was nothing grim about his commitment. He clearly thrived on burdens and challenges, with the natural leader's contagious exhilaration and a truly astonishing level of stamina.

When Louden was 81, he took on the task of personally assessing the operations and management of a group of 11 industrial companies we were interested in acquiring. He set up an itinerary for visiting more than 20 key facilities, mostly in remote locations and scattered fairly evenly across North America from Canada to Texas and coast to coast, on a two-week schedule with only a Sunday break. The seller's healthy 30ish corporate staffers were quickly exhausted by the pace, and completed the tour with two "tag teams" so that each could rest after a few days with Louden. Another generation had been inspired by the master.

Louden showed us how to be an effective director by showing us how to be an ideal partner, colleague, and counselor. Anyone with a sense of responsibility and common sense could follow his example. Those of us who learned from watching and working with Louden know that the fundamentals of fiduciary duty have not changed, and that they never will.

The board world, according to Louden

Editor's Note: J.Keith Louden's final book was The Director, *published in 1982 by AMACOM, a division of the American Management Association. It is a compendium of principles for successful directorship. Since the book is now out of print, we are passing along a few of his pointed observations taken from this governance primer. They amplify the tribute made by Gary Lutin in his accompanying article: "Those of us who learned from watching and working with Louden know that the fundamentals of fiduciary duty have not changed, and that they never will."*

To oversimplify the role of the board, it could be stated that its primary purpose is to elect a truly competent chief executive officer and to advise, counsel, support, and aid that person in the successful operation of the business.

The job of building, staffing, and running the board is never-ending. As with running the company's operations, two kinds of maintenance are called for:

1. Keeping this year's relationships well lubricated; putting out this year's fires; doing a better job of making this year's decisions; filling this year's vacancies.

2. Discovering what kind of board will be needed a few years hence; planning to rebuild the board to met these future needs.

Directors can delegate authority and responsibility, but they cannot delegate accountability.

The boardroom is no place for flightiness or for dealing with vital matters in the grand casual manner.

Failure of a board and of management to perform effectively is not limited to illegal or unethical acts. They just get the publicity. As unacceptable as these are, an even more serious breach is failure to sense the winds of change and to keep their companies competitive and in a leadership position in the industrial world.

One of the primary roles of a director is to be ever on the alert for opportunities, events, information, or anything whatsoever that may have a bearing on the business of the corporation.

When we speak of board effectiveness we are really talking about corporate effectiveness, and that, in turn, means management effectiveness.

One of a director's most important but difficult problems is keeping properly informed. Unless he is adequately informed about company affairs, a director cannot satisfactorily fulfill his role.

The cardinal rule of all boards as well as of managements is that surprises must be prevented.

A basic requirement for being a director is experience in management. This requirement does not apply to industrial management only, since management is management wherever you find it...Sometimes people will be invited to membership on a board because of some specific knowledge, such as in the field of science. Unless this specific, specialized knowledge is accompanied with an understanding and knowledge of management, such members rarely make good directors, since they cannot contribute on a broad base.

As one prominent director said, "I am a personal friend of all the chief executives on whose boards I serve, but they know and understand as well as I do that when I enter that boardroom I do my level best to leave my personal feelings about them with my hat and coat outside the boardroom." Board relationships need not be unfriendly, but they should be strictly businesslike, even among people who know each other well.

The job of a director is too important to be bogged down by free riders. In addition to considering the shabby spectacle presented by the noncontributor, the fact that he is blocking an opportunity for willing and able directors makes his presence on the board undesirable.

Experienced directors who are really familiar with the role they should play can do much to tone up the performance of those on the board who have less experience.

It is too difficult for an inside director to function as the subordinate of the chief executive officer every day and then, at a board meeting, become in effect his superior...Another problem in having inside directors, which is often glossed over, is the fact that some managers are serving on the board and their peers are not. Thus, those managers who do not serve on the board appear to have second-class rank, and the manager-directors have a tendency to take advantage of this situation in normal day-to-day discussions and relationships.

An outside director may resign from a board for many reasons, but basically out of disappointment because of unfilled expectations...A company embarking on a director-recruitment program will do well to look back at its exit interviews and to consider its current board practices to see whether the image of the board has become unattractive to outsiders.

The chief executive officer has to defend the private-enterprise system against the ever-increasing intervention of government. No one will defend the interests of business except those engaged in it.