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In May 1949, the redoubtable Sidney Weinberg, then head of Goldman Sachs, addressed the Harvard Business School Club of Cleveland.² He entitled his talk “The Functions of a Corporate Director,” but his focus was the special role of outside directors in modern publicly held companies. Although there had been a time, he noted, when corporations operated as local, family enterprises and a patriarch dominated the board,

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² Sidney J. Weinberg joined Goldman Sachs in 1907 and became Senior Partner in 1930, a position that he held until his death in 1969. During those 39 years, he served as an advisor to five U.S. Presidents and played an important role in many government and charitable organizations. In 1933, he founded today's Business Council, which provides public-spirited corporate executives the opportunity to lend advice and assistance to the U.S. government. In the early 1940s, Mr. Weinberg took a leave of absence from the firm to serve as Assistant to the Chairman of the War Production Board, and was later named Vice Chairman. For his leadership, he was awarded the U.S. Medal of Merit – the highest military honor given to civilians. (Information from the Goldman Sachs website: http://www.researchselectfund.com/our_firm/our_culture/corporate_citizenship/gmi/articles/gmi_040928163235.html)
surrounded by subordinates and family, that time had long passed. Modern companies differed and demanded a different board:

As corporations grew in size and scope and in number of stockholders, and became public companies it was necessary to have more diversity in the Board of Directors. Stockholders insisted on representation on the Board aside from the active executive management, and outside directors proved of help to the company in bringing fresh points of view. (Emphasis added.)

Mr. Weinberg’s “diversity” did not carry quite the same meaning as the term often does today. His concern was chiefly that outsiders’ voices be heard in corporate boardrooms alongside those of management. This was not simply a matter of democratic fairness -- no resolutions without shareholder representation --, it was have a matter of survival in a business world that required flexibility and adaptation. For the same reasons that in-breeding weakens and cross-breeding improves species vigor, a board should contribute a variety of experience and opinion and not simply rubber-stamp the opinions of the chair. Responding to an idea in the air at the time, Weinberg suggested that women stakeholders could add desirable diversity:

Recently there has been an organized campaign to elect women to boards – apparently just because they are women . . . I see no reason why a competent woman should not be elected to the board, as I think it would be

http://www2.goldmansachs.com/insight/viewpoints/opinion_pieces/functions.pdf
It is desirable to get a woman’s point of view, especially in the case of corporations dealing directly with women as customers, particularly now when some companies have more women than men as stockholders. 4

Weinberg’s comments from nearly sixty years ago, a time when very few women participated in corporate management, fell short of being a call for nominating committees to get busy searching out women candidates for the next proxy season. But Weinberg did acknowledge that women might offer not only able, but special, guidance in such positions. They might deserve board seats: they often held significant investment interests; more important, they might have special insight into a significant consumer cohort. It was not their gender that qualified them, though; their marketing savvy and their investment did.

Recent events have once again caused the corporate world to wonder whether women might make an especially important contribution in the boardroom. Responses to major corporate scandals, especially the Enron debacle, included predictions that CEOs would come to see board diversity as prophylactic, 5 even as helping to meet the

4 Id.

5 “Post-Enron and other corporate disasters, companies in California should look to women to bring fresh ideas and perspectives to their companies.” “New Study Reveals California Leads the Nation in Naming Women to Corporate Boards,” Corporate Women Directors International press release, February 23, 2004.
requirements of Sarbanes-Oxley for director independence. Given the preponderance of white males in board rooms, and the accusations of director passivity and gentlemen’s clubbiness, how better to improve the appearance and perhaps reality of independence than inviting true outsiders, ethnic, racial and gender outsiders. Once again, the emphasis is not on inherent qualities as on cultural differences. Directors from outside the old club might challenge the status quo, overcome insider hegemony, and induce board activism.

Morten Huse’s new book, Boards, Governance, and Value Creation (Cambridge University Press, 2007), reports on his studies of many corporate board behaviors, including adaptations to diversity, at least among the European companies that have been the primary focus of his and others’ investigations. His book comprehensively describes the processes and dynamics of board behavior, and it adds to the existing body of corporate studies with three important themes. First, Huse recognizes and emphasizes the primacy of the board’s obligation to create value for the company. He acknowledges that it is not an altogether novel assessment, but he believes it deserves emphasis and explication. Second, Huse does not forget that boards comprise human actors. They must maintain their ethical function as they contribute their special skills and experience to the management team. Third, companies, much like the human actors who populate

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6 “The calls for boardroom accountability and independence triggered by the nation’s corporate scandals may provide an unprecedented opportunity for companies to diversify their boardrooms . . . The issue of diversity has come to a head because the SarbanesOxley Act of 2002 now requires more independence among board members.”
them, vary in size and personality and mature over time. They move through stages of life, and each stage call for its own management priorities.

Huse’s book might be required business school (or even law school) reading for any of those themes. But it is a leitmotif of the book that will catch and keep the attention of many readers: Women directors offer to their boards and companies something men often cannot or do not. Huse, a Norwegian, knows this because his country has become something of a Petri dish of directorial culture, and women have been recently introduced to that culture in a large numbers. Huse and others have studied the phenomenon and report, at least anecdotally, on the findings. Most of the information comes from the observations of the women directors themselves, making the information at least potentially biased. Nonetheless, it makes fascinating reading.

In 2006 Norway enacted the requirement that at least 40 per cent of the board members of corporations be women. But Norway is no stranger to legal innovation, having been a leader in the movement to introduce employee to corporate governance in

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Sidney Weinberg held much the same view back in 1949: “As in all affairs, problems confronting directors and officers of a corporation change. I find that in every decade corporations have new sets of problems. In addition, every company, like a child, is different, and each presents different problems.” Id.

Huse focuses on three such stages: Start-up, Growth, and Crisis, each of which requires special tasks of the board of directors. Huse, p. 110-114 et seq.
the 1970s. In the 1990s Norway moved to update its Company Act in part to bring it into line with other Nordic countries, especially Denmark, which was a member of the European Union and had to follow EU corporate law.

The 1999 corporate law changes contained separate laws for closely held and publicly held companies. In Huse’s opinion, the “major advance of these laws compared to earlier laws was that they spelt out the responsibilities of the board.” Debate surrounding the updated corporate laws included the advisability of requiring a quota of women on private sector corporate boards. The idea was not novel. In 1988 Norway’s Act of Equal Opportunity contained this Paragraph 21:

> When a public body appoints a committee, board or council, etc. with four members or more, then each gender must be represented with at least 40 per cent of the members. Both genders must be represented in committees with two or three members. These rules are also valid for subsidiary members.”

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10 Norway also had domestic reasons for a new Company Act, including concern over misuse of the corporate form, and increased bankruptcies.

11 Huse, p. 92.

12 Id.
As Huse explains, the motivations for this law might have initially been equal opportunity and social justice, but proponents also argued that interests and experiences of women could contribute to public sector decision-making. In 1979 22 per cent of public boards and councils were women. By 1989, the law nearly doubled that percentage to the required 40%. Despite this dramatic development in the public sector, in 1992, when there were at least 40% women on those boards, the private sector, Oslo Stock Exchange [“OSE”]–traded companies included on 3.4 per cent women on corporate boards. Owing in part to the listing of a wider variety of companies on the OSE, that number more than doubled to 7.5 per cent. According to Huse, enough women participated in corporate boards that studies reported “positive relationships between the ratio of women on boards and board performance.” In other words, the focus of debate shifted from gender equality and equal opportunity to firm profitability.

Huse makes several important observations regarding board dynamics and decision processes. Several come from his “board life story” project, a study of the role and contributions of women directors. For example, many are made outside the

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13 Huse, p. 93.

14 Id.

boardroom, and informal arenas “are genuinely important for the governance of organizations,\textsuperscript{16} as the following two reports confirm:

Sometimes you must be on (sic) particulars arenas to get to understand who makes decisions. In the leadership team of the company there were as many women as men. In a meeting we were discussing a difficult issue. Then we had a break, and all the girls went to the restroom to wash hands, and while we stood there doing so, we then decided what should happen.\textsuperscript{17}

In XX board you occasionally share a room with other women. You enter the bathroom with other women. Some common things like that build communion between women, making it easier to get in contact. You go to the swimming pool or the sauna.\textsuperscript{18} It means a lot not to be alone as a woman on the board, in particular, during the breaks. During the actual meetings this doesn’t matter so much. It is the time spent around the meetings that can be difficult. There are some arenas where you feel you are excluded.\textsuperscript{19}

\textsuperscript{16} Huse, p. 143.

\textsuperscript{17} Id.

\textsuperscript{18} As you might imagine, the Huse’s book mentions the sauna as an important Nordic social center, but these are usually segregated by sex.

\textsuperscript{19} Huse, p. 143.
This comment underscores the reality that informal arenas can be exclusive, whether by gender, social circles, ethnicity or geography. Recognizing this allows, perhaps compels, management leaders who wish to assure all directors opportunity for meaningful contribution to exert some control over the informal arenas or to counterbalance their effects in some way. Of course, by its very nature “informality” resists formalization. Bathrooms, swimming pools, saunas, lunches and golf courses might be de facto committee meetings, but they cannot become de jure boardrooms.

When men and women do participate together, Huse cites studies that find the interactions may involve an interesting variety of forms. Of some importance is that “at work or at play there is some level of sexuality involved. . . Flirtation and mentorship are, for example, found to be closely related” as illustrated by stories from women directors:

I think it is and advantage to be young, but not necessarily very good-looking, but attractive and to be articulate, and also possess a glint in the eye . . .

I have had many advantages by being a woman. They have remembered me, and they have treated me as gentlemen. They have wanted to help me. Everybody has remembered me because I have been the only woman . . . but sex or gender does not mean much at the top. . .

I can allow myself some flirtatious behaviour that makes me acquire some knowledge of the other board members in a different way. I can see other sides of them than their male colleagues. You get knowledge about your male colleagues that they do not have about each other. Thus I may get support from them. I
know a lot more about Thomas as a person. I have been dancing with him. It gives another kind of insight, understanding of behaviour, that I can use it I want.20

Because, Huse observes, so long as “people are emotional, feeling and affective human beings – not just cognitive machines,” the sexual aspects of interaction are unlikely to disappear naturally or by regulation. They must be recognized for what they are.

Although women might find some gender-related advantages in dealing with their male board counterparts, Huse has found that women sometimes react strongly – are even “shock[ed]” – by power games that can characterize male directors interactions, both inside and outside the board room. He quotes experienced women directors in his “board life study”:

Others used me in their power. As I discovered what happened in the inner chambers, then I thought that I have been innocent too long. Yes, it is definitely a lot of power play.

It is a game and those not being experienced – and I feel I have become experienced – they are getting completely manipulated. It is a lot of power in being like that. It is kind of nice to know you master this game, but it is unnecessary that it shall be like that. It takes some time before you see the power balance in a board. Who is deciding? It is not always the top person who decides. You need to find out who has the wheel in their hands. 21

Success in this charged atmosphere requires not only competence and the usual attributes of intellect and preparedness, but also adaptation to the power game. Women reported surprise that formal board or committee meetings had been pre-choreographed and matters were resolved without discussion in then meeting. The effective exercise of power, especially in the view of women directors, means forming alliances, discussing issues prior to meetings, counting votes, etc. (“You must not imagine that you can fight things through without having some allies.”)

Huse finds that although corporate governance rules and rhetoric have changed in recent years, little in practice has. Boards operate largely as they always have. Corporate managers can circumvent control mechanisms, especially by “managing” stakeholders. The powerful social elites of the boardroom mandate compliance through strategies based on financial, political and charismatic power. They might employ what Huse calls “multimatums” – requesting formal approval for corporate action after a point of no return has been reached; the board’s decision becomes a Hobson’s choice. Changing course at that point would assure damage if not ruin for creditors, partners, suppliers, employees, or the company itself. In other words, the brinksmanship that can be the hallmark of national and international politics has application in business. Neither Huse

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22 Huse, p. 158.
nor his readers should find that surprising. After all, boards are fundamentally political bodies, and what works in one political arena should work in another.

In contrast to his descriptions of raw and manipulative power, Huse outlines the attributes of a successful decision-making culture on corporate boards. Most are well understood: critical, independent thinking; creativity, preparedness, intelligence and cognitive skills. Perhaps his inclusion of “openness and generosity” are most surprising, especially in the context of power games he has already set out. To many experts, openness and generosity rise to the top of the list. Openness entails active interchange and constructive dialogue between the various corporate managers and becomes the “single best indication of board effectiveness.” It builds trust, interdependence, and confidence in one’s colleagues and board. “Independent, intrepid, informed, diverse (in background and expertise) directors willing to speak up when concerned or in doubt and to challenge management and each other are crucial to healthy and constructive boardroom dynamics and effective corporate governance.” To encourage its development, Huse mentions director activities outside the board room, such as visiting company facilities and retreats. Openness and interchange often requires questioning,

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23 Huse, p. 159.

24 Huse, p. 219.

which always has the possibility of revealing ignorance. Large egos might preclude many directors from risking that. Perhaps that explains why many who wield power and control in their own companies are seen to defer to others when they sit as outside directors. It’s not so much modesty as unwillingness to be found ignorant.

Of course, both preparedness and modesty – willingness to reveal ignorance -- can overcome this problem, and women might offer more of both on average than men. Again Huse’s “board life story” provides at least anecdotal support:

I am often good at asking questions that give the others something to reflect on. I believe that they experience it as interesting, and I am not critical. I am not asking questions to criticize. I ask questions to see whether there is something we need to illuminate. I am trying to include other perspectives – to get a broader discussion. Women often ask questions that nobody else dares to ask. Girls dare to ask some very relevant simple questions – is it millions or billions? 26

But good questions, and the courage to ask them, require preparation. Directors must have read the relevant corporate documents and to have invested the effort to understand them and discover problems, weaknesses gaps, etc. Once again the “board life stories” reveals possible differences between men and women on this score. Women were found to have been, generally speaking, better prepared than men for meetings.

26 Huse, p. 219
Lack of preparedness was seen by women as disturbingly arrogant, rude and inefficient. It reduced board effectiveness and facilitated internal management’s dominance. One result is that women – who might have been there originally as tokens – stepped into the knowledge vacuum and exercise power that might otherwise have been denied them. In the best cases they “started a positive virtuous circle” that then established a more industrious board ethic.

Many of these men did not have time to prepare properly. They had many board assignments and often many operative duties. They attended board meetings and read the board documents, keeping one page ahead.

One issue that I found to be a fundamental difference between women and men was that I found the women to be much better prepared than the men . . . It is the regulars, and they can boast that they have such a photographic reading capacity that it enables them to go through a document in three seconds and get an impression. That is nonsense. The consequence is that they have to talk hot air – to keep the meeting running – while they read their documents, and take a lot more time. The advantage for these women is that they can take the men by surprise by being prepared, and the men just have to try to follow.

I have seen male members of this board open the envelope in the lift. We often used to joke by saying that the boardroom should be as far as possible away from the garage. The quality of the board meetings was a function of the distance between the boardroom and the garage. ²⁷

²⁷ Huse, p. 222.
Huse’s comments take the women directors’ self-reporting as accurate and report that they made, as a group, remarkable and substantial contributions to board dynamics, efficiency and atmosphere. Huse does not address what might be the most fascinating and difficult question: causation. One the one hand, perhaps these are changes that could have been wrought by any true outsider, by anyone who neither recognized nor accepted the existing club rules of social and professional interaction. If so, introducing ethnic or racial minorities or foreign nationals – those largely unfamiliar with the existing director ethos – to boards instead of women in such numbers could have yielded similar results. Those groups might also have done their homework, spoken up, asked difficult questions, etc.

Interestingly, if any outsider could have wrought the changes merely by acting contrary to the board norms, the changes and behaviors might only be temporary. The danger would exist that when a new equilibrium is established, the new members might learn and adopt the old behaviors and effectively be co-opted into the old club. Hegemony could revert to the former power elite – white males – who would most likely remain the arithmetic majority.

On the other hand, if there is something more distinctively x-linked about the contributions, the prospects of co-optation shrink. If the women’s behaviors are less learned than genetic, they should persist (although Darwin might support eventual adaptive evolutionary changes). The new board members will continue to prepare well,
ask difficult questions and engender (pun intended) a less competitive dynamic. Of course, there exists the possibility that men could revert to their old ways and reassert control – after all, they are likely to maintain 60-40 majority in many companies.

This issue raises the old nature/nurture debate, a debate that Huse does not enter in this book. His style is consistently descriptive on this question and on all other board characteristics and behaviors. But whichever it is, genes or social learning, Huse supports the fact that women (and perhaps other outsiders) can induce beneficial behaviors on corporate boards.