

# Keith Louden knew it all

*He was the director's director.*

**A**LTHOUGH NOT A household name now, J. Keith Louden (1905-1994) was one of the early wise men of corporate governance. He knew everything there was to know and saw everything there was to see in dealing with corporate boards. His 1966 book, *The Corporate Director*, is a touchstone text in governance, as is its 1982 revision, *The Director* (both now sadly out of print). His pioneering seminars and retreats, organized when he was the founding chairman of the American Management Association's President's Association, were the forerunners of today's governance programs at Harvard, Stanford, the NACD, et al. He drew from experience not just as a consultant to boards and management but also from being right in the thick of things as a director of more than 25 corporations, large and small. "He brought order and professionalism to the governance of the post-World War II American corporation," wrote Gary Lutin in his tribute to Louden published in *DIRECTORS & BOARDS* a decade ago. (Lutin, founder and chairman of The Shareholder Forum Inc., worked with Louden in the early 1980s on a number of assignments when Lutin, then an investment banker in his 30s, called upon Louden, then in his 80s, to provide governance due diligence and oversight on acquisition targets.) When we were looking for top talent to populate a new editorial advisory board for *DIRECTORS & BOARDS* in 1981, Keith Louden got one of our first calls, and he served with distinction until shortly before his death. The following are a few of Louden's prime governance principles, drawn from our article "The Board World, According to Louden" [Fall 1997].

— James Kristie



*The job of a director is too important to be bogged down by free riders.*

**T**O 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.

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.

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 non-contributor, 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 advan-

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**Keith Louden**

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tage 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 un-filled 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.

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.

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



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