

# C O R P O R A T E G O V E R N A N C E

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# C O R P O R A T E G O V E R N A N C E



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# SHAREHOLDERS' RIGHTS:

## The Gandhian Approach to Corporate Governance

Mario J. Gabelli '67

**A**t Gabelli Funds, Inc., our magna carta states, "We are neither for nor against management. We are for shareholders." Our main purpose is to help our shareholders' money grow. Our clients do not hire us to fight with corporate managements. We try to generate a 10 percent real return on shareholders' money.

So, how do we get the attention of companies that we think are not doing a great job for shareholders? We take what we describe as a Gandhian approach to corporate governance. This is a form of forceful yet passive resistance that includes such methods as getting the press involved. For example, about three years ago, after we had acquired 10 percent of Santa Anita Companies, management threw up what we considered a Berlin Wall around shareholder values. The company agreed to sell to Colony Capital (where a Santa Anita director was CEO) a sizable block of stock at about \$15 per share—about \$15 per share less than what we calculated was the underlying value.

It was an insider deal that, in our view, was not consistent with shareholder democracy.

So, what did we do? We notified the press. (We got the idea from the Pilgrims of the 17th century, who would put you in the stocks when you committed a crime to serve your appropriate tour of duty and expose you to public ridicule.) When the *Los Angeles Times* called, we pointed out, "It smacks of grab, grab, grab. This is not consistent with shareholder democracy." In another article, I believe I was quoted as saying the deal stinks to the high paddocks. They wrote these things, among others, in the newspaper. Finally, after three or four quotes like this, the fellow called me and said, "Mario, I don't want this company." How did that happen? Well, his son would come home from school and say, "Dad, why are they saying these things about you?"

The Gandhian approach, in our context, also means we will not show up at an annual meeting, so the directors won't get a quorum.

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# HEARING VOICES:

## Institutional Investors, Corporate Governance and Performance

R. Glenn Hubbard and  
Gile R. Downes, Jr.

Given the rising importance of institutional investors as shareholders of U.S. corporations, one might ask whether and how those large shareholders can improve corporate performance. Exploring these questions is tricky because it calls for an investigation of institutional investors' attitudes toward monitoring and governance and of the degree to which investors' actions actually affect corporate performance.

The call for institutional investors to not just sit there but do something mirrors their sheer importance as shareholders and an intuitive belief that they may be skillful at improving the performance of firms. Nonetheless, to the casual reader, there may appear to be a wide gulf between practitioners' views about the value of institutional investor activism in corporate governance and the views of financial and legal researchers. The nub is this: While the idea that institutional investors' concern over corporate governance practices is a good

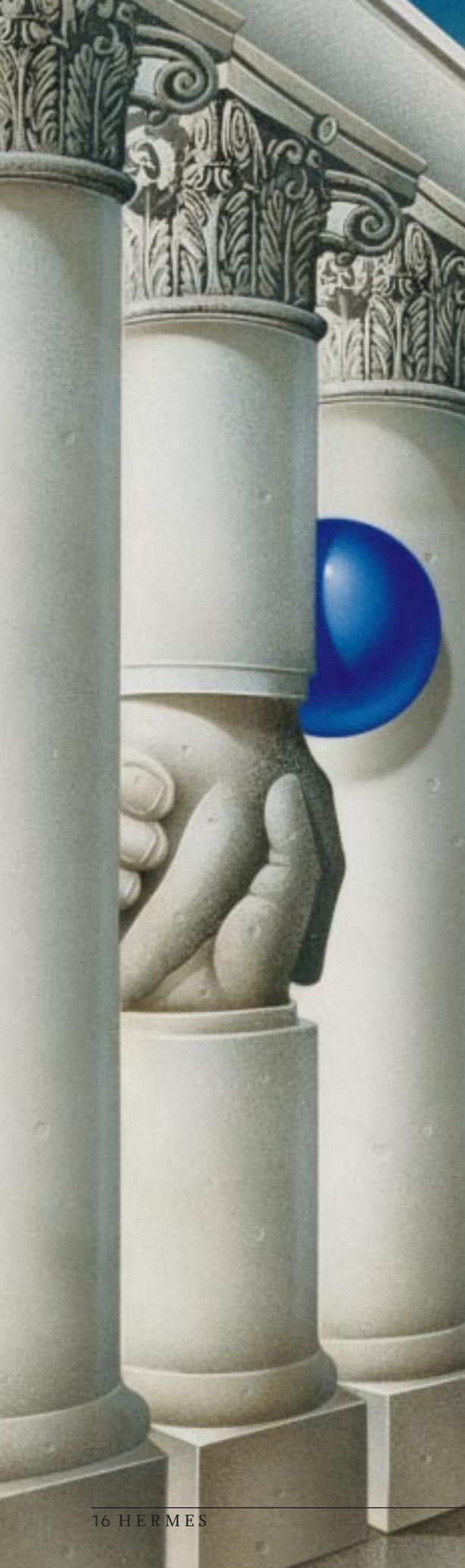
thing, compelling empirical evidence linking activism and performance is lacking.

To bridge the gap between academic research and practitioners' beliefs, we interviewed senior officials (the CEO, chief investment officer or general counsel) of 10 large institutional investors (mutual and pension funds) holding combined equity assets in 1998 of about \$1 trillion. Using a detailed survey and personal interviews, we probed the mechanics of proxy voting, investors' views of monitoring and corporate governance, and cost-benefit assessments of governance-related activism.

Our interviews yielded several important findings. First, while institutional investors agree on a definition of fiduciary responsibility, all have improved efforts in proxy analysis and voting in recent years by developing in-house proxy administration departments and employing voting services and consulting firms, such as Institutional Shareholder Services or the Investor Responsibility Research Center.

*Continued on page 17*





*Shareholders' Rights, continued . . .*

Another tool is technology, specifically the Internet. For example, our firm was sued by a closed-end fund shareholder who, although we told him he was wrong, refused to drop the suit. So we put his name and the names of his lawyers on the Internet and laid out our observations that they were careless and sloppy in their claims against us. All of a sudden, they realized that their names were known to the world and that anyone conducting an Internet search on them would come across this information and read our views about what they did. So now they have settled with us. There are many ways we can use modern tools cost-efficiently to instill effective corporate governance.

We created a "Magna Carta of Shareholder Rights" that states what we stand for so that companies we invest in know in advance, for the most part, how we would vote.

We are in favor of

- Cumulative voting
- Golden parachutes (Why?

Because we want management to think about harvesting for us and not worry about the next job.)

- One share, one vote
- Cash incentives
- Preemptive rights.

We will vote against

- Greenmail, or voluntary repurchase of a hostile would-be acquirer's shares at a price significantly above market

- Poison pills, or antitakeover provisions

- Supermajority voting
- Blank check preferreds
- Superdilutive stock options
- Option resets.

This is our policy, but we will make exceptions when we encounter management that demonstrates superior sensitivity to the needs of shareholders.

CEOs frustrate me when they build moats around themselves and when the moats deal with any issue of corporate governance that precludes shareholders who have strong opinions—particularly when the shareholders have been in the stock for five or 10 years. Poison pills are a clear example of where managements, in my judgment, are creating bad will between themselves and their shareholders.

We tend to be small-company oriented, so we need to telegraph to management where it should go to earn a return for shareholders and how we would vote on that. We have a proxy voting committee consisting of lawyers and analysts who research and track the companies we have invested in. They try to find out if the management is oriented toward shareholders or trying to enrich or entrench themselves. Then panel members vote on these issues, and we document the votes and report them to the plan sponsor, as is required by law.

In closing, in the best of all possible worlds, corporate managers view shareholders and their representatives as partners, not adversaries. The best way to maintain this relationship is through truly democratic corporate governance. We believe it is an important part of our job to respond passively, but forcefully, on issues that challenge corporate democracy.

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*Mario J. Gabelli is chairman of Gabelli Funds and adviser to the Gabelli family of mutual funds and Gabelli Asset Management Company, a money management firm. A member of the School's board of overseers, he is a leading practitioner of the Graham and Dodd school of securities analysis.*

THEO RUDNAK

Second, despite broad verbal agreement among the institutional investors about the importance for corporate performance of shareholder rights, effective boards, and efficient CEO compensation and succession, the net economic value of good governance and shareholder activism is still a matter of much debate in the industry. Mutual fund investors tend to believe strongly that there is no one-size-fits-all approach to corporate governance and are therefore disinclined to attempt imposition on their portfolio firms of any form of best practices model, such as those emerging in recent years from leading good governance proponents like TIAA-CREF and CalPERS.

Third, while investors may refer to corporate governance in their monitoring and intervention, informal or formal investor actions relate more often to perceptions of poor performance. Except in highly publicized cases of allegations of excessive executive compensation, dysfunctional boards or fraud, it is generally only after firms are identified as long-term underperformers that governance practices are given more-than-routine scrutiny.

Fourth, institutional investors view good governance as most valuable when a firm or its industry is in trouble. Despite somewhat differing views on the overall value of good governance practices, all investors in our sample agreed that having an independent board, solid succession plans and shareholder rights unfettered by restrictive anti-takeover measures helps to assure the fastest possible recovery for the firm and share values.

Fifth, while many commentators note that private and public institutional investors differ in their assessments of the costs and

benefits of shareholder activism, we find that this disparity is less clear than it appears at first glance. Many institutional investors themselves, while expressing agreement about the importance for corporate performance of shareholder rights, effective boards, and efficient CEO compensation and succession, are skeptical of institutional investor activism per se. Indeed, most investors stress monitoring and activism related to measures of performance, as opposed to governance in isolation.

These results support the notion that concerns over corporate governance practices are important. All institutional investors interviewed expressed detailed and well-researched views on corporate governance. Our findings suggest the desirability of reorienting academic inquiry toward three questions: First, does the perceived importance of corporate governance best practices translate into improved corporate performance? Second, are institutional investors more likely to choose companies meeting these characteristics or to influence these characteristics? Third, does the emphasis on the importance of good governance in bad times suggest pitfalls in attempting to ascertain empirical links between governance and performance?

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*This article is based on the forthcoming report of the Columbia Corporate Governance Project. We are grateful to executive-in-residence Ehud Houminer, a project coordinator, for his advice and suggestions. R. Glenn Hubbard, codirector of the Columbia Corporate Governance Project, is the School's Russell L. Carson Professor of Finance and Economics. Gile R. Downes, Jr., conducts research for and is the coordinator of the Project.*

THEO RUDNAK



# Why Bet on Good Boards?

BY ROBERT W. LEAR

**F**or the last 20 years or so, corporate governance critics have been urging boards of directors to make a number of “constructive improvements” (in other words, to clean up their acts!). These observers include the institutional shareholders, such as CalPERS; blue ribbon commissions from the National Association of Corporate Directors; the Business Council; the Securities Exchange Commission and Arthur Levitt; relational stockholders, like Nell Minow; all kinds of academics; and many writers and consultants, such as myself (I write a regular corporate governance column for *Chief Executive* magazine and am a principal in the corporate governance consulting firm Lear, Yavitz & Associates).

Most of the critics call for greater independence for boards, with fewer insiders and fewer beholden directors—lawyers, bankers, consultants who do significant business with the company. They advocate the adoption of written principles of governance and believe in regular formal appraisals of the CEO, the board and the directors themselves. They do not want the CEO to dominate the board but want the board itself to determine who should be the new director nominees, who should chair and be appointed to committees, what and how directors should be paid and when they should retire and, perhaps most important of all, they want the board to have the primary say when it comes time for management succession.

These functions are a far cry from the days when CEOs did all these things to their own satisfaction and pretty well determined their own pay, perks, board procedures and their own successors.

There is no question that much progress has been made, largely on a voluntary basis—there has been relatively little legislation and regulation in regard to corporate governance. Boards are getting



# Why Bet on Good Boards?



ADAM NIKLEWICZ

better, in that fewer insiders and beholden directors are being elected, much greater diversity is taking place and much stronger board committees are being developed. Even among the largest companies in the United States, it is fairly commonplace for boards to replace the CEO and shake up the corporation when things go awry.

Now, however, some critics—notably academics—are saying, “Is all this corporate governance turmoil really worthwhile? Do companies with “good” boards fare better than companies with “bad” boards?” In an article in *Chief Executive* magazine, Dean Dan Dalton and Professor Harold Poling of the Kelley School of Business at Indiana University contend that “there is no relationship between the independence of the board of directors and corporate financial performance—none whatsoever.” They cite a meta-analysis of 40 years of data and more than 40,000 companies. In effect, they believe that the CEO makes the difference without regard to the board.

Now, I am not much for arguing against meta-analysis or academic research as such, but I would like to argue a few elements of the case.

I’ll start off by agreeing on one point made by my Indiana academic friends—the CEO is the most important single ingredient. A brilliant, driven, vital CEO can make a company go for some time, regardless of his or her board’s competency. In small companies and start-ups, the founder rarely has an experienced board behind her or him—it is his or her talent that makes the company grow in quantum fashion. So, too, is the acquisition genius who is able to negotiate deals and perform financial manipulations—he or she does not need or want board help, as witness some of the great raiders of the ’80s. Some of the leveraged buyout and venture capital firms have done extremely well in financing companies and in taking strong positions themselves on the boards.

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Who needs boards when you can find these wonderful CEOs? Well, not all those CEOs are quite so wonderful as they appear to be at first blush. Some crash and burn, like most of the raiders of the '80s. Some are good up to a point but can't cut the mustard when the company grows beyond the length of their arms. Some make critical mistakes of judgment with only yes-men to guide them. Some—maybe most—are incapable of finding appropriate successors for themselves when and if they do retire. These one-trick ponies appear far too often in U.S. corporate boardrooms.

Isn't it far better to have a combination of a top-flight CEO and a talented, experienced board? The board can support the CEO, help prevent serious errors and, of course, see that the right successor is planned and instituted.

How much better it is to have a Jack Welch, who reorganized and revitalized GE and at the same time is planning for the future with full-board support. And there are many other great CEOs like him who have built for the future—Andrew Grove of Intel, Charles Knight of Emerson, David Johnson of Campbell Soup, Lawrence Bossidy of AlliedSignal; they build good companies and good boards.

Contrast Jack Welch with Michael Eisner, who may be just as talented an individual, but who



## A good board keeps the CEO and the company on their toes.

has a docile, captive board. Eisner placed his company in jeopardy when he lost his key executive team and then underwent a major operation without a successor. He is a CEO who pays himself excessively and indulges in personal whims like the Ovitz caper. Something is wrong with this picture, and it's the lack of corporate governance. I think of Peter Grace of W. R. Grace, John Sculley of Apple, Al "Chainsaw" Dunlap of Sunbeam and William Agee of Morrison Knudsen—talented executives all, for a time, but who had pussycat boards and left their once-great companies with weak earnings and no plans.

It is a common mistake of many so-called board pundits to

judge a board primarily or exclusively on its composition. Simply because a board has a woman, an African-American, an academic, no conflicted lawyers or bankers, no relational shareholders and only one or two employee directors does not in itself make a board "good." Some of the "worst" boards Dean Yavitz and I have found in our annual Best/Worst Board Survey have been staffed with so-called independent directors who were pals of the CEO and were loath to criticize him while the company struggled.

A good board keeps the CEO and the company on their toes. It asks tough questions about lack of progress, about new products and markets, about capital projects, about new financing. It takes executive compensation and auditing practice seriously. It participates in strategic planning and in major decisions. It evaluates the performance of the CEO and the board itself. It is ever aware of management succession. It always represents the best interests of the shareholders.

Do good boards make a difference? You bet they do.

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*Robert W. Lear, a principal in the corporate governance consulting firm Lear, Yavitz & Associates, will retire as executive-in-residence from Columbia Business School in June. He currently serves on the boards of Newsbank, Ronin Development, the David Deutsch Company and Columbia Business School.*

# A VISION OF VIRTUE

A pioneer of the corporate governance movement shares his views on individual liberties, the market and the moral man.

BY IRA M. MILLSTEIN

I grew up in New York, a child of the Depression, and entered the thinking stage during the Second World War. Of course, I didn't like any bit of it. In the perhaps oversimplistic view of youth, I attributed the Holocaust and the aggressions of the time, East and West, to unreasonable men with unyielding ideologies wielding uncontrolled power; I came to abjure all ideologies as too constraining and too certain of themselves.

It took some maturity, higher education and experience to find a more flexible and comfortable paradigm within which to think—a paradigm combining the Jeffersonian vision expressed in the Declaration of Independence, the free-market vision of Adam Smith's *Wealth of Nations* (both first published in 1776) and the age-old vision of a world order based on morality, justice and mercy.

Jefferson's gift: "All men are created equal . . . endowed by their creator with . . . inalienable rights; that among these are life, liberty and the pursuit of happiness, and that to secure these rights, governments are instituted among men, deriving their just powers from the consent of the governed." The individual equal to other men, with a right to be left alone in a world where opportunity



# A VISION OF VIRTUE



KENNETH HARRISON

exists, to make it or not in accordance with abilities and desires; with government only to the extent necessary to assure opportunity, sometimes to provide opportunity and to protect the fallen—our national character is based on this vision. Seymour Martin Lipset today describes our character as comprising liberty, egalitarianism, individualism, populism, laissez-faire, equality of opportunity regardless of socioeconomic condition, antistatism and individual “rights.” Certainly the Jeffersonian vision will never be totally fulfilled, but I believe it’s worth striving for. And the striving is what counts.

Jefferson’s vision requires a free market, and Adam Smith’s vision of a free market requires a Jeffersonian vision. The market—be it for goods, services, capital, people or ideas—cannot exist in a totalitarian world. The market requires freedom to interact, compete if you will, in the belief that interaction among people free to pursue their individual concepts of self-maximization will ultimately bring greater public and social good than state planning. Again, there will never be a perfect market, but it is the vision of that market and the striving for that vision that count.

But, importantly, Adam Smith relied for his market vision on a view of a highly moral man—early in his career, Smith held the Chair of Moral Philosophy at the University of Glasgow. In his *Theory of Moral Sentiments*, he expected men to have the virtues of “prudence, justice and beneficence, temperance, decency, modesty and moderation;” men who

would be “scrupulous . . . never either to hurt or offend.” And Jefferson

recognized inalienable rights endowed by the creator.

This brings us to the third vision—morality, justice and mercy. None of us, nor will society, always, or maybe most often, do the right thing. But having some vision of the right thing and striving, even unsuccessfully, to do it is what counts.

For me, these three visions, combined, form a worthwhile paradigm within which to think about a society and its working parts.

### Virtue Beclouded by Self-Interest

I have spent the bulk of my professional career working for, against and certainly around corporations. Arguably, our modern society and our individual lives are dominated more today by the market and its primary player, the corporation, than by government or even religion. Let’s examine how my paradigm fits in thinking about this very significant organism and its functioning in society. For focus, today, let’s grant the existence of markets and political freedom and examine virtue and morality.

Can we rely on Smith’s virtuous man to direct the corporations that affect all of us, when we know we cannot be counted on ourselves always, or even most often, to live up to that vision?

The state-chartered corporate structure apparently doesn’t think so: managements are to be accountable to boards of directors, and boards are to be accountable to shareholders. The corporate structure is designed to provide some checks to the power of



managers using other people’s money, but checks on power and discretion display a certain lack of confidence in universal virtue, and rightly so.

The men and women who run the world’s significant corporations are not accidental arrivals or saints. For the most part they are ambitious, hardworking, dedicated individuals with the drive, ambition and talent to weather the vagaries and intrigues that permeate any large organization and to succeed. For the most part they treat their families and friends within a range of acceptability, and, within a range of acceptability, feel appropriate compassion for their fellow men and women, their employees and members of their communities. They are not much different—altogether—than the rest of us, and they have the qualities to succeed at what they set out to do. Accordingly, I don’t see them as villains or heroes. I see them as flawed humans, just like you and me, certainly sharing a vision of the right thing, but sometimes not accomplishing it.

Imperfect human beings have a tendency to act perhaps not quite selfishly but in their own self-

interest. Who among us is so perfect as not to believe that when acting in his own self-interest he is really benefiting the people who depend on him? A difficult example: At the height of corporate power, where discretionary time and corporate money are more available, how many executives reach out to serve on a host of business and government committees or to donate funds to philanthropies? Such activities can always be justified in terms of benefit to the enterprise’s reputation through the enhanced visibility of the executives and the contribution to social progress or important causes. Yet how much of the exercise is self-interest and ego, and how much is truly for the benefit of shareholders?

Expand the example to accounting practices, or an acquisition, which, while not illegal, clouds actual performance so as to boost stock price in the short term and enhance the reputation and tenure of the CEO. Who is to make the judgment when shareholding is fragmented?

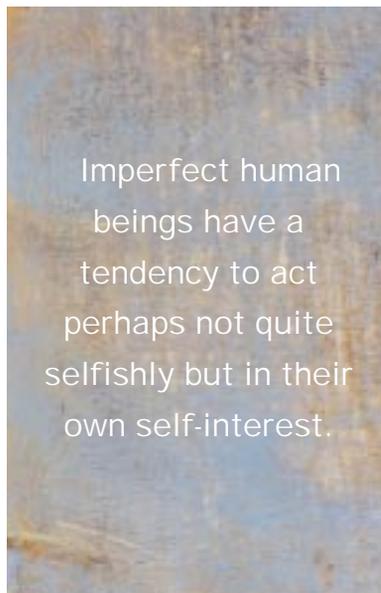
### Integrating Social Concerns and Profit Maximization

Governance of our major enterprises is intended to deal with people like ourselves who are succeeding but who may be acting in their own self-interest. It is intended to develop the means to monitor and appraise their performance, provide incentives and remove them in a timely manner when they are failing. And the task of finding, monitoring and mentoring these persons, who are generally as imperfect as the rest of us, has to be performed by other successful men and women who are also imperfect—the

board of directors of the very same major organization. At the core of the governance process is the board of directors, whose task it is to pick, monitor and remove managers, always acting as a surrogate for fragmented owners. But there's more.

Our national populist tendencies and general distaste for government lead us to rely on the corporation to help address a number of complex social concerns that in other developed nations are often remitted to government or ignored. Examples are numerous: Corporations are being urged to train current workers and provide them with access to affordable health care, to be active in the education of the next generation of workers, to maintain drug-free workplaces, to provide equal opportunity and encourage diversity of race and gender at all levels of the organization, ultimately to provide some part of retirement security and increasingly, as they go global, to somehow adjust to—but avoid supporting—the failings of other countries wherein they operate.

I label all of these concerns *extrinsics*, since many consider them outside the corporate goal of profit maximization. But I contend that corporations are expected to integrate, wherever possible, extrinsics with the corporation's primary obligation to maximize shareholder value. To the extent corporations attempt to do so, they are viewed as credible and accountable and are likely to



Imperfect human beings have a tendency to act perhaps not quite selfishly but in their own self-interest.

be less regulated. To the extent they don't meet expectations in addressing the extrinsics, there will be more governmental intervention and intrusion. The task is to find, wherever possible, the means to integrate these concerns while being profitable.

#### Freedom in the Marketplace

Certainly the primary responsibility for achieving integration lies with management. But integrating also implicates the board, for it is part of the board's role to view the corporation in a broader context and to integrate these extrinsics into management's decision-making process. Because the board is not as steeped in day-to-day concerns as is management, it can pull back and regard these issues in conjunction with the immediate management concerns at hand. Such diligence is not simply aimed at achieving goodwill; it ensures that the corporation continues to earn its freedom in the marketplace.

The board of directors, then, has at least a dual function: overseeing management to ensure that it is performing in the interests of the "owners"—the shareholders—rather than its own quite normal self-interest and overseeing the integration of extrinsics. Indeed, the board is best positioned to oversee both because it is sufficiently removed, and yet sufficiently informed, to keep both in focus.

In returning to my paradigm of individual liberties, the market and the virtuous man, let's continue to focus on the virtuous man. The board of directors is the surrogate for the owners to curb self-interest on the part of management, promote efficient performance and integrate extrinsics. It therefore is an important supplement to the virtuous man, which no one of us—individually—can be expected to be at all times. And shareholders must understand that directors are not invariably virtuous either. Hence, shareholders must be vigilant to place people in the role of director who understand their tasks and, more importantly, to remove those who don't. I see no further source to supplement individual virtue. We have to stop someplace and hope that individual virtue plus the board will make the paradigm work. I personally think that they will—if we promote and encourage both.

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*Ira M. Millstein, senior partner and member of the management committee of Weil, Gotshal & Manges LLP, is one of the founders of the corporate governance movement. He is credited with making corporate directors more aware of their responsibility, as shareholder representatives, to ensure that their companies are well managed and with making shareholders more likely to act when performance is poor. This year's Botwinick Prize for Ethical Practice in the Professions was awarded to Mr. Millstein in recognition of these contributions.*

# Chairman of the Bard

BY DIANA KATZ

**L**ate on an autumn Monday afternoon, about 60 Columbia Business School students sit in a dark classroom watching an excerpt of *King Henry IV, Part I*, by William Shakespeare. During the 10-minute clip, Henry IV chews out his son, Prince Hal, for getting sloppy drunk in public and carousing with commoners. “For thou hast lost thy princely privilege with vile participation,” the king bellows. When the lights come up and the BBC videotape stops, John O. Whitney, professor of management, launches a critical discussion.

“So,” he asks. “How’s that for an annual merit review?”

And an analysis of Henry IV, CEO, begins.

One student backs up Henry: “People won’t have faith in you if you go around playing practical jokes in the office.”

Another objects: “The king’s micro-managing.”

Clearly, this is not your average Shakespeare class. These students are not reading *Henry IV* to learn more about iambic pentameter or to round out an especially spreadsheet-heavy term. This is a business course, and Whitney’s students are here to learn how to manage, to follow and—especially—to lead, by reading Shakespeare.

“In Search of the Perfect Prince” is a Shakespeare class that views the dramatis personae through the context of leadership. From Henry V’s rallying speeches to Coriolanus’s ruthless assaults, from Hamlet’s soul-searching to Othello’s acts of revenge, students contemplate which behavior makes a character effective or ineffective as a leader.

Whitney, the creator and teacher of this course (taught for the first time in fall 1998), is no tweedy English PhD, but a renowned and popular professor at the School; codirector of



# Chairman of the Bard



STEVEN NOBLE

the W. Edwards Deming Center for Quality, Productivity and Competitiveness; former CEO of several turnarounds; prolific business speaker and writer—and he was an Elizabethan literature major in college.

Also a Rhodes scholarship candidate at the University of Tulsa, Whitney turned down an opportunity to pursue a PhD in his major (in fact, he has never earned a graduate degree). Whitney knew he was destined to dedicate his life not to the Bard, but to business.

Within seven years of graduating, Whitney had founded his own advertising agency, the most successful firm of its kind in the Tulsa area, and he also established his own consulting firm. Since then, he has spent five years as the president of Pathmark Supermarkets and nearly 10 as the president, chairman, director or CEO of several turnaround companies. He has taught at Harvard Business School and Columbia, written two books (and is at work on a third: *In Search of the Perfect Prince*, based on the course), appeared regularly on television and conducted seminars abroad. And, on occasion, he has read from a book of Shakespeare's plays.

"I've always been able to relate to some Shakespearean character in what I do, and it's given me a lot of comfort," Whitney says. "Shakespeare mixed in every leadership issue I've ever faced as a businessperson: how I lead people, how I follow, the way I conduct myself, the way I think. He holds up a mirror which has not only reflected but magnified the mistakes I have made. He has reached across the centuries to give me a few pats on the back for things I might have done well."

This explains why Shakespearean plays make a viable reader for a leadership course. While many literary works, from the Bible to



Ron Chernow's *Titan*, could also be used as leadership course material, only Shakespeare managed to encompass the issues of leadership so thoroughly.

"The Elizabethans were obsessed with the monarchy," says Whitney. "Pre-Renaissance England had suffered grievously from tarnished leaders. Serious problems of leadership and succession persisted for the 136 years between Henry's death and Elizabeth's coronation." Shakespeare and his audience were earnestly in search of the perfect prince.

After half a lifetime of leading companies, heading up turn-arounds and teaching others how to do so (and occasionally meeting other top CEOs who had a closet passion for the Bard), Whitney, one of the most in-demand professors at the School, developed a leadership course based on Shakespeare.

Most of the readings are Shakespeare's plays, but there are also plenty of other materials: an interview from the *Harvard Business Review* with Franco Bernabe, then of Italy's Eni; John Byrne's epic *Business Week* article on Jack Welch of GE; guest appearances in class by the likes of Bud Gravette, CEO of the Turner Corporation; satirical articles from the *New York Times* about Bill Clinton's troubled presidency; a healthy dose of Machiavelli; copies of Queen Elizabeth I's most famous speeches; clips from contemporary films such as *Wag the Dog*; and plenty of class discussion.

Each class focuses on one play (supplemented with the other materials) and hammers out several major management issues: How does Henry IV compare to

Al "Chainsaw" Dunlap (formerly of Sunbeam Corporation)? Will King Lear, who almost murders Kent for telling him the ugly truth about Lear's elder daughters, ever get an honest appraisal from anyone ever again? What can we learn from Iago about how employees behave when passed over for a promotion? Why does every enterprise need a Coriolanus, but not as CEO? Are Henry V's reasons for firing Falstaff valid?

**T**hese questions engender astute and surprising comments from the students.

During a *Hamlet* discussion, Whitney asked if anyone would hire Hamlet as an employee. The class broke up into groups of four, and then students came back with a unanimous opinion about perhaps the most celebrated protagonist in all of English literature: no.

"We couldn't find a good use for Hamlet, period. He'd sit around and plan all day."

"He didn't know how to organize people; he was way too emotional."

"He shows that he has convictions, but he's not really a doer."

"He's a good brainstorming person . . . maybe a person to bounce ideas off of."

Former English majors might wince at such a quick dismissal of the pained prince of Denmark. In business school, however, Hamlet comes out the loser—conscientious, yes, but stuck in "analysis paralysis." This is not to say that students have no literary appreciation for *Hamlet* and the other plays.

Jason Kritzer '99 is a self-confessed Shakespeare "convert"

who slogged his way through the requisite Shakespeare unit in high school English and never saw any relevance in *Macbeth* or *A Midsummer Night's Dream*. "I never really had anything to connect Shakespeare to," he explains. "I had nothing to apply it to."

And relevance, says Wendy Kritzer, Whitney's research assistant and Shakespeare expert on-call (as well as Jason's wife), who has taught Shakespeare to high school students, is what any student needs to find in literature for it to be meaningful, whether he or she is a teenager or a business student. "Unless students find relevance . . . the class doesn't go anywhere, and the students don't get it and they don't care about it," she says.

Whitney sings the praises of Wendy Kritzer and another research assistant, Ken Craddock, as well as his full-time assistant, Joy Glazener, who have helped shape the course through their research, conceptual suggestions, and ideas for exams and papers.

Although there are a few former English majors who began the class with a full-fledged love of Shakespeare, most students' sentiments echo Jason Kritzer's.

"When I was in high school," says Karim Rochelle '99, "I didn't take Shakespeare seriously, and I used to make fun of whatever play we were reading at the time." But in Whitney's class, "I got into Shakespeare. I really like it. It was fun, maybe because I'm developing a side of myself that I haven't developed in a long time."

"The class shouldn't be such an anomaly," says Jessica Bier '99. "You can always teach someone technical skills, but this is some-

thing that you can't train. This is the sort of education that you're not going to get from a future employer. Shakespeare wasn't writing about LBOs or IPOs, he was writing about what is at the core of a human being."

Another reason that his students have become new aficionados of Elizabethan literature, says Whitney, is that "the language is so powerful that it pulls people into it. There's more evocative stuff in Shakespeare than just in local hearsay, what I call the 'me and Joe went fishing' folks." Whitney often asks students to read monologues aloud, such as Hamlet's "to be or not to be" speech, which, he reminded his class, "is the most famous speech not just in *Hamlet* but in Shakespeare's whole career." Although students sometimes sound more like Columbia Follies than the Royal Shakespeare Company, it certainly beats "me and Joe."

Whitney himself shies away from telling personal anecdotes and even apologizes for them when he rarely indulges. But Whitney is not just modest, he's a staunch proponent of the Socratic method and wants students to learn from themselves. Group discussion sometimes consumes 100 percent of the nearly three-hour class, and lectures happen only when a guest speaker drops by.

Throughout every class, Whitney places query after query on the overhead projector ("How will we, as CEOs, be like Henry IV? Hotspur? Prince Hal? Falstaff?"), and his students begin debating. Occasionally, he asks more





*John O. Whitney's "In Search of the Perfect Prince" views the dramatis personae through the context of leadership. From Coriolanus's ruthless assaults and Hamlet's soul-searching to Othello's acts of revenge, students contemplate which behavior makes a character effective or ineffective as a leader.*

troubling and personal questions: Has anyone here ever fired someone or been fired? Has anyone overheard a conversation colleagues have held behind his or her back? Has anyone been severely rebuked by a boss?

"You don't have to answer," he says if he senses that a question is too private for class discussion. "This isn't a Quaker meeting. Just think about it."

"Thinking about it" is the key objective in a Whitney class. "The most learning comes from within, and you just have to find someone to help you turn it out, or you figure it out yourself," he says. "The Sophists made their living going around and giving speeches, saying this is the way you should think, this is what you should do," Whitney explains. "But in my view

. . . and in Socrates' . . . people weren't really learning anything. So I want my students walking around out there still thinking about it, still a little uncertain."

As a teacher, Whitney is calm and good-natured, encouraging the rare reticent student to venture forth with an opinion ("If the spirit moves you, raise your hand," he prods. "Tough question—take your time to think about it.")

**A**lmost self-deprecating, Whitney is constantly reminding his class that he is still learning too. "The correct answer sometimes is, 'Professor, that's a dumb question,'" he has said. Or: "That confirms what I told you in the first class: I'm not a Shakespeare expert, I'm a student."

Whitney's students speak about him in reverent tones fit for one of Shakespeare's kings. "He is a master teacher," says Bier. "One of the reasons that the students love him so much is because as a human being, he's so special," says Rochelle. Almost all say their primary motive for taking the class was simply to take Whitney—no matter what he was teaching.

Whitney regards his students with equal esteem. In October, he told the class that their midterm papers had all been either "excellent" or "just damn good." And at the end of one class in which the discussion had been particularly animated, he said, "Folks, you just astound me. You come into this class and you just tear it apart—I look forward to this more than anything that I do."