Understanding Boards of Directors: A Systems Perspective
Other titles in Annals of Corporate Governance

*Corporate Governance and Human Resource Management*
Geoffrey Wood and Chris Brewster
ISBN: 978-1-68083-188-7

*Regulatory Competition in Global Financial Markets*
Wolf-Georg Ringe
ISBN: 978-1-68083-146-7

*Venture Capital 2.0: From Venturing to Partnering*
Joseph A. McCahery and Erik P. M. Vermeulen

*Fair Value Measurement in Financial Reporting*
Leslie Hodder, Patrick Hopkins, and Katherine Schipper
ISBN: 978-1-60198-886-7

*The Wolf at the Door: The Impact of Hedge Fund Activism on Corporate Governance*
John C. Coffee and Darius Palia
ISBN: 978-1-68083-076-7
Understanding Boards of Directors: A Systems Perspective

Jay W. Lorsch
Harvard University, USA
Annals of Corporate Governance  
Volume 2, Issue 1, 2017  
Editorial Board

Editor-in-Chief
Douglas Cumming  
York University  
Canada
Geoffrey Wood  
University of Essex  
UK

Associate Editors
Renee Adams  
*University of New South Wales*
Lucian Bebchuk  
*Harvard University*
William Judge  
*Old Dominion University*
Mark Roe  
*Harvard University*
Rene Stulz  
*Ohio State University*
James Westphal  
*University of Michigan*
Editorial Scope

Topics
Annals of Corporate Governance publishes articles in the following topics:

- Boards of Directors
- Ownership
- National Corporate Governance Mechanisms
- Comparative Corporate Governance Systems
- Self Governance
- Teaching Corporate Governance

Information for Librarians
Annals of Corporate Governance, 2017, Volume 2, 4 issues. ISSN paper version 2381-6724. ISSN online version 2381-6732. Also available as a combined paper and online subscription.
# Contents

1 Introduction 2

2 The Roots of Research on Corporate Boards 4
  2.1 Initial Studies on Organizations 4
  2.2 Boards as Rational Legal Entities 5
  2.3 Boards as Complex Decision Makers 7
  2.4 Boards as Servants of the Shareholder 9

3 Demystifying the Dynamics of Corporate Boards 11
  3.1 Our Methods 12
  3.2 Our Findings 12
  3.3 A Modest Proposal to Improve Corporate Governance 15
  3.4 Intensified Interest in Board Research 16
  3.5 International Work on Corporate Boards 18
  3.6 Jonathan Charkham 20

4 The Move Towards Scientific Rigor 22
  4.1 The Research of Westphal and Zajac 23

5 The Constraints on Gathering Evidence 27
  5.1 The Limitations of Quantifiable Data 27
  5.2 Data That Reflect the Complexity of a Social System 28
<table>
<thead>
<tr>
<th>Section</th>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>5.3</td>
<td>Directly Observed Data</td>
<td>30</td>
</tr>
<tr>
<td>6</td>
<td>Why Board Research Should Focus on Social Systems</td>
<td>34</td>
</tr>
<tr>
<td>6.1</td>
<td>Why “Teams” Are an Inadequate Concept for Board Dynamics</td>
<td>36</td>
</tr>
<tr>
<td>7</td>
<td>A New Paradigm for Board Research</td>
<td>38</td>
</tr>
<tr>
<td></td>
<td><strong>Appendices</strong></td>
<td>42</td>
</tr>
<tr>
<td>A</td>
<td>Appendix</td>
<td>43</td>
</tr>
<tr>
<td></td>
<td>Exhibit 1</td>
<td>43</td>
</tr>
<tr>
<td></td>
<td>Exhibit 2</td>
<td>48</td>
</tr>
<tr>
<td></td>
<td>Exhibit 3</td>
<td>49</td>
</tr>
</tbody>
</table>
Understanding Boards of Directors: A Systems Perspective

Jay W. Lorsch

Harvard University, USA; jlorsch@hbs.edu

ABSTRACT

In this essay my goal is to explore why, despite the tireless efforts of talented people, research on corporate governance has been slow and uneven, and where that research should turn to next to be most valuable to practitioners. My belief is that the most fruitful work thus far has recognized that corporate boards are dynamic social systems, has identified all the forces that shape those systems, and has acknowledged that boards should seek to represent a wide variety of stakeholders, not just shareholders. The best way for me to establish this argument is to trace the history of research on corporate boards and analyze the trends in that research, including the relative value of the types of data that researchers in this field have used. Ultimately, I identify what I consider to be the best path forward in studying these complex social systems. I have made a deliberate choice to focus primarily on research that reflects firsthand experience with boards rather than on research that utilizes data derived from questionnaires and other secondary sources. Not everyone will agree with my choices, but my hope is that my perspective will nonetheless provide some guidance for people working in this evolving field to understand the true complexity of corporate boards.
Since the middle of the twentieth century, business and legal scholars have tried to explain why corporate boards of directors function the way they do. These research efforts deserve to be applauded, as it is not easy work to understand what happens behind the closed doors of boardrooms. I have studied corporate governance for 25 years (after previous decades as a teacher and researcher in organizational studies), so I believe that I understand these challenges well.

In this essay, my goal is to explore why, despite the tireless efforts of talented people, research on corporate governance has been slow and uneven, and where that research should turn next to be most valuable to practitioners. My belief is that the most fruitful work thus far has recognized that corporate boards are dynamic social systems, has identified all the forces that shape those systems, and has acknowledged that boards should seek to represent a wide variety of stakeholders, not just shareholders. The best way for me to establish this argument is to trace the history of research on corporate boards and analyze the trends in that research, including the relative value of the types of data that researchers in this field have used. Ultimately, I identify what I consider to be the best path forward in studying these complex social systems.
Introduction

I have made a deliberate choice to focus primarily on research that reflects firsthand experience with boards rather than on research that utilizes data derived from questionnaires and other secondary sources. Not everyone will agree with my choices, but my hope is that my perspective will nonetheless provide some guidance for people working in this evolving field to understand the true complexity of corporate boards.