The President and Fellows of Harvard College—the seven-member Corporation, the University’s senior governing board—has begun a review of its operations. As reported (“The Corporation Changes,” March-April, page 52), the matters under examination include its agenda, its interaction with diverse constituencies, and how it gets and uses information.

Those procedures aside, any such exercise might usefully be guided by first principles. For Harvard, those were elegantly expressed in a series of lectures, subsequently published as *University Administration*, delivered by Charles W. Eliot in 1908, near the end of his extraordinary 40-year presidency:

> The functions of the board of trustees or regents of an American university are of fundamental importance. They relate to the management of the property both real and personal; to the distribution of the annual income of the university among the different departments of instruction and research; to the appointment of all officers and teachers in the university; and to the enactment of the rules or statutes under which the regular work of the university proceeds. The board also passes finally on all the educational policies of the university; but in this function it ordinarily follows the advice of the university faculties.

Subsequently, these responsibilities were succinctly updated for modern use by Berkeley sociologist Neil J. Smelser ’52, Ph.D. ’58, JF ’58, Of the University of California, he wrote in 1994:

> Many regents’ expectations derive directly from the fiduciary charge assigned to them as a board of trustees. Among these expectations are (a) that the university’s financial affairs will be carried out in an honest, reliable, and accountable fashion; (b) that the university’s officers will exercise authority responsibly and effectively.

On the evidence, Harvard’s past decade has proved troubling: a presidential tenure cut short, succeeded by the recent, and continuing, severe financial challenges. Perhaps these are fruitful starting points for the Corporation’s inquiries.

Taking Smelser’s second point first, the Corporation members might want to probe their understanding of why Lawrence H. Summers’s presidency, from 2001 to 2006, did not succeed. What were the root causes? When did they emerge? What evidence of problems might the Corporation have detected—when, how, and from whom—and what might it have done then to effect a better outcome for the University? Or, phrased positively, having chosen a leader for Harvard, how might the Corporation best perform its review functions—oversight, performance evaluation, and compensation-setting—but also contribute, directly and affirmatively, to a successful presidency?

Turning to Harvard’s resources, different questions arise. It is already painfully known what happens to universities when the investment return on their endowments turns sharply negative (in Harvard’s case, combined with annual spending, reducing the value of those assets by $11 billion in one year). Similar lessons have been learned from the additional losses of $3 billion realized on the University’s swaps and on the investment of its working-capital funds in illiquid instruments. Investment strategies are being altered; steps have been taken to restore liquidity; changes are being made in Harvard’s management of its cash, how it funds administration, and its capital planning.

Is the Corporation also discussing how the Faculty of Arts and Sciences came to rely on endowment distributions for 54 percent of its revenues—and how the Law School has leveraged itself to pay for its huge new building? What were the spending policies that have now made the lessening of endowment resources so painful? Was there a credible plan for financing the ambitious campus construction program in Allston, and for operating the new facilities envisioned there? How were the assumptions underlying all these fundamental decisions critiqued and challenged?

Whatever the Corporation discovers and decides about its oversight of University leadership and its stewardship of finances, it may also want to explore organic alterations in its membership. It might at least wish to consider what would be required to revisit its basic structure, the Overseers’ role, or other matters through legislation or other engagement with the Commonwealth of Massachusetts.

But improved governance does not depend on such changes. Should the Corporation organize itself into more formal, expert committees? As it attends to the long-term health of the institution, might it determine that its members’ terms should be better staggered relative to the tenure of any Harvard president—the fellow Fellow whose performance they must review? After Conrad K. Harper, J.D. ’65, resigned in protest in 2005 (see “I can no longer support the president,” September-October 2005, page 56), the Corporation ended up with only one member, James R. Houghton ’58, M.B.A. ’62 (who concludes his service this June), not elected during the Summers administration. That obviously risked diminishing historical memory, institutional continuity, and independent perspective—all important attributes for Harvard’s ultimate governing authority. Such changes are within the Fellows’ power today.

Similarly, nothing prevents the Corporation—through its senior fellow, collectively, or in the person of the president—from reporting to the community about its activities and interests. The participants in a *Harvard Magazine* roundtable suggested as much four years ago (“Governing Harvard” May-June 2006, page 25). Might it have been helpful for the Corporation to explain its decision to reduce the endowment distribution (8 percent in this year; 12 percent in the fiscal year beginning July 1)? The *Yale Daily News* routinely features detailed accounts of that institution’s weekend corporation meetings, based on a briefing from President Richard Levin; in a late-February dispatch, the newspaper reported his account of discussions of tuition, budget reductions, healthcare legislation and the medical school, undergraduate housing and curriculum, and library issues—complete with the identities of the Yale officials who addressed each matter.

The effects of the Corporation’s self-examination extend far beyond its periodic meetings and the confines of Loeb House. How it governs has a direct bearing on the expectations for and conduct of University leadership and management. Accordingly, at this challenging moment, the Fellows might evaluate practices at peer institutions to see which could be fruitfully...
adapted to strengthen Harvard. For example:

- Communicating in a crisis. Other institutions have made it easy for constituents—faculty and staff members, students, alumni—to learn about their leaders’ responses to the current financial difficulties, and the future options depending on possible investment returns and sustainable spending rates. Stanford does. Stanford does a good job of the former kind of reporting (http://budget.stanford.edu). Nothing equivalent exists locally, where Harvard’s tradition of autonomous schools makes such communication more difficult—and even more vital.

- Putting events in context. Eliot lauded the Board of Overseers for directing the Harvard president to prepare “an annual report accompanied by a complete treasurer’s statement, the report to cover all important acts and events for the year, together with remarks on the state of the institution, and on the measures recommended for its improvement.”

The useful aspects of the president’s overarching report have been lost as it has been reduced to a vestigial cover letter in the annual financial statement. Might the Corporation want to encourage the University to publish a prospective budget, so the community knows priorities and intentions for the year—and so there is a common point of departure in case new circumstances dictate spending less? For a complex research university with similarities to Harvard, Stanford’s annual budget report—complete with operations, capital spending, and a longer-term capital plan—is an interesting example (http://stanford.edu/dept/pres-provost/budget/plans/index.html).

- Transparency. The Harvard University Financial Report (http://vpf-web.harvard.edu/annualfinancial) can be as opaque as it is illuminating. What was the sum of liquid funds invested in endowment-like instruments, and how did that grow, absolutely and proportionately, over time? When Harvard entered into swap agreements connected to funding for Allston construction, what were the terms and exposures of those derivative instruments? How much has been collected through the “strategic infrastructure fund” assessment (an annual half-percent levy on endowment funds to offset central expenses associated with Allston campus development)—and how has it been deployed? How much has been invested in Allston, from the first land purchases in the 1980s, through recent acquisitions (the Watertown Arsenal, the Massachusetts Turnpike site, the Doubletree Hotel), in financing costs, in planning and consulting and design fees, and now in the several hundred million dollars invested so far in the halted science complex: one billion dollars? two billion? more? In any of these cases, would clearer disclosure have raised any warning flags—or changed behavior?

The Faculty of Arts and Sciences (FAS) recently introduced more detailed annual financial statements. But here, too, there is room for improvement. Funds decapitalized from its endowment, FAS notes, offset deficits in the unrestricted operating budget, but the amounts and years are not disclosed. Surely that would be useful for understanding FAS’s predicament now. And the functional disclosures (spending on libraries, say, or instruction) found in previous statements have unfortunately vanished.

Harvard, a private entity, is not required to disclose such matters. But such transparency—increasingly expected of diverse institutions—might help illuminate problems or opportunities, and engender support for University goals. Coincidentally, the Association of Governing Boards’ recent update of principles for institutional governance emphasizes open communication and transparency.

- The vision. Finally, might not Harvard aspire to formulate and publish a strategy, extending beyond yearly reports on budgets and results? Eliot, who knew whereof he spoke, observed, “The American universities have grown in a casual, agglutinating way, without any definitive plan or framework to tie together the different departments which were successively created.” How much truer today—and how much riskier for a $4-billion-per-year enterprise. Harvard has typically winnowed its separate faculties’ priorities to prepare for capital campaigns. But it has not completed that critical exercise for a decade and a half (and tying strategy to fundraising so explicitly invites a degree of cynicism).

Duke, a younger but surely rising research university, has conducted successive strategic-planning efforts, has published the results, and has backed up its chief priorities with hundreds of millions of dollars (see http://stratplan.duke.edu/plan.html). Much was implemented, and the 2006 plan proved a useful framework for budget reductions when the markets collapsed in 2008.

Someone who knows a great deal about that process and its value to Duke is its president emerita, Nannerl O. Keohane, L.L.D. ’93—since 2005, a Fellow of Harvard. Someone who has indicated a genuine interest in devising and carrying out an institutional strategy in Cambridge is President Drew Faust. She did so as founding dean of the Radcliffe Institute for Advanced Study; and she invited Lawrence University Professor Michael E. Porter, perhaps the foremost scholar of competitive strategy, to join her first retreat with her deans—in July 2007, just a dozen days after taking office—to explore ways they could become their schools’, and Harvard’s, foremost strategic leaders.

To complement their own reflections, the Corporation members can find useful sources of expertise on such urgent questions. Harvard’s professional-school faculties harbor pockets of deep thinking about board roles, organization, and performance relative to the responsibilities of choosing an institution’s leaders and suitably husbanding its resources. And there are external experts—for example, U.S. Court of Appeals judge José A. Cabranes has written about his trustee service at Fordham, Colgate, Yale (where he had earlier been general counsel), and Columbia.

However the Corporation defines its confidential inquiries—perhaps probing some of these issues, no doubt exploring many others—Harvard clearly faces consequential, overlapping questions of governance and of management. The events of the past decade invite deep examination of the institution. Prospective challenges to all research universities (a deficit-ridden federal government unable to fund more research, families constrained to pay more tuition, and uncertain endowment returns) make that self-analysis more urgent.

Members of the Corporation may not have expected to focus on such work when they agreed to serve—almost all of them in what turned out to be the financially ebullient years from 2002 on. But changed circumstances locally and in the wider world compel them to do so now. Concluding his “description of the functions and responsibilities of university trustees” 102 years ago, Charles W. Eliot said it is “obvious” that “service on such boards is in high degree interesting, useful, and honorable.”