The Corporation Changes

James R. Houghton '58, M.B.A. '62, who joined the President and Fellows of Harvard College (the formal name of the Harvard Corporation, the University's senior, seven-person governing board) in 1995 and became senior fellow in 2002, announced in December his plan to step down on June 30. During his service as senior fellow, Harvard underwent the transition from President Lawrence H. Summers, who resigned in 2006, to Derek Bok's interim presidency through mid 2007; Houghton led the search that concluded with President Drew Faust's appointment, effective then.

He will be succeeded as senior fellow by Robert D. Reischauer '63, president of the Urban Institute, in Washington, D.C., who joined the Corporation in 2002, having previously served for six years as a member of the Board of Overseers, an elected position. That gives him some relative seniority compared to Robert E. Rubin '60, the former Goldman Sachs and Citigroup executive and Secretary of the Treasury, who also joined the Corporation in 2002, but had never been an Overseer.

The search for a new Corporation member began in mid January. The committee comprises Faust, Reischauer, and two other Corporation members—Patricia King and University Treasurer James Rothenberg—and Overseers Leila Fawaz, Paul Finnegan, and Richard Meserve. Under Harvard's charter, members are elected by the Corporation, with the counsel and consent of the Overseers. (Confidential nominations may be directed to corporationsearch@harvard.edu or to the Corporation Search Committee, Loeb House, 17 Quincy Street, Cambridge 02138).

The changing composition of the Corporation—always of interest within the University community—may be particularly significant now, given hints that at least some aspects of its operations may be under internal review.

"It's been a true honor to have been able to serve Harvard over the years," said Houghton, chairman emeritus of Corning Incorporated (and chairman of the Metropolitan Museum of Art board, and a longtime trustee of the Morgan Library and the Corning Museum of Glass), in the announcement. "I've been around Harvard for more than 50 years, through challenge and change, and the wealth of talent in our community never ceases to amaze me. I have every confidence that Harvard will continue to demonstrate the unique capacity of great universities to educate students and generate new ideas in ways that change the world."

Houghton has served "with extraordinary devotion and a profound concern for the well-being of the University and its people," Faust said in the statement. "He has seen Harvard through times of change with a steady hand and a constant commitment to the best interests of the University—above all, the quality of our students' educational experience and the capacity of our faculty to shape the course of knowledge....I'm one of many people at Harvard who have benefited from his thoughtful counsel and common sense, and who have come to value his friendship and generosity of spirit. We owe him our deep gratitude for his years of selfless service to Harvard."


James R. Houghton

At the regularly scheduled Faculty of Arts and Sciences (FAS) meeting on December 15, the day after Houghton's announcement, Faust spoke about the Corporation more broadly. During its fall meetings, she said, Houghton had led discussion about how the Corporation could most effectively carry out its roles and responsibilities. Faust said both he and she felt it important that the Corporation look closely at how it did its work and what practices would be most sensible: the sort of reflective review any such entity ought to undertake from time to time, and especially now, in light of changes in the University itself and in the larger world. Given that the Corporation rarely, if ever, discloses anything about itself or its work, her remarks were unusual.

Among the matters Faust said had been specifically raised were: how the Corporation sets its agenda and spends its time during its regular meetings; how it receives information and interacts with University constituencies; how it relates to the Harvard administration and the Board of Overseers; and how, generally, it benefits from advice available or offered to it. She invited faculty members to offer such advice (in person, by letter, or via e-mail to ogb@harvard.edu), as part of the Corporation's intention to consult widely.

The Corporation is unusual among modern institutional boards: it is self-renewing and appointment is not for a set term—although there are informal standards for how long members serve. It has not as a rule made efforts to communicate about its concerns or deliberations, or to convey information about its decisions on matters of policy, budgets, or other major issues.

Four years ago, *Harvard Magazine* published a roundtable conversation on the University's governance and the Corporation's distinctive characteristics, featuring two former Corporation members (one, Henry Rosovsky, a past FAS dean, now serves as president of the magazine's board of directors) and two faculty members with expertise on institutional governance, including that of higher-education institutions. Their suggestions for how the Corporation might, at a minimum, communicate more openly, appear in "Governing Harvard," May-June 2006, page 25.

The weekend before the FAS

Photograph by Justin Ide/Harvard News Office meeting, professors Harry Lewis (a former Harvard College dean) and Fred Abernathy published a sharp critique of the Corporation's performance as an op-ed in the *Boston Globe* ("Shrouded in secrecy, decision makers gambled and Harvard lost"). They focused on the recent severe endowment decline and other financial losses, and the decisions concerning spending, fundraising, and increasing reliance on distributions from the endowment that were made earlier in the decade. Their conclusion:

> The Harvard Corporation is a dangerous anachronism. It failed its most basic fiduciary and moral responsibilities. Some of its members should resign. But the Corporation's problems are also structural. It is too small, too closed, and too secretive to be intensely self-critical, as any responsible board must be. Until the board can be restructured, the fellows should voluntarily share their power with the Overseers. And Harvard should reveal the risks of its business plans, as would be required if it were a publicly held corporation. That exercise in transparency would surely serve Harvard well.

The financial pressures facing the University have stimulated discussion about how budgets were made and spending priorities set—and about the Corporation's work. Some of these issues had already bubbled up in an October 16 Harvard News Office interview with University Treasurer James Rothenberg, and in subsequent reporting on Harvard's financial losses by the *Globe*'s Beth Healy (see "Further Financial Fallout," January-February, page 45). In a late November dispatch, Healy reported that the Overseers were not told about Harvard's fiscal year 2009 swap and general operating account losses (at least $2.3 billion, and potentially as much as nearly $3 billion) until shortly before the news was released to the public in mid October. (In fact, this may overstate matters. Overseers' expertise and involvements vary, and at least some of those most engaged in financial issues appear to have known these details. What reports were made to the Overseers as a whole, and when, could not be ascertained.)

The *Crimson*'s coverage of Houghton's announcement, by Esther Yi '11, may be the clearest indication of change. She included comments from an unprecedented three Corporation members: Nannerl Keohane (president emerita of Wellesley and of Duke) and Rubin, in e-mails, and Reischauer himself, in an interview.

Any such change, it is clear, would emanate from within the Corporation itself, but these stirrings suggest that some new norms for outreach and communication, at least, are being tested.

Look for further reporting on the Corporation, after this issue was sent to the printer, at harvardmagazine.com and in the May-June issue.

FAS Narrows Its Budget Chasm

Addressing the Faculty of Arts and Sciences (FAS) on February 2, Dean Michael D. Smith presented "Recommendations and Next Steps" for the continuing effort to "bring annual expenses in line with the current financial situation we find ourselves in," while enabling the faculty to pursue future priorities.

He cast that effort in an encouraging context: FAS is near a goal of reducing its unrestricted deficit for this fiscal year (ending June 30) from $20 million to essentially break-even results. Further, it expects to reduce the gap looming over the next fiscal year from $110 million to an unrestricted deficit now estimated at $80 million, thanks chiefly to a revenue item: a change in Massachusetts law last year permits institutions to avail themselves of income from "underwater" endowments (where principal has declined below the gift amount because of investment losses like those sustained by Harvard's endowment last year).

Nonetheless, Smith said, the remaining "huge" deficit will not be eliminated by actions being taken now or envisioned in the near term. His goal by the end of this fiscal year is to put FAS on a budgetary path that enables it to operate in a sustainable (non-deficit) way by fiscal year 2012. He forecast that FAS's unrestricted reserve funds would bridge the excess of expenses over available income in fiscal year 2011 and part of the next year before running out.

Smith summarized—without dollar figures—the ideas for further efficiencies and improvements in FAS operations generated by the six working groups he established last year (for arts and humanities; social sciences; sciences; engineering and applied sciences; College academic life; and College student services). Suggestions from the community at large were also collected at an online "idea bank."

Among the recommendations he said merited implementation soon are: tools to better gauge students' likely course selections, so teaching fellows can be hired more efficiently; curricular committees (like the one for the many life-sciences concentrations) that could reconfigure very small, specialized courses in different departments into more intellectually engaging, somewhat larger offerings—with instructional savings; more flexible faculty use of sabbatical leaves—perhaps staggering them so course offerings can be maintained intact (lessening the need for visiting teachers); and using sponsored-research funds to pay faculty salaries during the academic year (not just during the summer), freeing Harvard-paid salary funds for research. For details, see http://planning.fas.harvard.edu/index.html.

This spring, Smith and the leaders of departments and academic centers will engage in a form of financial poker, revising proposals for the fiscal year 2011 budget. Smith is keeping close to the vest data on FAS's reserves, the size of the deficit he can accept, and how he will allocate central funds that are annually distributed to support academic operations.

In the meantime, FAS faces large financial uncertainties. The Corporation has not yet announced the endowment distribution—the faculty's largest revenue source by far—for fiscal 2012. (It has been reduced about $50 million during the current fiscal year, and a further $70 million for fiscal 2011.) And administrators will not know until the June 30 election date how many senior faculty members have accepted the retirement incentive offered last December; those decisions, taken together, will affect significantly the future size and cost of the professoriate.