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Robert A. G. Monks

Bob Monks is a man on a mission: He believes that stock ownership carries with it important responsibilities, and that corporations should be more accountable to their owners and the broader public. I would have to say that, maybe because of being very fortunate, I have felt that I was in a position to try to do things that I knew were right and I knew other people wouldn't do because societal costs would be too high, he says. But somebody should do them, and so I have been on the cutting edge, particularly in the field of corporate governance, for the last fifteen years, advocating attitudes and lines of inquiry which I confidently feel are important.

Robert Augustus Gardner Monks is the founder and president of LENS, Inc., an activist money manager that invests in underperforming companies and uses shareholder rights to increase value. He is internationally known for his work in corporate governance, shareholder activism, executive compensation, and institutional investor fiduciary responsibility. He brings to his current work a wealth of experience (in both the private and public sectors), pedigree, and financial reserves, and he freely draws upon all three to advance his cause. After graduating from Harvard Law School, his career path has occupied many shades of the business vocational spectrum, particularly with respect to large institutional investors. In the private sector, he has been a partner in an established Boston corporate firm, a partner of several investment management organizations, CEO of a substantial energy company, and eventually, in 1979, chairman of both the Boston Company and the Boston Safe Deposit and Trust Company. (In 1981, Monks spearheaded the negotiations leading to the merger and sale of the Boston Company and Boston Safe Deposit and Trust to Shearson/American Express; the two companies subsequently were purchased by Mellon Bank Corporation in 1993.) He has served as a director of a dozen public companies, including, most recently, Tyco International and the Jeffries Group.

Recent consolidations in the media/entertainment industries have produced a situation wherein most of mass communication in this country (and, indeed, the world) is in the hands of a few corporations, that is. These owners B including General Electric, which owns NBC; Westinghouse, which bought CBS, spun off its defense and electronic divisions and, effective last December, changed both its name and stock symbol to CBS;^[i] the Walt Disney company, which owns ABC, CNN, and a host of other cable outlets; Rupert Murdoch's privately held News Corporation, which owns Fox and other cable channels; Viacom, which owns the UPN network; and Time-Warner, which owns the WB network B fit McLuhan's portrayal of owner preferences, even as public attention about quality standards generally is directed to the networks, producers, writers, and local affiliates.^[ii] This is not surprising, as the distinction between owners and managers, a primary structural feature of the twentieth-century American corporation, is one that consistently draws lopsided attention from those concerned about corporate affairs. The primary focus usually is on the management side of corporate enterprise B even, as in the case of television, on the corporate subsidiary network and delivery system, rather than on the parent B and the internal workings of the corporation, because that is where the power is. Little, if any, attention is paid to corporate ownership and governance C that is, to the bosses' boss C perhaps even its boss: the shareholder universe that has an equity stake in its operation. If we look behind the ownership veil, the Athey whom we think is controlling our airwaves is, in reality, us the little guy investor about whom people like Jon Lovelace were talking.

We see and read a good deal about the various moves made by media barons and entertainment conglomerates, but what we tend to overlook is that their power is not as concentrated or permanent as we think. The publicly traded corporation is owned by hundreds of thousands of investors, both individual as well as those occupying various institutional groupings B such as federal, state, and local pension funds, corporate funds, endowments, mutual funds, trust funds,

union funds, foundations, employee stock ownership plans, and various Arelational funds (that is, funds which take significant positions in a company and engage in heightened monitoring of companies in their portfolio). While their investment objectives, strategies, and obligations may vary, they all share a common fiduciary ethic. These owners B are you in this group? B are in a potentially powerful position to flex their muscles and help make the corporation do the right thing.[iii] So far, these sleeping giants have begun to awaken and are becoming both smarter and more engaged in corporate affairs, in pursuit of better financial gains. The next phase, still to come, is to use this knowledge and influence on corporate decision making in pursuit of a better society.[iv] This is the frontier of corporate accountability, the place where money and morality meet. It is also territory that is patrolled by our next guest in this conversation about values and moral decision making.

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On the public side, he has held numerous appointed posts in government service.[viii] In 1984, he was appointed by President Reagan to head the Department of Labor's ERISA (Employee Retirement Income Security Act of 1974) program, which oversees corporate employee pension plans; while at ERISA, he was a forceful spokesman for greater ownership knowledge of and involvement with what corporations do. In 1986, President Reagan appointed him as a member of the Federal Retirement Thrift Investment Board, designed to oversee the new Federal Employees Retirement System (FERS), a tax-deferred savings plan created to increase the pensions of federal workers hired after 1983. And on three occasions (most recently in 1996), he has been a Republican candidate for U.S. Senate in Maine.[ix] For Monks, representative democracy need not be restricted to public life: In 1991, he ran as a candidate for the board of directors of Sears, Roebuck on a platform of shareholder accountability, thus posing a major challenge to the conventional forms of corporate board election. Although he did not win this election, his efforts were a factor in Sears' restructuring and in the SEC's modification of regulations governing the shareholder proposal process, both of which were announced in 1992.[x]

Since the early 1980s he has been dedicated to the proposition that the job of institutional investors is to function as responsible owners and to require significant accountability from the people who run the companies they own. In 1985, he and long-time colleague Nell Minow, also a

renowned expert/advocate on corporate governance, founded Institutional Shareholder Services, Inc. (ISS), a group that advises institutional shareholders on how to exercise effectively the responsibility of corporate ownership.^[xi] In 1989, he launched Institutional Shareholder Partners, which evolved into LENS. In the past couple of years, he has helped to establish the Judge Institute of Management, the graduate program in business at Cambridge University.^[xii]

He is the author or co-author of numerous books and articles on corporate governance, including, with Nell Minow, *Power and Accountability* (1992), *Corporate Governance* (1995), and *Watching the Watchers: Corporate Governance for the 21st Century* (1996). His latest effort, entitled *The Emperor's Nightingale*, draws upon the science of complexity in its visionary promulgation of the idea of fiduciary capitalism and a series of normative standards (including legal compliance, full disclosure, and minimal political involvement) to be used, in addition to financial ones, in holding corporations accountable.^[xiii]

What is his theory of corporate accountability? Is there such a thing, say, as the seven habits of highly successful corporations, or a tried-and-true method of executive decision making? My view is that there isn't any static managerial system that works, he tells us. There isn't any overarching strategy that should be applied in every situation. You should have a process, and the process should be one in which those who exercise power are immediately accountable to somebody, and the somebody in this case is the institutional shareholder who collectively own the majority of the huge enterprises that dominate the world.

These ideas of free association, checks and balances, and moral responsibility are fundamental American traits, and it should come as no surprise that they are core to his ethic. Monks' family roots go back to pre-Revolutionary times (his mother's ancestors were the first European settlers on the Penobscot River), and he comes from a long line of doctors, merchants, and clergy; Monks' father was an Episcopalian clergyman who founded a boy's school in Lenox, Massachusetts. Young Monks married Millicent Sprague Monks, a great-grandniece of Andrew Carnegie, when they were both nineteen. They maintain their primary residence on a vast estate in Cape Elizabeth, Maine, where their children and their families live, too. The entire family continues the tradition of service to community: Monks himself has been instrumental in developing the Spurwink School in Maine, a nationally renowned organization that helps children with special needs; wife Milly is a leading supporter of the arts in Maine, running a dance company for over 30 years and organizing the annual Dance Portland event; son Bobby has created a number of new business ventures in Maine, developed the Portland Performing Arts Center and, with his wife Bonnie, is a leader in charitable causes focusing on children's health and education; both father and son were instrumental in the creation of Atlantic Bank, a new community bank in Portland that is dedicated to community needs; and daughter Melinda and her husband Ric founded and run the Creative Health Foundation, a nonprofit mental health care organization.

Monks is a big, friendly man, and exudes both the quiet fearlessness of a Brahmin who knows his way around the boardroom, and the philosophic air of the history teacher he almost became. A graduate of Fessenden School, St. Paul's, Harvard College, and Harvard Law, as well as a postgraduate in history at Cambridge University (where he crewed), Monks has a patrician take-charge manner that is a product of the old world pattern of American upper class breeding. Like some of his forebears, he maintains an almost revolutionary zeal, currently applying his skills to taming the corporate tiger, a major source of power and influence in our new world community of global competition and economic interdependence. He is a believer in the corporate system as helping to provide a higher standard of living for more people, and has spent many years working within it to provide a dynamic and a governance that sufficiently accommodates the public interest, while ensuring the health of the corporate system itself. Yet he is worried that corporations, while remaining unfettered, have enormous power, and are able to control the public environment, which, in turn, confers legitimacy upon them not a healthy development in this still-evolving democratic republic. Put another way, at this stage in his life, Bob Monks' sense of noblesse oblige primarily is directed to economic structures and capital flows, rather than to

government structures and political parties a modern form of patriotism rooted in freedom's fertile soil.

What, he is asked, do you want to pass on to your grandchildren? At first he thinks the one sense that I would like to communicate to those I love is a sense of the worthwhile-ness of living, he replies. That, and that who you are is important.

I try, in talking to my grandchildren, to make them understand that each of them is important, and they are important because they are themselves. Not because they're my grandchild or their parents' child, but because they are a person, and being a person is important. The culture from which I come was a very self-confident culture. For at least a couple of centuries my family had a good ticket to the game. We won the Revolutionary War, we won the Civil War. My grandparents and great-grandparents were merchants, doctors, clergymen, and there was a very real sense of being in a world that made sense and being part of a culture that was worth preserving and that could only be preserved by conscientious involvement by you as an individual. I think the consistent thing that needs to be emphasized is the worth of human existence.

All of us have had the experience of witnessing our most accomplished contemporaries commit suicide. All of us have seen people, who appear incapable of failure, failing incredibly. I think the one irreducible truth is that we know an almost infinitesimal portion of what we would need to know in order to make rational choices in life. We attempt to use quantitative terminology to loan weight in coming to conclusions, but we have to be aware in so doing we are only trying to make the answers more comfortable for ourselves. Because what is always true is, what we don't know is far more important than what we do know. It reminds me of those wonderful statistics the Federal Reserve comes up with. They give you page after page after page of data about flow of funds, and then down at the bottom they have a figure that is bigger than all the rest of the figures put together, and they say, in effect, fudge factor. They don't know what it is, but they need to put it in, just to make the totals add up. And that is what life is about. So once you understand that, you realize that no matter how much knowledge or information you accumulate in life, it will never be sufficient to be the guiding factor in what you actually do. Ultimately, you've got to find the answer within yourself. Whatever answers exist, exist within us, and the sooner you get about that, the better.

It gets a little disequilibrating to find out how little we know, and a lot of the time one is tempted simply to become obsessive about trying to learn enough in order to be entitled to be so tired that you don't have to think about how little we know. But what I try to tell my grandchildren is, to face up to this truth as soon as they can, and to understand that they will always not know very much, and the important thing is to then become comfortable with what lies within, and to understand that you have within yourself the capacity to answer most questions that are really important, and that you want to learn to trust the integrity of your own response mechanism.

Whether something feels right to you or not is often times the highest authority that you will ever have whether to go left or to go right, and you want to believe in it, you want to invest in it, and you want to use it. And having said that, I think that you want also B and I haven't quite figured out how to do this to make clear that human existence is not susceptible to linear answers. At the very least, the elements of contradiction exist in everything we do. You're apt to find that your most highly-prized virtue turns out to be your most lamentable vice. It's simply a matter of different perspectives. Something that is true at the moment you said it is inappropriate five minutes later. What appeared to be ideal under one set of circumstances is very dangerous under other circumstances. So, on the one hand, you think of a man being very courageous because he does things. On the other hand, you think of him as being reckless. You need to be able to at least wrap your consciousness around duality and, if you can stand it, chaos. Very well-developed persons can see themselves and their activity and their thoughts from many different perspectives, but I just start with a duality as a way of trying to get that mechanism started. The upshot of what I try and tell my grandchildren is, every day that they get up, they have an obligation to themselves, and that obligation is to learn something. There isn't any curriculum or

course that provides answers to the most important questions that confront human beings. There is, at best an appreciation of the insights that other people throughout history have had, all of which should give you a higher plateau from which to do your own work. But the process of living a fulfilled life is one of meeting the challenge that you must educate yourself every day. I hope to be able to do this in a way that doesn't discourage my grandchildren from going to school, because I think probably on balance it's a pretty good idea. Although not for all children. I think of the work that Howard Gardner's done at Harvard about the different kinds of intelligence.[xiv] For people with extraordinary skills in some of the areas he identifies, being exposed to a school system really only tests a fairly narrow range and for those kids, going to school really is not a positive experience. The purpose of life is to teach yourself, and that really is the only truth, the ultimate truth, and your obligation as a human being.

What have been the primary influences for him in helping his to reach these insights and craft his moral compass? He responds without hesitation: My wife is overwhelmingly the influence in my life. I think when you get married when you're 19 and you've been married all your life, you have a very large impact on each other, and that's certainly been the case with me. I was very fond of my parents and I got on well with them, and I'm close to my sister who's been my neighbor all my life. But my wife is really the person from whom I've learned.

Learning as a young man had to do with outgrowing quantitative accomplishments. For a long time I wanted to be something. Rich, famous, influential, powerful, and I put titles and names on these various things. I think there's a wonderful Greek expression, Those who the gods despise, they give them what they asked for. And I think that's a very wise statement. If you think of yourself as being something, you make a very serious mistake. You have to begin to think of yourself as someone. That is when you begin to have a chance to really live fully. Otherwise, you're always finding out that there's someone who is bigger than you are, richer than you are, more accomplished than you are, with a better CV than you have. And there's always someone who has something more than you do, and if that's how you see yourself, your life will be one of constant frustration. That is not really the object of life.

How was he able to arrive at this knowledge? Well, I was very lucky in the sense that I acquired everything I had specifically identified as a goal when I was very young, and I suddenly came to find out that it really wasn't of any sustaining value, he says. It was valuable for me to be conventionally successful, because it gave me license to try to do genuinely difficult things. By the time I was 30, I had become a partner in a law firm, which was the end of traditional education for me.

Thereafter a lot of success was repetitive, like being in commercial situations that are successful. They were all different, but they involve playing the same instruments in the band. I don't know whether it's just for me or others of my culture, but I didn't have enough self-confidence as a young man to be able to go through life uncredentialed, and so I spent a great deal of time going to school, and I was 30 years old, really, before I actually began to do something for myself.

He has told us that his lineage includes some who were preachers, and that his father was an Episcopalian priest as well as the founding headmaster of a boys' school. What role, then, has religion played in his life, in contributing to his spiritual education? My father, with whom I was very close, was an unhappy man, he says, Abut one of his qualities was that he was outspoken. For example, he voted for Norman Thomas. Not Franklin Roosevelt, not Alf Landon, not Herbert Hoover which my mother thought was a dreadful thing for someone to do who was trying to get students in a school. It frightened off the parents.

It was quite clear from that that a formal association with a sectarian religion was not a be-all for everybody. He was very unhappy generally. But he certainly wasn't happy being a cleric. But he'd given his word and he stuck with it and he did it. While he was a cleric most of the time he was either headmaster of a school or he was supervising the construction work on the Washington Cathedral. He was never really a parish priest. He was really a very good man, a very good

engineer. Religion, as he said, was the best bet he knew, which is a good way for an essentially cerebral person to explain how they made a mistake. But he always said that, it was the best bet he knew. But he certainly was pretty miserable doing it. So that was important to find out, because a lot of people have devoted a lot of time and energy to try and find the answer in organized religion. It was pretty apparent to me pretty early on that that wasn't necessarily the case. We were always involved in church, you know. We went every Sunday, but I went to boarding school when I was ten, so I just didn't have too much of a childhood experience. I went to a school called Fessenden in West Newton, Massachusetts. And then I went to St. Paul's in Concord, New Hampshire.

As with Dick Wolf, Bob Monks finds that Eastern religions provide him with the tools to do his spiritual work, and has developed his own form of soul keeping and spiritual maintenance. This pension fund and corporate governance expert practices various forms of awareness-building, recognizing the importance of a healthy mind, body, and soul. Meditation is his preferred route to replenishment and renewal. The function of meditation for me is, it got me used to the idea of the answer being within, he tells us. The culture from which I came would say, if you work terribly hard and you're very well-disciplined, you'll get enlightened, but that you must be very virtuous and very good and not have dirty thoughts and so forth and so on. Priests can't get married. Self-denial is the way.

Whereas the teachings of the meditators are quite contrary. What's within you is good, and you want to shut your eyes so you can allow what is within you to suffuse your consciousness and not to be distracted by assaults on your sensory apparatus from outside. That's really been a tremendous and nourishing revelation to me, because whenever I need rest or help or inspiration or thought or focus, I just shut my eyes. Either by reciting a mantra or a variety of other gnomic I try to get to a place of calmness as quickly as I can.

How did he find this path? His response shows us the strength that can come from suffering, of the power of resilience when mortal limits are reached. Well, Milly got sick, he says. Milly got cancer about twenty years ago and it looked like she was going to die. It was a very bad thing, and we really changed everything we did. It turned out, thank God, that the chemotherapy program worked perfectly. So she's in first-class condition, and it's all worked out.

But we turned to meditation, spent a lot of time on nutrition, and a lot of time with the analysts, all of which was an effort to try to reduce stress. We became quite clear that a great, great deal of illness was a matter of metabolizing stress, and that you accomplished almost anything if you can reduce the stress. The most useful technique is meditation. I have to spend a fair amount of time on travel. And I'm always in airports at ten o'clock at night, and the plane is late, and it's raining, and nobody knows when it's going to take off. You've got your toothbrush and no clothes. This is a simple-minded way of saying that what could be a dreadful experience can actually be very sustaining.

My wife is an artist and she started out as a singer. When we were married, she was enrolled in the New England Conservatory and she kept that up for almost ten years until she lost her voice. It happened, and we tried to figure out every imaginable healer, you know, what to do about it, but her voice never came back. So she turned to the dance, and became a dancer in recent years. She's always had the artistic notion of achieving a standard in which you can have some pride. I mean, you listen to others, but that isn't the point. The point really is that you succeed on your own terms, and that's why, for example, it's been possible for me to run for office three times for United States Senate and lose three times and not feel diminished by it. Most people would say, You're a three-time loser. My God, that's a terrible thing. I say, Look, I thank God for having the energy and courage to try things that are difficult. In a full life you're going to take chances and you're going to lose. It's not pleasant, but it's a whole lot better than the alternative.

Bob Monks is able to draw upon lessons learned from his wife and, inevitably, his upbringing, in maintaining his integrity and contributing to a greater good. There are other bits and pieces of his

story that already have been mentioned by other participants in this conversation, which we shall hear again: the potential of failure to teach; the influence of the arts; the fact that his father had an a vocational interest in engineering. In the meantime, there are unanswered questions. "What," he is asked, "keeps him going throughout? What about those of us who have far fewer riches and privileges than he, for whom success on your own terms lies out of reach, and what lies within may not be much more than a preoccupation with survival, a profound sense of fatigue, failure, or simply despair? Does he have a philosophy by which he abides, beyond this idea of interiority? Moreover, doesn't this inner ideal invite a form of isolationism that can breed disengagement, even apathy, when taken to a social or cultural level?" He seems to have lived his life doing the opposite: a purposeful engagement in wherever he turns his attention, a private stance with very public consequences.

I just borrow the legal vocabulary, he says. I'm a process person. I am involved in the process of, how do you approach things so as to expose yourself to as many possible different kinds of input? I have found a lot of sustenance in the saying that Edith Hamilton related from the Nicomachean ethic, 'Happiness is the exercise of vital powers along lines of excellence in a life affording them scope.'

That rather austere statement is what comes to my mind. I must say, as I repeat it again today, that it has great validity for me. There are four tests there. The definition of scope is that you take risks only in things that are worthwhile. I like that. I like the exercise of vital powers along lines of excellence in a life affording scope. Exercise, vital powers, excellence, scope. Nice concept. And so, in a way, if you wanted to find a single energy that informs me, it's that.

Meditation is an exercise of vital power, with no thought of retreating from the world...[It opens up] a sense of being part of a purpose, the purpose being to raise an agenda that people without the fortune of time of birth, good health, and coming from a family that was wealthy could not. I'm the fourth of five children. My eldest sister died at birth, and I have a surviving sister who is six years older, a surviving brother who is three years older, and a surviving brother who is six years younger, so I was the fourth of five. And I was fortunate enough that what schools were interested in, I was good at. School liberated. Early I was free to ask the questions as to what is appropriate scope.

It isn't scope for me to make more money. I define scope in terms of trying to assure that a free society exists. And I take a number of different swings at this, either from running for office, being an appointed officeholder, or in the last fifteen years, I focus on corporate power as being one of the more important influences on a free society. Early on, I got a fairly simple education, as I've described. [Unlike early settlers] I had been freed from so many demands where most people had to spend their energy. I began to try and apply the energy I had in places where I thought was a really, really vital objective. To me the vital objective is very much something that I associate with the American Experiment, and it probably has to do with why my ancestors came here in the first place although I suspect being starving and poor had a lot to do with it. I was speaking in London at a governance conference about five or ten years ago and a very, very grand English lady came up to me and she said, "You know, I wonder why you Americans are always coming over here and telling us that we ought to change things. I mean, it really does seem to be a bit strange." She said, "What explanation have you got for that?" And I said, "That's probably why we left. There probably is something of the rebel in me."

For me the idea of there being a free society is one in which someone who wants to be an artist can be an artist. And in looking forward to my grandchildren I hope that they are free to define the scope of what they want to try to do with their lives. That, to me, is essential because I think the credible thing is that unlike Descartes, I think, therefore I am I am, therefore I am important.

Believe me, I'm by no means the richest person you have ever seen, not even vaguely. But I've never been interested in making any more money than I've needed to give me the capacity to

pursue scope. And I simply couldn't persuade myself that that was a worthwhile way of living. So that rather generalized ethic informs how I spend my time.

Monks tells us that his current efforts to improve corporate accountability lie within the Edith Hamilton ethic, and that they are an extension of a commitment to the responsible use of power something to which his ancestors were committed, as well. What other exercise of vital powers does he envision for himself? AI started out as a history professor, and I probably will end up as that, he replies. AI think the book I'm now starting to write, which will take a long time, called *The Corporation and the State*, will probably turn out to be a history book. So in one of those ironic ways, you sometimes end the way you started. Though I'm not thinking of ending at the moment, I like history. Perhaps this is not surprising, given his ancestral legacy. Can he tell us more about what stands out for him with respect to his family ethic? My family are fairly typical of families that originated in England and, in my father's family, in Ireland, and came here between two and three centuries ago and generally were successful, he replies. My ancestors generally were people who were very comfortable. Going to Harvard Medical School, going to Heidelberg, becoming doctors, becoming part of, you know, the great banking families and what have you.

I've come to understand much from the way that I think probably my ancestors saw human existence that the major problems are ones of power. If you live in a world where there really is no generally understood answer, the people who acquire power tend to define the world in terms that assure that they retain that power. And if possible, that their children retain that power, and so on, forever. Sooner or later, if you have too many people with power doing this, literally the atmosphere is sucked up for people who aren't part of the game, and society is like a ping pong ball being bounced between the power reverberation of different groups who've got it and want to keep it. Now this really is very threatening in terms of what I believe is important that is to say, the individual. If your whole life is going to be consumed with simply reacting to existing power attempting to perpetuate itself, there's going to be very little time and space and scope for you to find out what happens when you shut your eyes. I feel that the American revolutionary experience was largely informed by a suspicion of power. While we could appreciate that there are people of genius who come along and genuinely make governmental decisions that would be in everyone's interest, on balance, we felt that the risk, the downside risk, was too high, and that we wanted to have a process which required people to be accountable to other people before anything could happen. I've come on two centuries and some later than that and found the same kind of problems exist in today's world, only power in today's world is much more a function of large corporations. There weren't any large corporations when they wrote the Constitution.

Monks uses the common stock of corporations as a means for improving our common stock of knowledge, as well as our common good. As he takes stock of his own life, where has he known profound failure? Has there been a particular turning point that deeply influenced his him? AAt the risk of seeming banal in answer to a very thoughtful question, I would say that overwhelmingly the ephiphanous event in my life was rowing, he replies, using a sports metaphor, as do many of our guests, to describe spiritual transformation, insight, and meaning. AI did it at Harvard and Cambridge. The aspect of it that encourages me to mention it at the risk of seeming banal is, if you have the view as I do, that we know almost nothing about what we are or where we're going, then you get something from rowing that is terribly simple. It's you and a very, very simple-minded process. Well, as it turns out, you being committed to a very simple minded process can learn a hell of a lot because you're not distracted. That sort of sounds like what can happen when you sit there, rocking in a chair.

You got it, but what you learn is a great deal about yourself, he says. It turns out, of course, that the genius of the sport is mental rather than physical. You have to acquire the ability to invest yourself in a process that's going to make you want to be dead before your ten minutes are up. And that requires a bit of focus. That process had a huge impact on me because it taught me how much I could ask of myself and how much I could respond. The extent of my ability to perform was so much beyond anything I would have imagined that I said, >Well, my God, if I can do that in this simple rocking chair business, how about trying something important?' And so that was

what really encouraged me to have a rather grand view of myself and how important it was for me to get up in the morning. I simply extrapolated from the utterly simple chair-rocking process to a more complicated life. But isn't rowing more than a solitary activity isn't it a task that involves a certain level of collaboration? Yes, there is collaboration on a very simple level, he says. The only thing that keeps you going is that you cannot stop while the other people are going. You just cannot do it.

Otherwise you couldn't possibly do it without the sustained functioning of everybody else. So it has nice metaphoric quality. This shouldn't be overstressed, but for me, at least, coming from a sort of accomplishment-oriented traditional culture. Where are you going to school? What class are you in? How well are you doing? How'd you do? B rowing became utterly personal. Can you make yourself do this? No other questions. That turned out to be the thing that turned me within. If I hadn't learned this, I couldn't have gotten married. I just wouldn't have been grown up enough.

Monks is now 64, and remains at the peak of his form. (In an aside, he gives us a glimpse into demographic destiny by telling us that he was born in the smallest birth year in American history: 1933. Too young for World War II, in school for the Korean War, too old for the Vietnamese War. The stupidest man in my class at Fessenden got into St. Paul. The stupidest man in my class at St. Paul's got into Harvard. Not very bright people in my class at Harvard got into Harvard Law School. So much for demographics.) Even though he still has much work to do, he is asked what legacy he would like to leave with his colleagues.

I would like to communicate the great joy of knowing that there are no limits to the questions that can be raised, he replies. AI was showing off some years ago when I went against Sears, Roebuck with only a hundred shares because I wanted to demonstrate that you can do it with nothing. I think there is joy engaging yourself in identifying a problem and in trying to focus energy on its resolution. It's a wonderfully sustaining feeling. I'd like people to have a feeling that at the end of the day it's possible. I've enjoyed it, I've enjoyed the hell out of it, and hopefully that will give people a basis to make their own lives more interesting. But I think the inhibiting factors get worse and worse.

[1]. Thus did Westinghouse Electric Corp., long a household name, end its 111-year-old history in a complete transformation that began in 1995 with the purchase of CBS for \$5.4 billion, and continued with the acquisition of Infinity Broadcasting Corp. for \$3.7 billion in late 1996. The new entity, known as CBS Corp., is one of the world's biggest stand-alone media companies; it is also an attractive takeover target for other investors, particularly programming czar Barry Diller and Seagram Co. Ltd.'s Universal Television. Earlier last year, Westinghouse announced its intent to keep the CBS eye as its logo, following the conclusions of a \$30,000 study by a corporate-identity consultant. On 14 November 1997, Westinghouse declared that it was selling off its industrial operations, a move that rocked its headquarters city of Pittsburgh. This was a departure from a previous plan that would have spun off the entity, therefore saving one of the century's best-known corporate monikers. German firm Siemens AG agreed to buy Westinghouse's power-generation business for \$1.53 billion; the remaining industrial assets, primarily a nuclear-power business and a government operations unit that handles nuclear material for the U.S. government, will be sold in mid-1998. In announcing the moves, Chairman and CEO Michael Jordan, who joined the firm in 1993 when it was an industrial conglomerate, said that Westinghouse had now returned to the legacy that it began in 1920, when the company's KDKA station in Pittsburgh produced the nation's first commercial radio broadcast. This is a historical business for Westinghouse, he said, according to a report appearing in *The Wall Street Journal*. See Kyle Pope, Westinghouse Plans to Focus on Broadcasting Business, *The Wall Street Journal* (17 November 1997).

[ii]. In addition to television networks, deregulation allowed each of these corporations to engage in the production of shows, which may or may not air on its subsidiary network. As with the automotive industry, where auto makers engage in co-manufacturing arrangements with each other, the corporate lines are blurred: a show produced by NBC, for example, may find itself airing on another network, or generating earnings for another corporation in addition to its parent particularly if it is in syndication and finds everlasting life on cable or satellite TV.

[iii]. Who are the deal makers? Investment banking and media/entertainment are both people-driven industries; consequently, a trustworthy band of corporate finance firms usually handles broadcasting and cable financing arrangements. The scene is dominated by Wall Street giants, including Goldman Sachs (which has put together some \$2.5 billion in financing over the past two years, while handling several major media mergers and acquisitions); Bear, Stearns & Co. (its media and entertainment unit gets high marks from media executives); BT Alex. Brown (the product of the 1997 merger of Bankers Trust and Alex. Brown, its media/communications division handled \$12 billion in media-related deals in 1997); Merrill Lynch (debt deals are its media unit's strength); Morgan Stanley & Co. (its media and communications group is now turning its attention to radio consolidation, the sale of television stations, and cable consolidation); Donaldson, Lufkin & Jenrette (DLJ's Media group handles major debt offerings); Lazard Frères & Co. (internal politics have led to a now-formidable media practice that concentrates on mergers and acquisitions); and Allen & Co. (although small by Street standards, this boutique firm is known for its strong relationships with top media moguls B stroked each July at Herb Allen's retreat for bigwigs in Sun Valley, Idaho B and its success in chasing media deals). Indeed, smaller boutique houses are quietly amassing their powers; again, the key is trusting relationships. The boutiques primarily differ from their Wall Street counterparts in their transaction focus; they tend to sell groups of properties rather than companies. Examples of specialty firms doing deals in broadcasting and cable niche markets include Daniels & Associates, Waller Capital Corp., Communications Equity Associates (which is merging with Montgomery Media, creating a new entity that concentrates on Internet companies, new media, multimedia, and satellite communications), Media Venture Partners, Veronis, and Suhler & Associates. See John M. Higgins, Steve McClellan, and Colman Price, Eleven who make it happen: key employees who facilitate media deals at financial services companies, in *Broadcasting & Cable* (1 December 1997), 58, and Colman Price, Media's off-Wall Street players: specialty firms find plenty of business working with niches such as broadcasting and cable, in *Broadcasting & Cable* (1 December 1997), 68.

[iv]. For a discussion of the civic moral responsibilities of ownership and the role institutional shareholders can play in helping corporations make a positive contribution to public life, see Marcy Murningham, *Corporate Civic Responsibility and the Ownership Agenda: Investing in the Public Good*, An Occasional Paper (Boston: John W. McCormack Institute of Public Affairs, University of Massachusetts, Boston, 1994). In this monograph, I introduce the idea of a corporate covenant, which draws upon some of the central concepts in four of the world's great religions (Christianity, Judaism, Buddhism, and Islam), as well as the Western civic republican tradition. The paper provides a brief overview of the history of the corporation and American corporate governance (including corporate philanthropy), which illustrates some of the precedents for balancing claims to private and public prosperity. It touches upon recent theological, corporate governance, and management literature in examining these ideas, and summarizes the views expressed in structured interviews conducted with fourteen experts in relevant areas under scrutiny (including shareholder activism, theology, state and local pension and endowment fund management, corporate operations, financial investing, and the practice of law). Finally, it outlines some of the practical implications of the corporate covenant paradigm for shareholders, boards of directors, and management; business education; and public administration and social policy particularly with respect to education, emerging democracies, and the city.

[v]. To best understand Robert Monks' mission B as well as the institutional context in which most of the participants in this study work B a brief lesson regarding corporate governance and equity ownership is in order. First, corporate democracy is an American concept that exists more as an ideal than in reality, and applies to a structural entity, which, in historical terms, has evolved through distinct phases over the centuries, since its beginnings in early Roman and subsequent Anglo-Saxon laws governing group conduct. The predominant history of the business corporation is one in which the idea of civic responsibility has been ever-present. Only in the past one hundred years has this ideal fallen from grace. Second, the business corporation as we know it B that is, a hierarchical, multidivisional organization B is a late-nineteenth century phenomenon, a logical extension of managerial capitalism. With the growth of railways, mills, refineries, and pipelines came the need for efficient capitalization and management of large-scale complex enterprises. By the turn of the century, the multifunctional corporate structure featured vertical and horizontal segregation: product line divisions were separate from advisory or staff divisions; top management comprised the board, president, and CEO; middle management consisted of staff and product line offices; lower in the hierarchy were specific functional offices; lower still were laborers with few or no production skills. These structures exploited economies of scale and were designed to facilitate efficient production, marketing, and distribution. As resources were transferred among divisions, they also functioned as internal capital markets. Over time, the entire corporate structure became more distant than ever from owners, with salaried managers immune to the vicissitudes of the marketplace. As managers became more entrenched when corporate structures became bigger, more complex, and diversified, they became driven, not only by profit or public interest (as in earlier eras), but by survival and the maintenance of the status quo. No longer a legal construct possessing quasi-public functions, the corporation became an inward-looking, private, organized social unit possessing and breeding considerable power. By the mid-twentieth century, the managerial firm B that is, a corporation with both governance and operations controlled by the managerial class B became the primary form of modern business. In addition, several other forces during this century helped to move civic responsibility and accountability even further from their corporate moorings, widen the gulf between the owners and controllers of capital, and further fortify management's position: corporate share ownership became more diffuse, thus reducing the possibilities for direct owner participation in corporate affairs; mergers and internal growth made corporations bigger and more complex, thus increasing the need for centralized power and control; and the managerial task became more professionalized and established, aided and abetted (as in other young professions) the growth in business schools, various managerial training programs, consultants peddling their wares, and numerous how-to books, guides, and manuals. Even with the massive levels of downsizing, outsourcing, and restructurings that have taken place during the 1990s, this basic corporate form has remained essentially intact. However, we seem to be moving into a newer phase of corporate history, which shows the promise of greater levels of interdependence and accountability. The rapid increase in global enterprise and international competition, coupled with a dramatic increase in institutional share ownership, has set the stage for a rebalancing of private interests and the public good, one that bridges the ownership/control gap, revitalizes the idea of corporate democracy, and establishes a new paradigm of the corporation as world citizens.

Corporate Democracy: The Ideal

As already mentioned, concern about managerial accountability and concentration of wealth led to the establishment of the Securities and Exchange Commission in 1934. The SEC was established to regulate securities transactions so that publicly owned corporations would be accountable to the majority will of their owners; it oversees disclosure of information about companies to investors. Underlying this are the democratic political ideals of accountability, participation, and representation, similar to its application to government, only now applied to economic enterprise. There are five Commissioners, each of whom must be nominated by the President and confirmed by the Senate. Thus, in theory and according to law, corporations are ultimately accountable to owners, who elect boards, which then hire and monitor managers to run companies, all in accordance with the wishes of directors for the benefit of the shareholders.

In principle, the elements affecting the governance structures of both corporations and our form of democratic government include the following key assumptions: (1) *Shareholders* are expected to play the role that *voters* do in a democratic republic; (2) *boards of directors* are expected to function as elected representatives; (3) the notion of *one share, one vote* is akin to *universal suffrage*; (4) the process of *proxy solicitation* is similar to the dynamics of *election campaigns*; (5) corporate *charters and bylaws* are similar to *constitutions and amendments*; (6) shareholder *annual meetings* are expected to function much as *town meetings*; (7) the *right of class action suits* finds its analogue in the process of *judicial review*; and (8) the expectations concerning *corporate disclosure* are supported by the central tenet justifying a *free press*: that the public's right to know is an essential feature of self-governance.

Corporate Democracy: The Reality

Five years ago, SEC decisions affecting shareholder communication (moving away from the 10-person rule which exempted communication to 10 or fewer persons) and corporate disclosure helped to open up the shareholder proposal process more, although they were vigorously opposed by the business community. More recently, in response to sharp criticism, Congress passed the National Securities Markets Improvement Act of 1996, which mandated the SEC to review the proxy process and report back to Congress by 11 October, 1997. The SEC reportedly will vote on a rule that would open up the process even more, allowing shareholders to submit resolutions on a wide range of workplace issues, including many hiring policies and so-called Asocial issues. Following a period of public comment, these revisions may take effect in time for shareholder meetings in 1998. Other than the laws governing the SEC, there is no uniform law governing the relationship between shareholders and corporations; corporate governance comes under state, not federal, law, except for special circumstances such as banking or securities regulation. State laws vary, reflecting different policies as well as court systems; most laws developed in 1800s when there were closer ties between owners and managers, giving wide latitude to management in running the business. Companies can easily incorporate or reincorporate (by simply establishing a legal residence and paying a franchise tax), so they tend to choose the state with the most favorable laws; Delaware, Nevada, Maryland, and Bermuda are the most popular. Corporate law has been dubbed "a race for the bottom", as former SEC chairman William L. Cary once put it. Delaware wins this dubious distinction, with over forty-two percent of all companies listed on the New York Stock Exchange and most of the Fortune 500 companies chartered there.

Finally, corporate democracy does not adhere very well to the ideals enumerated above, for the following reasons (which find their counterpoint in public life): (1) the slate of candidates for directorship usually is nominated by incumbent directors, many of whom are also executives of the firm, leaving shareholders with only plebiscite voting power. If shareholders do want to nominate their own candidates, the process of assembling and fielding an alternative slate of directors is expensive and time-consuming: vast amounts of information must be submitted to SEC; a discovery process of litigation might then occur; and the tab can cost millions of dollars. Meanwhile, management has unlimited access to shareholder funds to conduct proxy solicitations. And, if proxy solicitations are successful, staggered board arrangements may force victorious dissidents to repeat the process in order to gain control; (2) because of these divided loyalties (so-called insider directors), the interests of many corporate directors are often at odds with those of the shareholders whom they purportedly represent; (3) many companies issue different classes of stock with different voting privileges; (4) proxy campaigns to solicit shareholder votes are complicated, unwieldy, highly restrictive, and costly, and lack essential democratic features such as confidentiality in collection, independence in tabulation, and uniform treatment of votes and abstentions; (5) rather than a profession of mutual obligation and entitlement, following an open discussion of primary purpose and principles, the corporate chartering and amendment process is highly bureaucratic and standardized; (6) proxy election results are known before annual meetings occur, so they end up being ceremonial events rather than truly deliberative occasions; and (7) and (8) class action and judicial decision making are

often the primary (and costly) agent for corporate reform, accountability, and disclosure, as we have seen most recently with the tobacco companies.

Corporate Democracy: The Opportunity

Institutional investors pension funds, mutual funds, money managers, and others now own about half the equity of all U.S. corporations yet the proxy process pretty much remains the province of company management or well-financed combatants for corporate control.

Some key questions emerging from this sea-change in concerns about corporate accountability include: *What is the proper role of shareholders, and what issues should be the focus of their attention? Are institutional investors equipped to function as owners? What are the moral standards embedded in corporate accountability? How does the way in which directors are nominated, elected, and compensated influence their ability to serve as intermediaries between corporate managers and shareholders? Do shareholders and corporations have a common agenda? What is their civic responsibility? How will changes in the capital markets affect interaction between shareholders and corporations in the future?*

[vi]. Unless otherwise indicated, these and subsequent quotations taken from an interview conducted with Robert A.G. Monks on 24 July 1996 at his home in Cape Elizabeth, Maine.

[vii]. For the past five years, LENS has been an active value investor, concentrating on publicly traded focus companies that have strong fundamental values but a depressed stock price. Unlike most money managers, LENS becomes directly involved in the governance and management of the companies they own with the goal of increasing shareholder value. LENS clients are typically institutional investors that recognize it may take several years for a corporate governance campaign to yield results; therefore they view their investments from the perspective of long-term owners. LENS only invests in a few companies (usually four to six) at a time, so that they can devote to each one considerable time and attention. For companies to qualify for investment, LENS uses quantitative and qualitative screens to determine two benchmarks: (1) the companies are underperforming, yet have strong underlying values; and (2) shareholder involvement is expected to boost their stock price value. LENS works, whenever possible, cooperatively with the management and board of their focus companies; if these methods fail, they will use more aggressive measures, ranging from the filing of shareholder proposals to a full-scale proxy contest for a seat on the board. Since its 1992, the LENS portfolio has outperformed the S&P 500 by over 50 percent. Focus companies in the LENS portfolio include Waste Management (which trashed its old name, WMX Technologies, its old corporate strategy, and its CEO in mid-1997), the Oak Brook, Illinois giant which provides waste management services to government, residential, commercial, and industrial customers in U.S. and foreign markets; Ashland, Inc. (formerly Ashland Oil), an oil and gas company headquartered in Russell, Kentucky; Chicago-based FMC Corporation, a producer of machinery and chemicals; and Temple-Intland, a Texas-based holding company in the containers and packaging business. Previous LENS portfolio companies have included Tenneco, Corning, Stone & Webster, RJR Nabisco, Borden, Inc., Scott Paper, Inc., and Westinghouse Electric Corp. LENS concentrates on shareholder activism because they believe that it provides the most reliable returns in excess of the market. This idea received recent endorsement following a survey carried out by McKinsey & Company, in conjunction with Institutional Investor, Inc., of over 100 major investors, CEOs, and senior executives. In an article entitled Putting a value on board governance, which summarized the research findings, the authors state that Agood governance practice really *does* make a difference a difference that many investors are willing to pay for. Believing in the value of corporate governance should no longer a question of faith. Robert F. Felton, Alec Hudnut, and Jennifer van Heeckeren, *The McKinsey Quarterly* 1996, Number 4 (170-175). In addition to its investment and monitoring activities, for the past three years LENS has sponsored an international corporate governance paper competition to develop academic interest and expertise in the field of corporate governance. LENS relies heavily on the Internet (its principals have adopted a virtual office approach) and maintains a comprehensive website, which posts information on its focus companies and performance, LENS principals, current shareholder news,

the full text of some of its publications, essays and papers by others, portions of a comprehensive corporate governance bibliography, and numerous hyperlinks to other sites specializing in corporate governance, or having information about the world of institutional investing. LENS can be reached at: <http://www.lens-inc.com>.

[viii]. In addition to his stints as ERISA Administrator and trustee of the Federal Employees' Retirement system, in the 1970s, Monks was a gubernatorial appointment to Maine's Office of Energy Resources (an office he recommended be closed to save the taxpayers money). From 1981-1983, he served as a Presidential appointee to the board of the U.S. Synthetic Fuels Corp., the government agency that grants subsidies for private ventures in synthetic fuels.

[ix]. Monks unsuccessfully challenged Senator Margaret Chase Smith in the 1972 Maine Republican primary; four years later, having won the party nomination, he lost the general election to Senator Edmund Muskie. In 1996, Monks was a candidate in the Republican primary, but lost, in a contentious race, to Susan Collins, who went on to win the general election.

[x]. Monks spent a considerable amount of his own funds on his director campaign, which, although unsuccessful, helped to draw attention to the poor performance of Sears Roebuck. He pinned responsibility for Sears' failures on Sears' board, and campaigned on a platform that included: confidentiality in shareholder voting (a right Americans enjoy in public life); the separation of the chairmanship position from the CEO/President (so as to assure objective monitoring of management); an independent study of divestiture of Sears' non-merchandising businesses (so as to achieve higher return on equity); an end to staggered board terms (so as to increase board accountability to shareholders; staggered boards are often used as a device by management to maintain control); and a requirement that directors own a minimum number of shares (the theory being that if they invest their own money in a company, they will be more accountable to other shareholders). Monks took out a full-page ad in *The Wall Street Journal* to promote his campaign. In addition to the campaign pitch, the ad carried the headline Non-Performing Assets under a cartoon-like sketch of nine people; there are no facial or apparel details, only an outline much like the chalk drawings of homicide victims at a crime scene.

[xi]. Institutional Shareholder Services (ISS) is a leading provider of proxy advisory, research, and voting agent services to help institutional investors comply with their proxy voting fiduciary duties, as defined by the U.S. Department of Labor. ISS clients are pension plans, investment managers, and bank trust departments; its staff of over 115 professionals (which increases in size during proxy season) covers 8,000 companies in the U.S. and 4,000 companies in forty foreign markets. With offices in Bethesda, Maryland and London, ISS carries out global coverage in conjunction with other specialists, including DSW (German Shareholders Association), VEB (Dutch Shareholders Association), Franklin Global Investor Services (Paris), ISS/Australia (Sydney), and PVD Advisories (Milan). The firm is now a part of CDA Investment Technologies, which is a division of Thomson Financial Services. For further information on ISS, their website is <http://www.cda.com/iss>.

[xii]. The Judge Institute of Management is the business school of Cambridge University and concentrates on corporate governance. The Judge Institute's offerings include the MBA and research degrees. In addition, the Institute works with companies to improve their effectiveness through research and executive education. Its research programs concentrate on finance, accounting, organizational behavior, ethics, and the environment; its strategic aim is to provide a firm foundation for the broader commitment to healthy corporate governance.

[xiii]. *Power and Accountability* (New York: HarperBusiness) presents a diagnosis of what is wrong with large U.S. corporations that have misused their power, and contends that institutional shareholders have the potential to make corporations more responsible and accountable. *Watching the Watchers* (Cambridge, Mass. and Oxford: Blackwell Publishers, 1996) extends the discussion, and provides a comprehensive compendium of what a lay reader needs to know about corporate governance. In *The Corporation in the 21st Century*, Monks.... *The Emperor's*

Nightingale blends fictional narrative with first-person engagement in projecting a scenario for corporate governance in the future, one that acknowledges the dynamic, always changing relationships among owners, managers, governments, customers, and society (Oxford: Capstone Publishing Limited, 1998; Reading, Mass.: Addison Wesley Longman, Incorporated, 1998). The full text of *Power and Accountability* and other articles, papers, and speeches written by Monks and Minow can be viewed online at the LENS website, which is <http://www.lens-inc.com>.

[xiv]. Howard Gardner is Professor of Education at the Harvard Graduate School of Education and co director of Project Zero. His most recent book is *Extraordinary Minds: Portraits of Exceptional Individuals and an Examination of our Extraordinariness* (New York: Basic Books, 1997), in which he examines the possible existence of a set of traits shared by all truly great achievers, such as Mozart, Freud, Woolf, and Gandhi. Gardner then goes on to explore the relationship among genius, creativity, fame, success, and moral extraordinariness.