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Marcy Murningham
marcy.murningham@gmail.com

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Corporate Civic Responsibility and the Ownership Agenda: Investing in the Public Good

This article seeks to provoke broader public discussion about ways in which human and ecologic dignity, prosperity, and the civic ideal can be advanced through a revitalized and principled ownership agenda that features greater levels of corporate accountability and civic virtue. It draws from portions of what then was called an “Occasional Paper,” part of a series emanating from the early days of the University of Massachusetts Boston’s McCormack Graduate School of Policy and Global Studies. Written in 1994, it introduces a new paradigm for corporate governance called the “corporate covenant,” which casts ownership within the framework of citizenship. These “owner citizens” are in a position to influence corporate decision making and reduce public cynicism regarding corporate behavior. The article provides a brief overview of the history of the corporation and U.S. corporate governance (including corporate philanthropy), which illustrates some of the precedents for balancing claims to private and public prosperity. It touches on recent theological, corporate governance, and management literature in examining these ideas. It summarizes the views expressed in structured interviews conducted with fourteen individuals with considerable expertise in relevant areas (including shareholder activism, theology, state and local pension and endowment fund management, corporate operations, financial investing, and the practice of law). It concludes by highlighting some of the implications of the corporate covenant paradigm for shareholders, boards of directors, and management; business education; and public administration and social policy. It does this by identifying three problem areas warranting the attention of the covenantal promise: (1) education; (2) emerging democracies; and (3) the city.

Introduction

This Occasional Paper makes the argument that corporations have a fundamental role to play in making a positive contribution to public life, particularly in this era of interdependent global economic activity. This assertion is grounded in the assumption that private interest and public interest are not mutually exclusive and can be balanced, with civic moral values serving as the connective tissue. The paramount questions are, *How shall we live?* and *What should we do?*

Discovered in the course of ongoing dialogue and debate and consistent with democratic principles, the integration of financial and nonfinancial values can help to advance a good society, part of an evolutionary pattern that restores some of the historic expectations about corporate civic obligation. This integration also can help to erase artificial distinctions among the profit, nonprofit, and public sectors with respect to responsibility for a prosperous democratic society.

Doing this is grounded in the reality of a dramatically changing ownership universe, wherein almost half the equity in major U.S. corporations is held by a handful of large institutional investors, representing hundreds of thousands of Americans from many walks of life.

Selections from Corporate Civic Responsibility and the Ownership Agenda: Investing in the Public Good (Boston: McCormack Institute of Public Affairs, University of Massachusetts Boston, 1994).

These institutional investors do not buy and sell stock as actively as they once did; they are too big to do so and tend to hang on to their stock for the long term. They are a permanent as well as a diverse lot. Resembling a Coke ad more than a country club, the lives of these owner-citizens are affected not only by stock price value but by quality of life considerations, by civic value—whether or not their streets are safe, their population is literate, and their air is clean. Some of these owner-citizens are also employees of the companies in which they own shares; there, too, their needs are multiple (and sometimes in conflict), covering categories that cannot always be explained in actuarial or financial terms.

This alteration in the ownership universe, coupled with concerns about corporate competitiveness in a global market, has led to a slow but sure power shift in American corporate governance away from management and toward owners and their board representatives. The resulting reconfiguration of the roles and relationships of investors, boards, and management have momentous implications for public policy, public administration, and business education. A critical one is the restoration of a public service dimension to the stewardship role as corporate boards become the fulcrum through which owner and management authority, as well as civic and private good, are exercised.

The King Is Dead

On August 6, 1993, the nine outside directors of Eastman Kodak Co. announced the dismissal of Kay R. Whitmore, chairman, president, and chief executive officer. The sixty-one-year-old chairman agreed to stay with the company until a replacement was found; on October 27, Kodak named George M. C. Fisher, chairman of Motorola Inc., as its new leader. This was a move that surprised Wall Street, because Fisher had successfully guided Motorola through a period of explosive growth and record profitability and was not expected to leave the company.¹ In addition to Fisher's impressive professional qualifications, a major part of his appeal to the Kodak board was the fact that he came from outside the ranks of current Kodak management and therefore would not engage in what many perceive as a deeply ingrained paternalistic attitude at Kodak's Rochester, New York headquarters.

Among the reasons publicly cited for Kay Whitmore's ouster were: (1) the need to move swiftly on cost-cutting measures, including layoffs affecting 20,000 of Kodak's 132,000 employees worldwide and the sale of various business entities, including its chemical business and parts of the Sterling Winthrop drug unit. For some time, Kodak has been under significant pressure from investors to trim its \$9.5 billion in debt, gained in part by the company's cash acquisition five years ago of Sterling Drug for \$5.1 billion, which was widely considered as overpriced.² (Sterling was acquired in a friendly takeover in 1988 in the course of events described more completely in another Occasional Paper.³); (2) the need to put forward a potent turnaround plan by September 1993, including a strategy for leading the company's several businesses into the future as well as a set of ideas for expanding Kodak's business into promising product areas; (3) unfavorable results in spite of massive spending on research and development; and (4) board dissatisfaction with Whitmore's performance, even after two years of candid discussion and the appointment last November of a special committee charged with overseeing him.

Twelve days after his dismissal, Kodak announced that 10,000 jobs would be eliminated throughout the company by 1995, a move that was part of Whitmore's restructuring plan but not considered to be strong enough.⁴ Further cuts are expected, which is sending shock waves through the town of Rochester, where one-third of the company's workforce resides.

Ever since George Eastman introduced photography to the masses in 1888, Rochester has been the recipient of Kodak largesse, both as paternalistic employer and as longtime community benefactor. Kay Whitmore's reluctance to fire people stems from this corporate tradition, a stance that ran afoul, however, of shareholder and board beliefs that greater efforts must be taken to keep Kodak a strong company. Even though Rochester has maintained its position as a leading manufacturing center and is no longer a "one-company town" like Buffalo or Ypsilanti—many smaller companies have sprung up in the area, often started by former Kodak employees—several community leaders are fearful of the prospect of new, outside management and the possibility that jobs could be moved to parts of the world with lower wage rates. They wonder, too, if Kodak's corporate philanthropy programs will continue. Rochester's superintendent cites Kodak's program—spearheaded by Kay Whitmore and sending 750 employees into classrooms from kindergarten through high school—as an example of the company's commitment to improving education and the future work force. Local observers wonder who will win the clash of values, with Wall Street on the one side and the corporate/community relationship on the other.⁵

A chemical engineer by training, Whitmore was a thirty-five year veteran of Kodak, working his way up through the photographic film business and becoming president in 1983, succeeding Colby Chandler as chairman and chief executive officer in June, 1990. While president of Kodak, Whitmore was the chief negotiator with Sterling Drug in its takeover of Sterling in February 1988. His departure is significant because it represents another in a series of major management changes in American companies made within the past year that were forced by outside directors and institutional investors, particularly public pension funds. The chairmen of General Motors Corp., IBM, Westinghouse Electric Corp., Eli Lilly & Co., Digital Equipment Corporation, Sears Roebuck and Co., Salomon Brothers, and American Express were sacked as a result of shareholder dissatisfaction with financial performance.⁶ In contrast, Kodak has remained profitable, earning \$1.14 billion in 1992 on sales of \$20.2 billion.⁷ Kodak directors, however, considered this 5.7 percent profit margin as insufficient, stating that they expected Whitmore's successor to do at least twice as well.⁸ "I'm struck by the importance of what the directors of Eastman Kodak have done," said Robert A. G. Monks, a longtime proponent of greater shareholder involvement and corporate accountability (particularly at Kodak), quoted in a *New York Times* report. "This is a great day for the American shareholder."⁹

Kodak's largest institutional shareholder, Fidelity Investment, was also extremely disgruntled with Kodak's performance. Playing a quiet behind the scenes role, Fidelity made known its unhappiness to Whitmore, particularly after the sudden resignation of a new chief financial officer who was brought in to turn the company around.¹⁰ Traditionally, financial intermediaries such as mutual funds and money managers are reluctant to directly influence corporate policy. The entry into corporate affairs of the nation's largest shareholder (Fidelity holds \$92 billion in common stocks), only this time a money manager rather than a pension fund, demonstrates that yet another boundary has been broken in pursuit of shareholder rights.

Last but most certainly not least, the world's largest pension plan, the \$127 billion Teachers Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF), recently announced its corporate governance policy.¹¹ TIAA-CREF holds \$52 billion in stocks and believes that its new policy, which involves greater pressure on corporate boards to have a majority of independent directors, will lead to better corporate performance and higher stock prices. TIAA-CREF also was an invisible player in the Kodak conflict, trying to get about 20 other major pension funds to vote against three of Kodak's directors who were running for re-

election.¹² Traditionally, TIAA-CREF has not been active in pursuing shareholder aims; its recent decision is expected to contribute greatly to the growing power and influence of institutional investors.

Corporate Governance and Control: The New Order

No longer immune to shareholder demands and outside pressures, corporate kingdoms are undergoing a power shift of seismic proportions.¹³ Big owners—that is, institutional investors holding substantial blocks of stock over a long time period—can now wield authority in ways that have important implications for managerial capitalism and, eventually, corporate civic responsibility. The heightened awareness and involvement of directors and institutional shareholders in corporate decision making mark a new chapter in the history of American corporate governance, although it evokes an earlier era in which the ownership and managerial role were interconnected.

At stake here, however, is not just how corporations are governed and managed—the current preoccupation of players and pundits—but what kind of role they are to play in society and how they comport themselves, both internally and externally. The potential consequences for public life are enormous because corporate resources—human, technological, and financial—are so vast. The extent to which the shifting power base of corporate authority can contribute to a better balance between self-interest and the public interest has ramifications for how we tackle stubborn social problems heretofore the sole subject of governmental and nonprofit intervention.

A major reason this development is taking place is because, paradoxically, the corporate ownership universe is both expanding and contracting. Institutional investors—such as public and private pension funds, endowments, union funds, mutual funds, trust funds, employee stock ownership plans (ESOPs), and foundations—now own almost half of corporate America.

This makes the ownership profile look more like a Coke ad than a country club because beneficiaries and other constituents of these investors represent a cross-section of the American public: They are a diverse lot, representing a rich mix of racial, ethnic, and cultural traditions. They are *owner-citizens*, concerned about return on their investment but also concerned about the quality of life in their neighborhoods and whether or not their future looks bright. They want safety and security, not just with investment holdings but also within their communities. They are concerned about values, both the economic kind and the moral kind. Some owner-citizens are also employees, so they are concerned not only with profit but with the quality of worklife. Taken together, they represent an untapped power base, but probably have no real idea of the potential influence they could have on corporate policy and operations or the ways in which they can help promote a good society and a better world.

But even as the ownership universe expands, reflecting a diverse group of all sorts of people, it also contracts, resulting in a concentration of clout that changes the custom of royal managerial prerogative. For example, the top thirty pension funds and money managers own huge hunks of the nation's largest corporations, a trend that is expected to increase.¹⁴ Most big institutional owners hang on to their equity holdings in large companies for long periods of time; they do not engage in rapid turnover of stocks because buying and selling is expensive and satisfactory results can be achieved through indexing. Some of these so-called “patient investors” or “permanent owners” recognize the ramifications of their position and are thus playing a more active role in corporate oversight and strategy. However, as they gain the keys to the kingdom, they have yet to fully realize their potential for assuring that what companies do is in both the public as well as their own best interest.

Put another way, the shifting power base in American firms from entrenched management to shareholder concerns opens the door for fuller integration of *nonfinancial* principles and values, of *civic moral values*, into the very fiber of corporate being, a development that literally and figuratively can add value to existing forms of corporate enterprise. They may sound quaint but included here are respect for human and ecologic dignity, freedom, equality, fairness, justice, compassion, truth, tolerance, representation, peace of mind, due process, beauty and pleasure, personal and institutional responsibility, and so on. Instead of segregating these values, as is typically the case to an office of community and public affairs, to a corporate code of conduct, to workshops on business ethics, or to advertising copy and glossy annual reports, they can be viewed as nourishing all of these activities within the embrative context of corporate character. They also can animate creative discussion and action concerning what companies can contribute to public life. Thus they become traits that not only enhance the quality of corporate performance but join this performance to the needs of human community, the requirements of a pluralist democracy, and the important challenges of our time.

A New Paradigm

Shareholder and director concerns, then, about corporate governance, driven by a desire to make companies more accountable and profitable, can also begin to address the larger issue of corporate civic values and responsibility, of corporate citizenship, far beyond the patterns set in the past few decades. The relationship between a corporation and society is interdependent, the health and prosperity of one bearing upon the health and prosperity of the other.

That is why we need a paradigm for thinking about the corporation in ways that integrate economic and civic moral values. This is an important insight, especially in an era marked by global interdependence and the fall of the nation state, wherein the multinational corporation in particular can have a profound effect on a society's economic, social, and political development and well-being.

By what authority can such a claim be made? And, to what aim is this claim directed? The basis for asserting the need to change the paradigm with which we view the business corporation has multiple roots: in the history of the corporate form, in the teachings of some of the world's great religions, and in the practical necessities of a world that simultaneously has become more united and divided, a world where human suffering of absolutely unspeakable proportions coexists, be it in Bosnia or our own backyard, with life-enhancing scientific and technological breakthroughs occurring at a dizzying pace. The authoritative basis, then, for positing the view that corporations need to be more vitally and constructively engaged in public life stems from a moral and economic imperative which can be described in both secular and theological terms.

The aim is both simple and complicated: a good life and a good society, where "good" can mean many different things and where the notion of society is pluralistic. Indeed, at one level, multinational corporations have special knowledge of these different definitions of "the good life" as they attempt to market their products worldwide; they have learned that what is popular in one part of the world may be a dud in another.

Meant here, however, are not the "goods and services" of a good society. Meant here are the values with which a good society defines and sustains itself, the principles by which it lives and is prepared to make sacrifices, the legacy it passes on to future generations. Corporations, like other major institutions, play a role in this social, economic, and spiritual definition.

In developing the good society, in seeking the common-wealth, perhaps now is the time to leave behind artificial distinctions among sectors—public/private, profit/non-profit,

governmental/non-governmental—and pursue a course where responsibility for and engagement in our public life is deepened and strengthened across the board, *by all sectors*. And perhaps now is the time for corporations to shoulder a greater share of the civic burden and, in so doing, join the chorus of calling forth the better angels of our nature and the prospects for a better world.

Shareholder versus Stakeholder Values

Many American companies express concerns about social and environmental responsibility through corporate philanthropy. However well-intended, these concerns are often episodic and not fully integrated into corporate mission, strategy, and culture. For example, some firms are heavily engaged in efforts designed to improve American public education because they recognize that doing so affects their future bottom line, as well as the state of the nation. While laudable, such actions are likely to be sidelined when a company is undergoing major restructuring or when there is a drop in profits because they are seen as marginal to the central corporate mission, which is to enhance shareholder value.

Nota bene: “Shareholder value” is the commonly used term to describe what corporations should be doing. One wonders how the phrase might be reworked to have moral meaning, to denote the “values of the shareholder,” so that “shareholder value” would refer to “shareholder dignity,” “shareholder peace of mind,” “shareholder liberty,” and so forth, as well as “shareholder economic prosperity.”

Sometimes corporate good works are designed more for public relations or marketing purposes than they are the byproduct of deeply felt convictions or beliefs; while many may dispute this “means-end” test to civic responsibility, market motives provide an unstable source of meaning and can easily lead to corporate philanthropy dominated by the trends and tastes of the time.

Another popular way American companies define their social responsibility mission is in terms of their obligation to so-called “stakeholder” populations: that is, the range of groups with a stake in the company’s operations, such as employees, customers, shareholders, suppliers and vendors, and the community at large.¹⁵ These, too, are admirable realizations of a company’s role that stretch its vision and values beyond immediate self-interest.

The problem, however, with the stakeholder approach to civic responsibility is the same sort of problem that bedevils contemporary political life: It reduces the corporate role to a series of bargains and trade-offs negotiated with particular special interest groups, absent the connective tissue of a philosophy, ethic, or mechanism that mobilizes moral and physical energy in pursuit of a broader public good. Stakeholder responsibility is special interest group responsibility and, *ipso facto*, atomistic and episodic. Often missing from this approach is an overriding vision of the greater good and the civic ideal, described in both financial and nonfinancial terms, which give life to corporate activity in the first place.

The 400-Year View: Shifting Sands of Civic Concern

The idea of private activity in the public interest may seem idealistic to some or even irrelevant to others but it is a phenomenon with a long and noble history. Within the United States, only within the past one hundred years or so has the view that “the business of business is business” been paramount, saturated with financial indicators and characterized by firmly entrenched and autonomous corporate management.

Nevertheless, from the colonial era through the mid-nineteenth century, American business ownership and management were interrelated, with owner/managers more intimately connected

to and active in the communities in which they lived. Indeed, the chartering process itself involved the idea of reciprocal obligation to society.

But from the 1860s on, as industrialization occurred and business got bigger, ownership became dispersed, with stockholders playing an increasingly distant and passive role in corporate affairs. By contrast, managers played an increasingly active one, in the process insulating themselves from oversight and accountability.¹⁶ The primary recourse for dissatisfied shareholders was to sell their shares—the so-called “Wall Street Walk”—thereby sending an indirect message to management that change was needed. The subsequent schism between owners and managers and lopsided form of control came to dominate American corporate governance for the next 130 years.

By the turn of the century, as corporations grew in size and complexity, the public viewed them with increasing suspicion, especially insofar as contributing to social well-being. Business success became defined in strictly private and economic terms, with civic needs or public obligations relegated to the realms of state and local government, nonprofit organizations, or individual acts of charity. The notion that economic life is embedded within a moral/political foundation was completely rejected. Instead of viewing corporate behavior as immersed in a series of relations among persons and permeated by their moral and political norms, the company was viewed as a fully functioning, self-contained unit operating in the shadow of public space, driven only by its desire to survive and maximize profits.

Within the past thirty-five years more vigorous calls for managerial accountability have been issued by shareholders, part of a pattern of rising levels of outside corporate scrutiny which have found expression in different ways. Concerns about corporate social responsibility in the 1960s and 1970s represent one approach to corporate monitoring and oversight. The emergence in the 1970s and 1980s of tough global competitors, especially Japanese and German firms wherein ownership and management are closely held and dominated by banks, represents another.¹⁷

A third approach to oversight occurred throughout the 1970s, when greater attention was paid to the role, composition, and liability of boards of directors so that accountability and performance could be improved.

But perhaps the most visible (and controversial) mode of oversight gained prominence in the 1980s, when managerial discipline took the form of a market-based method for corporate control: the hostile takeover. Hostile takeovers were fueled, in part, by the easy money policy of the Federal Reserve, which produced liquidity in the banking system making vast amounts of credit available to takeover specialists. They were also animated by government regulatory policies—particularly the relaxation of antitrust law implementation—which threw the airline, banking, and telecommunications industries into turmoil.

Like medieval warriors, aggressive investors dubbed “corporate raiders” sought unfriendly control of large companies by purchasing unaffiliated stock (a practice called “sweeping the street”), negotiating to buy “friendly” blocks of shares, and launching simultaneous proxy contests for control of a board. They justified their acquisition activities with the charge that managements ran companies for their own benefit and that improved performance and shareholder value could only be realized through a takeover.

Takeover activity peaked in the late 1980s and we are now in its wake, although in the past few months there has been a resurgence in mergers and takeovers, driven primarily by higher stock prices (which serve to finance the deals) and rapid changes in certain industries, particularly in health care and telecommunications. This recent spate is notably represented by

last year's acquisition by Merck & Co. of Medco Cost Containment Services Inc. and Columbia Healthcare Corp.'s acquisition of HCA-Hospital Corporation of America; AT&T's acquisition of McCaw Cellular Communications Corp., the attempted acquisition of Tele-Communications Inc. by Bell Atlantic Corp., and the takeover battle for Paramount Communications Inc. eventually won by Viacom Inc. against QVC Network Inc.

Yet in spite of the new merger boom, generally speaking, according to John Pound, associate professor of public policy and director of the Corporate Voting Research Project at Harvard's Kennedy School of Government, the pendulum has swung back to a "political" model of corporate oversight. This model is based not just upon the proxy resolution voting process but also upon the myriad ongoing, informal shareholder activities designed to communicate their concerns and hold management accountable, including the use of private negotiation, public lobbying, shareholder campaigns, and so on. In contrast to the relatively undemocratic style of the takeover model, the political model of corporate oversight better fits within the American democratic tradition of due process, informed public debate, and negotiation and compromise.¹⁸

Pound says there are two primary forces contributing to the reassertion of this more political approach: (1) the collapse of corporate takeovers, particularly hostile ones, due to changes in corporate law and corporate charters as well as public disenchantment, all of which tended to protect special interest groups and nullify hostile attempts at corporate control; and (2) a dramatic transformation in the ownership universe, with its increasingly higher concentration of equity ownership among a relatively few number of institutions possessing the power and, for some, the will to influence corporate behavior. Thus the 1990s scenario is one in which owners and their board-elected representatives are reappropriating a much more proactive stance concerning fiduciary responsibility and corporate conduct. They are also gaining more leverage over the executives and managers of the corporate world.

"There's been a huge shift in power within companies," according to Ralph Whitworth, president of United Shareholders Association (USA), an investors' advocacy group co-founded by T. Boone Pickens based in Washington, D.C. USA recently folded up its operations, claiming that it had accomplished what it set out to do in getting companies to be more cooperative. "We're seeing things move in the direction of major structural and managerial change."¹⁹ One byproduct of this realignment is greater direct communication between corporate managers and major institutional shareholders on topics traditionally off-limits, such as corporate strategy concerning business acquisitions or divestitures or on what new enterprises to launch. This phenomenon has been dubbed "relationship investing," a term coined by Ira Millstein, a well-known corporate governance expert at New York's Weil, Gotshal & Manges and consultant to outside directors at General Motors, Westinghouse, and IBM; Mr. Millstein is also chairman of the Board of Advisors to Columbia Law School's Institutional Investor Project. "Relationship investing," he writes, "[is] investing in substantial long-term positions in blocks of stock sufficient to motivate the shareholder to monitor corporate performance knowledgeably and to be prepared to influence corporate strategy and governance based on a perception of performance."²⁰

As stated earlier, the reconfiguration of the powers, roles, and relationships among institutional investors and corporate boards and management have momentous implications that go beyond both the board room and bottom line and into the realm of civic values, public well-being, and social policy. For some time, institutional responsibility for public life has been mistakenly viewed as the chief province of entities other than business, such as government, nonprofit organizations, or, indirectly, academe. But given the high degree of interdependence

between the governance and operations of a corporation and the society in which it exists, current changes in corporate oversight and management present the opportunity to reexamine assumptions not only about the role and responsibility of the corporation, its board, and its owners within a single, integrated global market but also within a broader civic moral context. In other words, changes in American corporate governance and control can provoke thoughtful reconsideration and discussion of the interplay between mercantile values and civic moral values, of the need to think about the accumulation of wealth not merely as advancing private prosperity but the common-wealth or common good as well.

Covenantal Capitalism

This article advances the idea of a *corporate covenant*—that is, a voluntary corporate commitment to a set of civic moral principles and ideals which serve as a sort of North Star, thus guiding action but also translating into an operative foundation for internal and external institutional behavior. The corporate covenant represents a public promise to advance human and environmental good, made by owners and their representatives and thereby binding the covenanted people—corporate owners, directors, employees, customers, vendors, and contractors—to certain values which are not static but become amplified and strengthened over time.

As such, the covenant is transcendent, acknowledging the primary purpose of the corporation yet moving beyond the immediate needs and claims of the stakeholder populations, coursing throughout various corporate units and offices, and providing an image of the future grounded in civic moral ideals.

It is not negotiated but becomes defined in terms of conduct; it is mediated by corporate charters and by-laws, by strategic plans and organizational behavior; and it acknowledges the ever-present (and oftentimes contradictory) tension between the demands of a moral imperative, on the one side, and the complex and changing demands of democratic capitalism, on the other. The moral principles embodied by the corporate covenant—which may include respect for human and ecologic dignity, freedom or liberty, justice, truth, and so on—serve as the standards by which the corporation is judged and the degree to which the public promise is fulfilled. Central to the covenant is the idea of mutual obligation and service in the giving and receiving of the promise. In other words, by voluntarily committing itself to the promise of the covenant, the corporation receives the benefits of the human and environmental good it purports to advance.

Such a paradigm shift for thinking about the corporation has implications for shareholders, financial intermediaries, boards, and management because it reinvigorates the notion of trusteeship or stewardship, reconnecting it to a powerful public service dimension that challenges traditional religious doctrines of sacrifice or suffering. It also challenges current interpretations of prudence and fiduciary responsibility, interpretations which tend to focus narrowly on the duty and care exhibited in achieving immediate financial gains to a shareholder without attending to the quality of life context in which the shareholder or beneficiary exists.²¹

The challenge, therefore, is to link legal and conventional assumptions about duty, care, loyalty, and prudence as applied to private property to concepts which also advance a broader public good. Parenthetically, attention could also be paid to how these traditional virtues associated with fiduciary responsibility may, in fact, serve to undermine the broader public good, such as when excessive risk avoidance impedes progress and prosperity.²²

There are three primary areas where the covenantal paradigm can be applied to institutional

and individual behavior:

- Within the realm of *ownership policies*. These include the values, objectives, strategic plans, and needs of institutional investors; their mode of communicating their value-based criteria and concerns; how they recognize and reconcile their own diversity and multiple role demands and expectations (for instance, as shareholders, beneficiaries, citizens, managers, or employees); and the nature and substance of their civic obligation (that is, the types of commitments or concessions they are willing to make);
- Within the realm of the *board of directors*. Included here is an articulation of its stewardship ethic; the financial and nonfinancial values and principles that guide its decision making; its composition, representation, responsiveness, and expertise; the nature of its process of orientation and education, deliberation, and communication; and the way in which it evaluates its performance and whether or not it fulfills its stewardship mission; and
- Within the realm of *organizational behavior*. This covers the expression, in practical terms, of mission, values, and quality standards; a company's modes of decision making, representation, and participation; methods of compensation, recognition, and dispute resolution; policies and practices with respect to environmental stewardship, corporate philanthropy, community service, and public interest partnerships or joint ventures; accountability structures and levels of disclosure; and institutional self-assessment and corrective measures.

To varying degrees, each of these areas is, of course, the subject of activity in various professional fields. However, these realms to be treated more systematically as parts of a unified whole, each of them being partners in an enterprise which has far-reaching economic, political, and social consequences. Key here is the idea of coherence and faith in making good on the covenant rather than engaging in disjointed or disconnected efforts. The covenant serves to unify complex and highly differentiated institutional activities in a manner that advances a whole company on the path toward the civic ideal without getting picked apart by special interests.

A special word: I urge caution in this discussion, as terms like “civic virtue” and “the common good” have a dark underbelly and are sometimes used as a justification for cultural oppression or military valor and victory.²³ Even worse is the temptation to dichotomize civic virtue and the common good into “we-they” terms, often through mobilized opposition to other nations or peoples, something we see throughout the world as well in our nation's cities. Indeed, within a post-Cold War context, wherein the traditional rivalries among nation states have ended—and perhaps even with the decline of the nation state itself, in the light of the conflicting pulls of tribalism and globalism, among others—and are replaced, as Samuel P. Huntington points out, by conflicts between different civilizations with religion at the heart of these conflicts, terms like “virtue” and “good” need to be handled with care.²⁴

We need to find our way between moral tyranny and moral relativism, all the while acknowledging the possibility that there is an intuitive moral sense human beings possess. Two of our more gifted commentators, Robert Coles and James Q. Wilson, come to this conclusion in their recent books. In *The Call of Service: A Witness to Idealism*, Robert Coles examines idealism as a deeply human impulse and explores its nature, at a time when the nation, particularly its youth, seems once again to be heeding the call of social activism.²⁵ He identifies

different kinds of service—expressed in social and political struggle, community service, through personal gestures and encounters, charity, religiously sanctioned action, government-sanctioned action, and service to country—and describes some of the satisfactions and consequences such service sets in motion. With dozens of vignettes, Coles paints an eloquent picture of how the call to service is not only a call toward others—heart, mind, and soul—but also “a call inward, a call to oneself, a call that is a reminder: ‘Watchman, what of the night?’ . . . the darkness that defines the moment of light in us, the darkness that challenges us to shine for one another before, soon enough, we join it.”²⁶

No less a moral philosopher than Alasdair MacIntyre, whose own brilliant work lays out the discouraging claim that our current society cannot come to moral agreement because we are dealing with rival and incommensurable moral premises, praises James Q. Wilson’s *The Moral Sense* for its ability to synthesize a range of social science inquiry—including psychological, sociological, and anthropological—in answering the question of what constitutes the core, if there is one, of basic moral attitudes and beliefs.²⁷

In Wilson’s view, there are four areas in which humans share basic moral attitudes and beliefs, including how we exercise sympathy, fairness, self-control, and regard for duty. These, he says, are necessary to character and human excellence and are exhibited in local practices and relationships, particularly friends, family and social groupings.²⁸ Both Coles and Wilson contribute to an understanding of how, on a broader scale, certain virtues are essential in order to begin to address the question of a common good.

Our world needs definitions of civic virtue and the common good—or better yet, valid processes for arriving at such definitions—which can be used as the basis for coherent institutional and individual behavior. Our public discourse needs to include what is important to us, what values we hold dear, as defined within a pluralist context marked by different racial, cultural, ethnic, religious, and economic traditions.²⁹ Given this dynamic reality, perhaps a better way of thinking about “civic virtue” and the “common good” is to think of them as an assemblage of goods and virtues, oftentimes overlapping and sometimes contradictory, with each having a place within the different spheres of human existence but none representing some casuistic, absolute standard of goodness—because the absolute version of the full human good is transcendent, beyond human hands.

A Paradigm for Practice: The Corporate Covenant and the Commonwealth

How, then, might a corporation be viewed as a moral agent, conducting its affairs as seen through the lens of civic virtue? How might the content of its character be defined and judged? Indeed, how might the better side of its nature be magnified? The corporate covenant paradigm draws upon three realms of experience and expertise.

First is the role of religion and philosophy. Throughout the past several years, there has been a spate of interest and activity concerning how religiously based principles and convictions, particularly those emanating from the Christian tradition, might apply to economic enterprise. This whole area is ripe for further investigation and discussion, and should include the ways in which other religious traditions address financial and economic concerns. Virtually all the world’s great religions address the topic somehow. Missing are vehicles for understanding these teachings and how they might apply to contemporary corporate and investment realities.

Second, a review of the history of the corporate form reveals how the public-private pendulum of prosperity has shifted back and forth over the centuries. Most recently, this is manifest through corporate philanthropy and voluntarism. What remains, however, is public

ambivalence (at best) or downright cynicism (at worst) concerning the capacity of corporations to fulfill their civic obligations.

Third, the views and insights of knowledgeable individuals are put forward, based upon a series of structured interviews on the topic of corporations and their civic moral responsibilities. Each of these parties is a prominent player within their respective professional realms, which include public pension funds, theology, endowment management, corporate management, and financial investment. All of those who were interviewed acknowledged the relatively uncharted nature of this endeavor and its significance in a rapidly changing world marked by increasing levels of interdependence. By and large they found the concept of the corporate covenant a provocative one, drawing together a number of elements in a manner that invites rather than repels further conversation and reflection.

The paradigm of a corporate covenant constitutes a different kind of “relationship investing” that represents a collective conditional commitment between a corporation and society to a set of civic and environmental ideals, a commitment that is mutually agreed to, voluntary, periodically renewed, and aimed at a form of “interdependent prosperity” and the larger public good.³⁰ Put simply, the corporate covenant is a deal (but not like the investment banking kind), a promise held by owners and citizens which acknowledges the complex web of interdependence and reciprocal influence, of giving and receiving—for after all, all owners are citizens, even though not all citizens are owners, or even employees. In contrast to a contractual relationship, which can be broken or renegotiated, tends to be past- and present-oriented, is dominated by rules and focused on compliance and avoiding injury, a covenantal relationship recognizes the need for different levels of accountability and is forward-looking, aimed at a more desirable state of being which is governed by civic moral ideals. Its essence is affirmative and grounded in faith, fidelity, and trust; it unfolds under the tension between promise and fulfillment. In contrast, the contractual relationship is proscriptive and based on fear and suspicion; it unfolds under the tension between skepticism and security.

Covenantal Capitalism and the Civic Ethic

For corporations, the paradigm of a covenantal relationship has parallel meaning. It presumes a covenanted people—a corporation’s owners, directors, employees, customers, vendors and contractors—bound to civic ideals that are mediated by corporate charters and by-laws and translated into workable principles, with corporate structure and management able to absorb the lessons of corporate experience and take account of unbridled human passions, such as boundless greed, bloodthirsty competition, or excessive risk-taking. Given the shift in the power base from managers to owners, shareholders, especially large institutional shareholders, are in a position as citizens and as owners—and perhaps even as employees—to be open, on the one side, to a civic moral covenant and, on the other, to the comprehensive and ever-changing demands of democratic capitalism.

Across the Atlantic, Sir Adrian Cadbury of Cadbury Schweppes and the Bank of England is all for the idea of the corporate covenant, which coincides with much of his own work with respect to corporate management and governance. Cadbury’s convictions and business practices are rooted in an English Quaker tradition, where attitudes toward wealth and public responsibility are permeated by values such as service, freedom, and dignity, and represent a powerful fusion of education, pragmatism, and idealism.

The relationship between a corporation and society is a paramount Cadbury concern, expressed in his award-winning *Harvard Business Review* article on ethical managers and more

recently in his book *The Company Chairman* and the Cadbury Code of Best Practice.³¹ “You know, I like your covenant, particularly your word ‘reciprocal,’” he says. “I think this is terribly important. It’s very easy to look on this as a sort of one-sided thing, but it’s reciprocal.” He then continues:

Somewhere in my writing I talk about companies being “licensed”, by operating under a license in society. That’s not quite as good a word, but it’s seeking after the same thing. And my point about the license was that the terms of the license keep on changing.

At one level, you can say that the covenant could be that you don’t actually do anything harmful to the community. The more positive covenant says, “We actually believe that it’s in all of our interest to try to help this community to advance. The company will advance in line with the community advancing.” Now, I find that helpful. At the end of my book *The Company Chairman*, I’ve written a thing called the character of the company, in which I tried to set out some view of what I thought was the sort of company that we were. I have used that, plus the ethics essay, in going around the company and the world to talk to managers and then getting them to argue with me so that we could try and clear our minds as to what we were talking about.³²

Sir Adrian considers other traits of the corporate covenant to be appealing, such as its voluntary and self-evaluation aspects, which in his view reduce the need for government regulation. “Of course the state must regulate—that is part of its obligation. But we all recognize that regulation is expensive. Second, to a certain degree, it’s inefficient because the regulators are operating without being part of the system. And there is also the problem that we must have room to innovate, we mustn’t stifle creativity. So it’s in the interest of the community as well as the company that self-regulation should be promoted.”

Turning to the broader challenge of defining “civic good” without supplanting the role of government, Sir Adrian then said:

What are the civic implications? If a company sees itself as having a continuing relationship with a community or with a country, then it can see advantage for itself in involving itself in the community, just the way that your compact arrangements in Boston have done between companies and schools.

A big part of your covenant, I think, is to say, *What are areas of common interest?* Where do we have resources that can supplement what the state is doing? It’s not our job to provide education. But, we are, in fact, able to improve the chances of the children in school by adding something, so we’re adding value.

And I think one of the issues here, under this whole category of civic implications is, *How can we add value without actually turning away from our basic purpose of providing goods and services?* There are ways in which we can help the community, and they actually add value to us, because when it’s our people going to the community and helping with the schools, they develop as people and they become better managers as a result. I started a thing [in Britain] called the Foundation for Education-Business Partnerships and it seems to me a clear way in which one can see this.

But my definition of the covenant would be that it's the state's responsibility to provide the educational system and to determine it and everything else. But where we can put something on top of that, which is actually going to improve the chances of the children in the system—then that seems to me part of the community covenant.

The danger is, which we saw a bit under the government of Mrs. Thatcher, was that the state might actually back out of some of its responsibilities and try to put them on business or on philanthropy. So I think that it's quite important that we say that both on the nonprofit side and on the business side that what we're doing is *adding* to what the state should provide, not actually substituting it.³³

The Rise of Institutional Investors

A primary challenge for articulating the corporate covenant relates to the growing presence and prominence of institutional investors. Sir Adrian, along with David Hollenbach and Max Stackhouse, recognize that the moral values of individual shareholders are far more easily defined and communicated than those held by institutional owners, but believe that this should not be an excuse for remaining silent, however difficult the task. Conscientious reflection and dialogue between owners and managers on civic responsibility matters should be promoted.

“Part of the responsibility of the owners is to come along and make clear what their position is,” Sir Adrian says. “But there's a problem here for institutional investors in knowing what those beliefs are. You may be quite clear when you've got, for example, an institution which is, say, a green investment trust, because you know they have a concern for the environment and they want a reasonable rate of return. But you don't actually know what your institutional investors are looking for.” He then turns to the tough question of how best to define *institutional* rather than *individual* forms of investor civic duty:

I mean, what mixture of return and community service, if you like, are they expecting from the company? And if they don't tell you, how are you to know? ... We need quite a bit of facilitating, because that kind of discussion does not, at the moment, go on between investors and management. What we have to do is to encourage more genuine dialogue between investors and boards. At the moment, I would say that the owners do not see their responsibility, really, as going much further than just keeping an eye on things and selling out if they don't like the look of it. But if we're talking about ethics and moral values for business, which we are, we also need to talk about ethics and moral values for investors. I mean, exactly the same applies to them.

Articulating Civic Moral Values

So what are the most effective methods for knowing and acting upon institutional investors' moral values, convictions, and ethical concerns? Moreover, given the American tradition of thinking in more individualistic rather than institutional terms, and given the recent tendency to think of “public responsibility” pertaining to only the “public sector”, how do issues related to the public interest or the public good become translated into *non-governmental institutional* policy and practice?

Max Stackhouse, pondering this, states the need for a transformation of consciousness about the nature, character, and social responsibility of institutions, of the need to become “systems

thinkers”. “Some people are pilgrims and some people are architects,” he says. “That’s a way of saying that some people try to find their own personal path in life and find their way through the jungle of economic and job and family and other responsibilities.

Pilgrims are a wonderful thing — they’ve got a grand holy history. But at the moment I think we need architects who design structures and systems that work, wherein people can find their path. I’m using that as a kind of metaphor for the need for institutional and structural thinking in this scenario of institutional investors. And all the things about the covenant, a lot of the things about the corporation, and a lot of the things about the nature and character of professionalization, and what a good professional has to be aware of, are deeply related to this.³⁴

According to Sir Adrian, institutional investors should consider being more publicly explicit about what their values and policies are, just as companies are expected to do. He believes that one important value is building for the future, a departure from the short-termism so often demonstrated by investors. “The lead has got to come from the top,” he says. “The people at the top of companies have got to set a pattern. But the people at the top of those pension funds have got to set a pattern, too. There’s just as much an obligation on them to think about what they’re doing for the community and what their values are as there is for us.” He then points out the need for more collaboration and confrontation, to find common ground:

You know, I’m not trying to get at anybody, because we’re all in it together at the end of the day. But I think at the moment that the discussion is much too adversarial and too little is said about the fact that at the end of the day we are all going either to prosper or not prosper. We depend upon each other.

. . . . The Cadbury family trust, which is based in Birmingham and which I am not involved with, produces a detailed annual report of its activities—what causes it supports, why it supports them, and what actions result from that support. In a sense that’s a clear statement of their objectives as a charitable trust.

I believe that, just as I think companies should state more clearly what it is that they’re about, we ought to have exactly the same from the institutional investor. The pension fund ought to produce not just a report that is solely concerned with what it has bought and sold in the year, but what it’s trying to do and how it has measured up against those goals.

Now I don’t know about America but that’s certainly not generally the case here. I have only seen such reporting in not-for-profit institutions. The Rountree Trust is another one which does a very good series of statements of purpose.³⁵

I’m not conscious that pension funds have done this at all, but I don’t see how we can get anywhere if we don’t start with that.

Fellow countryman Jonathan Charkham, former Advisor to the Governors of the Bank of England, shares the view that ethics and economic activity are linked but does not go so far as to speak about a company’s covenantal responsibility. His outlook on corporate morality coincides with the stakeholder school: that proper standards of conduct should be maintained in a number of key constituent relationships. Although he is reluctant to impose a set of moral beliefs on

others — “I don’t think one has any moral right to assume that we have the right to dictate to our beneficiaries what their view of the world should be”³⁶—he also thinks it is a fair question to ask. “If we [financial intermediaries] are going to take a moral stance, let’s take a moral stance with their agreement. Maybe they’ll support us. Why should we treat them as being [anonymous]—they’re identifiable, they’re askable.”

Charkham then steps back to reflect upon the changes that have occurred in business, due to the financialization of the economy. “I wonder a bit, if I may change the subject, about the doctrine of enlightened self-interest,” he said. “When I was very young I used to read things that said honesty is the best policy. When I got a bit older, everybody said to me that’s the most cynical statement there ever was.” Then he makes his case:

Honesty is something you should pursue whether it’s the best policy or it isn’t the best policy. But actually it seems to me that we sometimes forget that it’s not just cynicism, that if you have a reputation for good quality, good service, decent dealing, bringing out the best in people by real participation, involvement, profit sharing, that actually there is not necessarily a conflict between economic interest and a sort of moral imperative. I mean, the idea that these two things always have to be in conflict seems to be a mistake.

When people talk about this thing, should we have shareholders or stakeholders, I’m afraid I’m a backwoodsman. I say that you cannot look after the shareholders’ interests adequately in the longer term without doing all the other things right first. If your products are lousy, if your workforce is badly treated, if you don’t invest enough for the future, then in no time at all, you’ll have no business. You’ll have no profits, you’ll have no business, so that in practice, in the real world, the shareholder is already at the end of the queue after the work force is properly looked after, after the products have been made acceptable, and after sufficient innovation. In the short-term, this isn’t true.

In the short-term, you can say shareholders must take preference, we’ll devalue the product, we’ll cut our R & D, we’ll treat the work force badly, but they won’t get away with that very long. One of the things that worries me intensely about the U.S./U.K. concern with what all the textbooks call the “shareholders’ immediate values” is that this is in conflict with shareholders’ long-term ideals. I find that to be a matter of concern.

. . . . I live in the real world, so if you asked me how I, as an outsider, would judge a business’ morals or ethics, I think I’d ask four questions about it. I’d say, *Are its products and its services sound? Does it invest in the future? Does it build its people? And does it behave in the spirit of the law?* I think that’s most of what you can ask.³⁷

Dr. Kenneth R. Andrews, the Donald K. David Professor of Business Administration, *Emeritus* at the Harvard Business School, where he arrived in the late 1940s, is the former editor-in-chief of the *Harvard Business Review* and well-known expert on corporate strategy and boards of directors. He also is the recent editor of *Ethics in Practice: Managing the Moral Corporation* and has served on numerous corporate boards.³⁸

Professor Andrews finds the topic of the civic responsibilities of institutional investors both appealing but complicated, and points to the New Deal era as a time when corporate social

responsibility became part of the B-School ethos. Although perhaps surprising to some, this consciousness was fostered by a Yankee financier named Philip Cabot who gathered together groups of business people for a series of on-campus weekends in what was the precursor to the school's thirteen-week executive session program.

"Cabot's very earnest endeavor was to persuade these Roosevelt-haters that the only way to save capitalism would be to broaden its agenda to include the welfare of people in society who were left out, and so as a sort of liberal strain in the conservative institution, this developed," Andrews explained. "Then Dean David picked this up, having been a corporate executive himself and quite an educated person, and made this doctrine more explicit than any subsequent dean has done. He carried out the Cabot theme that social responsibility was an integral part of the mission of business leaders."

Andrews then offers this historic gem about the special nature of the relationship between business and society: "This was the origin, actually, of the so-called 'stakeholders' long before the word stakeholder was used and was elevated into a doctrine. The refrain here was that business serves communities other than the shareholders. . . . That's been almost a trite refrain which was obliterated with the rise of financial economics and the return of economic man and the takeover movement and so on."³⁹

Conclusion. The Guiding Light: Implications for Practice

The paradigm of the corporate covenant carries with it implications for shareholders, boards of directors, and management; business education; and public administration and social policy. These implications are worth further investigation, analysis, and discussion, but a few are mentioned here, keeping in mind that the covenant serves as a North Star, guiding action in a positive direction yet also serving as an operative foundation for individual and institutional behavior.

Institutional owners need to understand the powerful opportunity they have to influence corporate decision making and reduce public cynicism surrounding corporate behavior. Owners also need to understand the responsibilities they carry for positively influencing public life, and take action accordingly. This does not mean that the role of government or private voluntary activity are supplanted; nor does it mean that government step in and determine what corporations should contribute and under what conditions. It does mean that institutional owners, cognizant of the multiple needs of their constituencies, endow corporations with the burden borne by public and nonprofit sectors in discharging their civic obligations through whatever means considered to be appropriate.

Owners as Citizens

Owners need to map out an agenda that integrates their profit-making objectives with their aspirations for a decent life. Thus does this revitalized, principled ownership agenda serve as a call to action for corporate strategy and practice.

Bob Monks puts it this way: "There ought to be a course on ownership and basic corporate structure, on what it means. You ought to go back and look at history, and make very clear that ownerships are responsibilities. It isn't just a right to be exercised or not exercised. It's a responsibility. If you're going to be in a position of being in a society that gives you pieces of paper for being a generally passive owner, you have to be active insofar as to be damn sure that the responsibilities are being coped with by *somebody*."

A major expression of responsibility is for institutional owners to try and identify their central principles—that is, not only to be clear about acceptable and unacceptable economic values and financial performance criteria, but also to assert the kind of society they want to live in and, from that, the civic moral values deemed to be important. As per the suggestion made by Sir Adrian Cadbury, owners should also include in their annual reports a statement of these values, what these values mean in operational terms, and how their investments measure up. Equity owners need to recognize that they are both investors and citizens (in addition, some may be employees), in a position to insist on the best performance their company is capable of giving, not just for the bottom line but for a better world. They are beneficiaries of both.

How is this done? What is the best way of managing the tension between abstract moral principles and concrete corporate strategies? How do owners revitalize their agenda? The first step is for them to determine what is truly important, in the larger scheme of things, to them as investors and as citizens. This involves a thoughtful and critical conversation about what a “good society” means to them, as well as elucidation of the virtues and conditions which help to advance or impede its realization. While consensus is highly unlikely, such reflective dialogue can begin to illuminate certain inalienable truths upon which human dignity and freedom rest. They become, as it were, first order principles.

A second step is to be prepared to commit corporate resources, in the best judgment of a company's board and managers, to actions which promote rather than contradict or subvert these principles. This could mean that joint ventures are carried out with other institutional partners—profit and nonprofit—oriented to alleviating social ills or enhancing the public good. It could mean that employees are supported in various community service endeavors. Or, technology, research, and medicine might be made available in special life-saving or life-enhancing “pools” in an effort to tackle seemingly intractable problems. Higher levels of corporate pretax profits could be allocated to philanthropic projects; the current average level of charitable giving is woefully low (less than 20 percent of allowable deductions) and, because of falling revenues and attitudes of CEOs, many companies have decreased their charitable giving, as described earlier in this text. Or, it could mean that attention is given to the allocation of a percentage of sales (rather than pretax profits) to philanthropic enterprises, as Patagonia does.

These are proactive, affirmative measures. However, a threshold concern is avoiding civic harm. Owners need to give attention to how a corporation might bear the cost of its “externalities,” a phenomenon outlined by Bob Monks in his musings on the matter. Society should not be responsible for cleaning up a company's deliberate mess.

There are many other strategic possibilities for a revitalized ownership agenda, limited only by imagination, level of courage, and grasp of socio-political and economic realities. The point here is that owners view the corporation in which they hold equity as an extension of their community, not as something separate from it. As far-flung and worldwide as corporate operations might be, and whatever the terms of their profitability, they do not exist in a vacuum; at a minimum, owners need to assure that society does not pay a price for their own gain. More desirable is owner commitment to corporate pursuit of community-enhancing aims.

One scenario: If owners consider a “good society” or “democratic society” to be important, then they need to identify the first order principles or requirements of this society. “Freedom” and “prosperity” are typically deemed central values. In beneficiary terms, these values are reinforced when return on investment is high, because this translates into dividends or capital appreciation, which in turn provide the financial resources and security necessary to social independence.

But in addition to earnings, freedom and prosperity also can be translated into a number of positive initiatives a company could support. Here are three examples.

Education

Functional illiteracy contributes to bondage and has a detrimental effect on society; it weakens the opportunities for a good life and undermines the democratic apparatus. Universal education contributes to individual freedom and societal well-being. Thus could companies put their clout behind public education, both elementary / secondary and postsecondary. The red herring here is “free choice,” a cry for quality that finds its roots in desperation, giving rise to separatist forms that are unequal, indeed.

Emerging Democracies

Emerging democracies run the risk of collapsing, because democracy is not edible; needed is support in at least three areas: (1) economic development; (2) metropolitan approaches to urban government in developing countries facing massive immigration and demographic growth; and (3) organizations that contribute to the cultivation of a civil society. These include emerging businesses and nongovernmental organizations, especially in places like Africa and the former Soviet Union where the seeds of democracy have been sown, yet face perilous winds.⁴⁰ Indeed, much is to be learned in those countries throwing off the shackles of oppressive structures; possibly to emerge are social and economic systems which combine the best of capitalism and compassion.

The City

Beset with a rising tide of crime, youth anger and alienation, immigration, fiscal stress and economic hardship, our nation's cities are in desperate need of rejuvenation, lest we find ourselves with Third World conditions within our own borders. In April 1992, Los Angeles warned us once again, just as we were reminded twenty-six years ago when violence erupted in the urban core, that we have the potential in our cities for creating civil war—a far cry from the *civitas* upon which our democracy depends. We need to rededicate ourselves to the proposition that as go the cities, so goes America, and that the time has come to place our civic ideal and our urban condition foursquare on the public agenda. Rather than fleeing cities, corporations need to fortify them, helping to restore the balance between self-interest and the public interest, a moral question, according to that great urbanist Paul Ylvisaker, “which every philosopher of the City has raised, beginning with Plato and St. Augustine. None of us will fully resolve this, but we will kill the city's soul if we stop trying.”⁴¹

Other first order principles of an ownership agenda affecting the quality of urban life might include “justice” and “fairness.” “Human and ecologic dignity” are other values that can find expression in a myriad of programs and policies designed to empower and enlighten individuals and communities as well as insure environmental safeguards and prosperity. Corporate initiatives promoting these values—such as equitable capital lending initiatives and practices within minority neighborhoods, support for violence prevention and alternative dispute resolution programs, and community economic development in the nation's inner cities—come to mind. Here, too, the possibilities are endless.

Corporate Governance

Boards of Directors

Boards of directors need to understand how they mediate the financial and nonfinancial values of the shareholders they represent with the mission and reality of corporate life. Implied here is not just financial and business savvy, which are critical preconditions. Needed, too, is an understanding of the root values which animate policy and practice and a capacity to envision future corporate and civic scenarios, matched with a pragmatic recognition of the limits as well as possibilities of the firm's reciprocal obligations. A critical component is some form of board-level orientation and training, particularly in the overlapping areas of business and values; remarkably enough, very little in the way of board education is done, particularly for “outside” directors who are less familiar with the internal workings of the company, and for “internal” directors who perhaps may lack an understanding of some of the cultural and political forces at work which affect corporate success. There are exciting opportunities here for creative and substantive work; organized religion in the various faith traditions—both with their teachings on wealth, power, and private property, as well as with the role of churches as shareholder activists—has much to contribute in shedding light on the terrain.

Along these lines, board members need to be independent so that their judgment is not unduly impaired by corporate self-interest. In part, this independence comes from non-executive status, a diverse range of backgrounds and viewpoints, limits on other corporate board participation, and limits on the number of terms held. Finally, a board needs to be responsive to and representative of the shareholders it serves. This sensitivity can be achieved through constituent-specific means, as in union board representation previously described, or generically, as in greater board participation of women and people of color.

Under the covenant and as stewards, the board is responsible for not only a company's fiscal fitness but also for the responsible discharge of its civic duty. Stewardship, then, becomes connected to public service, a powerful expansion of the fiduciary ethic that represents a return to historical beginnings. Under the covenant and as a fiduciary, a board also bears responsibility for the unnecessary financial and social costs of corporate decision making and needs to make sure that these costs are not unfairly distributed throughout society, borne by those least able to cope. Thus boards become the trustees of corporate goodness, this time measured, as Monks would say, in different cost/benefit calculations.

Chief Executive Officers, Managers, and Employees

Chief executive officers, managers, and employees need to receive the incentives, support, and recognition for devising creative ways in which the public benefits of corporate behavior can accrue without undermining its profitability, performance, and quality. As companies adopt different (albeit not new) approaches to work organization—such as total quality management or entrepreneurialism—so as to increase productivity and boost profits, they also can incorporate a values approach to management and good citizenship goals in keeping with the covenantal standard.

Many firms already have volunteer programs or corporate philanthropic structures. In addition to more aggressive support of these undertakings, managers and employees should be encouraged and rewarded for developing other imaginative strategies for fulfilling the covenantal standard. Because this standard is rooted in a firm's values and ethical conduct, as well as its ideal scenario of the future, these “public good” strategies should represent a coherent

complement to business strategies rather than a stepchild or antagonist to them.

Nota bene: Much has been written about the importance of the chief executive officer in shaping corporate culture, as well as the need for modeling good judgment and business acumen. Although companies still may be caught in the grip of a green eyeshade approach to corporate affairs, attention should be paid to how those humanistic qualities or habits of the heart exhibited by CEOs and senior management add value to a company's performance. They help constitute the moral template with which corporate decisions are made and directions charted. Valid here are not only the usual requisites of leadership, but the ability to inspire and communicate the interdependency of corporate and civic prosperity. We need statesmen, not mandarins or philosopher kings, in the corporate upper echelons.

Business Education

Business education, by extension, needs more fully to accept the curricular contribution of the liberal arts and humanities as well as service learning. It also needs to get away from overly technical and fragmented course offerings and opt more for integrated, holistic approaches to knowledge, competence building, and problem solving that look more like the real world. (Indeed, higher education in general needs to pursue this route, lest it run the risk of being obsolete, a 19th century relic in 21st century times.)

Be it undergraduate or graduate level, programs in business administration play an important role in equipping future business leaders to strike a better balance between self-interest and the common-wealth. Along with the recent resurgence of interest in community service, buttressed by the recent signing of the National and Community Service Trust Act of 1993 which further promotes school-based and community-based service learning programs, the opportunities for refashioning business education according to the covenantal paradigm are exciting, indeed.⁴²

One campus that is embracing this reality is Babson College in Wellesley, Massachusetts. Named again by *U.S. News & World Report* as the country's number one undergraduate school in a "specialty" category, Babson is carrying out several unique initiatives designed to equip its students to balance business and citizenship objectives. For example, the Freshman Management Experience, a one-year pilot program for eighty students, seeks to integrate several business skill areas (including general management, entrepreneurial studies, and management information systems) with corporate civic responsibility and community service.

In addition to learning basic business skills, students are expected during the first semester to develop (on a competitive team basis) a business plan and community service project. Following a several stage judging process, students are expected to implement the winning business plans during the second semester, with the profits from it (if there are profits) used to sustain the community service project.⁴³

For many years, Babson has offered a strong program in liberal arts and the humanities. With initial support from the National Endowment of the Humanities, since 1985 it has run a cross-disciplinary approach called the Cluster Program. The Cluster Program involves a "set" of two or three required first-year courses (one from management, one from liberal arts, and one in either writing or speech communication) which come together to explore topics that involve questions of fundamental values. Examples of cluster configurations include the concept of law and nature in society; the civic responsibility of the corporation; the concept of "value" in accounting, history, and literature; the notion of "success" in America; and cultural mythologies and the law.⁴⁴

Babson also offers a course on philanthropy and voluntarism, with students expected to

serve at least four hours per week in a community service setting. [*Full disclosure:* I teach that course.] Efforts are currently under way, with the leadership of the schools volunteer center, to broaden curricular inclusion of service learning as a way of building character and leadership potential.⁴⁵

Another important model for thinking about the covenantal standard and business education, this time at the graduate school and professional level, is the Joint Project for Business, Values, and the Economy at the Harvard Divinity School and the Harvard Business School. Now in its third year, the aim of this project, according to Divinity School Dean Ronald F. Thiemann, is to explore intersecting interests in the business and theological communities and possibly to discover a common language, vision, and mission. The project includes academics and practitioners from the world of business and the world of religion and thus far has set a dialogue in motion as well as concentrated specifically on issues of mutual interest, such as the papal encyclical on the economy, manufacturing plant closings, corporate executive leadership, corporate activity in South Africa, and the role of television in shaping national values.⁴⁶

Public Administration and Social Policy

Public administration and social policy, similarly affected by the covenantal paradigm, are called upon to adopt a more values-based and comprehensive approach. Taken together, these fields are relative newcomers on the professional practice front; each, like most professions, has suffered from problems of definition and standard setting, often emulating the investigative and quantitative methods and measures of other, more “respectable” realms such as science or mathematics. Indeed, a case could be made that public administration and social policy are derivative things, having no theory or methodology of their own but relying upon other disciplines for their process and substance.

But another way of thinking about public administration and social policy is to see them as the crossroads where fact and value collide. The challenge is to figure out how to avoid injury and pose the question, *What are public administration and social policy trying to accomplish?* The answer to this takes one irrevocably into covenantal territory, wherein civic moral values reside. Yet both fields tend to bypass this area, considering it too volatile, ambiguous, or emotive for concrete decision making. Because policy choices and their execution are based upon beliefs, reason, and political compromise (over multiple, vague, and often conflicting goals), there often is little room for considering the transcendent call of the covenant in a world characterized by trade-offs among competing aims.

Yet nothing could be more important. This article has been devoted to the proposition that the corporation, as a profit-making enterprise, has an obligation to give something back to society in exchange for its right to exist. Whatever the ideology that determines the legitimacy of this proposition, or the manner in which it becomes real, the basic idea is that no one sector or institution should bear the complete burden of contributing to a good society. Presumably this is the central purpose of public administration and social policy: to improve the general welfare. The degree to which professionals in these areas know about corporate governance and the history of the corporation could help to determine their success in achieving this purpose.

While the American debate over social welfare choices continues—over matters such as the role of government, the organization and provision of social services, the distribution and allocation of resources, desirable outcomes and consequences, or planned change like that being undertaken with health care—missing from the dialogic framework is the corporate link. To be sure, terms like “business partnerships” or even “privatization” pepper the rhetorical and

program landscape, yet they tend to represent an accommodation to the shortcomings of the public sector rather than a hearty acceptance of civic responsibility. And, they tend to be episodic and temporary in their use; major exceptions are places like Minneapolis/St. Paul where the corporate civic sense is high.

That this is a missing link is understandable, given the high level of public cynicism surrounding the view of a corporation as a moral actor. However, a revitalized and principled ownership agenda that mixes doing well and doing good into a declaration of purpose can make a major impact on how we think about the management of public affairs and the shaping of social policy. Ultimately, policy making, be it public or private, clarifies areas of disagreement and crystallizes the choices we must make. Without being ensnared by process (the means by which policy is enacted needs to remain subordinate to the purpose that is trying to be achieved, a lesson all-too-often forgotten in a land where technical virtuosity or special interest groups reign supreme), everyone who is engaged in public administration and social policy would do well to freshen their vision and consider how claims to public and private prosperity can be joined together.

Appendix

Kenneth Andrews <i>Donald K. David Professor of Business Administration, Emeritus</i>	Harvard Business School
Francisco L. Borges <i>Former Treasurer</i>	State of Connecticut
Sir Adrian Cadbury <i>Former Chairman; Board of Governors; Chairman</i>	Cadbury Schweppes PLC; Bank of England; PRO NED
Jonathan Charkham <i>Former Advisor to the Governors</i>	Bank of England
Thomas Donaldson <i>John Carroll Professor of Business Ethics; Senior Research Fellow</i>	Georgetown University School of Business Administration; Kennedy Institute of Ethics
John W. English <i>Former Vice President and Chief Investment Officer</i>	The Ford Foundation
David Hollenbach, S.J. <i>Margaret O'Brien Flatley Professor of Catholic Theology</i>	Boston College
William Josephson <i>Attorney</i>	Fried, Frank, Harris, Shriver & Jacobson

Robert A. G. Monks
Founder and Principal

Lens Inc.

Carol O'Cléireacáin
*Former Commissioner of Finance;
Chairman*

City of New York; New York City
Employees Retirement System (NYCERS)

John M. Pietruski
*Former Chairman, President, and Chief
Executive Officer*

Sterling Drug Inc.

Paul Quirk
Former Executive Director

Massachusetts Pensions Reserve Investment
Management Board (PRIM)

Edward V. Regan
Former Comptroller

State of New York

Beverly Ross
Law Professor

St. Thomas University School of Law

Max L. Stackhouse
Colwell Professor of Christian Ethics

Princeton Theological Seminary

Ralph Verni
Chairman and Chief Executive Officer

State Street Research & Management Co.

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Robert A. G. Monks, founder and principal of Lens, Inc. helped me to get the gears in motion, extending to me his protean ideas, colleagues, vast array of bibliographic materials, and financial backing so that preliminary research could get under way. An ardent believer in the capacity of human beings to improve their lot, his magnanimity leaves an indelible mark.

Ronald F. Thiemann, Dean of the Harvard Divinity School, has given me numerous opportunities, both teaching and otherwise, to develop and refine many of the ideas contained within the text. His effervescent intellect and extraordinary vision are a joy to behold and I am most grateful to be a member of his team.

My academic affiliations are like a three-legged stool, providing sturdy reinforcement for ongoing interest and work in connection with public affairs, religion and values, and economic enterprise. My colleagues and students at the University of Massachusetts Boston, Harvard Divinity School, and Babson College enrich my efforts more than they probably know, and for that I am especially thankful.

Notes

¹ See John Holusha, “Motorola’s Chairman Will Head Kodak,” *New York Times*, Oct. 28, 1993; Barnaby J. Feder, “Sudden Departure Comes as a Shock,” *New York Times*, Oct. 28, 1993; Joan E. Rigdon and G. Christian Hill, “Kodak Names Motorola Chief to Top Posts,” *Wall Street Journal*, Oct. 28, 1993; Julie Amparano Lopez and Joann S. Lublin, “Executive Recruiter Scored Major Coup By Enticing Motorola’s Fisher to Kodak,” *Wall Street Journal*, Nov. 1, 1993.

² See John Holusha, “Phase One of Kodak’s Revamping Plan: A Spinoff,” *New York Times*, June 16, 1993. See also Milt Freudenheim, “Kodak Says Drug Unit Isn’t for Sale,” *New York Times*, Aug. 10, 1993. In this story, Louis P. Mattis, chairman of Sterling Winthrop, denies assertions that the group will be sold, stating that it represents “massive speculation, which flies in the face of the stated intent of Kodak that it is committed to be in the health care business.” Nevertheless, analysts who follow international pharmaceuticals are predicting that Sterling will be sold to Elf Sanofi S.A., a French firm which is already a Sterling partner. Some analysts noted that sale negotiations were already under way between Sterling and Sanofi before Kay Whitmore was dismissed by the Kodak board.

³ Marcy Murningham, *Hostile Takeover* (Boston: McCormack Institute of Public Affairs Occasional Paper, University of Massachusetts Boston, 1993).

⁴ See Joan E. Rigdon, “Kodak to Cut 8% of Work Force or 10,000 Jobs,” *Wall Street Journal*, Aug. 19, 1993; John Holusha, “10,000 Jobs to Be Cut by Kodak,” *New York Times*, Aug. 19, 1993.

⁵ See Michael Quint, “Change Worries Kodak’s Hometown,” *New York Times*, Aug. 9, 1993.

⁶ In a remarkable one-week period in late Jan. 1993, institutional shareholders were behind the removal of John F. Akers, IBM’s chairman and chief executive, Paul E. Lego at Westinghouse Electric Corporation, and James D. Robinson at American Express Company. Earlier, Robert C. Stempel’s decision to resign as chief executive of General Motors was animated, in part, by shareholder pressure.

⁷ See *Annual Report of Eastman Kodak Co.*, 1992, 6.

⁸ “We should be able to make \$2 billion,” said Roberto C. Goizueta, chairman of the Coca-Cola Company and one of the outside directors instrumental in Whitmore’s eviction. See John Holusha, “Eastman Kodak Chief is Ousted by Directors,” *New York Times*, Aug. 7, 1993. According to a report in the *Wall Street Journal*, the outside directors — there are twelve members of Kodak’s board, with three inside directors and nine outside directors — want someone with proven marketing expertise who will make major cost reductions by laying off 15 percent of the workforce and cutting research costs, becoming an “aggressive follower” by capitalizing on rivals’ inventions instead of developing its own, and call upon Kodak businesses to “benchmark,” or compare themselves to competitors, and strive to be among the top quartile. Joan Rigdon and Joann Lublin, “Kodak Seeks Outsider to Be Chairman, CEO,” *Wall Street Journal*, Aug. 9, 1993.

⁹ *Ibid.* A lawyer and venture capitalist, Monks is a former chairman of The Boston Company and the Boston Safe and Deposit Company, merging them in 1981 with Shearson and American Express. From there, he went to Washington, serving for three years as the Department of Labor’s ERISA (Employee Retirement Income Security Act of 1974) Administrator during the Reagan administration and pressing his agenda that stock ownership is a responsibility and not simply a property right; ERISA regulates the investment activities of private pension plans and their outside investment managers.

After leaving ERISA in late 1984, Monks, with partner Nell Minow, then founded Institutional Shareholder Services, Inc., a proxy advisory firm to institutional shareholders; in 1990, he launched the more activist Institutional Shareholder Partners. In 1991, Monks waged a campaign for a seat on the Sears, Roebuck board of directors, spending \$5 million of his own money; in 1992 he promoted a series of proxy resolutions submitted to Sears to change the company’s corporate governance. He was also a player in the Kodak experience, sending Kay Whitmore a twenty-page report last December, backed with substantial analysis, seeking corporate restructuring and debt reduction. Currently Monks is a general partner and principal organizer of Lens Inc., a limited partnership fund intended to foster “greater ownership information, concern, and action” with an operational goal of an “empowered shareholder.” The Lens Fund seeks to raise \$1 billion of investment capital—according to *Business Week*, Monks and four partners put up \$10 million of their own money in the summer of 1992 to start the firm—to buy holdings in companies whose one, five, and ten-year returns lag behind the market. So far, the group has bought into Sears, Westinghouse, Kodak, and American Express. See the cover story, “Relationship Investing,” in *Business Week*, Mar. 15, 1993. Monks, along with colleague Nell Minow, is the author of *Power and Accountability* (New York: HarperCollins, 1992), a superb treatment of the conditions surrounding the misuse of U.S. corporate power that puts forward a series of proposals for future action. He and Minow also are the authors of *Corporate Governance*, to be published later in 1994 by Blackwell Publishers in Cambridge, Mass.

¹⁰ Fidelity bought 6.5 million Kodak shares for over \$250 million in the first quarter of 1993. In April, Christopher Steffan, Kodak's new CFO, resigned after only 11 weeks on the job because of disagreements with Whitmore over the pace and direction of cost reduction measures. See Allen R. Myerson, "The New Activism at Fidelity," *New York Times*, Aug. 8, 1993. The Fidelity tradition is to play a low-key role with respect to shareholder activism but the firm carries considerable weight with chief executives. Taken together, with its equity holdings throughout its mutual funds and other accounts, Fidelity's stock holdings are more than three times that of the California Public Employees Retirement System, the nation's largest pension fund. Edward C. Johnson 3rd, Fidelity's chairman and chief executive of the FMR Corporation, parent of the mutual fund group, has publicly stated that institutional investors should behave responsibly as long-term owners.

¹¹ See Leslie Scism, "Teachers' Pension Plan to Give Firms Tough Exams," *Wall Street Journal*, Oct. 6, 1993.

¹² *Ibid.*

¹³ For a British slant on this, see "Watching the Boss," a survey of corporate governance appearing in the *Economist*, Jan. 29, 1994.

¹⁴ See Carolyn K. Brancato, *Concentration of Equity Holdings in the Top 10 Corporations by the Largest Pension Funds and Money Managers: 1985–1989, with Projections to the Year 2000* (New York: Institutional Investor Project, Columbia University School of Law, 1990). These institutional investors include, on the public side, CalPERS, NYSCRF, the California State Teachers' Retirement Fund, the New York City Retirement Systems (NYCERS), the New Jersey Division of Investment, the Teacher Retirement System of Texas, the Wisconsin Investment Board, the Florida State Board of Administration, the Ohio Public Employees' Retirement System, and the Michigan Department of Treasury. Corporate funds include AT&T, General Motors Investment Management Corporation, General Electric Investment Corporation, IBM, Ford, and DuPont.

¹⁵ For a comprehensive treatment of this interpretation of corporate social responsibility, see R. Edward Freeman and Daniel R. Gilbert Jr., *Corporate Strategy and the Search for Ethics* (Englewood Cliffs, N.J.: Prentice Hall, 1988).

¹⁶ For a classic analysis of the evolution of the separation of ownership from management in the American firm, see Adolf A. Berle Jr. and Gardiner C. Means, *The Modern Corporation and Private Property* (New York: Macmillan, 1933). Berle and Means' primary assertions were that large public corporations controlled a major and increasing portion of the nation's business; that stock ownership of public corporations has become dispersed among shareholders who were disconnected from the control functions of managers; and that this separation of ownership and control contributed to an imbalance of power, whereby managerial interests were advanced at the expense of owner interests.

¹⁷ The Japanese and German models of corporate governance are quite different from the U.S. version. For major Japanese companies, corporate finance is based upon a system of "*keiretsu*," or company groups. These *keiretsu* consist of a family of companies, including a bank—often the lead company—a trading company, and a wide range of manufacturing and commercial companies of different sizes. The *keiretsu* firms own mutual holdings in each other, a symbolic and substantive statement of support; the total ownership stake of cross-shareholders in Japanese companies is between 15 and 30 percent, making them formidable takeover targets. Members of the *keiretsu* meet frequently to consider strategic issues, including future investment plans and their financing. Japanese companies tend to depend on bank financing, although some, with their massive profits, have started to move toward equity finance and independent asset management. German firms are also dominated by banks, but with a different structure than is used in Japan. Banks have tremendous power: they have substantial holdings in German companies; sit on the supervisory boards of these companies (which have a two-tier system, consisting of an *Aufsichtsrat*, or supervisory board elected at shareholders' annual meetings, which has power over a *Vorstand*, or management board; this structure, which can be found in Swiss and Dutch companies, also serves as a mighty deterrent to hostile takeovers); they raise equity; act directly as brokers on the stock exchange; and hold shares for individuals who deposit their shares and often give the banks the right to vote them.

¹⁸ John Pound, "The Rise of the Political Model of Corporate Governance and Control," Sept. 1992, appearing as Appendix 5 in *The Will to Act*, Final Report of the Subcouncil on Corporate Governance and Financial Markets (Washington, D.C.: Competitiveness Policy Council, Dec. 1992). The Competitiveness Policy Council is sponsored by Congress, with congressional and Presidential appointees; the Subcouncil on Corporate Governance and Financial Markets was chaired by Edward V. Regan, former Comptroller of New York State and the sole trustee of the New York State Common Retirement Fund, and composed of twenty-six eminent individuals from corporate management, public and private pension fund management, the investment and legal community, the labor community, the Securities and Exchange Commission, the New York Stock Exchange, and academia.

¹⁹ Quoted in Leslie Wayne, "Shareholders Exercise New Power With Nation's Biggest Companies," *New York Times*, Feb. 1, 1993.

²⁰ See Ira M. Millstein, "The Evolving Role of Institutional Investors in Corporate Governance," with assistance by

Holly J. Gregory and David Goldman, prepared for the American Bar Association Panel on “Institutional Investors: Monolithic or Diverse?” Aug. 10, 1992 and appearing as Appendix 4 in Subcouncil on Corporate Governance and Financial Markets, *The Will to Act*.

²¹ The scope of fiduciary responsibility as applied to institutional investors is subject to definition by federal agencies under existing laws. These agencies include the private pension system subject to ERISA and the Department of Labor; investment companies subject to the 1940 Investment Act and the Securities and Exchange Commission; bank trusts subject to the Federal Reserve, the FDIC, and the Comptroller of the Currency; and public pension funds, charities, and endowments subject to the Internal Revenue Service.

Notions of “fiduciary responsibility” and “prudence” are not absolute; they are relativistic concepts that have evolved over time. The idea of a fiduciary relation to a fund of money is rooted in English common law but the legal concept of the “prudent man” was expressed in *Harvard College v. Amory*, 26 Mass. (9 Pick.) 446, 461 (1830). In this case, which involved the duty of a trustee with respect to the investment of trust funds, the Massachusetts Supreme Judicial Court determined that trustees have two basic duties: (1) to invest prudently, thus assuring maximum return on and safety of the trust assets, and (2) undivided loyalty to the beneficiaries of the trust. These articulated duties of prudence and loyalty represented a relaxation of the standards set out in earlier English law, which obligated a trustee to return to a beneficiary only property identical to that entrusted and prohibited trustees from making risky investments. Writing for the majority, Justice Putnam stated what has come to be known as the prudent man rule: “All that can be required of a trustee to invest, is, that he shall conduct himself faithfully and exercise a sound discretion. He is to observe how men of prudence, discretion and intelligence manage their own affairs, not in regard to speculation, but in regard to the permanent disposition of their funds, considering the probable income, as well as the probable safety of the capital to be invested.”

The prudent man standard represented in the *Harvard College* case, which provided for flexibility and ongoing modification, did not receive widespread acceptance outside of Massachusetts until the 1940s. Meanwhile, in 1869, the New York Court of Appeals provided its now classic formulation of the “prudent man” rule in *King v. Talbot*, 4 N.Y. 76 (1869), which was widely followed throughout the 19th century and well into the 20th century. In essence, the court stated that common stock investments were too risky and therefore imprudent, and that a stricter standard that preserves capital, rather than permitting undue risk to achieve capital appreciation, should be applied. The *King* case stated that “the trustee is bound to employ such diligence and such prudence in the care and management [of the trust], as in general, prudent men of discretion and intelligence in such matters, employ in their own affairs.” 40 N.Y. 76 (1869) at 85.

For decades, states began to adopt “legal list” statutes that specified permissible investments, primarily consisting of fixed income securities. Beginning around 1940, many states repealed their legal list statutes and replaced them with some version of the prudent man standard, which continues to be the dominant standard for the investment of private, educational, philanthropic, and other endowment funds. Over the past twenty years, however many changes have occurred in the investment industry and its legal and regulatory framework, thus adding confusing new dimensions to the meaning of prudence and the role of pension and trust fiduciaries.

Bevis Longstreth, a lawyer and former SEC Commissioner as well as a fiduciary for many endowment funds, makes a powerful case for a new paradigm of investment prudence that closes the gap between the law’s definition of prudence and the existing reality in the investment world. In his book *Modern Investment Management and the Prudent Man Rule* (New York: Oxford University Press, 1986), Longstreth calls for a shift in central focus from performance to process, that “prudence should be measured principally by the process through which investment strategies and tactics are developed, adopted, implemented, and monitored. Prudence is demonstrated by the process through which risk is managed rather than the labeling of specific investment risks as either prudent or imprudent.” In addition to this comprehensive treatment of fiduciary responsibility, see also Beverly Ross Campbell and William Josephson, “Public Pension Trustees’ Pursuit of Social Goals” in the *Journal of Urban and Contemporary Law* 24, 43–120 (1983) and Betty Linn Krikorian, *Fiduciary Standards in Pension and Trust Fund Management* (Stoneham, Mass.: Butterworth Legal Publishers, 1989).

²² Since 1984, Robert A. G. Monks has made the persuasive argument that the U.S. prudent man investment standard, which did not anticipate the size of current pension funds and as currently interpreted and applied, provides excessive limits on the flow of capital, thereby impeding profit realization. “The objective is to remove obstacles for creativity and to enable investment capital to flow into areas where opportunity and need combine to suggest a potential for profit.” Cited in Millstein, at 21. More recently, in a Sept. 1992 presentation at the University of Tokyo entitled “Reckless Prudence: Investment of Pension Fund Assets in the United States of America,” Monks said, “America has taken the largest single accumulation of capital in the country—indeed the world—and squeezed it into a suffocatingly narrow range on the investment spectrum, designed by traditional notions of ‘prudence.’” *Ibid*.

²³For an eloquent and informed treatment of the idea of armed civic virtue, see Jean Bethke Elshtain, “Citizenship and Armed Civic Virtue: Some Critical Questions on the Commitment to Public Life” in Charles H. Reynolds and Ralph V. Norman, eds., *Community in America: The Challenge of Habits of the Heart* (Berkeley: University of California Press, 1988), 47–55. The book is a collection of essays, written in response to the publication of Robert N. Bellah, Richard Madsen, William M. Sullivan, Ann Swidler, and Steven Tipton, *Habits of the Heart: Individualism and Commitment in American Public Life* (Berkeley: University of California Press, 1985), a communitarian call for a reappropriation of a common good ethic in American society that retains a commitment to individual rights and freedoms.

See Samuel P. Huntington, “The Clash of Civilizations?” in *Foreign Affairs* 3 (Summer 1993). Huntington’s argument is that civilizations rather than nation states have been the principal actors in global affairs for the better part of human history, and that the most important conflicts of the future will occur “along the cultural fault lines separating [seven or eight major] civilizations from one another.” These include Western, Confucian, Japanese, Islamic, Hindu, Slavic-Orthodox, Latin American, and possibly African civilization.

Huntington opines that economic modernization and social change separates people from their local identities and weakens the nation state as well; religion has moved in to fill this identity gap, typically in the form of fundamentalist movements which are found in Western Christianity, Judaism, Buddhism, and Hinduism as well as in Islam. One result of this shift is the increase in economic regionalism, whereby the success of regional economic blocs occurs when rooted in a common civilization and serving to reinforce civilization-consciousness. As illustration, he cites the success of the North American Free Trade Area as dependent upon the convergence of Mexican, Canadian, and American cultures; the European Community as reflecting the shared foundation of European culture and Western Christianity; and the success of economic relations developing between the People’s Republic of China and Hong Kong, Taiwan, Singapore and the overseas Chinese communities in Asian countries. Japan, he says, is a society and civilization unto itself, thus precluding regional economic integration. Most certainly, concepts such as “civic virtue” and “the common good” have different meanings against these different ethnic and religious backdrops. To the contrary, what is likely to emerge is an intensified form of “we”-“they”ism, with the possibility of a common good partitioned by ethnic and religious identities. Needed, among other things, will be a more profound Western understanding of the basic religious and philosophical assumptions underlying other civilizations and an effort to identify elements of commonality.

²⁵ Robert Coles, *The Call of Service: A Witness to Idealism* (Boston: Houghton Mifflin Company, 1993).

²⁶ *Ibid.* at 284.

²⁷ See Alasdair MacIntyre, “The Truth Is in the Details” in the *New York Times Book Review*, Aug. 29, 1993.

MacIntyre’s *After Virtue: A Study in Moral Theory* (Notre Dame: University of Notre Dame Press, 1981) puts forward the disquieting suggestion that we live in a state of moral fragmentation and disorder and do not even know it and that, in his famous phrase, “the barbarians are not waiting beyond the frontiers; they have already been governing us for some time.” The only way of overcoming these fragments is to locate ourselves and our history in the context of our respective social traditions, then identify the future to which we are moving and the moral premises that will help us get there.

²⁸ James Q. Wilson, *The Moral Sense* (New York: The Free Press, 1993).

²⁹ The notion of “common good” and “civic virtue” can be traced to Plato, Aristotle, and Cicero. For an excellent theological argument in favor of a pluralist understanding of the common good, drawing upon several themes present in the works of St. Augustine (particularly *The City of God*, in which he discusses the meaning of the term *res publica*, variously translated as the commonweal, the common good, a commonwealth, civil affairs, or republic) and St. Thomas Aquinas (particularly *Summa Theologica* as cited in Jacques Maritain’s *The Person and the Common Good*, which posits that human beings are by nature meant to live in relation to other persons, both for the positive realization and fulfillment of personality and because of human needs and deficiencies; the idea of persons as relational beings has its highest exemplification in the Trinity—that is, in the infinite communion of human beings with God and with one another in God), see David Hollenbach, S.J., “The Common Good Revisited,” *Theological Studies* 50 (1989) at 70–94. For further treatment of the challenge of a common good and the meaning of civic virtue in modern global society, see also Robert Bellah *et al.*, *Habits of the Heart*, Robert Bellah *et al.*, *The Good Society* (New York: Alfred A. Knopf, 1991); Alasdair MacIntyre, *After Virtue*; Alasdair MacIntyre, *Whose Justice? Which Rationality?* (Notre Dame: University of Notre Dame Press, 1988); Alasdair MacIntyre, *Three Rival Versions of Moral Enquiry* (Notre Dame: University of Notre Dame Press, 1990); Jeffrey Stout, *Ethics after Babel: The Languages of Morals and Their Discontents* (Boston: Beacon Press, 1988); Michael Walzer, *Spheres of Justice: A Defense of Pluralism and Equality* (New York: Basic Books, 1983); Michael Walzer, *What It Means to be An American* (New York: Marsilio Publishers Corp., 1992); Charles Taylor *et al.*, *Multiculturalism and “The Politics of Recognition”* (Princeton: Princeton University Press, 1992); Charles Taylor, *The Ethics of Authenticity* (Cambridge: Harvard University Press); Adam Seligman, *The Idea of Civil Society* (New York: The Free Press, 1992); Ronald F. Thiemann, *Constructing a Public*

Theology: The Church in a Pluralistic Culture (Louisville: Westminster/John Knox Press, 1991); and Ronald F. Thiemann, *Religion in Public Life: A Dilemma for Democracy* (Washington, D.C.: Georgetown University Press, 1996).

³⁰The term “interdependent prosperity” was coined by Alma Blount, one of my students at the Harvard Divinity School, in a class presentation in which she laid out eight propositions concerning the democratization of our political economy. Her proposition #5 was “In order to develop a vision of ‘interdependent prosperity’ for modern life, we need to articulate a public theology for political economies.” Alma Blount, “Toward the Democratization of Our Political Economy: Eight Theses,” Harvard Divinity School, Mar. 17, 1993.

³¹Sir Adrian is the author of the award-winning “Ethical Managers Make Their Own Rules” in the Sept.-Oct. 1987 issue of the *Harvard Business Review*, <https://hbr.org/1987/09/ethical-managers-make-their-own-rules>. A highly regarded and long-time proponent of corporate accountability and social responsibility, he also is the author of *The Company Chairman* (Cambridge: Director Books, Fitzwilliam Publishing Ltd., 1990).

³²These and remarks following taken from interview with Sir Adrian Cadbury, Jan. 2, 1991.

³³The view that philanthropic activity cannot replace what the state was doing is expressed by Britain's charitable foundation leaders and others in “Weak Foundations” in *Economist*, Sept. 18–24, 1993, 64–65.

³⁴Interview with Max Stackhouse, Nov. 24, 1990. See also Stackhouse, *Public Theology and Political Economy*. Recent publications include “John Paul II on Ethics and the ‘New Capitalism’” in *The Christian Century*, May 29–June 5, 1991, and “Renewing Our Public Vision” in *New World Outlook*, May/June 1991. Professor of Christian Social Ethics at Andover Newton Theological School for 27 years, Stackhouse is headed this fall for Princeton Theological Seminary where he will become the Colwell Professor of Christian Ethics.

³⁵With proceeds from his cocoa business, the Rountree Trusts were established at the turn of the century by Joseph Rountree, also a Quaker, to carry out charitable, social, and political work. For more on his work, see James A. Joseph, *The Charitable Impulse: Wealth and Social Conscience in Communities and Cultures Outside the United States* (New York: The Foundation Center, 1989).

³⁶Interview with Jonathan Charkham, Dec. 27, 1990. Charkham was a member of the Subcouncil on Corporate Governance and Financial Markets of the Competitiveness Policy Council. He is also the author of “Are Shares Just Commodities?”, appearing in *Creative Tension*, a collection of essays on issues arising from the relationships between the management of public companies and institutional investors published by London-based National Association of Pension Funds Ltd. (Feb. 1990). In the spring of 1994 his book *Keeping Good Company* will be published by Oxford University Press.

³⁷*Ibid.*

³⁸Professor Andrews' best-known book is *The Concept of Corporate Strategy*, now in its 3rd edition (Homewood, Ill.: Richard D. Irwin, Inc., 1987). He also edited and wrote an introduction to *Ethics in Practice: Managing the Moral Corporation* (Boston, Mass.: Harvard Business Review Press, 1989).

³⁹Interview with Kenneth R. Andrews, Nov. 19, 1991.

⁴⁰For a thoughtful rendering of the movement toward democracy in sub-Saharan Africa, see Pdraig O'Malley, *The Prospects for Democracy in Southern Africa: A Report on the Proceedings of the Mt. Etjo Conference on Democratic Transitions, Jan. 15–21, 1992* (Boston: McCormack Institute Occasional Paper, University of Massachusetts Boston, 1993). See also Pdraig O'Malley, ed., *Uneven Paths: Prospects for Democracy in Southern Africa* (Windhoek, Namibia: New Namibia Press, 1993).

⁴¹Dr. Paul N. Ylvisaker, “The Urban Problem—Now and Future,” Keynote address, World Traffic Engineering Conference, Washington, D.C., 21 Aug. 1961. The late Paul Ylvisaker was Dean of the Graduate School of Education at Harvard University and a highly esteemed adviser to numerous independent, corporate, community, and family foundations. In the late 1950s and 1960s, Dr. Ylvisaker, as Director of the Ford Foundation's Public Affairs program, developed the Gray Areas Program—locally planned and administered, based on local needs, and providing “an integrated attack on the causes of poverty and human deterioration rather than symptoms—which was widely viewed as the prototype for the Federal government's antipoverty programs of the 1960s.

In 1967 Ylvisaker was appointed by Lyndon Johnson to chair the Presidential Task Force on the Cities, charged with the responsibility of determining the best Federal approach to urban blight and racial unrest. Throughout his distinguished career, he was continually called upon to share his wisdom and expertise, and made an indelible impression on American public life.

⁴²See the National and Community Service Trust Act of 1993, signed by President Clinton on Sept. 21, 1993. Among other things, the Act established a Corporation for National and Community Service which may make grants to states, localities, Indian tribes, public or private nonprofit organizations, and higher education institutions to help carry out national service programs meeting the unmet human, educational, environmental, and public safety needs of the United

States. A primary purpose of the Act is to renew the ethic of civic responsibility and “the spirit of community” throughout the United States. It also seeks to reward individuals who participate in national service with expanded opportunities for higher education or job training.

⁴³ Further information on the Freshman Management Experience can be obtained by contacting program founder and lead faculty member Theodore Grossman at Babson College, Babson Park, Massachusetts 02157.

⁴⁴ Further information on the Cluster Program can be obtained from Dr. M. Kelly Lynch, Director, at Babson College.

⁴⁵ Information on Babson's activities on the community service front can be obtained from Jodi Raybuck, Assistant Director of Student Affairs.

⁴⁶ Information on the Project on Business, Values, and the Economy can be obtained from the Rev. Dr. Robert K. Massie Jr., Director, at the Harvard Divinity School, 45 Francis Avenue, Cambridge, Massachusetts 02138.