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A Framework for Good Ownership and Good Governance (1999)

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A Framework for Good Ownership and Good Governance

This article encapsulates a more extensive analysis that was commissioned by The Boston Foundation's board of trustees in December 1998 to investigate its investment practices and identify ways in which its asset management decisions might be brought into fuller alignment with its charitable purpose—without conceding earnings or undermining its philanthropic fiduciary responsibility. The undertaking was spurred by the leadership of Robert A. Glassman, co-founder and co-chair of Wainwright Bank and a trustee of The Boston Foundation (TBF) since 1985, who took the reins from David Rockefeller Jr. in 1995 as chair of TBF's investment committee. The research project built on several precedents affecting the integration of civic moral values into its investment policy: (1) TBF's 1985 decision to address the question of South Africa–related holdings; (2) the 1995 passage of a "Harmony Statement" to better align its charitable mission with its investments; and (3) the 1996 decision to divest of tobacco stocks. It also took advantage of the foundation's conversion, thanks to Glassman's leadership, from a trust model of governance to a corporate model that afforded the board with greater authority to discharge its fiduciary role. Established in 1915, The Boston Foundation is the nation's second oldest community foundation. (The first is The Cleveland Foundation, established in 1914.) Appearing here is a summary of the final recommendations constituting a "civic stewardship" policy that was approved by TBF's board in December 2000, one year after the report's submission. The nation's first for a community foundation, this civic stewardship policy represented a major realization of TBF's covenant to the community, one rooted in five primary values—access, equity, diversity, fairness, and respect—that lie at the heart of TBF's mission and grant making. The author set about transliterating these core values via the research and analysis into a working policy that emphasizes environmental stewardship, community well-being and citizenship, diversity and equity, and corporate governance. The civic stewardship policy remains in use to this day.

Preface

In December 1998, The Boston Foundation's Board of Directors voted its approval of a study of the Foundation's investment practices to learn ways in which decisions about its asset management might be brought into fuller alignment with its charitable purpose, without conceding earnings or undermining its philanthropic fiduciary responsibility. This summary report is an encapsulated version of the more extensive analysis. The Board commissioned Dr. Marcy Murninghan to carry out the assignment. Dr. Murninghan has 17 years of experience as a practitioner, scholar, and teacher in the realm of moral values, philanthropy, and economic decision making, particularly affecting capital investment and corporate management.

She received assistance from two knowledgeable sources. Mary Naber prepared an overview of the evolution of socially responsible investing in the United States and interviewed a number of pension fund executives who are responsible for implementing such policies. A graduate of Harvard College now residing in Los Angeles, Ms. Naber has written extensively on morally-conscious economic decision making, particularly as enacted by religious investors.

A selection from *Money and Morality: Cultivating an Ethic of Civic Stewardship* (a report to The Boston Foundation, November 1999). Reprinted by permission of The Boston Foundation.

Kinder, Lydenberg, Domini & Co., Inc. (KLD), is the nation's leading source of social research on corporations for the institutional investor and provides performance benchmarks, corporate accountability standards, and research support to its clients. KLD supplies equity research to the Domini 400 Social Index (DSI), the benchmark of social investing, and the Domini Social Equity Fund (DSEFX), a five-star-rated $1.2 billion index fund that has consistently outperformed its peers, garnishing a 43 percent return in the past year. In addition to its corporate data, KLD offers an array of social investment support services to its clients, including the development of social investment policies and guidelines, proxy voting, portfolio audits, custom research, the creation of specialized indexes, and social investment consulting.

The Murninghan/Naber/KLD research efforts coincided with a major, dramatic transformation in The Boston Foundation's structure of governance and operations, particularly with respect to fund management, that bears mention because it sets the stage for more active intervention in the whole process. Rather than a house divided, The Boston Foundation now can control its financial fate; for the first time in its 85-year history, it has acquired discretionary authority to invest its assets where it pleases, thus enabling it to annex power to purpose and principle.

Beginning with a petition to the Massachusetts State Supreme Judicial Court in early 1997 and ratified by formal state Attorney General action by early 1999, The Boston Foundation now operates under a corporate form of governance rather than a trust form, giving its Board of Directors responsibility for discharging the entire range of fiduciary obligations—including the authority to set the Foundation's course on the design and performance of investment policy, across its portfolio, affecting the vast majority of its funds. These changes in structure and procedure provide an opportunity to link power and purpose in ways that were attempted in the past but never fully realized due to the controlling authority of the trustee banks. Put another way, the Foundation has more bang for its bucks.

This report, then, is the result of a parallel process of inquiry coinciding with the Foundation's preliminary implementation of the new investment order (dubbed "the Fund for the 21st Century") and does the following:

- *Prescribe a series of actions for Board consideration* that positions the Foundation as an exemplar of civic stewardship;
- *Provides an overview* of the history and current practice of so-called ethical or socially responsible investing, particularly with respect to non-pooled equities, and identifies areas that are ripe for positive exploitation;
- *Profiles the views* of Board members and knowledgeable practitioners on the topic of civic stewardship and looming opportunities for strengthening philanthropic fiduciary power and responsibility; and
- *Places the findings and recommendations* of this effort within the larger context of global capital flows and corporate management, human development and prosperity, and environmental sustainability.

A Four-Point Plan for the 21st Century

This report is the culmination of an investigation into ways in which The Boston Foundation might incorporate civic moral principles into the ownership and management of its financial assets. It lays out a framework for thinking about such integration and introduces the concept "civic stewardship" to describe what is involved. Drawing upon a series of interviews with members of the Foundation's Board of Directors—with the exception of one member, all directors participated in an in-depth, structured conversation about the application of normative standards to investment decision making—and a select group of knowledgeable practitioners in the institutional investing and corporate governance community, as well as historical and empirical information about so-called ethical or social responsibility investing, the report puts forward a value-based agenda for The Boston Foundation to consider as it moves from a passive investment mode to one with greater authority and autonomy.

The plan outlined here can be accomplished through two channels, one immediate and the other contextual: (1) continued Board engagement with the issues and (2) ongoing developments in the fields of socially responsible investing and corporate ownership, governance, and accountability. The proposed recommendations fall into two categories, corresponding roughly to The Boston Foundation's internal and external roles.

- The first two recommendations relate to the mission and internal operations of The Boston Foundation in the exercise of its philanthropic fiduciary responsibility. They are the kindred byproducts of previous expressions of Foundation concern regarding the social ethical dimension of its ownership responsibility and asset management;
- The second two relate to the Foundation's vision and leadership potential within a wider global context of institutional investing and corporate governance and accountability. They represent targets of opportunity unparalleled in this era of capricious capital flows and increasingly interdependent global political, social, technological, and economic realities.

All of them speak to the evolution of a muscular form of sovereign trust and recognize that fiduciary law is elastic—that, like most laws, it is an offspring of the culture it seeks to protect. Moreover, besides offering safety and security, it is something that continually must be justified on both ethical and prudential grounds.

A WAY FORWARD

1. THE BOARD OF DIRECTORS ADOPTS A BROADLY DEFINED CIVIC STEWARDSHIP INVESTMENT ETHIC OF GOOD OWNERSHIP / GOOD GOVERNANCE, À PROPOS THE ENTIRE PORTFOLIO YET DISTINCTIVELY FOCUSED ON INVESTOR ACTIVISM.

2. THE INVESTMENT COMMITTEE CUSTOMIZES AND PHASES IN THE APPLICATION OF THIS CIVIC STEWARDSHIP POLICY TO INVESTMENT SCREENS, SHAREOWNER RESPONSIBILITY, AND COMMUNITY INVESTING.

3. THE BOSTON FOUNDATION EDUCATES CURRENT AND POTENTIAL DONORS AND THE GENERAL PUBLIC ABOUT THE NEW CIVIC INVESTING AND PRINCIPLES OF GOOD OWNERSHIP / GOOD GOVERNANCE.

4. THE BOSTON FOUNDATION PLAYS A LEADERSHIP ROLE WITH RESPECT TO INSTITUTIONAL INVESTING AND THE FUNDAMENTALS OF GOOD OWNERSHIP / GOOD GOVERNANCE

Proposition 1: *Board adoption of a civic stewardship investment ethic of* ***good ownership / good governance****, emphasizing procedural and substantive values, that is applied across the portfolio.* This can occur through Board adoption of a resolution reiterating its allegiance to the ***procedural*** values of community, pluralism, and democracy and the ***substantive*** values of compassion and care, duty and responsibility, fairness and justice, respect and tolerance, dignity and diversity, civility and courtesy, truth and integrity, education and growth, faith and hope, freedom and liberty, humility and restraint, prudence and wisdom, and courage and fortitude.

Each of these virtues is enshrined in The Boston Foundation's history, embedded in its mission statement, and, taken together, guide its fundraising, grantmaking, and management operations. The civic stewardship ethic would extend their reach, applying now to the range of investment activities—with particular attention to what it means to be an owner, and how both private prosperity and the public interest might be better served.

> ***Cultivation of a civic stewardship ethic is legal, financially sound, and consistent with The Boston Foundation's long-term goals. . . .It embodies the evolution of a muscular form of sovereign trust and recognizes that fiduciary law is elastic—that, like most laws, it is an offspring of the culture it seeks to protect.***

The proposed civic stewardship resolution would be wider and deeper than the 1995 "harmony statement" and 1999 *Statement of Investment Objectives, Goals and Policy Guidelines* (Sec. VII, "Social Investment Guidelines) because in addition to professing values it would address the range of asset classes and feature a mix of tools and approaches.

The resolution should delegate responsibility for developing and implementing the program to the Board's Investment Committee. The specifics of implementation can be developed by the Investment Committee and then deferred or phased in, pending further education and review. Preliminarily, however, The Boston Foundation should issue a strong statement about its revitalized fiduciary role and its relevance to strengthening community, diversity, and democracy—and, by implication, its stance regarding good ownership / good governance and the implications for shareowner power and accountability.

Proposition 2: *Phase in the application of this civic stewardship ethic of good ownership / good governance over the next eighteen months, beginning with a publicly-stated policy for voting proxy resolutions and the Foundation's position during the upcoming millennial proxy season.* This phase-in period would allow the Board and the Investment Committee to acclimate themselves both to the existing changes in fund management (under the rubric of the Fund for the 21st Century) and the civic stewardship recommendations made in this report with respect to investment screens, shareowner power, and investments aimed at strengthening community.[1] It would permit further education about good ownership / good governance principles and practices, in consultation with TBF staff, current and potential donors, other experts and financial services providers, and legal counsel. It would enable The Boston Foundation to select appropriate areas and techniques as starting points (for example, specific investment screens, proxy voting areas, and community investing opportunities). Moreover, it would permit the communication of the policy to current money managers and other service providers, allow for the accumulation of experience and judgment, reduce the element of surprise, and enable the formation of alliances and strategic partnerships, all of which help to assure prudential progress, adherence to recognized standards of fiduciary conduct, and recognition of the importance of compromise.

Because proxy voting is both a responsibility and a right, an appropriate starting point for The Boston Foundation is to issue guidelines to its money managers for voting shareholder resolutions during the upcoming 2000 proxy season. Proxy policy and guidelines ought to be publicly displayed, in keeping with the ethic of transparency. A suitable platform is the Foundation's website, which can include appropriate links to sites promoting good ownership / good governance practices.

Over time, practical implementation of this civic stewardship ethic, in part, would be delegated to TBF money managers and prudent experts (for investment selection and, in the case of pooled funds, proxy voting) and, in part, enacted by the TBF Board, Investment Committee, and TBF staff (for specific objectives and guidelines pertaining to investment policy, asset allocation, manager selection, investment monitoring, and performance of shareowner rights and responsibilities). Because a civic stewardship ethic involves a continuing process of articulation, change, and rearticulation, its working application should be monitored and reviewed and, where appropriate, revised on an ongoing and rational basis.

Proposition 3: *Create educational opportunities for reflection and discussion on methods for increasing philanthropic investment value and accountability through good ownership / good governance practices.* This means structured opportunities to learn about and explore the ramifications of integrated approaches to investment selection, corporate governance activism, and community or program-related investing. Exercising this power to convene fits squarely within the tradition of The Boston Foundation to provoke thoughtful dialogue and debate on critical matters of community concern. It also is one that holds potential appeal to current and prospective donors seeking to build integrity into their civic and philanthropic commitments.

One intriguing possibility: Convene a discussion panel including previous TBF Board Investment Committee Chairs Dwight Allison and David Rockefeller, who raised the issues of ethics and investing in the 1980s and early 1990s. Other venues include professional and voluntary associations with which Board members currently are affiliated, educational outlets offering forums on related topics, and the use of Internet technology to communicate with and engage the public.

Proposition 4: *Assume a public leadership role as a community foundation, particularly with respect to organized philanthropy and the rising tide of institutional investor / responsible shareowner activity, on how good ownership / good governance principles and practices can promote broader civic prosperity and ecologic well-being.* This would place The Boston Foundation among the ranks of prominent funds such as TIAA-CREF, the World Bank, the New York City Employees Retirement System, the California Public Employees Retirement System, the Jessie Smith Noyes Foundation, and specialty money managers such as Lens Investment Management, Relational Investors, and Tiger Management, all of which embrace governance activist positions across a continuum of styles while enjoying remarkable success with rates of return. It would also permit TBF to heed the recent call of John Bogle, senior chairman and founder of Vanguard Group, that the mutual fund industry should be more active in corporate governance, especially as they own 35 percent of all corporate equity.[2]

Along these lines, the Foundation should give serious consideration to two areas needing attention: (1) the development of Internet technology that equips investors for better enacting a civic stewardship ethic; and (2) the co-sponsorship of an executive session or working group on good ownership / good governance that brings together prominent practitioners and scholars in the realms of institutional investment, corporate governance, civic investing, and public policy on an ongoing, sustained basis.

The time is ripe for The Boston Foundation to assume a more influential platform for the performance of its civic duty, one necessitated by the changing face of community in a global era marked by the triumph of mercantile values over human ones, where questions about commercial viability and consumer preference trump those concerning what makes a good society—and what we ought to do to achieve it.

At its core, then, this report is about the restoration of institutional and civic integrity—about the wise use of power—and presents an ethic of civic stewardship that integrates the essence of good ownership with the virtues of good citizenship and good governance. This civic stewardship ethic is designed to involve, inform, and inspire by braiding economic, civic, and moral commitments into decisions about asset management. It recognizes that because of its investment, philanthropic, and public leadership roles, the Foundation is in a remarkable position to stimulate deeper critical reflection and thoughtful discussion about morality and money in ways that boost more enlightened civic moral awareness, obligation, and engagement in areas previously underserved by charitable endowments and institutional investors of all types.

Put another way, The Boston Foundation can help to restore the soul of organized philanthropy—and public life—through its exercise of a civic power that is morally compelling, economically sound, and politically pragmatic.

Introduction

Boston is a privileged area because of its history and values, its institutions, its culture, and its people. The birthplace of civil society, its New England roots are deeply planted in an ethic of caring and fairness, inspiring a model of governance that did not distinguish between public and private realms, a model that was to serve as the basis for democratic structures to come. The 1629 chartering of the Massachusetts Bay Corporation—followed soon thereafter by the incorporation of congregational churches and local townships, and later by Harvard College—set the stage for the virtues of representative lay governance, with moral commitments and the competitive spirit of innovation serving as the fuel for reaching community-building goals.

While this model has evolved and changed over time, subject to the prevailing passions and prejudices of the culture, the guiding principle of colonial life remains intact: Self-governance is a means through which a free people remain free, subject to rules and conditions that derive from voluntary agreements and obedience to man-made and nature's law, one's conscience, and God.

Centuries later, this principle has more relevance than ever before, in this time and in this place. The Boston Foundation is itself an emblem of these virtues, and, as of this year, now has the enabling structure with which to achieve it. The timing is appropriate, because we are at a unique moment in human history, the history of our markets, and the history of organized philanthropy. We will see transformations like we have never seen before, due, in large measure, to the power of technology and electronic communication. Yet we remain plagued by a simple irony that speaks volumes of the work that lies ahead: At the same time we are witness to major flows of charitable dollars into philanthropy's coffers (even as there could be much more) and major growth in our financial markets, we are a nation divided, separated by a widening gap between the rich and everyone else.

Equity and Justice for All

Income inequality is growing, with the wealthiest 2.7 Americans (the top 1 percent) having as much to spend as the bottom 100 million; the top 10 percent of American households own 73.2 percent of the country's net worth. This trend is reflected in stock ownership—despite all the hoopla regarding Wall Street and Main Street—which remains the domain of the affluent; the wealthiest 10 percent of households own 90 percent of all stock. Despite the economic boom of the past decade, incomes, which include investments as well as paychecks, of wealthier Americans have risen twice as fast as those of middle-class Americans, signaling a widening wealth gap between them. Adjusted for inflation, four out of five households take home a smaller piece of the economic pie than they did in 1977.[3]

We need to think about building capital as building equity, with the dual meaning it implies.

"Building equity" is another measure of inclusion, of standing, of membership and authority in the body politic. We need to think about how raising money, investing money, and giving money away can fulfill both immediate goals of capital (equity) expansion—with capital (equity) measured in terms human, cultural, and moral, in addition to financial—and the broader goals of service both to community and those values we hold dear.

Meanwhile, during the same period these figures were released, the wealthiest charitable foundation in the country (and second largest in the world) was created with the unveiling of the $17 billion Bill and Melinda Gates Foundation.[4] Within the past few months, other major gifts from high-profile donors have been made to charitable causes, particularly to ailing public school systems.[5] On a smaller donor scale, this is the most active period seen in philanthropy in a long time as more and more individuals look for outlets to organize their charitable dollars in ways that fulfill their financial and social goals.

. . . While the need for face-to-face human contact will never die, clearly, as the Internet matures and innovations emerge, organized philanthropy will find itself having to adapt to new realities, which will include demands for greater transparency, candor in public communication, and accountability for their actions. Now that charity finances are being posted on the Internet—one can access over 140,000 of these "Form 990s" (along with an explanation of what it means), through visiting a site called "guidestar.com"—nonprofit institutions will come under greater scrutiny, adding to the growth in the so-called cyber-accountability movement.[6] The transition will no doubt be a rough one—the Internet, after all, can be a source of malicious gossip mongering and dishonest information, as well as useful data and a vehicle for relationship-building that positively advances an organization's agenda—as funders, donors, grantees, and the general public become familiar with the new tools. Yet over time, one can hope that the essential process of giving and receiving is enhanced, not undermined, as a result of the opportunities the new technology provides.

And it has provided a great deal. We are witness to unprecedented levels of participation as new electronic trading systems have emerged, on-line trading by investors has skyrocketed, 24-hour trading is imminent, and the exchanges themselves have proposed becoming publicly-traded companies. (In late September these massive shifts in how stocks are bought and sold prompted Arthur Levitt, the chairman of the Securities and Exchange Commission, to propose a central posting system that would electronically display all orders to buy and sell U.S. securities, 24 hours a day, seven days a week, claiming that such a move was essential to preserving the integrity of the nation's stock markets. Levitt also floated the idea of an independent, universal stock market regulator. His proposals sent ripples throughout the securities industry, and constitute more signs that the core relationship between buyers and sellers and the role of financial services providers—particularly brokerage houses and investment managers—will have to change, as well.)

In an ironic counterpoint to the democratization of asset ownership, the scale and scope of multi-billion dollar corporate mega-mergers continues apace as industries consolidate into oligopolies and exert world-wide influence. While their full impact on the bottom line and the quality of life remains to be seen, the emergence of the behemoth corporate enterprise, cradled in and fed by an electronic web of capital transfusions with a short-term time horizon, poses a challenge to representative government and democratic civil society. Moreover, the trader's mentality has replaced that of stewardship—with quarterly earnings the Holy Grail of investors and management—turning on its head what we thought we knew about corporate leadership and the relationship between business and government. Indeed, one finds it hard, as a chief executive, to be committed to stakeholders when your company is in play, just as a head of state finds it difficult to maintain civil order when a nation's currency has collapsed.

Add to this bubbling brew the worldwide movement to democracy and market economies, which challenges the bedrock assumptions of domestic and international politics, cultural diversity, and national sovereignty. We now live in a world that is being simultaneously drawn together while it is being driven apart, leading Peter Drucker to comment last June that one of the biggest challenges of our times is "the willingness and ability of each of today's institutions to maintain the focus on the narrow and specific function that gives them the capacity to perform, and yet the willingness and ability to work together and with political authority for the common good."[7]

The time has come, then, to set aside political ideologies, professional elitism, and institutional parochialism and think about the relationship between money and morality in new and better ways. We need to think about building capital as *building equity*, with the dual meaning it implies. "Building equity" is another measure of inclusion, of *standing*, of membership and authority in the body politic. We need to think about how raising money, investing money, and giving money away can fulfill both immediate goals of capital (*equity*) expansion—with capital (*equity*) measured in terms human, cultural, and moral, in addition to financial—and the broader goals of service both to community and those values we hold dear. As many who were interviewed pointed out, *Who better than a community foundation—and The Boston Foundation, at that—to define the agenda for investing with integrity in the next century?*

Historical Precedent: Programmatic and Prophetic

The Boston Foundation need look no further than to its own recent history for an authoritative rationale—one programmatic, the other prophetic—as to why it should and must go down this path. Seven years ago, The Boston Foundation revamped its discretionary grantmaking framework, moving from a specific set of program or policy goals to a set of philosophical beliefs. It decided to view the *community*, rather than grantee agencies, as the primary constituency, and shifted its focus to concentrate on community building and the eradication of poverty. A central tenet of this paradigm shift was the promotion of active citizenship. As a result of concerns articulated by poor people themselves, in 1992 the Persistent Poverty Project adopted the idea of that the poor are *citizens*, not clients. Grantmaking therefore became focused on issues occupying two categories: "community fabric," meaning safety issues and the preservation and praise of cultural traditions, and "active citizenship," meaning opportunities to get involved. These categorical imperatives re-enforced the mutuality of civic life and recognized that bridges connecting neighborhoods, city and suburb, racial groups, ethnic groups, and religious groups are essential to civic well-being. (During the same period, this notion of citizenship was elaborated by the late Harvard government professor Judith Shklar as social *standing*, meaning inclusion and respect—symbolized by the opportunity to vote and to earn a living—as well as participation, accountability, and representation in the polity.)[8]

The time has come to extend these commitments even further, a challenge previously put forward by former TBF board members and distinguished figures in the overlapping worlds of organized philanthropy and financial services. The late Paul Ylvisaker and former TBF Investment Committee Chairs Dwight Allison and David Rockefeller, Jr. made these arguments years ago, not just to other board colleagues but to their colleagues in the larger world of organized philanthropy. All were and remain eloquent spokesmen and advocates for principled philanthropy, wherein ethics and values are more than abstractions: They are measures of a foundation's legitimacy and relevance. All three men recognized the critical importance of "the second leg" on philanthropy's three-legged "money and morality" stool: While most attention is focused on fund *raising* and fund *distribution*, scant notice is directed to fund *investing* and to how a foundation's values might be interwoven into portfolio decision making.[9]

In his notable 1989 essay for the Council on Foundations, *Small Can Be Effective*, Paul Ylvisaker defined the generic functions of modern philanthropy and the multiple strategies, more than money, available to it which can boost its beneficial impact on American public life. Referring to organized philanthropy's limitless potential for creativity and social influence, Ylvisaker grouped these functions under five headings: *financial support functions; philanthropy's catalytic role; its capacity to conceptualize; its critical function*; and its *responsibility for community building*. Commenting on foundation's investing role, Ylvisaker wrote:

> The past decades have added still another device to a foundation's repertoire: program-related investments. Once thought to violate the doctrine of prudence, such investments—out of the foundation's corpus and usually at below-market rates of interest—are now generally accepted and increasingly practiced. Again, they enable a foundation to stretch its resources without depleting them.
>
> Another significant use of investments is to make an ethical statement. By screening its own investments through criteria that are socially and environmentally sensitive, a foundation can ensure not only that its programmatic and financial goals are congruent, but also that its example may have an impact on other sectors of the general public.[10]

Indeed, from a practical point of view, The Boston Foundation can lengthen its leverage in several other ways beyond the direct implementation of a civic stewardship ethic: it can inspire others to positive action; and it can help to build the ethos of community in a world riven by global economic realities that simultaneously unite and divide. In addition to investment policy, The Boston Foundation can use its catalytic power, leveraging its financial authority as an institutional investor to promote greater accountability with respect to corporate management and capital flows.

Put another way, it can use its moral authority to reconceptualize "return on investment," broadening its meaning to include qualitative standards for *both* ownership and business performance that speak to a "good life" and a "good society." It can adopt a critical stance regarding existing investment practices, advocating for a fuller understanding of what we mean by "the bottom line" and "fiduciary responsibility": that there are certain intangibles, as Dwight Allison noted twelve years ago, pertaining to social and civic virtues, and that their sustenance and promulgation lies at the core of what a community foundation is all about. To ignore this is to turn a blind eye to the promise and peril of public life.

Missing in Action: The Need for Leadership

There perhaps is no better time than now for The Boston Foundation to use its independence, prestige, and experience and take a stand. The stage is vast—and empty. Public hunger for moral leadership is high; so, too, is public attention on organized philanthropy, equity investing, and corporate citizenship. The convergence of morality and money can be translated into standard-setting for good ownership, good governance, and good citizenship that has positive implications for years to come. As institutional investors, foundations in general—and community foundations, in particular—have come of age. So far, however, they have been missing in action compared to their institutional investor counterparts in the pension fund, mutual fund, insurance, and endowment categories.

. . . Community foundations have not used their owner power to identify corporate under-performers and take the necessary steps to correct matters. They have not participated in various initiatives aimed at strengthening corporate codes of governance and conduct. They have not publicized their position on proxy voting. (In fact, many may not even be aware of proxy ballot issues.) Neither have they filed or co-filed shareholder resolutions on procedural and substantive matters of concern to responsible owners. Few community foundations have screened their investments to assure consistency with their charitable values, even as all have portfolios that incorporate selective criteria. Despite the urgings of knowledgeable professionals over the past twenty years, organized philanthropy is, at best, a reluctant participant in socially responsible or ethical investing. More than ever, this apathetic stance is at odds with the way other investors have chosen to act, and represents a pitiful under-utilization of important financial and civic moral power. And yet, community foundations, should they choose to exert it, are well-positioned to help define the agenda for good ownership, stretching the meaning of "shareholder value" to incorporate normative measures, more so than other institutional investors with lesser civic vision, passions, and commitments. . . .

Select passages from Part One: A Framework for Good Ownership / Good Governance

Although this inquiry has concentrated on the portfolio management policy and practice of The Boston Foundation, a community foundation with a decidedly local orientation, there are broader issues at work and stubborn questions about the scope of civic moral duty. In addition to empirical evidence and argument regarding the use of nonfinancial criteria in investment decision making, the normative focus—indeed, the moral legitimacy of all organized philanthropy derives from this—is on the moral obligations attendant to the accumulation of surplus wealth and how such wealth might advance the well-being of human and ecologic community. This analysis provides insight into various investment tools and techniques that help it do so.

But the civic stewardship ethic proposed here has far broader implications and carries with it assumptions and obligations regarding community that transcend geographic and professional lines. It also recognizes that capital can never be understood as strictly private—that it is part of our common wealth, subject to standards that help to assure community quality, vibrancy, and well-being. Furthermore, the civic stewardship ethic reflects assumptions about the nature of ownership, of private property—that it is, by nature, temporary, to be held in trust or guardianship, subject to similar standards of community decency and vigor.

Certainly, as several interviewees have pointed out, the conditions surrounding this report are buoyed by massive changes in the institutional investment marketplace and the world of charitable trusts and organized philanthropy. But we need to understand that these changes are not disconnected from the lives we live every day, that our investing and giving are the byproduct of our own history, of a cascade of forces—economic and technological globalization, the process of modernization, demographic shifts marked by aging Baby Boomer and even older Private Ryan generations, and the changing role and impact of government oversight and regulation, to name but a few—that have created a world we often do not recognize, a world marked by complexity, the eruption of human passions, and the failure of predictions and general laws to explain where we are, how we got here, and where we are going.

Critics often argue that ethics and moral values have no legitimate role in economic decision making, particularly portfolio management, because they may weaken financial acumen or interfere with positive rates of return, especially regarding corporate equity performance. They claim that equity investments should be judged on the basis of financial performance alone because investors have only equity at risk, and that this equity—indeed, the corporation itself—is a *persona ficta*, lacking a soul. They argue that the best judge of corporate responsibility and character lies either within the marketplace or the legal/regulatory system, and that "do-gooders" should leave well enough alone.

But theirs is not a valid argument. In this day and age, there is a great deal of "free space" between society's laws and the behavior of the market, free space in which corporations and capital do their thing, sometimes to the detriment of those very owners whose equity is at stake, not to mention innocent bystanders with little or no standing in the game. Moreover, neither the marketplace nor the law is adequate to the task of protecting society from the damages which can be inflicted by excessive speculation, potential monopolies or oligopolies created by mergers and acquisitions, or widening gaps between the haves and the have-nots. The American economic pie may be getting bigger and juicier, but it is not sliced evenly.[11] A policy of good ownership / good governance is a small step toward alleviating these dangers.

Although it may provide a glimpse, the market place is not a good gauge of the moral sense of society, nor of its institutions. It cannot help us understand what kind of a world we *want* to live in, what our aspirations are, or how things might be better. In fact, the market place does little to help us maintain our civic moral bearing. It does little to preserve basic fairness, or justice, or truth-telling. It does little to help us aspire to greatness—the stuff of which our democratic way of life, and organized philanthropy (at least in its beginnings) is made. In our American society, the market place is subordinate to our values, and our values are enshrined in our laws and our institutions. Even as our cynicism regarding Big Money and Big Government discourage us from greater participation in civic life, we need to remember, as Microsoft has been reminded by a Federal judge, that the buck stops at the point where profitability swamps the rule of law.

Nevertheless, the newly-globalized consumer economy tends to corrode established ideologies or belief systems, as moral values give way to mercantile values. But corporate profitability and stock price value provide only a partial picture about society's well-being, of the extent, for example, to which human and ecologic dignity or freedom is honored. In this the ninth year of a growth economy, we need to remember that some goods cannot be bought and sold, and that we have a long way to go before our dynamic global economy can produce a decent global life.

The truth of the matter is that investments, particularly equity investments, carry with them responsibilities along with risks and rewards. A corporation's goals, both financial and normative, are achieved by the efforts of people who occupy its various positions. The institutional act and the individual act may have different properties and parentage but they are interrelated and inseparable. Moreover, both corporate and individual actions are grounded in certain principles, reflecting beliefs about what is acceptable and what is taboo. What we now term "corporate culture" is the sum total of all these parts, the dynamic process of daily decision making that come under the spell of the values and convictions, beliefs and preferences, and rites and rituals that are rooted in both individual and collective experience.[12]

A New World Order and Why It's Important

The theme of morality and money runs throughout this inquiry like a silver thread, and with it the recognition that while all politics may be local, our local decisions have larger political meaning on a far wider scale. More than an abstraction, the decisions that The Boston Foundation makes about its money has a moral multiplier effect on other actors, particularly those within the global economic community. The effect runs the other way, too: The Boston Foundation already has experienced some of the fallout from globalization, as indigenous corporations once generous in their local grantmaking have become less inclined to sustain their charitable commitments when mergers or acquisitions have shifted headquarters to another town. Stakeholder theory and community loyalties take a backseat to the new vérités of mega-mergers and corporate consolidation—particularly within the banking industry, despite the Community Reinvestment Act—which often leave corporations virtually untethered from any geographic location or place to call home.

The result: Fewer community loyalties—and greater community petition for fewer charitable dollars generated by fewer corporate citizens. One could argue that this harsh scenario places an even greater moral imperative on The Boston Foundation as an equity owner to assure that corporate civic duty is fulfilled, however—and wherever—it is defined.[13] To do otherwise is to contradict the very bedrock of its moral identity.

Capitalist Markets, Corporate Oligopolies, and the Challenge to Civic Stewardship

The power of information technology and the global capitalist market has created a situation that has simultaneously unified and fragmented our world. It is a market with few transnational restraints, one capable of revealing its darker side as the collapse of regional economies and discussion of global financial architecture attest. Yet the moral implications of global capital flows and financial crises have yet to be constructively addressed. The present system fails to protect those billions of people who are hurt the most and have played no part in the speculative schemes of those individuals, banks, corporations and governments with far less to lose.[14]

One could make the argument that the problem with world poverty is not so much the problem of capital inequalities, but of the failure of governments and market economies to alleviate it. All too often, sovereignty is an excuse to maintain poverty and political disorder, thus assuring the obduracy of the reigning elite. Economic development, in these instances, is seen as a threat, a ticket to freedom that can topple ideological regimes. And yet, economic development, as traditionally defined, has given way to the new global market realities, in which a handful of financial players make determinations as to whether local economies are successful or not, or whether trade policies can enhance domestic production. This poses a dilemma of accountability, one that many experts believe only can be resolved through the creation of international financial architecture.[15] . . .

What Maketh a Community Foundation?

Accompanying these macro-changes are questions about the role and definition of community and what it means to be a community foundation. Carried with this are questions regarding the purpose, role, and responsibilities of being a trustee or director.

Closer to home, the efforts of the past few months are but the latest in a line of Board initiatives aimed at tightening the connection between the charitable values governing the Foundation's grantmaking with the financial values governing the management of its assets. Yet in contrast to earlier attempts, a variety of forces now position The Boston Foundation to assume a mantle of leadership that brings its investment practices into fuller alignment with its charitable mission, while serving as a beacon to other community foundations to do the same. By doing so, The Boston Foundation can cultivate greater institutional integrity and a model of civic stewardship that assures the prudent performance of its investment portfolio in accordance with solid principles of capital ownership and democratic pluralism.

The civic stewardship ethic is a covenant, not a contract. Its covenantal expression constitutes a conditional commitment to a set of first-order civic and environmental ideals, a commitment that is mutually agreed to, voluntary, periodically renewed, and aimed at a form of interdependent prosperity and a greater civic good.

What It Is

The civic stewardship ethic proposed here, put simply, is about good citizenship in a liberal democratic society. It is about the use of private economic power in the public interest. It recognizes the benefits and limits of technology and capital markets as well as the fact that some goods cannot be bought and sold. It is both pragmatic and prophetic: pragmatic in its recognition of the complex and always-changing relationship between business and society, prophetic in its vision of both business and society as advancing the common good—even as there are reasonable disagreements over what, exactly, "the common good" means. Similar to the job of judging in that it relies on *public reason* as well as moral and economic engagement—and a public discourse that appeals to underlying, contrary perceptions of "the good life"—a civic stewardship ethic possesses a mutual *respect* for these disagreements, leaving room for conversation, justification, bearing witness, and overlapping consensus. It ties together different families of values—often rooted in constitutional, moral, or natural law—as it works its way into decisions about money.

The civic stewardship ethic is a covenant, not a contract. Its covenantal expression constitutes a conditional commitment to a set of first-order civic and environmental ideals, a commitment that is mutually agreed to, voluntary, periodically renewed, and aimed at a form of interdependent prosperity and a greater civic good. Put another way, the civic stewardship ethic and its covenantal expression is a deal (but unlike the investment banking kind), a promise held by The Boston

Foundation, its donors, and its grantees that acknowledges the complex web of interdependence and reciprocal influence, of giving and receiving, aimed at the creation of a better world.

The civic stewardship ethic also emphasizes the *polis*, and with it the duties and benefits of citizenship. Similar to philanthropy, it is grounded in certain values and beliefs about the good life that are important to individuals and groups. It is acted out in civil society as these individuals and groups attempt to pursue these values and beliefs and, by extension, the good life. Again, this is the stuff of dynamic citizenship. Indeed, it is the bedrock of a vibrant community, which is fitting and proper for a community foundation to support. For, at the end of the day, The Boston Foundation and its constituent parts—donors, grantees, staff, Board members—are all citizens, even if not all citizens are donors, grantees, staff, or Board members.

What It Looks Like

Because the civic stewardship ethic is a covenant and not a contract or bargain, it can be distinguished from other, more legalistic, forms of agreement. For example, a covenant directly confronts a future unknown; as such, it is forward-looking and prophetic, rather than past- or present-oriented. It is a relationship to a set of ideals that recognizes the need for different levels of accountability, rather than something which can be broken and renegotiated when one party has a grievance, or has violated a law or regulation. Because it is prophetic, it is aimed at a desirable state of being rather than strictly focused on compliance and avoiding injury. Its essence is affirmative and grounded in faith, fidelity, and trust; it unfolds under the tension between promise and fulfillment. By contrast, the contractual relationship is proscriptive and based on mistrust, fear, and suspicion; it unfolds under the tension between skepticism and security.

Legal systems assure the validity of contractual relationships; social and moral systems provide their legitimacy. Political and regulatory systems establish the conditions and terms of contractual relationships. Social and moral systems fill them with meaning. Covenantal relationships are rooted in social and moral—especially religious—systems. Contractual relationships are rooted in law. In our capital markets, all of these systems come into play. A civic stewardship ethic recognizes the different roles, functions, and limits played by each—Janet Reno, for example, has an arsenal at her disposal to affect Microsoft's behavior that is quite different from institutional investors'—yet draws sustenance from freely-given allegiance to ideals that transcend them. A civic stewardship ethic and its covenantal expression are living things, the potent fires of interpreted vision. As such, they cannot be taken for granted and, to remain fresh and vibrant, need to be periodically rekindled and received, lest baser passions snuff them out.

How It Operates

The civic stewardship ethic proposed for The Boston Foundation seeks to extend the transcendent ideals of policy and program to the care and feeding of the endowment. Once the Board declares its commitment, the proposed ethic becomes interpreted and enacted through use of existing services, financial techniques, and technological / Internet tools, affecting the Foundation's investment, management, and oversight of its financial capital. More specifically, it is expressed in decisions about investment selection, the role of the Foundation as a shareowner, and the use of alternative or "creative" investments. Enactment of a civic stewardship ethic begins with asking questions such as:

- *What values lie at the core of our institutional mission?*

- *How do we provide public justification and bear witness to these values in our grantmaking? Our fundraising? Our investments?*
- *Have we fully utilized our power as an institutional investor to assure promotion of those values we hold dear? If not, how might we do a better job?*
- *What standards or "best practices" can we look to for inspiration and guidance?*
- *How do we keep ourselves current—and honest?*

Families of Values

Ten years ago I conducted a study for the Council on Foundations that examined the moral values embedded in organized philanthropy. In addition to surveying various programs around the country that constituted the burgeoning "ethics industry," I interviewed forty-four foundation trustees, presidents, and vice-presidents affiliated with independent, community, corporate, and family foundations about the principles lying at the heart of their craft. Entitled *Moral Values, Philanthropy and Public Life: Recasting the Connections*, the idea was to explore the moral environment (both public and private) of grantmaking, the ethical dilemmas facing staff, and, as Jim Joseph wrote in his foreword, "the need to examine the ideals and imperatives that drive foundation decisions."[16] The result was a multifaceted portrait of a profession-in-process.

A major dimension of my analysis was to understand the interplay between the core values of philanthropy and their connection to both philanthropy's decision-making apparatus and, more importantly, public life. What philanthropy's leaders said then can be used in interpreting what The Boston Foundation stands for today. "One theme underlying peoples' response to [the question of philanthropy's core values] was the issue of whether or not philanthropy is a community that shares a set of beliefs about itself," I wrote.

> The presence or absence of shared background beliefs affects the informational context, and therefore the meaning, of words. Language follows experience in an attempt to classify or name it. Words can mean different things to different people or they can refer to things held in common. While the "language of philanthropy" may be somewhat unclear, there were patterns in the answers. In presenting these patterns, a reformulation of the language of virtue is used. The conversation, however, about core values needs to continue so that a shared set of beliefs and language might emerge.
>
> In the judgment of those who were interviewed, the core values of philanthropy center around *love, hope, freedom, equality, truth, prudence, justice, valor,* and *temperance.* While each has many related qualities, these nine values help describe what grantmakers consider precious to their work.[17]

Like cut diamonds, each of these primary values has many faces which are prismatic in the light they cast. Because of this, I realized then and maintain here that one needs to think about *families of values* because no value is an island unto itself. "Justice," for example, is not simply "fairness"; as John Rawls has taught us, there are different notions of justice that embrace a whole family of values, including "opportunity" and "equity." Similarly, "freedom" is related to a family of values that include, for our purposes, not only the capacity of philanthropy to carry out its mission autonomously and its role in preserving "freedom" in society, but also the responsibility for releasing potential in others, enabling them to achieve their freedom, or independence, too. "This quality of empowerment and the positive enjoyment of certain rights and privileges—indeed, the presence of the power of choice—were viewed as important goods within a democratic society as well as important goods within philanthropy. This connection to the democratic tradition evokes the term 'liberty,' especially as it applies to private initiative."[18]

Another prime value cited by respondents in 1989 was "equality," a member of the family of values that include "dignity" and "diversity." Philanthropy's role in promoting "equality" is well-documented, yet it has different meanings. For some, "equality" means "equitable treatment." For others, it means a "reduction of dominance." Related to both is recognition of the "dignity" of every person. For most people, this means that "diversity" also is important—as applied to people, institutions, and points of view.

Cultivation of this civic stewardship ethic is legal, financially sound, and consistent with The Boston Foundation's long-term goals. It also can markedly advance the Foundation's agenda of service to community, of moral agency, in ways that fulfill the covenant articulated by John Winthrop over 370 years ago—and equip contemporary institutional investors with a model of practice extending well into the century to come.

Notes

[1] The lexicon of private-equity placements varies, and includes terms such as "alternative investments," "economically-targeted investments" (ETIs), "program-related investments" (PRIs), "community investing," and "social venture capital." I am using the phrase "creative investments" to suggest both innovation and civic responsibility in financial product design. "Creative investing" was first coined, however, in 1969 by Charles W. Powers and Jon P. Gunnemann in their landmark article for the *Christian Century* entitled "Institutions, Investments and Integrity." They use "creative investing to characterize financial investments made "in slums, urban development, housing development, black banks, seed money for private projects, and so forth." Powers and Gunnemann were Yale graduate students at the time, and were influenced by the cultural turmoil that surrounded them—including, perhaps, one of organized philanthropy's all-time most important and far-reaching initiatives: The Ford Foundation's massive and ambitious Gray Areas Project, a product of the venturesome spirit of Paul Ylvisaker, which later was to serve as the blueprint for the War on Poverty. A hotbed of political action and community organizing, New Haven was a 1962 entry into the Gray Areas program, in which the creative use of philanthropic capital was employed in a ground-level, systematic attack on the barriers to advancement experienced by those whom Gunnemann and Powers described as "outside the mainstream of American economic life." *Christian Century*, January 29, 1969, 145–146.

[2] According to a report in *Wall Street Journal*, Bogle called mutual funds "the controlling force in corporate America" because mutual fund managers own 35 percent of all corporate stocks, including pension and endowment assets. He also sharply criticized the industry for neglecting "to live up to their responsibility of corporate citizenship," particularly because managers have failed to use their proxy voting power to oppose management on issues such as excessive stock-option issuance, option repricing, and earnings that are distorted by accounting gimmicks. In a speech to the Investment Company Institute, a prominent mutual fund professional association, Bogle called for the ICI to take the lead in promoting corporate governance as an issue, perhaps through a roundtable or forum. He praised the efforts of state and local pension funds, and TIAA-CREF, in doing so, and noted that Vanguard has a staff of five that reviews proxies and regularly votes against management initiatives such as stock-option plans viewed as heavily dilutive to existing shareholders, as well as certain types of anti-takeover corporate defenses. After Fidelity, Vanguard Group is the second largest mutual fund company in the world, with $500 billion in assets under management. See Robert McGough and Pui-Wing Tam, "Fund Track: Bogle Urges Role in Corporate Governance," *Wall Street Journal*, October 21, 1999.

[3] The analysis of income disparities, released by the Washington-based Center on Budget and Policy Priorities, was reported by David Cay Johnston in "Gap between Rich and Poor Found Substantially Wider," *New York Times*, September 5, 1999. One of the primary reasons given for the income gap is the cumulative effect of tax cuts since 1977, which changed Federal income tax brackets. Another one that is not cited in the Center's report is the fact reported by IRS that two-thirds of Americans earned less than $40,000 in 1997 and that income growth is mostly at the

top of the income ladder. According to Edward N. Wolff, NYU economist, only 43.3 percent of all households owned any stock in 1997, the most recent year for which data are available. Of these, many portfolios were relatively small. See Jacob M. Schlesinger, “Wealth Gap Grows: Why Does It Matter?” *Wall Street Journal*, September 13, 1999. Although not yet an issue on the public agenda, many analysts see signs of rising class resentment at this growing affluence gap, not because of an outburst of liberal zeal or compassion for the poor but because they see surplus wealth being accumulated—particularly in the form of hefty wage packages featuring a generous dose of stock options and other benefits out of reach to the average American—by those whose efforts seem not to justify it. As noted sociologist Alan Wolfe pointed out in a recent *New York Times* op-ed piece entitled “The New Politics of Inequality,” his research into American attitudes about values includes the finding that Americans will accept other people’s good fortune depending upon how they made their money. Middle-class Americans around the country “did not like welfare recipients because they did not think their income was properly earned. In a similar way, excessive C.E.O. salaries and stock options bothered the people I interviewed because such rewards have become disconnected from the efforts that go into earning them. . . . There is something that politicians of both parties can do about this issue: they can speak out about it. On the subject of economic justice, a little rhetoric can go a long way.” September 22, 1999.

[4] In August, Microsoft founder Bill Gates and his wife, Melinda, upgraded the assets of their Seattle-based foundation by $6 billion, bringing its total worth to $17.1 billion, putting the foundation well ahead of the nation’s second largest, the $13 billion David and Lucile Packard Foundation in Los Altos, California. (The Wellcome Trust in London is the world’s biggest foundation, with assets of $19.2 billion.) See Jennifer Moore, “Gift Makes Gates Fund No. 1 in U.S.,” *Chronicle of Philanthropy*, 26 August 1999. Meanwhile, in September, the $1 billion Gates Millennium Scholarship, a program providing college scholarships for minority students over the next 20 years, was announced; it represents one of the largest philanthropic gifts ever made and will be administered by the United Negro College Fund.

[5] After the Gates’s gift, on 22 September 1999, Eli Broad, the chairman of Sun America, a Los Angeles-based financial services company, announced his intent to set aside $100 million for urban school systems, primarily to help train superintendents, principals, and staff. This act is but the latest in a recent round of interest in beefing up the nation’s educational capacity. Inspired by Eugene Lang, a New York philanthropist whose I Have a Dream Foundation adopted 54 sixth-graders at a Harlem school in 1981 and promised to send them to college, other philanthropists stepping up to the learning plate include Walter H. Annenberg, whose contributions to public education have exceeded $800 million since 1993; filmmaker George Lucas, whose George Lucas Educational Foundation has spent $10 million since 1991 helping elementary and secondary school teachers; Leonard Riggio, the chairman of Barnes & Noble, who has launched a campaign to raise $10 million to benefit Brooklyn Technical High School, his alma mater; and leveraged buyout king Theodore J. Forstmann, who, with Wal-Mart heir John T. Walton, last year committed $50 million to a $200 million venture called the Children’s Scholarship Fund that would provide support for at least 40,000 inner-city school children to attend parochial and private schools over the next four years. According to Forstmann, the aim of the Children’s Scholarship Fund is to serve as a wake-up call that would force improvement in the public schools. See Jacques Steinberg, “Nation’s Wealthy, Seeing a Void, Take Steps to Aid Public Schools,” *New York Times*, September 23, 1999.

[6] The Guidestar project is a major step forward in public accountability for nonprofits, and is a primary byproduct of years of copious and dedicated research carried out by Dr. Virginia Hodgkinson, a founder of the National Center for Charitable Statistics in Washington and former vice president of research at Independent Sector. The Internet posting of these Form 990 IRS returns makes available such detailed information as how much of the money an organization raised goes directly to charitable services and how much goes to pay salaries of senior officers, directors, and consultants. Also included is information about the sources of revenue (donations, fees, or government grants), a listing of an organization’s debts and investments, and overhead and fundraising costs. Some charities have already posted their 990s on the Internet, most notably the California Community Foundation; the attorneys general of California, Minnesota, and 13 other states have begun posting 990s and similar reports by charities in their states. Over the past two years, The Ford Foundation, Rockefeller Brothers Fund, Mellon, Kellogg, and other foundations have supported the efforts of a group called Philanthropic Research to have each line on every Form 990 keypunched into a data base. According to a report in the *New York Times*, Philanthropic Research must raise $2 million a year to continue this data entry process until the IRS accepts electronically filed reports from charities, now scheduled for 2007.

[7] Peter F. Drucker, “The Rise, Fall and Return of Pluralism,” *Wall Street Journal*, June 1, 1999.

[8] Before her death in 1992, Judith Shklar invigorated our understanding of American politics and government with her trenchant insights into the contradictions between official claims of equal citizenship and the reality experienced by most who were denied it. In *American Citizenship: The Quest for Inclusion*, she moves beyond three other distinct meanings of citizenship (including active participation or “good” citizenship, ideal republican citizenship, and ‘citizenship as nationality’ (legal recognition accompanied by various social exclusions and inclusions, “in which

xenophobia, racism, religious bigotry, and fear of alien conspiracies have played their part") and introduces the concept of 'citizenship as public standing, manifest by its two 'great emblems': the vote and the opportunity to earn a living. "The American Constitution does not mention citizenship at all until the Fourteenth Amendment, but Americans had quite clear ideas about what the social meaning of citizenship was, and when they were denied it, they protested. … What has been continuous is a series of conflicts arising from enduring anti-liberal dispositions that have regularly asserted themselves, often very successfully, against the promise of equal political rights contained in the Declaration of Independence and its successors, the three Civil War amendments. It is because slavery, racism, nativism, and sexism, often institutionalized in exclusionary and discriminatory laws and practices, have been and still are arrayed against the officially accepted claims of equal citizenship that there is a real pattern to be discerned in the tortuous development of American ideas of citizenship. If there is permanence here, it is one of lasting conflicting claims." See Judith Shklar, *American Citizenship: The Quest for Inclusion,* The Tanner Lectures on Human Values (Cambridge and London: Harvard University Press, 1991), 2, 13–15.

[9] Some precedent exists with what is known as "program-related investing," an approach that originated in the late 1960s with Mitchell Sviridoff and the Ford Foundation. Before becoming vice-president of Ford, Sviridoff had participated in Ford's Gray Areas Program, a community development project initiated by Paul Ylvisaker, then director of Ford's Public Affairs Program. The Gray Areas Program, which ran through the early- and mid-1960s, was widely viewed as the prototype for the federal government's antipoverty programs of the 1960s and 1970s. When he left Ford in the late 1970s, Sviridoff exported the idea for program-related investing to found the Local Initiatives Support Corporation ["LISC"], the nation's largest source of capital for community development corporations, in 1979. For a treatment of the interplay between organized philanthropy and American cities in the 1960s and after the 1992 Los Angeles riots, see Marcy Murninghan, *Undimmed by Human Tears: American Cities, Philanthropy, and the Civic Ideal* (Washington, D.C.: The Council on Foundations, 1992).

[10] Paul Ylvisaker, *Small Can Be Effective* (Washington, D.C.: Council on Foundations, 1989). Earlier this year, a select compendium of Ylvisaker's writings and speeches, spanning his years as a graduate student in political economy at Harvard; then in 1949 his time teaching at Swarthmore College; followed by a tour of duty working with Philadelphia mayor Joe Clark in the mid-1950s; then on to the Ford Foundation in 1957 where he served for 10 years, leaving an indelible mark on organized philanthropy and public life; after that, following an unsuccessful power struggle with McGeorge Bundy, leaving Ford in 1967 to go to New Jersey, where he served as Commissioner of Community Affairs (a newly formed office established by governor Richard Hughes) through highly-polarized, racially-tense times; then back to Harvard's Graduate School of Education, where he served as dean from 1972 until 1982; and his later years, until his death in March 1992, when he served as philanthropy's senior statesman, were republished in *Conscience & Community: The Legacy of Paul Ylvisaker*, Virginia M. Esposito, ed. (New York: Peter Lang Publishing, Inc., 1999).

[11] In spite of the strong economy and the lowest unemployment rate in 30 years, according to the Census Bureau's 1998 annual report on trends in American wages, income inequality remains intractable; among blacks, incomes failed to rise and the poverty rate failed to fall, as both had in 1997. While rising incomes brought 1.1 million poor Americans out of poverty in 1998, and the percentage of people still below the official poverty line fell to its lowest level since 1989, the gap between the rich and the poor, and between the rich and middle-income Americans, failed to narrow. Whether half full or half empty, the cup of prosperity has yet to quench the thirst of inequality—or assuage simmering class resentments. See Louis Uchitelle, "Rising Incomes Lift 1.1 Million Out of Poverty," *New York Times*, Oct. 1, 1999. Meanwhile, another recent study of income disparities among American households released by the Center on Budget and Policy Priorities reveals that the gap between rich and poor has become a chasm: this year, the richest 2.7 million Americans (the top one percent) will have as many after-tax dollars to spend as the bottom 100 million. See David Cay Johnston, "Gap Between Rich and Poor Found Substantially Wider," *New York Times*, Sept. 5, 1999.

[12] The term "corporate culture" was added to our lexicon by scholar/practitioners Allan A. Kennedy and Terrence E. Deal. In 1982 *Corporate Cultures: Rites and Rituals of Corporate Life* (Reading, Mass.: Addison-Wesley Publishing Company) provided a template for interpreting corporate character and behavior, with shared values—and adherence to them—at its core. They claimed that the most important part of a manager's job is shaping and enhancing values, and that successful companies are those possessing three characteristics: (1) the company stands for something (meaning the company has an explicit philosophy regarding the conduct of its business affairs); (2) management pays a great deal of attention to fine-tuning corporate values to conform to economic and business realities and then communicates them to the organization; and (3) the values are widely known and shared by all who work for the company, throughout the hierarchies (Deal and Kennedy, 22). They conclude with both a forecast and prescription: the future world of business will be marked by radically decentralized atomized organizations, and will require new management models that can hold the units together in a productive whole (remember, this is 1982). Building strong corporate cultures, they wrote, "is one of the fundamental tasks of the next decade" (195). They cite three examples of organizations where the tension

between atomization and shared purpose has been managed well: McDonalds, the U.S. Forest Service, and the Roman Catholic Church. They end by stating that strong corporate cultures can see companies and large organizations through diverse and changing circumstances. "When times are tough, these companies can reach deeply into their shared values and beliefs for the truth and courage to see them through. When new challenges arise, they can adjust. This is exactly what companies are going to have to do as we begin to experience a revolution in the structure of modern organizations" (196). Seventeen years later, Deal and Kennedy published a sequel to *Corporate Cultures* that reflects changes occurring in the business environment since their earlier work. In *The New Corporate Cultures* (Perseus Books: 1999), Deal and Kennedy examine the effects of corporate downsizing, merging, outsourcing, and reengineering, and show that corporate culture has taken a beating with mixed results. "Some projects succeed admirably; others, perhaps even the majority, fail to realize the benefits they set out to achieve…no one would argue that the human costs have not been enormous." They acknowledge a reality all too familiar to workers who have been laid off: Employee loyalty and strong corporate cultures provide no immunity to the decisions of dealmakers motivated by the thrill of pursuit and the promise of quick profits. They turn their attention to an important dimension virtually untouched by the thousands of tomes in the management literature: the role and responsibility of shareholders whose value corporate executives claim to enhance.

[13] In July, the *Chronicle of Philanthropy* reported in its survey of 62 companies that charitable giving for 1999 is expected to decline, with total cash contributions increasing by only 6.1 percent. (Over the past two years, charitable giving grew by 14.2 percent.) A decline in the growth of corporate earnings is one culprit. Respondent companies reported that 1997-98 pre-tax profits increased, on average, by 9.2 percent, whereas from 1996 to 1997 they had increased by 11 percent. Meanwhile, giving as a percentage of pre-tax profits remains flat, and is expected to be 0.9 percent, the same percentage of their previous year's earnings in both 1997 and 1998. See Debra E. Blum and Harvy Lipman, "Corporate Giving's Growth Slows," *Chronicle of Philanthropy*, July 15, 1999.

[14] One voice of moral urgency calling for restorative measures is Princeton economist Alan S. Blinder, who proposes a plan for reducing the deleterious impact of global financial excesses on billions of innocent bystanders in "Eight Steps to a New Financial Order," *Foreign Affairs* (September/October 1999), 50–63.

[15] The global financial turmoil that began in Thailand in July 1997—later sweeping through Indonesia, South Korea, Malaysia, the Philippines, Hong Kong, Russia, and Brazil, as well as a host of other developing countries—has caused many in the international community to evaluate the institutions, structures, and policies currently in place, and to examine the need for reform of the international financial system. The Council on Foreign Relations thus sponsored the Independent Task Force on the Future of the International Financial Architecture, co-chaired by Peter G. Peterson, chairman of both the Council and the Blackstone Group and secretary of commerce during the Nixon administration, and Carla A. Hills, CEO of Hills & Co. and U.S. Trade Representative during the Bush administration. Serving as project director and author of the final report was Morris Goldstein, former deputy director of research at the International Monetary Fund and currently a senior fellow at the Institute for International Economics. Among its recommendations: the use of incentives to encourage emerging market economies to intensify their crisis prevention efforts; a more equitable burden-sharing among private creditors, official debtors, and official creditors when a crisis does occur; and a refocusing of IMF and World Bank mandates to better suit their capabilities—i.e., smaller and less-frequent official bailouts. An edited executive summary of the task force report appears in the November/December 1999 issue of *Foreign Affairs*. A full-length version of the report and its dissents can be found on the Council's Website at www.cfr.org.

[16] James A. Joseph, "Foreword," in Marcy Murninghan, *Moral Values, Philanthropy, and Public Life: Recasting the Connections* (Washington, D.C.: Council on Foundations, 1989). Community foundation leaders included in the study included those representing The Boston Foundation, the New Haven Foundation, the Dade Community Foundation, the Cleveland Foundation, the Northwest Area Foundation, and the New Hampshire Charitable Fund.

[17] Ibid., 24–25.

[18] Ibid., 25–26.