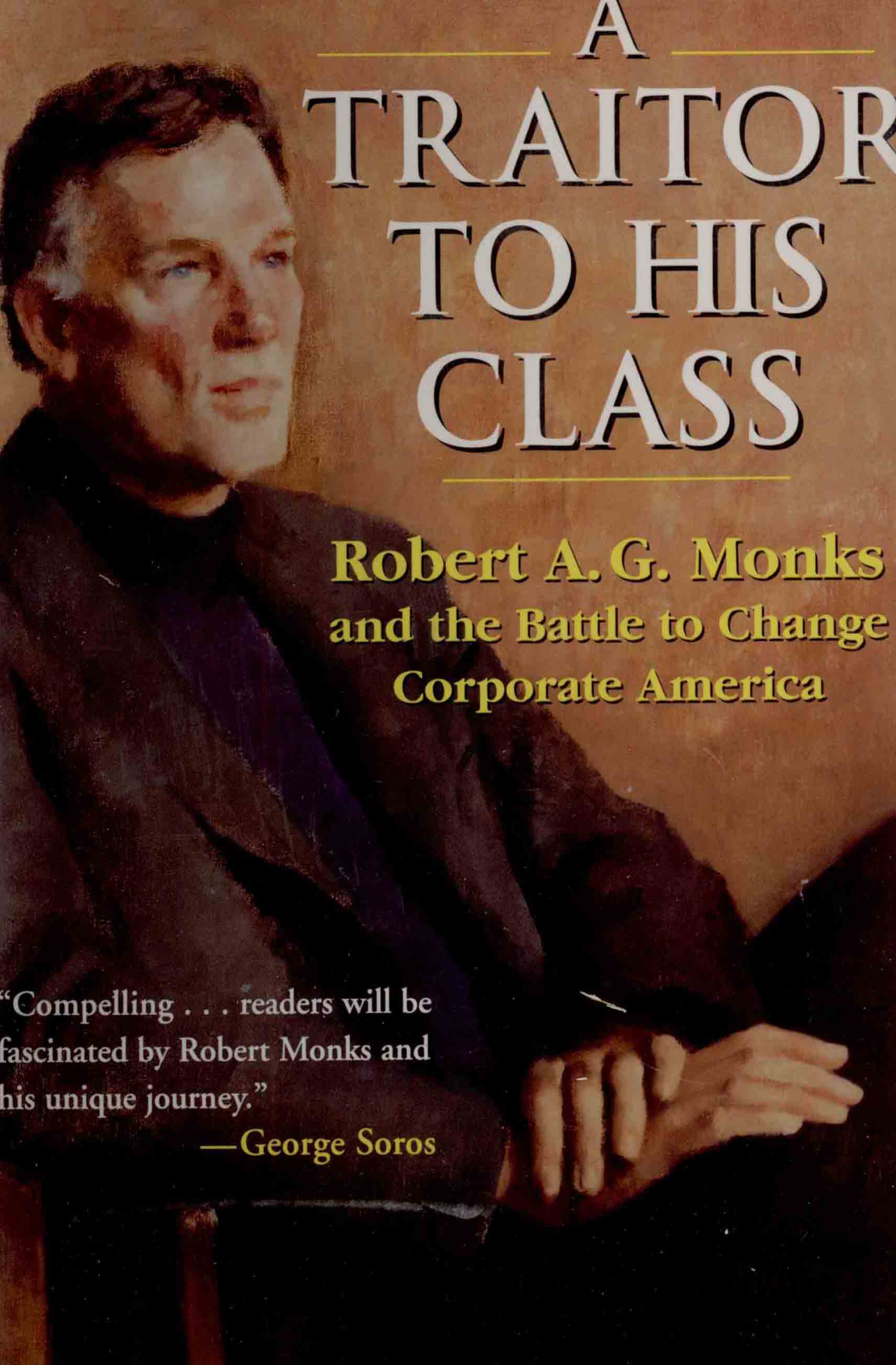




A TRAITOR TO HIS CLASS

**Robert A. G. Monks
and the Battle to Change
Corporate America**

"Compelling . . . readers will be
fascinated by Robert Monks and
his unique journey."

—George Soros

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ROBERT A.G. MONKS AND THE BATTLE
TO CHANGE CORPORATE AMERICA

HILARY ROSENBERG



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Introduction

The chief executive officer of Stone & Webster, the old-line engineering firm, had just finished the annual exercise of touting the year's accomplishments to a packed shareholders' meeting in a Wilmington, Delaware, hotel ballroom. When he finally opened the floor to comments, a man in the back raised his hand and was called on. Dressed in a dark suit and conservative tie, hair neatly combed back, he appeared to be just another in the legions of investment managers doing his fiduciary duty by attending yet another annual meeting. The man stood up and took a microphone that had been handed him. And when those in the ballroom recognized him, they fell into a respectful silence.

"Listening to the president," he began in a steady voice. "I kept wondering, when is he going to commit this company to create value for shareholders? A day late and a dollar short? No. A year late and \$60 million short. Please, Mr. CEO, make yourself accountable. When are you going to achieve these things?"

He approached the front of the room to direct questions to the three nominees to the board who were seated in the first few rows. As he came nearer, his six-foot-six frame loomed menacingly. The chairman of the board, eyebrows raised, stopped him by thrusting out his hand, and then, pointing to a microphone stand in the middle aisle, said, "I don't think we'll be sharing the podium with you. I am the chairman of this meeting, and I am going to control it. Why don't you stand back there before we get too close together?"

Somehow, this interloper talked the chairman into letting him stand at the front, but all the way to the left of the crowd, without a microphone. But he did not need one. His resonant voice carried to the back of the hall.

Still, as he usually does, the man in the dark suit got a bit too close for comfort that sunny day in May 1995. Although he did not share the podium, he, or more exactly his investment fund, the Lens fund, managed

to win 36 percent of all votes cast for a proxy resolution to hire an investment bank to study the idea of selling part or all of the underperforming company—an impressive result for a shareholder-sponsored resolution.

That tall man in his mid 60s does not fit most people's stereotype of a social activist. But then again, most people have not met Robert A.G. Monks. Born into privilege—a New England family whose fortune stretches back more than three generations—including greatly multiplying his wealth through shrewd investing as a young man, he could have worked little and lived in luxury. Instead, he chose to use his wealth and social position to wage a guerrilla war on big business. The goal: nothing less than to make corporate America answerable both to its owners and, in accomplishing that, to society at large.

Both the goal and the tactics he employs to attain it are controversial. Critics have branded Monks a publicity-seeking gadfly who has hurt corporations by hounding managements or encouraging big investors to rally behind hostile takeovers. Many people have misread Monks' campaign as merely an effort to make a quick buck for big investors by urging companies to take such drastic actions as laying off thousands of employees or divesting businesses in one fell swoop. But, after years of work in business, investments, and politics—including three runs for the U.S. Senate—Monks has developed a leather skin that wears surprisingly well under constant disparagement of his work. Besides, he has found vast encouragement in the change that he and his disciples have helped bring about at U.S. corporations and in the shareholder activist movement's progress abroad—not to mention the kudos he has won from many admirers. Today, institutional investors in the United States, including pension funds, own almost 50 percent of corporate America's equities, and due in great part to Monks' efforts, many of the largest public pension funds and investment managers have learned how to flex their muscles and throw a mean punch as shareholders of corporations. There are now many instances of big shareholders driving change at troubled or mediocre companies, and in more than a few cases driving the CEOs out. What is more, corporate managements and boards of directors are increasingly attentive to their shareholders' wants and needs—which include having boards that are independent from management and are therefore trustworthy monitors of management.

Missionaries can be found in every field of endeavor from charitable works to science to politics. In the business world, a person with a mission might be a CEO who strives for his or her company's continued prosperity

or an investor building a track record and a fortune or a labor leader out to improve the lot of workers. Business world activist Monks has a broad agenda that he and his longtime partner Nell Minow have tried to communicate in the books and articles they have written: They would like their efforts to help cure some of the ills of society. What Monks is trying to do is to make the point—one case at a time—that companies need to be accountable to someone and that someone must be its shareholders. Since increasingly those shareholders are big institutional investors such as pension funds and mutual funds that represent millions of citizens with long-term goals, accountability to owners becomes, in his view, the same thing as accountability to society. Once institutional investors learn that they have to serve their constituency as the major owners of U.S. businesses, Monks reasons, they will have to demand that those businesses do more than make money; they also must, for example, maintain a clean environment and good working conditions for their employees around the world. “In the same way my owners are going to require the board to maximize profits, they are also going to hold them to other standards,” Monks says. Those other standards may be nonprofit oriented, but they will be essential to the shareholders.

Certainly, Monks has not been the sole patriarch of shareholder activism and corporate governance in the United States. He himself gives great credit to the late Jesse Unruh, the former California Treasurer, corporate adviser Ira Millstein, former California pension fund chief Dale Hanson, and money manager Dean LeBaron, among others. But, he also does not hesitate to give himself a great portion of credit as a leader in the field. And some prominent figures in the investment community name him as the most influential figure of the movement. John Wilcox, chairman of the New York proxy solicitation firm Georgeson & Co., who has worked both for and against Monks in a number of shareholder campaigns challenging corporate managements, unabashedly calls him “a Jesus Christ of the activism movement—a kind of messiah.” Richard Schlefer, investment officer at the nation’s largest pension fund, the Teachers Insurance and Annuity Association—College Retirement Equities Fund, says that Monks is “Number 1” in corporate governance and that “without him, there wouldn’t be the kind of corporate governance activity, particularly by institutions, that we have today.” Richard Koppes, general counsel of the California Public Employee Retirement System in the 1980s, remarks: “I really view him as the grandfather of the movement. He was out there long before Dale and I.” Al Sommer, a former commissioner of the Securities and

Exchange Commission (SEC), declares, "If I had to choose one person who's had singular impact, I'd have to say Bob Monks. He's been a crusader, a burr under the saddle of corporate management, a maverick." Finally, Anne Hanson, deputy director of the 110-member Council of Institutional Investors, says, "It is his name that pops up first when you think of the founders of the shareholder activist movement."

Monks is one of the few if not the only leader in this movement who both helped lay the groundwork for its development and has stayed with it to prod its momentum over the years. For the past 15 years, he has devoted nearly all his energies to the mission of improving corporate governance in this country. And before that he spent several years thinking deeply on the subject. He read the works of those who have pondered the modern corporation and its role in society, including Louis Brandeis, Frederick Hayek, James Willard Hurst, and Adolphe Berle and Gardiner Means, who first recognized that the dispersion of small shareholders in modern corporations separated ownership from control, which by default went to management. At the same time, he wrote long essays and letters to friends to clarify his thoughts and find the best way to approach the problem.

How Monks became so effective a reformer is really the story of a life. Unlike other protagonists in this story, generally institutional investors or corporate attorneys, Monks hails from a varied background as a businessman, venture capitalist, corporate lawyer, politician, and regulator. His character is similarly multi-faceted. He is an intellectual with a fascination for history and a highly logical mind. While he is a member of an old-line wealthy family with an appreciation for the power of money, he is also a minister's son with a need for spirituality and a desire to do some sort of public service. So, to him, the possession of wealth means he can satisfy these cravings: live well and make his mark in public service, as a regulator or entrepreneur working in the interest of bettering corporations. He likes having the security of money in the bank—he says his net worth is in the tens of millions—and he likes the luxuries—two beautiful homes in Maine, a Palm Beach retreat, land, and travel. But, for all his wealth, Monks is not a man of many indulgences. In fact, he prefers an old Jeep to a luxury car, comfortable clothes to spiffy suits, and he is more likely than not to leave a dinner table with a spot on his tie or shirt.

As a businessman, Monks is personable, but calculating, and gets impatient when things do not go his way. He has been known to hold a grudge against those who have stood in his path or not returned favors. As

a negotiator, he can be crafty, annoyingly persistent, or even a bully using threats to get his way. He can use his size to his advantage—just by standing up. Once, he even picked up financier Sanford Weill and threatened to throw him out a window, though apparently in jest. But with friends, he is engaging and inquisitive, telling stories with a talent for pulling apt analogies out of the air, and finishing them with a deep, infectious laugh. His mood is often one of general enthusiasm, and he usually sees any glass as half full rather than half empty. “He’ll walk in here with a big smile: ‘Let’s see what we can do to stir things up!’” says his friend and fellow Mainer William Cohen, who is now the Secretary of Defense. Business associates genuinely like Monks, though some find his tendency to show concern for them hard to believe. “He can make you think more of yourself and your abilities than you ever thought,” says Jamie Heard, who once headed Institutional Shareholder Services, which Monks founded. “Sometimes I feel, ‘He really believes in me, I should believe more in myself.’ Other times I think he’s buttering me up because he wants me to do something for him.”

Earlier corporate gadflies—Louis and John Gilbert and Evelyn Davis are the best known—were outsiders viewed as eccentric. Monks, on the other hand, is an insider in terms of his background, education, wealth, Republican politics, and professional credentials. Says his friend and fellow activist Alan Kahn: “The analogy is Franklin Delano Roosevelt. He was an American patrician, born to wealth, who by all reason should have been conservative, Republican, a protector of property rights, whereas all the liberals were looked on as radical fringe, quasi nuts. He became the champion for the liberal cause. Bob Monks has become the champion for corporate establishment to make change.” Others, too, refer to Roosevelt. In recalling her distinct impression of the controversy that surrounded Monks during his 1991 campaign for a seat on the board of Sears, Roebuck & Co., Olena Berg, who recently left her position as pensions regulator at the Department of Labor, says, “The reaction in Sears days reminded me of Roosevelt. The personal antipathy. Roosevelt’s former classmates from prep school treated him almost like a traitor. To the chieftains of the corporate community, Bob is almost a traitor to his class.” Certainly, Monks is no FDR and would not pretend to be. But there is no question that he is a renegade.

Often, he has seemed as much a traitor to his party as to his class. Frequently, for example, he has not voted the Republican ticket. And, dressing down corporate chiefs and boards is hardly on the Republican

platform. "This is really a blue collar issue," says Cohen, "because you've got many individual investors in pension plans, and they have no idea what's going on with those programs. People have their life's savings in these. If you had a Democrat doing this, it might resonate more. To go after companies would be typically Democratic. But for a Republican it's harder to make a case."

Monks gained notoriety for the Sears effort and other battles he has waged on the public stage. At Sears, he advanced the movement considerably by demonstrating that it was virtually impossible for a shareholder nominee to come onto the board of a large corporation. Furthermore, he showed that the highly publicized efforts of one activist investor could inspire enough support to help restructure a major corporation. Monks is also known for his boldness as the Department of Labor's pensions administrator in 1984–1985, when he laid the foundation for much of today's scrutiny of corporations by big investors, by making it the government's policy that institutional shareholders had a fiduciary duty to behave as owners of corporations.

But what Monks has accomplished as an undercover agent of change has been equally vital to the progress of this movement over the years and, it can be argued, to that of corporate America. For example, he was the one who educated the officials of the California Public Employees Retirement System in the rudiments of shareholder activism and for a few years held their hands as they set out on the path to make Calpers the leading activist institution. For Calpers and others, he wrote many of the first shareholder resolutions demanding changes in corporate governance at major corporations. Moreover, from nothing, Monks built Institutional Shareholder Services, which today handles shareholder voting for hundreds of corporate and government pension funds and represents a deciding factor in many controversial proxy votes at large companies here and abroad. The forays of his Lens fund into such poorly managed corporations as Stone & Webster and Waste Management have set new precedents for shareholder activism.

From the beginning of his effort in governance, Monks habitually mapped out "governance agendas" that he then followed closely. Because he was so familiar with the development of ideas, politics, government, and business, and because he is a master strategist, he knew that certain steps were essential if he and other shareholder activists were to have an impact. What is remarkable is how he kept at it, though the odds were stacked against him. It is but one example of his characteristic tenacity, molded by a competitive

spirit and a lust for achievement. His belief is that with enough effort and enough time, he could do just about anything. Of course, he could not; and he has failed time and again, suffering because his investment of emotion and time had been so great. But his self-confidence is a solid core of his personality, and it allows him to rebound. "I have tender feelings about the man, because I see that he gets hurt with a degree of regularity," says proxy solicitor Wilcox. "And yet he never gives up. He's incredibly persistent."

What have been his agendas? Monks realized early on that the government would have to set policy requiring attention to ownership duties. He personally began that process and helped make sure that others finished it. What is more, he knew that for any idea to blossom into reality, it needed an intellectual foundation; he needed to nurture a new academic discipline for corporate governance complete with new terminology. In the interest of this goal, he and his partners wrote articles and books, participated in forums and conferences, and developed associations with scholars. Later, Monks and Minow would attempt to raise corporate governance to the level of a profession by speaking at numerous universities worldwide and writing a textbook. Then there had to be activist owners—the pension funds and money managers. In Monks' view, they would emerge not only as a result of government decree but also when they saw value flow from activism. Monks patiently introduced the concept of activism to scores of institutional investors, one at a time, and then demonstrated to them the power they could have and the value they could achieve. From there, he moved abroad, for his methodical reasoning indicated that since multinationals could move anywhere and get their capital from anywhere, governance needed to be a global concept.

If others were working in one area of corporate governance, Monks, often working with Minow, would turn his attention to another where he saw a need. "I saw my role in this evolution as the person who would always be attempting to raise the next critical issue," he says. "I mean, why run for the board of Sears, Roebuck? You could sit and tell people til you were blue in the face that the election of boards of directors was the equivalent of the election of the Albanian government. And people would chuckle and they would go on to their next course. It didn't mean a god-damn thing. You finally had to get up and say, 'I'm a guy who's been a director of ten public corporations. I'm highly qualified. I legally will file the papers. I have a lot of support from institutional investors. And I can't get in the front door.' Only something like that makes it clear."

To be sure, Monks recognizes the limitations of his efforts—that his goals will never be reached in his lifetime and indeed may be unreachable. But he maintains his zeal for the mission, not unlike a scientist whose life-work may be to uncover something obscure and seemingly miniscule but that may enlarge the possibilities for future exploration. His hope is that as the structure of business and its ownership becomes international, competitive forces will fall much more in line with owners' standards for corporate behavior. At the same time, he recognizes the contributions that need always be made by other forces working for the interests of society, including the government and citizens' groups. "I don't claim exclusivity," he says. "I've got my hand on a piece of the puzzle. And all the pieces have one unifying link, which is, you were not put on earth to be a spectator."

Contents

<i>Introduction</i>	ix
1. The Minister's Son	1
2. Lawyer, Investor, Businessman	17
3. Political Follies	37
4. Epiphany	58
5. Wielding the Stick	77
6. The Double Helix	115
7. Poison Pill	151
8. The Big Break	164
9. Power Base	179
10. Taking on Sears	215
11. Checking Out at the Store	253
12. Money Where His Mouth Is	280
13. Strike Three	314
14. The Right Formula	322
<i>Epilogue Beyond Boundaries</i>	345
<i>Notes</i>	357
<i>Acknowledgments</i>	367
<i>Index</i>	369

1

The Minister's Son

His father felt second-rate in this elite culture. That had an overwhelming driving effect on my father. He was really driven to succeed.

Robert Monks Jr.

It is an afternoon in late October, and a stiff breeze blows in off the Atlantic, but Monks, standing outside in shirtsleeves, seems not to notice. At the age of 65, his powerful frame is still sturdy, his eyes still a cloudless blue, though his black hair has faded mostly to gray and is whitening at the curly edges. As usual, he is slightly stooped, perhaps from explaining his views of the world so earnestly to others (most of whom are much shorter). He walks toward his car, parked outside his shimmering, all-glass home in Maine, a 200-acre forest behind him and before him the vast ocean. Reflecting on the scene, he remarks to a guest, "I've got this beautiful place, a beautiful wife, more than anyone could ask for. What else should I do with my time but think about big important issues?"

To those who argue that the most effective reform comes from inside the system, the career of Robert A. G. Monks serves as illustration. Putting his mark on the world in some way, making changes that affect people's lives—these were the vague goals of Monks as a young student and lawyer. Yet, he would have to evolve into this role. The practice of law was not to be the means to any end for Monks, other than furnishing knowledge and contacts as well as legitimacy that would later prove most useful. It was only the first of many lines of work he would pursue—for the most part with great success—in thrashing about for personal satisfaction. "I am a creature of enthusiasms," he once told me. A restless soul. In time, he found something to do

that both matched his talents and moved his spirit, when he defined a “mission” of improving corporate governance and accountability by prodding shareholders to act as owners.

What helps explain the intensity of Monks’ search and his ultimate inspiration is his upbringing as both a Boston Brahman and a minister’s son. It was an unusual combination, replete with both contradictions and complements. Among other characteristics that emerged from that simmering pot was an overarching sense of history; a deep appreciation for family; and a reverence both for his Yankee heritage and for the work that his forebears put into the accumulation of wealth. Along with his love for the spiritual aspect of life was an equally strong craving for intellectual pursuits. Moreover, he always possessed almost an instinctive drive to make himself useful to the world. Indeed, his intellectual capacity gave him an unusual degree of confidence—often overconfidence—that he could make momentous changes.

Robert Augustus Gardner Monks was born in Boston, on December 4, 1933, the fourth of five children (the first died from a birth defect when only a few days old). He got his first name from his mother’s older brother Robert Treat Knowles, an oil field wildcatter, and his father’s uncle, Robert Monks, an impressionist painter. His two middle names come from his grandmother’s cousin, Augustus Peabody Gardner, the only member of Congress—Monks likes to recount—to die in World War I. In a strange coincidence, Gardner had run against and defeated James Shaw, whose great granddaughter, Millicent Sprague, eventually married Bob Monks.

The Gardners were a great family of Boston that had moved to New England before the Revolution, in 1624. George Augustus Gardner, Monks’ great-grandfather, came into a large inheritance from his ancestors, who had been involved in the East India trade. He himself went into real estate in Boston and became known as a tough bargainer, even when haggling with peddlars. But he was also a generous man. Many have described his great grandson in similarly contradictory terms. There is a story about a 84-year-old George Augustus going to visit legendary Boston Mayor James Michael Curley in 1913, to whom he said, “Mr. Curley, I think this winter is likely to be a difficult one so far as the economic picture is concerned, and I would like to give you \$10,000 to be used by the city to give work to the unemployed on some project of civic improvement.” He told the mayor that he would make the donation under the pseudonym “Mr. Smith,” as he did not want to reveal himself as the benefactor. However, Mayor Curley

did unveil the true donor in 1914 at a ceremony opening Gardner Way in South Boston, and Gardner was cheered by the 20,000 spectators for 15 minutes.¹ Immensely wealthy for his time, Gardner had three homes: in Boston, at Monument Beach on Cape Cod, and on the family-owned Roque Island off the northern coast of Maine. One of his brothers was married to Isabella Stewart Gardner, known in the Monks clan as Aunt Belle, an eccentric, headstrong woman who became one of this country's great patrons of the arts, establishing Boston's Isabella Stewart Gardner Museum.

George Augustus and his wife, Eliza Endicott Peabody, were actually blood relatives. Both of them were grandchildren of Joseph Peabody, another great New England family name. Peabody fought at sea in the Revolutionary War, and after the war headed a large fleet of merchant ships, becoming one of the foremost merchant traders of the time. He made much of his fortune by commandeering British merchant ships, towing them back to an American port, and selling their stock, a practice that was well within the law at the time. The Peabody name turns up all over Massachusetts, for example, in the Peabody Museum in Salem and the town of Peabody itself. Joseph also established roots in Maine, around 1800 acquiring a small group of islands off the coast, one of which, Roque Island, remains in the Monks/Gardner family and is used as a retreat by many of the 100 or so family descendants.² It continues to be one of Monks' favorite places on earth, where, he says, his "soul resides."

The oldest of George and Eliza's seven children, George Peabody Gardner, distinguished himself as one of the early directors of the General Electric Company—from 1895, its third year, to 1938. His son George Jr. served as a GE director for 20 years after that. Collectively, the Gardner family was at one time the largest holder of GE stock. Indeed, Bob Monks inherited a great deal of it and held it for many years.³

Bob's grandmother was George and Eliza Gardner's youngest child, Olga, who married George Howard Monks, a physician. The Monks family had arrived in America much more recently than the Gardners. Around 1820, Bob's great-grandfather, Irish immigrant John Patrick Monks, started a lumber business in Hampden, Maine. Later he moved the principal business to Boston, where it thrived. He even earned mention in an 1851 tome entitled, "The Rich Men of Massachusetts," a sort of Forbes 400 of its time, and is credited with having accumulated \$200,000—a fortune much smaller than that of the Gardners and Peabodys, who had amassed their wealth over multiple generations.⁴

Olga Monks was known as an energetic and charitable woman in the Boston community, and her reputation endured long after her death in 1944. One day in the fall of 1958, when Bob had just started practicing law, he saw Mayor Curley at a restaurant having lunch. Bob approached the octogenarian and introduced himself. Curley recognized the Monks name at once. "You must be Olga Monks' grandson," he said. "You know, when we put parking meters in the Back Bay, there was no meter in front of her house. I believe there are some people who should enjoy the freedom of the city forever."

Her son, and Bob's father, George Gardner Monks—who went by the name Gardner because so many of his contemporary relations were George—was an extraordinarily bright man. Since childhood, he had an unusually strong affection for poetry, and in grade school chose to memorize and recite poems that were much longer than those assigned to the class as a whole. As an adult, he often quoted poetry and hymns in casual conversation, and even at the age of 80 he could still recite all 2,000 lines of Thomas Macauley's lyric poem *The Lays of Ancient Rome*. He was also fascinated with puzzles of all kinds, and as he grew older, became obsessed with crossword puzzles. He had the ability to complete an entire Sunday crossword from the Across clues alone.

Gardner Monks studied engineering at Harvard. But, his work as a volunteer in a church program for teenage boys convinced him to become a minister in the Episcopal order in which he was raised. "I was certainly one of those to whom much had been given. I accepted not grudgingly but gladly that of me much ought to be required. I could try to fulfill this responsibility through my work as an engineer," he once wrote. "But somehow mental and spiritual contributions seemed more basic and fundamental, issues of the spirit more urgent and crucial. The overwhelming impulse was to be of maximum service."⁵ Perhaps because he was a mathematician as well as a spiritualist at heart, he later referred to religion as "the best bet he knew" for his own life. He married Katharine Knowles, a compassionate, voluble woman from a long line of Mainers. While she bore three boys and two girls, she was not a particularly hands-on mother, preferring to have household servants deal with the children. Instead, she put much of her energy into fulfilling the obligations of a minister's wife.

In his son's view, Gardner Monks was not a happy man. One reason he went into the clergy, believes his son, was to avoid the social obligations of his well-stationed family. "My father was not a people person," Bob says. "It

was a very serious problem for a clergyman.” Gardner openly admitted his preference for one-on-one contacts and long stretches of solitude over participation in groups. Yet, as a cleric he did well. In 1927, Gardner Monks took charge of a newly established Episcopal boys’ high school in Lenox, Massachusetts, The Lenox School, where the students were responsible for running most of the basic functions. (It had a staff of three: a chef, a doctor, and an engineer for the boiler.) In 1948, after leaving the school to another cleric, the senior Monks moved to Washington as a canon in the Washington Cathedral, the home church for the presiding bishop of the Episcopal Church, and for a while also served as acting dean. While, in keeping with his reserved character, he appointed someone else to handle the ceremonial responsibilities of the cathedral, he periodically delivered sermons to crowds of thousands. Indeed, at one point he taught homiletics at the Episcopal Theological School, though his own sermons lacked the passion and drama of the most effective preachers. But his main charge as a canon was directing the work of finishing the cathedral, a project that, given his abiding interest in engineering, he loved. Later, he became more and more involved, particularly with his son Bob, in what became a great avocation: investing.

As a boy, Bob Monks looked to his father for attention and approval. And, in time he won both. For one thing, he developed a sense of humor that could break his father’s severity, easing the son out of many a potentially tough scrape. Moreover, the young Monks showed an intellectual capacity that matched that of his bookish father. The two regularly engaged in arguments at the dinner table over such questions as, “What is the highest mountain in the state?” Once excused from the table, Bob would run to an atlas to find the answer. Monks also had a predilection for memorizing something to recite to his family. One year it was parts of the encyclopedia; other times it was baseball statistics. “He was fascinated by learning,” observes his older brother George. “He was motivated by an internal drive to succeed, a bug that was inside him.”

Like his father, Monks is contemplative and more comfortable one on one than in large groups of people. But, having inherited his mother’s loquaciousness, he is much more at home among people than his father was. Perhaps most elemental to his success is that, like his father and his grandfathers, both of whom were doctors, Monks has a clear sense of duty. Not to God, in particular. In fact, the Monks children were turned off to religion by the weekly march to church and by inconsistencies they perceived in the behavior of the day’s leaders of Christian institutions. But there is no doubt