Dividend

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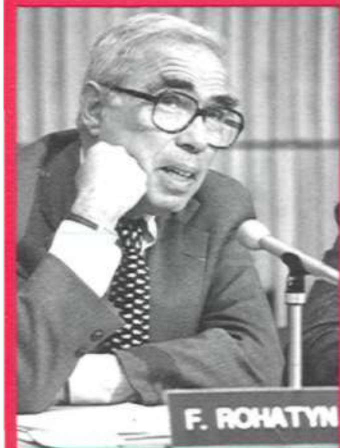

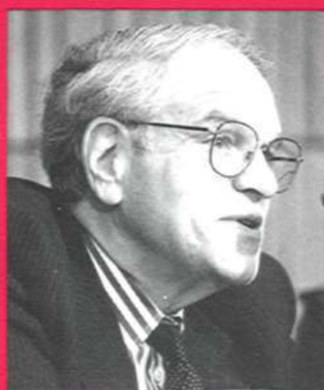

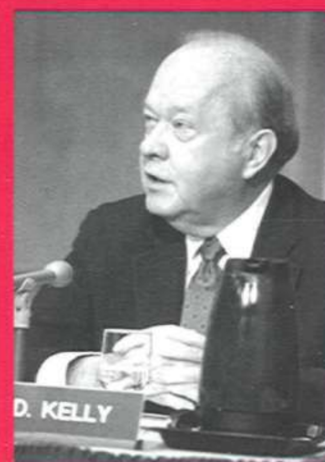

Mergers and Acquisitions: A Special Report on the First Program of the J. Ira Harris Center for the Study of Corporate Finance

THE UNIVERSITY OF MICHIGAN
SCHOOL OF BUSINESS ADMINISTRATION
ANN ARBOR, MICHIGAN 48109-1234

Gilbert R. Whitaker, Jr.
Dean
(313) 764-1361

October, 1987

Dear Alumni and Friends,

This issue of Dividend celebrates and reports the opening event of the J. Ira Harris Center for the Study of Corporate Finance. A major purpose of the Center is to facilitate the interaction of students and faculty with the "real world" of corporate finance. This event will be a tough act to follow given the number and quality of the participants, but it indicates the importance we attach to the purposes of the Center. Our students' learning will be enhanced by carefully structured interactions which show that theory and practice are connected. We are extremely grateful to Ira Harris for his support and leadership in this venture.

As I write this letter, we are preparing for the arrival of the students for the 1987-88 academic year. Students for all of our degree programs were selected from the largest and best applicant pools in the history of the School. This increasing success is in part the result of major efforts by the faculty and staff of the School. However, it is also the result of the success of our alumni in their careers. All of you help us by your own success as well as by the financial and other support you have given to the School. Many of you return to campus as speakers, as recruiters, and as role models. Also, many of you have helped by speaking with students considering Michigan. Together, we are making a great School better. Thank you.

Sincerely,

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Gilbert R. Whitaker, Jr

Dividend

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In this special report on the first program of the new J. Ira Harris Center for the Study of Corporate Finance, we bring you the presentations and discussion sections of the panel that gathered to discuss "Mergers and Acquisitions: The Past, The Present, The Future." The panelists included investment bankers, takeover lawyers, corporate chiefs, and an SEC commissioner — ten of the most well-known and powerful names in the high-stakes world of corporate finance. Their individual statements and the discussions which followed took three absorbing hours before a fascinated audience of about 500 in Hale Auditorium. The new Center was founded by J. Ira Harris, BBA '59, who provided the initial endowment. A list of founder members and Corporate Affiliates of the Center appears on the back cover. The Center was founded to stimulate productive interaction between financial executives from industry and Wall Street and the faculty and students of the Michigan Business School.

Dean: *Gilbert R. Whitaker, Jr.*

Associate Deans: *Thomas C. Kinnear; Edwin L. Miller, B. Joseph White; Anneke de Bruyn Overseth, Associate Deem for External Relations*

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About the Cover — Our cover pictures each member of the panel who spoke on Mergers and Acquisitions. The photography is by Dean Russell, who also took all the pictures on pages 4 through 35.

Introductioi

I would like to welcome everybody here this morning for this first program of the J. Ira Harris Center for the Study of Corporate Finance. I think we're going to have the ability through the Center of creating some very interesting programs, which will greatly benefit the students of The University of Michigan, the Business School, the Law School, all schools, and will bring about a better interchange between the corporate world, the academic world, and the students.

I want to thank the panel members who are participating in this program. I have worked over the last year professionally and have also been privileged to have as friends everyone on this panel. That is, everyone except one gentleman, and he happens to be the man sitting next to me, and that's Commissioner Grundfest of the SEC, whom I have never met professionally, and I do not want to meet professionally, (laughter) I did have a diet Coke with him last night and I will tell you, under the ethics rule, he paid for it himself.

We have without question, I think, the finest panel that's ever been assembled on this subject. I think their participation has given a great degree of credibility to this program at Michigan, and will be tough to beat in the future. I am going to introduce everybody starting on my right, very quickly, because these people really don't need introduction.

At my far right is Martin Lipton, senior partner of Wachtell, Lipton, Rosen & Katz; sitting next to him, John Gutfreund, and I still introduce him as my partner, even though he carries the title of Chairman and Chief Executive of

DEAN RUSSELL

Salomon, Inc.; sitting next to him is Donald P. Kelly, Chairman and Chief Executive Officer of BCI Holding Corporation, better known as Beatrice. Sitting next to him is Felix Rohatyn, senior partner of the New York investment banking house of Lazard Freres 8c Company. On my immediate right, Joseph Grundfest, who is a Commissioner

by J. Ira Harris

J. Ira Harris, BBA '59, is Senior Executive Director of Salomon Brothers Inc. in Chicago, III.

The panel members prepare to start their discussion of Mergers & Acquisitions: The Past, The Present, The Future.

of the Securities and Exchange Commission and was the 65th Commissioner elected in 1985. To my immediate left, Joe Flom, senior partner of Skadden, Arps, Slate, Meagher & Flom. Sitting next to him is Donald C. Clark, Chairman of the Board, President, and Chief Executive Officer of Household International. On his left, Bruce Wasserstein, managing director, and co-head of the investment banking department of the First Boston Corporation. On his left, Henry R. Kravis, senior partner of KKR Corporation, whose name is associated with leveraged buyouts as well as Kleenex is with tissues.

At this point, let me just tell you what the format is going to be. We are going to have a number of short presentations, covering a number of subjects. At the end of each segment, we're looking for interchange among the panel members. At this point I would like to start off by asking Commissioner Grundfest to give us a quick overview of what is happening at the SEC and in Congress.

What's Happening at the SEC

It is an honor and privilege to appear here this morning with this distinguished and, I might add, unindicted group of investment bankers, takeover lawyers, and corporate executives.

The recent attention to insider trading has been a mixed blessing as far as my social life is concerned. On the one hand, when I go to a cocktail party I don't have to explain what I do for a living. On the other hand, at some gatherings, like last night's reception, I got frisked at the door, walked through a metal detector, and followed by someone carrying a sign that says, "Shhh! SEC!" But such is the price of success.

The parameters of the takeover debate changed dramatically in November of 1986 for two distinct and very important reasons.

First, the Democrats — of which I am one — won control of the Senate. The Democratic victory caused a shift in committee control to senators and staffers who, at least in the public eye, have been more vocal calling for further governmental regulation of the market for corporate control.

Second, on November 14, the Commission announced its settlement of the Boesky insider trading case. The implications of the Boesky settlement are yet fully to be played out, but it is clear that many participants in the takeover debate are trying as hard as they can to link insider trading and hostile takeovers. Their argument, in a nutshell, is that hostile takeovers and insider trading are so inextricably intertwined that takeover activity must be curbed if we are to make any progress against insider trading.

That argument is, however, dangerous and wrong. To illustrate the very weak link between insider trading and hostile takeovers, consider first the insider trading that occurred in the RCA-GE and Carnation-Nestle mergers. Those were both friendly acquisitions, negotiated with great confidentiality. Nevertheless, the transactions spawned illegal insider trading.

Consider next the allegations regarding the Unocal hostile takeover battle. There, the government claims that Unocal's bankers tipped a third party about Unocal's proposed defensive strategy. The third party bought puts on Unocal's stock and profited handsomely when the market learned of the target's plans for an exclusionary self-tender. But to blame that trading on hostile takeovers is like blaming pass interference on the quarterback who throws the ball. It simply makes no sense.

Finally, consider the insider trading alleged in connection with the Colt Industries restructuring. There, the trading took place even though there was no takeover — friendly or hostile — pending.

As these examples illustrate, insider trading and hostile takeovers are two very distinct problems. Even if we stopped every hostile takeover, the problem of insider trading would remain. Indeed, the insider trading problem is not only distinct from the hostile takeover issue, it is in many ways much more difficult and profound.

The insider trading problem must be attacked head-on and not through strategies of indirection calculated to deter certain transactions on the rationale that they are particularly or uniquely susceptible to insider trading. Our enforcement activities against insider trading are going to continue unabated, but they should not be construed as granting license to attack through legislation any particular class of transactions.

The composition of this first panel makes the point quite directly, if painfully. Joe Flom's firm and Felix Rohatyn's firm have, unfortunately, been touched by insider trading scandals. And, as an SEC employee, I cannot sit here with a holier-than-thou attitude because, in the 1970s, a Commission attorney was criminally prosecuted for tipping information about a pending enforcement action. This morning's newspapers also report allegations that a former employee of the New York Fed leaked confidential information to certain government bond dealers.

and in Congress?

By Joseph A. Grundfest
Commissioner of the Securities and Exchange Commission

Does this suggest that we should shut down Skadden Arps, Lazard Freres, the Federal Reserve, and the Commission's Enforcement Division because they have all generated inside trading cases? Hardly.

The same logic also urges that we not shut off hostile takeovers because they can sometimes be the subject of insider trading, just as friendly takeovers, takeover defenses, and recapitalizations can be subject to such trading.

Now, addressing the question of takeover legislation more directly, two topics appear to be of broad general interest and I will address each separately.

First, is the question of greenmail. Although many congressmen appear to be sincerely outraged at greenmail, there is a legitimate question as to whether legislation is necessary and, if so, how it should be structured. Seventy corporations already have anti-greenmail charter amendments, and there is no legislation Congress can pass that cannot be cast in a charter provision that has an equivalent effect.

If corporations can do as much to protect themselves from greenmail as Congress can, why don't more corporations do more to protect themselves? And, why do so many executives ask for anti-greenmail legislation but refuse to adopt equivalent anti-greenmail charter amendments? Is it because managements see greenmail as a desirable way of buying off a potential takeover and want to preserve greenmail as a defensive tactic? The question certainly deserves to be explored before legislation is enacted.

Second, is the question of the 13(d) waiting period. Although the desire to shorten the ten-day window is often defended on the ground that it promotes desirable disclosure, it's important to recognize that shortening the window will certainly deter legitimate takeovers. There is substantial evidence that the larger a bidder's toehold in a target company, the greater the probability that a takeover will succeed. If legislation makes it more difficult to establish a toehold — either by shortening the window or lowering the 13(d) threshold — then fewer takeovers will occur.

Therefore, it's important to recognize that there is an often hidden subtext that pervades the 13(d) debate. That subtext has nothing to do with a public interest in disclosure and has everything to do with a desire to stifle takeover activity. It's important that the legislative process keep this consequence in mind because legislative changes defended on procedural disclosure grounds can, in fact, be advanced and adopted for substantive anti-takeover reasons that could severely upset the balance between bidder and target as currently established under the Williams Act.

DEAN RUSSELL

"It is clear that many participants in the takeover debate are trying as hard as they can to link trading and hostile takeovers. That argument is, however, dangerous and wrong."

Developments on the Legislative

By Joseph H. Flom
Partner, Skadden, Arps, Slate, Meagher & Flom

If I could rest on what Commissioner Grundfest said, I would be delighted to say no more. Unfortunately, the political process isn't working quite that way. The attitude on the Hill seems to be that we've got to do something about takeovers. Not necessarily anything that has anything to do with insider trading, but using insider trading as an excuse. An analogous situation would be where they tell you if you have banks, they will be robbed, so let's close the banks. I have talked to a number of Congressmen and that seems to be exactly where they are. A number of things have been proposed by members of Congress — a 90-day waiting period for doing takeovers; putting in an impact statement which talks about anything and everything that might be affected if you do the takeover; not allowing takeovers to go forward unless the financing is already in place. And when you start to talk to the congressmen about the fact that these things don't make any sense, you draw a blank in many cases.

Let's take the financing situation. You don't have a bank loan agreement in any case that doesn't have outs until the money is taken down. And, indeed, performance on highly confident letters tends to be equally as good as the performance under letters of commitment from banks, where they have material adverse change-outs and other outs prior to closing. If you look at the history of a number of deals that didn't go through because the highly confident letter wasn't any good, you realize that talking about the need for having financing in place is just another effort to try to close down the takeover process.

As an example, let's take the 90-day period. If you say that we need a 90-day period because there is insider trading information going on — now, instead of having 30 days where insider information can be floating around, we will have 90 days!

Another example is when the Congressmen propose a "balanced bill" — one that will be fair to both the aggressor and the defensive side. Then you point out that when the thing gets on the floor, the limitations on the aggressor will be pushed through, but the defense tactics will be argued about. It will be said you're interfering with the state's rights — state's rights being the right to talk about fiduciary responsibilities and corporate maneuvers by the target. So you run the risk that you will put in a bill that looks fair to both sides when you start, but one half of it will be eliminated.

Then you suggest that maybe there is a way to deal with this problem. Put it to management that if they want a 90-day waiting period, they can have it, provided that they agree to take no defensive tactics of the kind that are being used today as the price of getting 30 to 90 days. This idea, incidentally, has gotten a lot of interest down on the Hill and may be something worth pursuing. Management has the choice. They

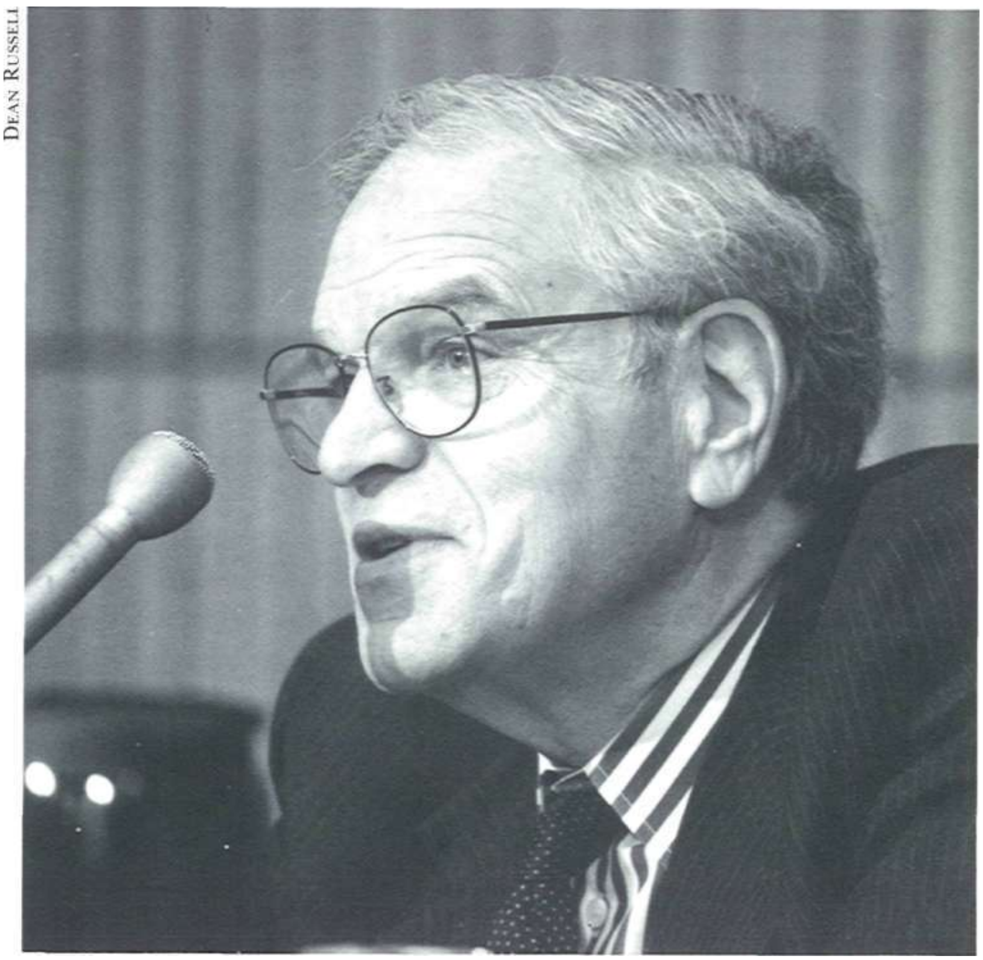
and Judicial Fronts

say they want a fair auction, and maybe 90 clays for a fair auction is fine. But they're not going to be able to use the extra 60 days to keep stirring up the pot.

Incidentally, in terms of the public perception of takeover activities, I remember when we went from 10 days to 30 days because of the Williams bill. What happened was there were less takeovers in the following year than in the previous year, but the public perception was that there were a lot more. Because, instead of the process being over in two weeks, you now had it in the press for 30 days or 40 days while things were going on. The result was that even with fewer takeovers, there were a lot more stories in the press that people interpreted as indicating the world was coming to an end because everybody was taking everybody else over.

I think we are also seeing an interesting philosophical problem going on in the takeover area. There are abuses — nobody can argue that there are no abuses, but there is no aspect of life that doesn't have good and evil tied in with it. The problem from a social standpoint is the overall level of activity, good or bad, and the forcing of the restructuring of industry, good or bad. These are fundamental questions that ought to be addressed. They ought not to be addressed because there are insider trading scandals or because, on an idiosyncratic basis, in one case somebody lost a job and, therefore, the whole movement is bad. Within 10 minutes I think that's about all I can say.

DEAN RUSSELL



"The attitude on the Hill seems to be that we've got to do something about takeovers."

A Program for Takeover Reform

By Felix G. Rohatyn
Partner, Lazard Freres & Co.

It is very interesting being an investment banker today. There was a cartoon in the *New Yorker* about twenty years ago about a lady visiting her shrink and the psychiatrist said to the lady, "Madam, I have good news for you. You have no complex, you *are* inferior." That's about the way it looks from my end of the business today.

I make my living doing mergers, takeovers, and acquisitions. I've done so for about 40 years and it has been quite a good living. So, unless I were suicidal, I would not be here arguing that all takeovers are bad, and that we ought to put this industry out of business.

Nor do I personally make any distinction between hostile and friendly takeovers. I think those are judgment factors — first of all, most hostile takeovers turn friendly with the last $5 a share that are paid. So, I don't believe anybody can make those judgments, or legislate whether a hostile takeover is bad and a friendly takeover is good.

What I'm concerned about is the *process* by which takeovers take place — whether they're fair, whether they're properly financed, and in the last analysis, what the process means to the national interest.

I believe that it is remarkably optimistic from the point of view of our industry and relatively short-sighted as well to think that there is no problem, because there's obviously a problem.

First of all, there is a problem because a major industry within the financial service industry has lost the political and public support of the people of this country, and it's clear that that's happened. The perception out in this country today is that what we are doing is not in the national interest. It is rather parasitical and is rewarded beyond any level of contribution that we make to the national weal, and that something has got to be done. When that kind of political perception is created — and not without some reason — I think one had better go do something about it, especially since that perception has been created before any kind of financial downturn has happened in this country — before the markets have gone down — and in a period of relatively benign economic activity.

Now, the reality of life is that this country has turned into a casino. Market activity is highly speculative, and a lot of this speculative activity has centered around the takeover process. New technologies in financing areas have created a capacity to do things that nobody would have thought about ten or fifteen years ago. We're dealing with world markets; we're dealing with financial institutions. There is almost a contradiction in terms in talking about an institutional investor. An institutional investor has a horizon of about twelve minutes. It's like talking about Ira Harris and management. It's a contradiction in terms, (laughter)

Now, the things that are being looked at in terms of abuses in our industry are going beyond just insider trading. The Jeffries case involves parking and it involves manipulation of markets in underwritings. There are other cases coming along that have nothing to do necessarily with insider trading. The whole structure of the industry, the relationship between arbitrage and merger and acquisition activity is being looked at. The question of a Chinese wall, how does it work, and should it work, and can it work?

It seems to me that the time has come to take a somewhat broader look at our business. It was last looked at, I think, in the early '60s with a commission; I think it was an SEC commission headed by Milton Cohen which looked at the industry structure and the relationships between the various factors, the various people in the industry, and how they relate to each other.

I think that there is some reform required in the takeover process quite aside from the whole question of insider trading. People who break the law and trade on inside information should go to jail. And they should go to jail probably for longer periods than those who have been convicted will go. That's just a simple matter of law enforcement. But the process, I believe, needs reform on both the offense and on the defense, because the abuses that have been created on the offensive side as a result of some of the rules that I think need to be changed have given rise to, I think, equally bad if not worse abuses on the defensive side in terms of entrenchment, in terms of poison pills, in terms of crown jewel options, all of these wonderful things. Joe invents something to win on offense, and Marty goes on a long weekend and invents the double hydrogen bomb on defense.

We go on with these things and we are almost like the nuclear priesthood, you know, like people who negotiate nuclear disarmament. We've invented our own language that nobody else can understand and, therefore, we can deal with this for a period of time, but the time has come where it's really going to have to be changed.

Rather than dealing with these things piecemeal in front of Congressional committees that really are not always technically capable of resolving what are very deep differences and views that are expressed in front of these committees, I think we should have a Congressional or SEC commission. Some people are on one side of the issues, some are on the other, for arguments that probably will sound equally intellectually convincing to these same Congressional committees.

I think that either a Congressional or an SEC commission of the Milton Cohen type should be created over the next twelve months to really look at the entire structure of the industry. Banks are coming into the business, overseas firms are coming into the business, companies like General Electric, Sears Roebuck have come into the business. We have world markets. All of these things have to be looked at in the context of the structure. Is

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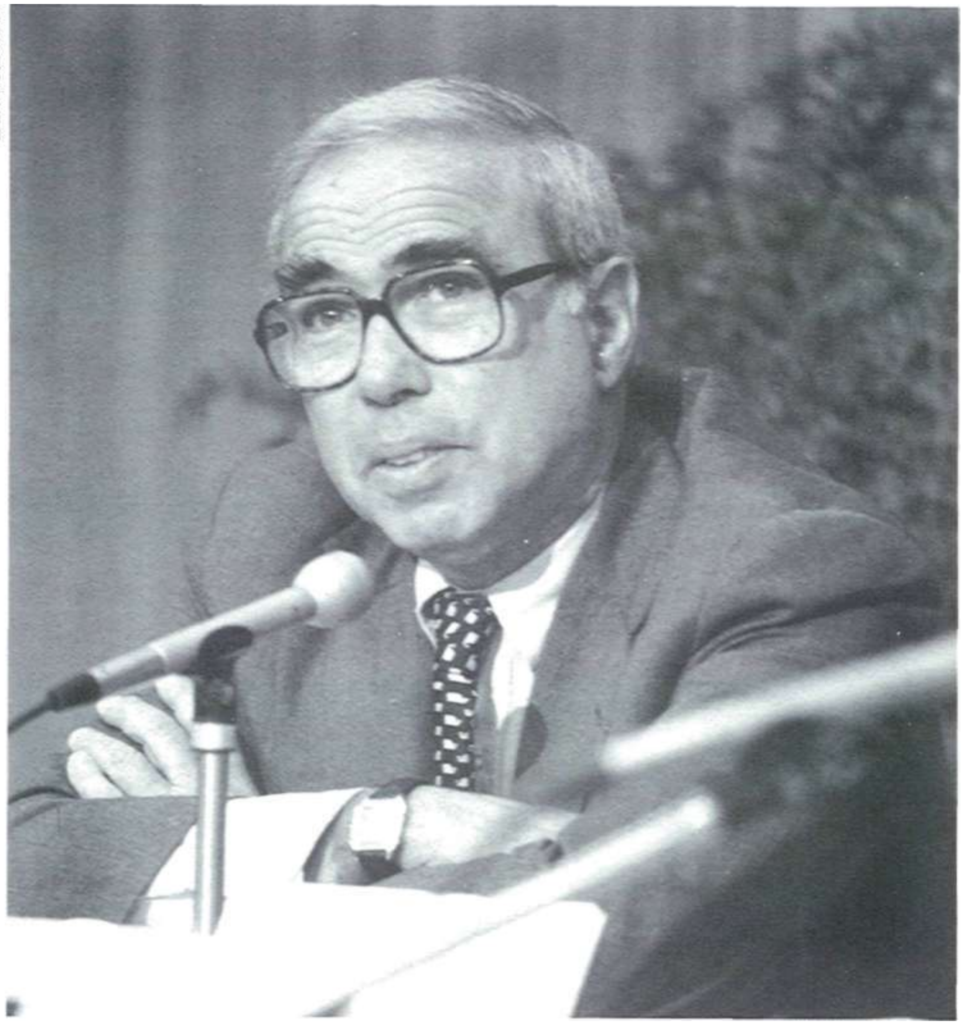


"The reality of life is that this country has turned into a casino."

it possible to run an arbitrage department with an M & A department? We're too small to do it and feel comfortable with it. I think it's quite possible for large firms to do it, but how to do it is a difficult question. What is the relation of market making in block trading to takeover activity? These are not simple issues.

I personally believe that there should be reform in the process of the offensive side of takeovers. I think there should be reform in the relationship of arbitrage activity and speculative accumulation of stocks in the takeover process, and that as a part of a package there should at the same time be the elimination of a lot of the defensive mechanisms that allow management to entrench themselves, and that there ought to be essentially a level field between offense and defense.

At the same time, when we're trying to encourage investment in this country, I think something should be done about limiting the activities of the so-called institutional investors in terms of their short-term trading activities. And I am concerned for the level of leverage that is being created in some of the very large mergers by what I believe to be an excessive use of high-yield bonds as part of the process.

Commentary #1

Harris: Thank you, Felix. The only person I know that dislikes being involved in management more than I do is Felix, (laughter) Why don't we open the panel up with some questions and see if we can get a little dialogue going.

Lipton: Ira, I would like to ask Commissioner Grundfest what he thinks about the proposal made by Milton Cohen and just seconded by Felix Rohatyn to have a new special study of the securities markets following the 1967 study by Milton Cohen.

Grundfest: Legislation has already been introduced suggesting that there be a blue ribbon commission appointed by the SEC. According to this bill the commission would have five members, a separate budget, and be charged with looking at some specific topics.

I think that the group needs to be put together with a specific mission in mind and not simply be charged just to go out there for a year and come back and tell us what you think after a year is over. As long as the group is asked to define specific problems that we see on the horizon and as long as it has an appropriate level of credibility so that its views could be taken as objective by Congress, then I think perhaps a great deal could be accomplished.

Lipton: Has the commission taken an official position with respect to that legislation?

Grundfest: No.

Clark: Joe, there was a blue ribbon commission in 1983 that came up with several recommendations. Nothing was done by the commission based on those recommendations. Is your proposed commission going to be the same scenario?

Grundfest: Well, one can argue about the color of ribbons. That was a special advisory panel on take-overs that the Commission actually put together and told "Go out and think about it and come back and tell us what you think." The Commission considered the recommendations and responded: "Look, this (package of recommendations) really is not going to fly for a wide variety of reasons." You can't have a group go off, hide in the closet, and then appear magically at the end of a year with a set of recommendations that people will then pick up. It has to be part of a larger process. There has to be input into it; it has to be open; it has to interact with larger parts of the interested community. In order for these groups to come up with results that are going to be useful in the process, they have to be very carefully structured, carefully managed, and carefully directed, so that the outcome will be relevant to the procedure. If it's done that way, then we could succeed, especially if we define issues that are arising on the horizon.

Lipton: Some of us here served on that advisory panel and we thought we did exactly that! We held hearings; we invited input; we consulted with all the experts, and so on. We labored long and hard. We came up with a report that, as you know, the Commission essentially rejected, and the Commission's legislation got no place in Congress. And yet, the proposals made by the advisory panel were very mild in relationship to the proposals now being put forward in Congress.

Flom: A number of the recommendations are presently incorporated in bills that have been introduced, and a number of those recommendations, had they been in place, might have avoided some of the agitation we have right now. I thought that the Commission did a very thorough job with broad representation from all aspects of the community. There were, as Marty said, public hearings. We had input from other government departments. The series of recommendations that were made — including closing the 13(d) window, dealing with greenmail, and requirement of a tender offer above a certain level of open market accumulation — are all very hot topics today.

I think what happened was that when the Commission adopted a number of the recommendations that were made in a proposal to Congress, it ran into a firestorm on the Hill and with the administration, and so those recommendations were withdrawn.

Grundfest: I think Joe just put his finger on a very important point. Even if one were to persuade the SEC that a particular direction appears to be reasonable, the Commission then has to go out and test the waters. What's it like in the Senate committees? What's it like in the House committees? What do people in the administration think? From that perspective, perhaps, we needed broader input. Another observation ties into something that Felix said — that the game is played according to some very complex intricate rules. It's a delicate minuet in terms of how you tread your way through the regulations. For better or worse, the thrust of the committee's proposals would have added a new level of steps, more needles that would have to be threaded. Perhaps there are other ways to go, if we're talking about reforming the take-over process — not only to make it fairer — to level the playing field — but also to make it less complicated.

Wasserstein: When you go down to Washington, what people are most concerned about is not the issue of whether you extend the take-over process by ten days or not. What's really going on is a basic fundamental economic struggle in America, as we change the nature of our economy. And as there are take-overs, there are questions about what happens during restructurings, what happens with employment. The key word is what happens to people in congressional districts who are laid off or lose their jobs and don't get fair compensation for that? I think that's a legitimate concern. I think people in our industry should be more concerned about the equity of the whole general restructuring of America. But the restructuring is inevitable. It is a function of an industrial revolution not only going on in this country, but world-wide. The appropriateness and fairness of dealing with blue-collar workers who don't have the golden parachutes is a legitimate policy issue. But it sure isn't helped by extending periods by 10 days, 15 days, 20 days, and our economy isn't helped by keeping the textile factories in Lowell instead of having route 128.

Rohatyn: I think that we're making a profound mistake in not recognizing that this country will not tolerate nor will any country tolerate financial people taking control of this country's basic industries and productive capacity. When control passes to financial people, profound political changes take place. We could make statements here about the fact that we ought to worry about blue-collar workers while we're doing these take-overs, but it is not going to happen. We are not going to worry about blue-collars. It is not our job to do so. It *is* our job to recognize the fact that there is going to be reform in a system that badly needs it because the excesses go beyond a couple of people selling inside information. The process is not right, it is not working right, and the result is probably ultimately not in this country's best interest, so it is more than just the technical things as to whether we close the 13D window or whether we eliminate poison pills or not.

"The problem here is that the predators in the United States are not only fast of foot and long of fang, they are also very good on turn of phrase, and accountability is always focused on the directors of the company. Very rarely do we hear about accountability of the other participants."

MARTIN LIPTON

If the proposals made by this panel a few years ago had gone into effect, maybe we would have avoided some of the problems we have today. It just proves the point that this industry, which is no different from any other industry or interest group in this country, really only faces reality when it is dragged, kicking and screaming, in front of a Congress that decides that the time has come, and that's too bad.

Flom: You know, Felix, you put your finger on the key. I don't think a panel dealing with whether the securities law should be reformed is what we should be looking at. If you're talking about a panel that should study and make recommendations as to whether the entire method of changing control is good or bad, considering a whole host of matters — antitrust matters, the concentration of wealth, job creation, international competitiveness — that is a proper subject for a broad-based study. But the changes and the tinkering with individual abuses, it seems to me, has to be done on an ad hoc basis. It always looks terrific to say we can design something that's going to take care of every abuse that's happened so far, but the net result is you create new ones. When we were on the commission, we concluded that the ideal way to effect a change in control was under the English system. That was great. I wonder whether we would have felt that way in light of the latest scandals in London. . .

Rohatyn: . . . which were exported from here, to some extent. . . . They didn't show up in the balance of trade, unfortunately, (laughter)

Harris: I just want to ask Commissioner Grundfest one question. No one has an argument when you talk about outright total abuses — those that are black and white. The trouble is that an awful lot of what has gone on has been grey. It may be a lack of budget on the part of the SEC, but a lot of things have been permitted to continue for a period of years in the so-called grey area. It's almost like the guy who has driven on a highway, where, yes, it does say 55, but . . . You know, when I drive between Chicago and Ann Arbor, I've never seen anybody in the State of Michigan drive on the Interstate less than 70. So people get to a point where they say, well, it's obvious in Michigan the speed limit is 70. That's what is permitted. So, using this as an example, I would like your comment. Is it lack of funds on the part of the Commission? Because a lot of the things that are being talked about now have gone on for a long time and nothing has happened.

Grundfest: Could I get a list? (laughter) I know what you mean. The question about ambiguity is a legitimate one, and I think we have to understand why it arises. There is no statute and there is no rule that says "this is insider trading, this is how it's defined." Insider trading is a product of the federal common law. It's evolved on a case-by-case basis, in fits and starts. **It's** moved in some direction and shifted course over about 25 years. Any legal doctrine that evolves through the common law process has inevitable areas of ambiguity and vagueness. It is inherent in the process. In the common law you're not going to have a precedent on point for every case that arises over time as markets evolve, especially as new processes emerge in the marketplace. What we have done in the Commission, I hope, is that we've tried to stay a million miles away from the shades of grey. When we brought the Levine case, for example, there were arguments made that, "Oh, my gosh, the Commission's trying to expand the scope of law! Where in the heck are they going?" But by the time everybody looked at the evidence that we had, they realized it was a plain vanilla case.

Also, if the name was changed, and if the dollar signs were smaller, you'd never hear of the Boesky case. The Boesky case is plain vanilla, insider trading. There is no ambiguity, nobody could have thought otherwise for a microsecond. We're not out there to run amuck in large zones of grey. We don't need to. (laughter) There is enough to be done just by taking a rifle and shooting bull's-eyes without having to muck around. That, I hope, is what we're doing.

Rohatyn: I think the issue is what is the appropriate way of shifting corporate control in this country? Chicago's School of Economics has one definition which treats corporate control as kind of an asset that you buy or sell and the freer the better. Now my admiration for the Chicago School of Economics is limited. On the other hand, I have never studied economics so I have an enormous advantage. How should a shift in corporate control be done, what is the impact, what things should be looked at in the process? We are going to have to tinker with some of these changes because the political process has started and it's not going to stop. The ultimate issue is — what is the appropriate way for corporate control to change?

Wasserstein: It's all very nice to play with ten days or this device or that device — what Joe Flom calls "tinkering." There are some technical reforms that need to be made. After all, the Williams Act is several years old and many of its assumptions aren't quite accurate anymore. It needs to be revitalized. But, on the other hand, if you go back to the original theory of Berle and Means — their indictment was very much that there was no discipline on management in America and that led to inefficiency and problems. So, the fundamental question is the old reform issue, which is, what happened to the idea of accountability in America? What happened to the notion of accountability for management? There can be take-over abuses but that very seminal idea was that there should be some notion of accountability. So, let's see. What about elections and proxies? Well, when you're through with staggered boards, there are no elections, there are no proxies, no one's going to, in any material way, in any material number, throw out management who are bad. Let's just assume that there are some managements who are bad. (Present company, of course, excepted.) So you say to yourself, well, what *is* the process? Proxies? They're out, you can't do that. So, then you say, well, boards of directors? (There are all sorts of books from every business school about the efficiency of that approach.) Then you say, well, wait a minute, what about the take-over process? Forget all the detail, but should there be a means of having an accountability of management? Once you say yes to that, then it is all a question of method and approach and lots of people can have different ideas. If you say no to that then you are saying that there is some inherent right for management to be management without accountability to shareholders.

Flom: I agree wholeheartedly with Bruce. A client of mine once said "people hate predators, and the aggressors in take-overs are predators." But have you ever seen a herd that didn't have predators? What happens to the herd? That's really the analogy I think one must look at.

On the other hand, there is an argument that the corporation is more than just a vehicle for stockholders to make money. This approach says that the corporation — or at least major corporations — is like some kind of quasi-governmental body where it must think of other constituencies in a very meaningful way rather than just the shareholder interest and the shareholder interest in the short-term.

I say the whole problem is a fundamental one — not only the change in control — but what is the corporation and who has a right to the corporation? Should you be able to trade in corporate control and therefore the corporation (as the Chicago School would say), just like you trade in sacks of wheat? And there are various arguments about the desirability of letting the marketplace put the assets to the greatest and best use. But to do that obviously involves upset; it involves changing the headquarters from the town where the local charities got special treatment to one where they no longer can count on that. In many cases it involves cutting employment because people are no longer interested in just letting things go as they have. It involves change, and change is always upsetting.

Lipton: The problem here is that the predators in the United States are not only fast of foot and long of fang, they are also very good on turn of phrase, and accountability is always focused on the directors of the company. Very rarely do we hear about accountability of the other participants — the accountability of people who provide financing to the predators; the accountability of people who provide advice to the predators; the accountability of the predators in eliminating jobs; the accountability of the predators in reducing long-term investment; the accountability of predators in decreasing the ability to compete in world markets, and so on.

Now, all these I grant are issues of judgment and policy, but I don't think that we can have a fair debate or ever come to a rational resolution of these issues without taking into account the accountability of *all* of the players who are involved.

Rohatyn: Including the Chicago School of Economics.

Flom: For Marty to say that the predators are the ones who are "fast of phrase" when he is the inventor of the phrase "junk bond bust up take-over" leaves something to be desired, (laughter)

Harris: We'll give the commissioner one last comment. I will tell you we can do a whole panel of just Joe and Marty, (laughter) Just one last thing and then we're going to go on.

Grundfest: I think Marty's put his finger on a very important problem. The issue is not about 10 day windows here, and 20 day waiting periods there. That's not really what's got America worried. We're worried about the mechanisms of corporate control. I'm a person who's often alleged to be a die-hard member of the Chicago School. Even though I've only been to O'Hare Airport. That's the extent of my connection with Chicago — I fly through. So I hope I can make the following statement without raising any concern that I am a Marxist, (laughter) I would like to put forward, in roughly 90 seconds, a neo-Marxist perspective on class struggle and contests for corporate control. To do so, let's look at a specific transaction — the RJR-Nabisco transaction, where R.J. Reynolds went out in a friendly deal to buy Nabisco, using the internal mechanisms of the corporate governance process and operating under the traditional rules.

"I think people in our industry should be more concerned about the equity of the whole general restructuring of America. But the restructuring is inevitable. It is a function of an industrial revolution not only going on in this country, but world-wide."

BRUCE WASSERSTEIN

Subsequent to the friendly merger, the executives of Nabisco rose through the ranks until they became the dominant force within the J. R. Reynolds group. They then decided to shut down RJR headquarters in Winston-Salem and to move the headquarters to Atlanta. They also spun off a major RJR subsidiary. There is also talk — I don't know how true it is — about spinning off the tobacco operations into a master limited partnership. Now, all this divestiture is going on, and a major headquarters is being moved out of town, but there's not much of an outcry from the corporate community.

Now, suppose for an instant that Nabisco had raised the financing to do a hostile take-over of R. J. Reynolds. Suppose also that Nabisco announced, *a priori*, what their intentions were: "We're going to shut down the headquarters in Winston-Salem and we're going to move it to Atlanta, we're going to spin off a major subsidiary, and we're going to think about spinning off the tobacco operations." There would have been hell to pay even though the end result would be identical to the result in the friendly take-over. Although the end effect is exactly the same, the political response would be remarkably different. Is there a possibility that it's because, in one situation, the changes operate through a socially accepted mechanism for the transfer of corporate power, while in the other situation it takes place in the marketplace, and some people have less confidence in the marketplace than in traditional methods of corporate control, such as votes in the board room?

Lipton: I don't think any of us have any objection to what we frequently call industrial mergers, whether accomplished by hostile tender offer or by negotiated acquisition. I think what we're focusing on is not the combination of two business organizations in order to form a more effective organization. Instead, we're focusing on the impact on American business of the movement away from industrial acquisitions and toward financial speculative activity. That's what requires the attention — not the combination of two major companies.

Harris: I think we should move into the next segment now to hear from two gentlemen who have had experience from the operating side and the corporate side. What I would like to do is start out first with Don Clark, who is chairman and president of Household International. Don is going to give a few remarks about mergers from the perspective of the chief executive officer.

Mergers from the Perspective of a Chief Executive Officer

By Donald C. Clark
Chairman, President, and Chief Executive Officer, Household International

Thank you, Ira. The people on this panel are the ones who make hostile takeovers work. I accepted the invitation here so I could meet individually with each one of them last night, and I gave them inside information about my company; now I feel perfectly safe. (laughter)

I come to this subject as a professional manager who believes that it is management's responsibility to recognize and deal with the sometimes conflicting interests of a corporation's many constituencies; and while doing so to maximize shareholder value over the long term. This task is made significantly more difficult when there is a hostile takeover threat, because inherent constituency conflicts are magnified.

A major conflict involves those with a short-term view and those with a long-term view. Shareholders who encourage the takeover game usually take the extremely short-term view. They seek a premium over current market value, with no real regard for the effect their demand has on the long-term viability of the company or on the other constituencies that have made a meaningful but non-equity investment in the corporation. In some cases this amounts simply to a demand for liquidation through a third party, with a sizable amount of the gain going to non-stockholders.

The basic premise of takeover practitioners seems to be that the market is efficient in valuing a corporation, and if break-up or bust-up value exceeds current value, that is really a reflection of management's inefficiency. This premise ignores all other values.

There is substantial reason to attack this efficient market hypothesis standing alone. In fact, within the academic community there is significant current debate on the issue. Yale economist Robert J. Shiller argues that gyrations in equity prices over the past 100 years have been too wild to be accounted for by changes in fundamental values. He claims fads and fashions dominate swings in stock prices. Warren Buffett, chief executive officer of Berkshire Hathaway, and one of the most successful investors this country has ever seen, has said, "You might think that institutions, with their large staffs of highly paid and experienced professionals, would be a force for stability and reason in financial markets. They are not: stocks heavily owned and constantly monitored by institutions have often been among the most *inappropriately* valued."

The point made by Messrs. Shiller and Buffett is that the market is not necessarily efficient in valuing a particular company's stock at a particular moment in time, and I agree. The market value of a company is, of course, a critical point in any takeover situation, because that value, along with the premium the bidder is offering, determines whether or not management can consider the offer as fair. We all know that in order to acquire a controlling ownership position, a premium over market must be paid. If we start with my premise that in some cases the market value does not accurately reflect a company's value, then, obviously, a higher premium is necessary. However, some economists seem to think that a 30 to 40 percent premium by itself is sufficient evidence of value to warrant a change of control.

I disagree.

I also disagree with some economists on another point. In a cornerstone article in the *Harvard Law Review,* advocating enforced passivity on the part of management in a takeover situation, they concluded: "Even resistance that ultimately elicits a higher bid is socially wasteful. Although the target shareholders may receive a higher price, these gains are exactly offset by the bidders' payment and thus by a loss to the bidders' shareholders. Shareholders as a group gain nothing."[1]

Well, as a manager I was taught to maximize value and to be an

[1]Frank Easterbrook and Daniel Fischel, *Harvard Law Review,* April, 1981.

active advocate for the welfare of all of my company's shareholders. I cannot imagine taking a passive, sideline role in a takeover situation. I would consider that an unforgivable dereliction of my duty and a breach of my fiduciary duty of loyalty.

To return to my main theme, we should all recognize that there are many well-run companies in corporate America — companies that contribute enormously to this country's economic well-being — that could be restructured with massive debt or broken up and sold piecemeal to give short-term shareholders an immediate payout.

But is this management's role? And is it maximizing value in the long term? Should we put a For Sale sign out in front of every company headquarters? I think not.

There is something fundamentally wrong with the position that the only value to consider in managing a business is current gain to existing shareholders. This thinking ignores the multiple dimensions of corporate management responsibility. Short-term shareholder gain is only one of a number of responsibilities and values that should be taken into account. Others include the rights of customers, employees, suppliers, and the communities in which businesses operate and which have a dependence on business.

To meet these responsibilities management must concern itself with developing for the corporation the financial strength to withstand recessions and other adversities, the resources to invest in new technology, processes for developing new products and services, techniques for improving productivity — all of which are of fundamental importance to the future of any individual business and to the health of our economy and the well-being and advancement of society as a whole. Meeting these responsibilities also requires management and employees to have a sense of institutional loyalty and commitment, and this requires confidence in the continuity of a business, albeit with continuing change.

"It is management's responsibility to recognize and deal with the sometimes conflicting interests of a corporation's many constituencies. . . . This task is made significantly more difficult when there is a hostile takeover threat, because the inherent constituency conflicts are magnified."

The maintenance and development of institutional loyalty and commitment do not equate to "entrenchment." I take great offense at the oft-repeated charge that management is entrenchment motivated when it seeks to nourish institutional loyalty or pursues the long-term view. Those in the academic field, with their tenure system, are sometimes the most vocal about entrenchment.

In short, it is a denial of major aspects of corporate responsibility to regard short-term shareholder gains as the supreme, if not the only, responsibility of management to which all other values are subservient, if they are to be considered at all. I believe in, and intend to continue to be an activist manager, in defense of the long-term interests of the full range of constituencies that make up Household International.

During the debate that followed our adoption of a shareholders' rights plan, one of my fellow panelists asked rhetorically why management that adopts a rights plan can accept the fact that their shareholders were smart enough to know when to buy their stock but not smart enough to know when to sell it? He misstates the issue. It's not a question of intelligence but one of coercion. He and others would ignore the coercive nature of all tender offers due to the one-sidedness of the current rules. Does anyone really doubt that a raider wishes to buy the shares of his target at the lowest possible price from a widely scattered and *unrepresented* shareholder group under enormous time constraints? Does anyone really doubt that?

In this, the raider is assisted by current rules which permit him, and others working with him, to secretly accumulate a substantial ownership position before disclosure and to falsify the real purpose of the accumulation without fear of reprisal. All participants in the takeover game must bear some responsibility for the growing public distrust of our system in light of current revelations of massive illegality and greed. The need for meaningful reform is emphasized by the fact that it was not our system of checks and balances that uncovered the present wrong-doing, but rather an anonymous tip that started it all.

Before my time is up and before I am accused of being too one-sided in my views, let me readily state that takeovers, including hostile takeovers, should not be outlawed. Rather we need a balancing of the power to control the outcome — a leveling of the playing field. Leveling the playing field will help management recognize the rights of all of a corporation's constituencies, and also may help us reestablish the integrity of our marketplace.

Managing Acquisitions and

Reviewing the roster of speakers for this event left me overawed and somewhat uncomfortable. Congressman Rostenkowski has already put us in a position where one can enjoy only eighty percent of a business meal. I admit, in my case, this is more than required, but it is upsetting. Commissioner Grundfest is *the man* in Washington and need I say more. Messrs. Flom, Gutfreund, Lipton, Rohatyn, and Wasserstein charge so much for their advice and services, I didn't dare say more than hello. Henry Kravis, although he seldom mentions it on weekends, is my boss. Thank goodness J. Ira is here. Being semi-retired, he charges less to old-line clients and his free advice is certainly worth it. And finally, Don Clark is so spastic about takeovers, acquisitions, etc., I had to sign a five-year stand-still agreement relating to his stock before he would appear with me. He said that he did not have a "For Sale" sign in front of his business. I thought when he listed his stock on the New York Stock Exchange that said "For Sale" . . . but I may be wrong.

Clark: One share at a time . . . one share at a time.

Kelly: I'm sure that every investment banker here would agree that one share at a time, at the proper rate, would be just fine with them.

I have spent a good portion of my executive life participating in the buying, selling, building, shrinking, and restructuring of U.S. corporations — and supporting investment bankers and lawyers. Therefore my views are not biased in any particular direction. It might be appropriate to conclude that I've just been indecisive about what to do with my career.

From these experiences I have developed some rather definite views. Most importantly, I believe management has an ongoing responsibility to maximize shareholders' values, using those approaches which by regular and objective analysis appear most appropriate for their company. All programs to insure shareholder gains start with a basic requirement. Individual corporate operations must be managed by talented people with a single dedication — long-term improvement in the return on assets employed. This may involve growth but it is not a requisite. It does involve the willingness to sacrifice short-term gains for longer-term benefits. The realities of this policy must be articulated to the marketplace on a regular and consistent basis in an attempt to minimize the potential damage to shareholders' wealth due to the "Street's" proclivity to use "what have you done for me today?" type of value judgments.

My experience and this discussion relate to diversified companies, which I believe should be made up of autonomous discreet asset groupings overseen by a holding company approach utilizing to a degree the portfolio management approach.

Contrasted with portfolio managers, holding company management does not have the luxury of a stock market providing current values on individual asset groupings or affording them an easy exit vehicle. In addition, holding company management has the very important responsibility of management appointment and the understanding of long-term goals.

Periodic evaluations of these individual asset groupings, their current value, and future potential become the basis for grow, shrink, sell, or retain type decisions. The aggregation of all asset values, plus or minus corporate assets or liabilities, is the on-going basis for the determination of the corporation's total value, a necessary determination in equating the best course for shareholder benefit and judgments relating to market recognition versus potential returns from the sale or restructuring of the company.

The previous speaker indicated that the market sometimes does not recognize the value of a company. Then it is management's responsibility to get to the marketplace and articulate its position to increase that value.

I was involved in taking Swift *8c* Company, a less than $3 billion a year meatpacker, into Esmark, a $7 billion conglomerate, which was then reduced to a $3 billion diversified company through a major restructuring involving selling off energy and fresh meat operations. Through internal growth and acquisitions, principally the acquisition of Norton Simon,

By Donald P. Kelly, *Chairman and Chief Executive Officer,* Beatrice Companies, Inc.

Dispositions for Shareholder Value

Esmark grew back to the $7 billion level, and in 1984 Beatrice purchased all of Esmark. (Beatrice offered $56 for the company with management, *$60 without.)* (laughter)

During this period, Esmark/Swift bought 50 companies for over $2.5 billion, sold 35 for over $1.7 billion, issued 40 million shares and repurchased 46 million shares. We were at least somewhat flexible. From 1978 through the sale to Beatrice for $2.8 billion in early 1984, while I was the chief executive officer, stock value increased from $7 to $60 per share. Incidentally, the Dow at that period ranged from 800 to 1,200, somewhat less responsive than today's market.

Recently I became involved with KKR in the purchase of Beatrice. In the first eight months since the acquisition, autonomy has been returned to operating units, overhead has been cut $140 million, $3.6 billion in assets have been sold, and the company has some very ambitious plans for the future. Of the sales, four of them today are independent companies and one is a part of a major offering by Coca Cola. So, I really don't think that those sales have adversely impacted America.

I have, with the Beatrice experience, been engaged in seven separate billion dollar plus transactions. The net result of all of them, in my opinion, has been to increase shareholders' values. Since I am a professional manager, shareholders had and have every right to expect that performance from me.

This key element of management's responsibility is too often down-played or ignored by top management. All of the rest of their activities should be subordinate to this long-term objective. It is not easy. You cannot let the "Street" run your business. You must accept that certain actions which provide long-term benefits may temporarily reduce stock prices. You have to recognize that the general level of stock prices can both benefit and hurt your stock. All of these factors and more are part of the delicate balancing act management is being paid to perform. In the final analysis, management must recognize they were hired to improve shareholders' wealth. They should be willing to be judged on the basis of their record against that criteria.

Acquire, grow, shrink, divest, restructure, buy and sell securities, incur and reduce debt. Sell the whole company and lose your job. All of these are legitimate tools to be used in meeting one's corporate responsibilities. I suggest companies use any, all, or none so long as they get the job done. Legitimately winning is always more fun than losing and it doesn't make a lot of sense not to at least consider using all the tools that are available to you.

DEAN RUSSELL

"In the final analysis, management must recognize they were hired to improve shareholders' wealth. They should be willing to be judged on the basis of their record against that criteria."

Commentary #2

Harris: Don is the only guy I know that has bought and sold the same company four times, (laughter)

Kelly: It's affection.

Lipton: It's known as periodic entrenchment, (laughter)

Harris: Why don't we open it up for discussion here. Who wants to start?

Lipton: I would like to ask Don Kelly how he reconciles these two propositions: (1) the development of long-term shareholder value, and (2) the maximization of stock market price on a current basis.

Kelly: We're not talking about getting up every morning and being assured that the stock is going to represent on that day all the values management ascribes to it. The facts are that one should be looking at it on the basis that assets you have under your control are going to be more valuable if you continually make the kind of investments that support those assets. Temporarily you might have less PE recognition, or you will have a reduction in EPS that will affect you. It's your job to get out in the Street on a consistent and regular basis and articulate your company's position. Esmark had 33 up quarters and then had one down quarter. I was back out on the Street explaining it and the stock went up. If you consistently tell the investor the story, you can overcome some short-term swings.

Flom: I would like to ask Mr. Clark what he means by long-term? In the long-term we are all dead. I recall a client coming in who was worried about a take-over. I wanted to know why he was worried. We went through his assets and he had a 100 years' worth of minerals in these mines. I said, how much credit are you getting from the market for the last 80 years? Well, he said, not really very much. Then I said, is it one mine or can you sell off the 80 years? Oh, you can sell it off, he said, but in the long-term that's going to be important. They could have sold the 80 years' worth of supplies for more than the total market value of the company, so I just want to know in terms of stockholder interest, what do we mean by long-term?

Clark: Joe makes a good point. Certainly in the particular illustration that he's used, it would have been a much better management decision, based on the limited facts we have, to dispose of that property. When I talk about long-term, I'm talking about a strategic planning horizon — which in most companies would perhaps be a 3- to 5-year period. What is most bothersome to me is the short-term view of the institutional investor who today owns a majority of the major corporations. I just got back from an institutional trip, talking about the prospects of the company. It's most discouraging to management, let me assure you, to see these people concentrate on subjects such as: Is your company a take-over candidate, and if not, why not? Their horizon is extremely short. I have substantial difficulty in trying to equate their interests with the interests of others who are truly in the picture for perhaps 5 years or longer.

Rohatyn: I would like to support that. I think that we pay too little attention in this discussion, or in any discussion dealing with take-overs, to the fact that the ownership of corporate America is shifting to managers, and that these managers, who now, I think, control roughly 70 percent of corporate America, view their responsibilities very differently and they have a legal basis for doing so. If you look at ERISA, if you look at some of the statutes involving pension fund management (I spend a great deal of our money paying very good lawyers, so I don't practice law), but what I hear is that there is basis for their saying, look, if there is a bid at a premium here, I have no right to turn it down. That creates a dynamic that is very, very difficult to deal with.

If you've got market actions where there are market accumulations, where arbitrageurs are accumulating stocks, and where the institutions themselves, the pension funds or the insurance companies or the banks become players, in effect, because of what they see as their responsibilities under the law, that is something that is worth reviewing in terms of this whole question of the shift in corporate control, because, in effect, they control United States' business.

The other issue that is brought up is the question of leverage and whether junk bonds are good or bad for you, which is an argument that is raging at least in a small eclectic circle in this country. And, as always, there is no one answer to it. There are obviously companies that have to issue high-yield/low-grade bonds because they can't do anything else. Whether the use of that instrument as a part of the mechanism to take over and break up large companies is good or bad, we will only know a few years from now. There have been 120, 130, 140 billions of these bonds issued, maybe half or a third have been issued in connection with take-overs, and so far the record has been pretty good. After the next recession, we will see where all this comes out, and since amounts of this size can only be acquired by institutions where fiduciaries are representing either retirees or policyholders, or depositors — if the experiment turns out to be wrong, the taxpayers will pick up the bill. So far, on the basis of a 5-6-year experience cycle, nothing terrible has happened. On the other hand, in that same 5- to 6-year cycle, we've doubled the national debt and we've got a $180 billion trade deficit and a 2,300 market, so I think the returns aren't all in, and we'll just have to see what happens.

Kravis: I find what I hear Felix saying, troublesome, because if we'd continue on the course that he's on, we won't be in LBOs, we'll be in the venture capital business, or we'll be doing something else. We have had an experience of some 20 years, this is not an experience of 5 years. We have spent approximately $30 billion buying companies and we've bought over 30 companies during that period of time. What's interesting is that every one of those companies have grown and prospered. Managements have been owners in every single company and that's critical.

On the answer to the question, Felix, when you go into a board of directors in Gulf Oil and talk to them as they're under attack by Boone Pickens, the chief executive tells you that as a private company we will be able to save anywhere between $200 and 400 million a year in corporate overhead! Or you go into General Foods when they were under attack by Phillip Morris. The first thing the chief financial officer said to me was, "When you're figuring out your numbers, figure on a savings of $300 million a year in corporate overhead." These are not sales of assets. These are strictly day-to-day operating expenses.

I blame the board of directors in most companies. Management doesn't own any stock in these companies. Boards of directors by and large do not own any stock and there is no one that's accountable. Management is there. They continue doing what they're doing. In some cases it's very good; in other cases not so good. I think when Don Kelly can cut over $100 million in corporate overhead out of Beatrice Company, and continue to grow the company, that's a case in point. And my question really is, going back to Felix's earlier comment that financial buyers are bad, and that this is really bad for corporate America, I find some real trouble with that. I would like Felix to expand on that, if you would.

"I blame the board of directors in most companies. Boards of directors by and large do not own any stock and there is no one that's accountable."

HENRY KRAVIS

"What is most bothersome to me is the short-term view of the institutional investor who today owns a majority of the major corporations."

DONALD C. CLARK

Rohatyn: I never said that. Henry, as you perfectly well know, because we've been involved in a number of things together, I strongly supported a bid you made for a company that I advised — a very large company — because I thought it was the right thing to do, and it went through. I was not the most popular person on the block at that point.

I am not making that argument and, as I said earlier, I make no distinction between hostile and friendly take-overs, none whatsoever. The issues that Fm concerned about are appropriate financial structures and appropriate process on both sides of offense and defense and, as much as possible, the absence of frenzied speculation in the markets of this country. That's what Fm talking about. I don't think that it's revolutionary, and I don't think it says anything to the effect that there shouldn't be financial buyers. I have no problems with financial buyers, as long as you structure your deal properly.

I do have a problem with financial institutions buying paper by the tens of billions that may be difficult paper to service the next time there is a recession in the hope of being able to sell assets in the meantime which they may or may not be able to sell. They may not all be as smart as you are and as successful as you are. You've been one of the bell wethers in the industry. And, so what Fm talking about is really the fiduciary responsibility of the institutional investors because that's what's driving the system.

Kelly: You may not like it that the institutions are your investors, but they are, and they are the people you are responsible to — your shareholders. It's always amazing to me that we, as managers, can put out an annual report and say that although we anticipated earnings of X, an unusual event has caused us to have earnings of Y. We are unable to predict the future. How management can sit with a stock at $40 and look at an offer of $60 and say our stockholders are going to benefit because we are projecting that three years from now we are going to have earnings of X, I think is an assumption that is not valid. You have to make your judgment on the basis of what you can return to the shareholders. When we made the decision to sell Esmark to Beatrice, there was no liquidation. **All** we had was a change of ownership. It wasn't bad. It was so good that we bought it back later.

Flom: You know, when one talks about the market and management making a judgment, they can make a judgment. The question is how wide the band is. You have another interesting phenomenon here. You say create long-term values for shareholders. Which shareholders? Let's say you're in the department store business. The best companies are selling between 7 and 10 times earnings. You're selling at *IV2* or 8 times earnings. Now, somebody comes in and offers 13 or 14. If somebody likes the dynamics of the department store industry, they can make the 13 or 14, go back in and buy other shares at a lower multiple and still have a play in that industry. To some extent in the United States, this whole phenomenon, as we're captive of the depth of our markets, but, I'm not saying it's all right and all wrong on this. I think that it is something where there are real grey areas of a very, very significant dimension. You have people who are advocates for one side or the other who refuse to look at it.

Rohatyn: I would like to just say in the interest of full disclosure that if Joe were really so much in favor of the open market for corporate control that he advocates, I would have been successful in taking over two companies which he defended

"I would like to ask Mr. Clark what he means by long-term? In the long-term we are all dead."

JOSEPH FLOM

"When we made the decision to liquidate the company into another company, there was no real liquidation. All we did was have a change of ownership. It wasn't bad. It was so good that we bought it back."

DONALD P. KELLY

with actions that I considered totally outrageous and which turned out to be completely successful, (laughter)

Harris: I've got one question, Don, I would like to try to get a clarification. In your remarks talking about restructuring and what is forced on companies, I believe you used a term "the gain goes to non-stockholders." I'm not quite sure that I understand what you mean by a non-stockholder getting the gain?

Kelly: That's the people at this table, (laughter) One of my concerns is . . .

Grundfest: I would like to be excluded from that . . . (laughter)

Kelly: Except that the Commission is paid from the capital gains tax. One of the serious problems I think management faces is this whole question of whether or not a company should be liquidated. I would take exception to an earlier line of reasoning that Bruce used. I think the proxy system *is* the system that should be used. I think people who say we don't want to use the proxy system are those who substantially benefit in a monetary sense from the hostile tender offer situation. I've always taken the position that "give me more time and, if, indeed, my shareholder group wants to liquidate the company, instruct management and **I'll** do it passing out *all* of the proceeds to the shareholders." That way, up to 10% will not be diverted to certainly excellent, legal and investment banking talent, but nonetheless a substantial amount of the assets of the corporation.

Harris: Do you know, Don, the pressures my partner, Mr. Gutfreund, and Bruce Wasserstein face in having to put all these MBAs to work?

Clark: It's an interesting point but if we could get you MBAs to go into the manufacturing segment of this country, we would be much more competitive.

Harris: At this point I suggest we take a 10-minute break. We will then start the next part of the program with a gentleman who I have had the great privilege of competing against for many years, and that is Bruce Wasserstein, who is managing director of the First Boston Corporation. I would just like to make one comment. Bruce is a 1967 graduate of The University of Michigan, and while he was an undergraduate he served as the editor of the *Michigan Daily.* I would like to say to my good friend, Stan Cook, up there, president of the Chicago Tribune Company, that I only wish that his people at that time had been more successful in recruitment. If they had recruited Bruce to go into the Tribune Company it would have made life a lot easier for Felix and myself on Wall Street, not having had to have Bruce as a competitor all these years! Bruce is going to start off this section of the program by talking about current developments in restructuring.

Current Developments in Restructuring

By Bruce Wasserstein
Managing Director,
First Boston Corporation

"Many of the companies in the United States are structured the wrong way, and it is, I think, very important to recognize that."

Ira, thank you, and, as when I was at school in Michigan, I'm still fighting for truth, justice, and the American way. (laughter) Against the odds, as you can hear from this panel, (laughter)

Now, I think that to introduce this section, you have to get a context of how much the reality differs from the rhetoric in all these discussions. You've heard a nice exposition about why Marty believes in industrial takeovers, but somehow individual takeovers by entrepreneurs — they're all bad. Now of course, the legislation doesn't distinguish between those two, so it's a little unclear what Marty means.

Better yet is the discussion of voting. Now Don (Clark) here believes very much in the vitality of the election system as the key to responsibility of management. It's absolutely the key approach. Of course, then you wonder — wait a minute, what is a staggered board? Now, Don (Clark) do you have a staggered board?

Clark: Thank you for asking the question. NO. I stand for election every year.

Wasserstein: That's right. And when Don realized he didn't have a staggered board, he asked his advisors what do I have to do to get one? And they said, you have to go to your stockholders to get their approval. But did he do that? No. What he did do was something even better. Why go to the stockholders? You can go to one person and get something even better. You can go to Marty Lipton and he'll give you the vote. He'll give you the Number One. The Model, The First Poison Pill. He will not only give you the vote, he'll give you the election. He (Clark) talks about democracy, and it's Marty Lipton who gets the vote. (laughter) That's called election restructuring, (laughter)

What's restructuring all about? Restructuring is narrowing the gap between break-up value or market value or real value and stock market value.

There are lots of reasons that gap comes into play. It's a perception problem. A company could be, in fact, under-leveraged; it could be, in fact, unrecognized; it could be, in fact, under-managed. If in every company you can cut $200-300 million dollars (in overhead), it does say something. If you've ever gone through a big company and seen all the public relations departments, at some point you ask the question, what's that good for? It may be good for employment, and it may be good for the Michigan Journalism School, but at some point you say, is this all really quite necessary?

The fourth point is that there may be a confusion in focus that is not recognized by the market. So, you come back and you say, what's the reality here? The reality is that it's about time people take a look at the American industrial structure and say, what makes some sense, what can get recognition?

Is some of this fad? Yes, there is no question as in all markets, whether diamond markets or stock markets, there is an element of fad. They're an element of cycles. Is part of it something concrete? Yes, I believe so. There are substantial elements that are real.

You just can't take the present form of a corporation for granted. You need to look at it as one would look at a stone that's been cut. You have to look at every ray of light through the prism, see how it refracts, see if there is some other way to put the building blocks together.

Another way to think about it is there were people in the 1960s who put together large American conglomerates block by block. Now, twenty years later if that format and those building blocks aren't fully valued in the American stock market, is there some moral imperative why they shouldn't be reorganized, why they shouldn't be disassembled? Is there some imperative as to why nostalgia for the 1960s should be a matter of national policy?

So, how do you narrow that gap? How do you create value? Obviously, if the problems are that a company might be under-leveraged, unrecognized, under-managed, or diffuse in focus, what we recommend to people is a three-pronged type of approach.

First, you take a look at the financial structure of a company. What may have been an appropriate structure when a company was in a high-risk competitive market, when a company may have been very new with its products, may be different than it is today.

The ideal financial structure may be very different when junk bond interest rates can be under ten percent in today's financial market, from when good industrial credits were above fifteen percent (as they were just a couple of years ago), and where short-term borrowings were closer to twenty-two percent.

In other words, you have to tailor the financial structure to the realities of the day. Much of the statistics that are seen in the newspapers about levels of debt and the various ratios are entirely misleading. Why is that? Because, of course, they're using book value statistics rather than market value or current replacement data. For example, if you were a company who didn't sell stock and your stock was at the average Dow-Jones level of 800 a couple of years ago, and the market's at 2400, there is a presumption that somehow your value is much higher than it was, but on a debt-ratio basis, the results are the same. So, a lot of the statistics are, of course, entirely misleading.

So you look at the financial structure and think what works for the long term? What is prudent and makes sense? No one wants the pressure that's created by an inappropriate financial structure. But many of the companies in the United States are structured the wrong way, and it is, I think, very important to recognize that. Of course, Japanese structures are quite different than ourselves, quite a bit more leveraged, and it sure hasn't hurt them in the international capital markets.

The second point though is more fundamental. You need a coherent business strategy. Financial strategy by itself doesn't make a lot of sense — isn't credible. What you need is to wrap it up with a coherent business strategy. What is the purpose in Beatrice of 9,000 different units running around in different directions? There is no question from the outside world's perspective, that one of Don Kelly's great successes has been to really come back and use some basic common sense as to the form of a corporation. One only has to look at conglomerate after conglomerate where many good companies are somehow lost in the byzantine management structure. There is a need to rejuvenate the concept of business strategy, and that's partly reflected in the restructuring movement.

The third point is operational. Companies, with that additional attention, can be better operated, and Henry's whole record is a testament to that experience. The facts, the verifications, are right there. They're not very hard to find. They're right there in Henry's record of achievement. When companies are focused and they have decent management, there is a vast difference, not in the financial gyrations, but in the operating performances of some of these businesses.

Now, what specifically are some of the manifestations of this? Specifically, what you see are share repurchases, public recapitalizations, better known as, "If Henry can do it, why can't I do it as a public vehicle," spin-offs, massive divestitures. What you're seeing in the United States now is a very large movement to restructuring.

Whatever you believe about takeovers, good or bad, the central point is that some very rudimentary form of accountability does have a positive effect on forcing companies to take some positive actions.

Will we see more of this? Absolutely, because it is a reflection of a fundamental industrial fact. We are a maturing economy, and that's happening throughout the western countries. You see it in France, you see it in Germany, you see it in the United Kingdom. There is a necessity to realize that the corporate structure and the economic units of the 1960s, which were all very exciting and dynamic, are not necessarily appropriate as we reach the 1990s. This fundamental economic fact overrides all the alphabet soup of SEC regulation. This all has to be linked to some fundamental economic realities.

Our experience is in case after case, that you can get the market to recognize underlying value. I look to data in the last couple of weeks. I just want to mention two things we've worked on. Diamond Shamrock and LenCorp were both public deals where the hostile deal was defeated basically by restructurings where the market perceived incremental value because of the change in the financial structure, and in strategic focus of the company.

The other point that Marty asked me to talk about is the bridge type of financing. Essentially that's a device whereby a financial institution, sometimes an investment banker, sometimes other financial institutions, provides the funding whereby a company or an individual can effectuate a financial transaction. Now, what's different about this than in the past, is that in the past everything was done with, if you would, a 1960s pace and approach. That is, someone would have an agreement to go buy a company and then three months later he'd go get the financing on a leveraged buy-out. That would be a typical example.

The problem came in when an LBO firm let's say is competing with an industrial company who has the money. Would you sell to the industrial company, who has real money, or would you sell to the LBO company, who says they're highly confident they might get the money?

In this type of case, the financial intermediary says, I am very confident I can raise this money in the long term, but you need it in the short term, so what I'm going to do is bridge our underwriting commitment.

Now, where this came from is really an innovation led by John Gutfreund. The idea of cash and resources being on line, bids being immediate, and underwriters taking risks was really pioneered on the bond trading side. It was also reflected in the way deals are done in Europe. The technology basically being that people in our business are calibrating risks, and capital should be accessible to people who need it as long as it's thoughtfully done.

I think we're just seeing the tip of the iceberg on this innovation. I believe we will enter a generation of what I call merchant banking. Investment banking — that is, the advisory function — and the principal function will become more and more intertwined. Basically if you open your mouth as to what you think will work, in most cases you're going to land up — not in all cases, there will be a role for those firms that are purely giving advice and not having a financial commitment — needing to have the capability to back up your point of view with a capital commitment.

DEAN RUSSELL

'Merchant banking is a concept that will explode'

For example, a company is doing a divestiture. You think a series of nineteen companies that you want to divest are worth a billion dollars. You go to some other advisor and they say, well, it will take us three months to sell nineteen companies, but we think we'll get at least a billion. That's quite different from going to a second advisor who says, you have nineteen companies, we think they're worth a billion and, furthermore, we'll guarantee we can get at least a billion, and we'll share the upside beyond that. Again, time is the critical ingredient in the new capital markets and this is a way to shorten time exposure.

Now, can this all go astray? Yes. There is no question there will inevitably be mistakes. For this to work, one needs a sense of understanding the assets, some technical implementation, M & A experience, access to money, and the experience of having gone through a lot of these deals because they often go wrong. The art is not doing the deals that go right. The art is being able to manage the ones that seem to go wrong.

I think this trend will continue. Merchant banking is a concept that will explode. The function of investment banks, whether we like it or not, will change and that will be accelerated by the rise and intervention by other financial intermediaries such as banks and insurance companies.

On the other hand, will we have occasional massive screw-ups? The answer is yes. It is the inherent nature of our business that it is not all secure; it is not all predictable. If you step back and just think of the incredible gyrations in the value of the dollar versus the yen, in interest rates, and in the stock market, you can see that the only thing that is true of our business situation is uncertainty. When you have accelerating waves of uncertainty and the fundamental economic dynamics in our system, you're going to have some mistakes and a lot of opportunity.

"If you look at our industry a generation ago, ten to twenty years ago, it was a bunch of small businesses with modest capital. It's exploded."

The International Merger Market

By John H. Gutfreund
Chairman and Chief Executive Officer, Salomon Brothers Inc.

DEAN RUSSELL

I'm going to be quite brief because my job is managing a public company that's in the financial services business. What I want to point out should be evident by the facts of the last two hours, is that in financial services you've had the privilege this morning of listening to a panel of the likes of which I have never heard, and I've been in business 30 odd years. You have probably *the* two outstanding lawyers, practitioners of the take-over game, fortunately one of them is my partner, Ira Harris. You have three of the top field guys in the business, and you have the number one firm in the leveraged buy-out business.

I think the international M & *A* field is most interesting for one reason, to me anyway. So far, the process has been money coming here for investments here, not going the other way. Of course, the reasons for that are not just the immediate weakness of the dollar. There are structural reasons about America and the way we run our businesses that probably are correct. Certainly everything you've heard today indicates they're correct with some limitations. But, its been an extraordinary series of events.

All other countries among the major industrialized countries are protectionists in one way or another. The numbers here on transaction values are that 22.8 billion came in in 1986 from foreign countries. 18.8 billion came in in '85, and of course, that's not inclusive of what's come into the bond market, what's come into real estate. On the other side, the outflow in the United States in '86 is, according to these numbers, a billion nine. Extraordinary number. Why does this all take place? Well, #1, it has got to be the political and economic stability in the United States. #2, is the decline of the dollar to which I've already alluded. #3, the decline of the dollar is accompanied by the accumulation of large capital surpluses abroad and you particularly hear about it in Japan.

Next, you have the investment opportunities, next the extraordinarily attractive stock values versus the indigenous markets around the world, and, of course, you can't talk about our stock values without talking about the quality of our marketplace, which is matchless. There is nothing even close.

One of the things that's depressed me over the last year is that because there have been some excesses, because there have been some mistakes made in the market, and the press has been preoccupied with that, it has given us a very bad view of ourselves even in light of the overwhelming quality and integrity of the U.S. market. There's nothing that's in the same league. But I think this bad view of ourselves will continue.

I don't know what we can do about it except run our businesses as well as we can and I think that we're all attempting that with the assistance of the SEC as a relatively benign regulator to improve the way we run our businesses. If you look at our industry a generation ago, ten-twenty years ago, it was a bunch of small businesses with modest capital. It's exploded. It's exploded for technological reasons, it's exploded because it's proven to be of more value. It's also exploded because the world situation has changed and this has become something where we are inextricably involved with the rest of the world.

I have the opportunity in ten minutes to talk about the most extraordinary opportunity that will exist in your lifetimes and will continue to exist, regardless of how we've screwed things up.

Among the things that I was supposed to mention here was fear about protectionism. At the moment in terms of this business, I'm not unduly concerned about that.

Lastly, of course, is the open-door policy in financial areas which has always been the U.S. attitude. Fundamentally, regulators will only react to a matter of prices or pay-offs. I don't think you can expect regulatory intervention except after the fact. I think that whether it's the Federal Reserve or Congress, unless things get terribly bad with great dislocation, I think that pattern will continue, which obviously is a great advantage for those people who are alert, particularly in the financial services industries.

"On the other side, the outflow in the United States in '86 is, according to these numbers, a billion nine. Extraordinary number. Why does this all take place?"

Conversely, we are beginning to make progress abroad. I can look at our own company, which in 1971 established a small discreet presence in London, upstairs, a dozen people, nothing too showy. We now are resident on top of the railroad station in London with about 800 people. And the shaking isn't all from the trains going underneath every morning!

In Tokyo, a similar U.S. expansion. I think that you just saw last fall the first sign of deregulation as far as the U.K. goes in terms of the exchange and the functions. Much of the U.S. innovation was learned from the Europeans. They've been practicing the arts a lot longer than we.

Japan is a very difficult situation, but we are doing better. I know in the case of Salomon Brothers with government bonds which we are reputedly pretty good at — perhaps the largest in the world market and the United States — our allocation has gone from .07 percent, that's not 1 percent, but .07 percent to a quarter of 1 percent, and we're moving towards 1 percent. If you can imagine conversely the Japanese securities dealers in the United States, they bid for whatever they choose through a government auction, and if they buy 50% or 100%, good luck and God bless them.

The same thing goes with the stock exchange where membership is very difficult to obtain in Tokyo. They claim on the Tokyo stock exchange that they just can't handle it physically. They don't have the electronic capability, (laughter) I think when I talk about opportunity in M & A, I get off the track because I'm not an M *8c* A specialist, but I'm supposed to be a specialist in running a financial business, and looking at the opportunity through the globalization process, it's going to continue. Whether it's on the regulatory side or the business cycle side or the currency side, I don't think in your lifetime the world will be in sync — that is synchronized. If you look at how financial businesses are run today, they take their greatest profits by understanding that synchronization is not a fact and they reposition themselves internally with their market capacity on an almost minute-to-minute basis.

In my opinion, you will have to have a lot more skills, a lot more technical abilities, a lot more capital than historically most of the financial businesses have had in any country. Now, at the moment, that's not quite true with Japan, but even there with all their hidden reserves and with the strong currency they are very highly leveraged. I'm not going to get into a leverage conversation because it is not appropriate. It's different, I think, and I could be challenged by my industrial friends, for a financial company than it is for a manufacturing company.

I would like to conclude by saying I think that our industry, the financial industry, financial services, has never appeared to be more interesting and have more opportunity. But because of the other folks around this table, management change — re-deploying the way these businesses and their assets are run — will be a permanent fact for us. When you're my age, either you want to get the hell out, or you just want to keep playing because it is a fascinating game. It's never the same from one minute or one day to the next. I think it's going to remain that way.

Recent Trends in the Leveraged

It is a delight to be here on this panel because it is the first time that I have sat on the same side of the table with you people. And also the first time that I sat for this long without having to pay you anything. (laughter)

I have been asked to speak about the current trends in leveraged buy-outs in 10 minutes, so I'll touch on some of the highlights. The market has grown dramatically in the past few years. In 1985, there were approximately 12 billion dollars in total financing for leveraged buy-outs. In 1986, approximately 35 billion dollars, and I don't know what 1987 is going to bring. We'll watch and see what Mr. Proxmire and others in Washington are going to propose.

The first billion dollar leveraged buy-out was done in 1983, with Wometco Broadcasting; in 1984 Dr. Pepper for a billion dollars; in 1984 most of City Investing for a billion five; in 1985, Storer Communications for 2.5 billion dollars; and then in 1986 Revlon and Macy's were in the 2.5 to 3.5 billion dollar range; Safeway for 5 billion dollars; Beatrice with total financing of almost 8 billion dollars; and Owens-Illinois, the recent leveraged buy-out with almost 5 billion dollars in total financing.

The leveraged buy-out is used in a number of different ways. One way is for tender defense. This is when a company is under siege by a hostile raider, whether it be a financial raider or a corporate raider. And, in most cases, the leveraged buy-out firms, whether it is ourselves or others now in the business, are the first to get the call. What we'll find is that we're up against the recapitalization that Bruce Wasserstein talked about. Because that's usually the alternative.

Today you don't hear the company president saying, well, the first alternative is merging with company XYZ, a large industrial company. The first line of defense we find is either restructuring or the leveraged buy-out. Examples of this are Fruehauf, Safeway, Revlon, and SCM.

On the offensive side, management ownership is one of the big reasons that managements decide they would like to take a company private. Anderson-Clayton, Beatrice, Macy's, Dr. Pepper, Wometco, and Owens-Illinois are examples of some of the offensive leveraged buy-outs that have taken place. Tender offers today can be effective in leveraged buy-outs.

Before 1983, all leveraged buy-outs were done through what we called the cash merger, which necessitated the filing with the SEC, a proxy statement to be circulated, shareholder vote, and in each case it was a 90-120 day process. Well, with the ability of any firms, Bruce's and ours and others, to do a leveraged buy-out via tender offer, you cut the time down to a 20 business day period. We're now as competitive as any corporate buyer in America or overseas.

Financial structures are quite different today than they were in the '70s and early '80s. In the '70s you had a layer of bank debt. You had to use the Prudential Insurance Company, or Metropolitan Life, or the Equitable to come in with a layer of senior debt long-term, a layer of senior subordinated, possibly some preferred stock, and they would end up buying a large part of the common equity.

Today that's all changed, largely because of the advent of the high-yield and junk bond market that has been referred to on numerous occasions this morning. The reason for the change in structure is that the banks today are willing to put up much more money than they ever were before. And so you see a structure today that could be for a $5 billion acquisition with bank debt and equity or a bridge loan and equity, which was the case in Owens-Illinois. Or you may find the situation such as in Safeway or in Beatrice where we had debt, securities back to the shareholders which enabled the shareholders of the company to participate in the ongoing growth in the particular company being acquired, and then you had a layer of equity underneath that.

The interesting thing that has taken place today is that you have what we call "son of leveraged buy-outs." "Sons of leveraged buy-outs" are such companies as Playtex that was part of a buy-out of Beatrice Corporation. It was then sold to the management of Playtex for about a billion two fifty. Management now has it as an independent company. Avis Corporation is another; Amstar, which is the Domino Sugar Company, is another, and you see

Buy-Out

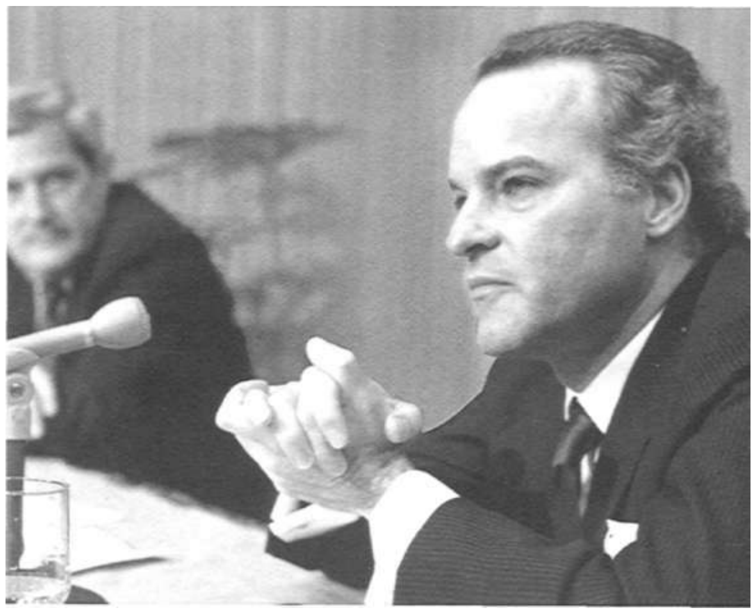
By Henry R. Kravis
Founding Partner, Kohlberg Kravis Roberts 8c Co.

more and more of these taking place today.

There are numerous participants in the leveraged buy-out game today, which there never were before — names such as Goldman Sachs, First Boston, Merrill Lynch, Morgan-Stanley, Lazard Freres. These are all firms that today not only are participating as an agent, but also have equity pools, or mezzanine pools of capital themselves, where they can go in as principal and buy companies and either take them private or keep them private, if they are a private company or a division of a public company. There are numerous partnerships that exist today, such as the Metropolitan Life Insurance partnership with First Boston to do leveraged buy-outs, or Connecticut General with Morgan Stanley, or the Equitable Insurance with Adler and Shaykin, where they go in on a joint basis and provide a large amount of capital.

What is the reason for the growth? I think there are two reasons — one is on the Financing side and one is on the executive and management side. On the financing side, all the financial institutions in this country, and I think pretty soon around the world, have realized or will realize the substantial kinds of returns that have been able to be gained in leveraged buy-outs.

There is plenty of money to invest — pension funds are growing each day and they don't have homes for the money. There's safety in financing. Particularly at the bank level. I can't name one catastrophe where a bank has not gotten every



"Financial structures are quite different today than they were in the '70s and early '80s."

penny back. Yes, it may have had to restructure, it may have had to defer for awhile, but in almost every case the banks have gotten their money back. I agree with Felix when he says that the question still remains to be seen — what happens five years later with the high leverage that is put in many companies due to the high-yield market. We don't know what's going to happen. I think there are and have been too much money chasing too few good deals, and deals that are being done today where people want to do them to get on the map — to say they did a billion dollar deal, or a three billion dollar deal, and to take the fee and to go on to the next transaction. And there is not enough focus on what do we do with the company now that we own it.

We insist at KKR, in every situation we're involved with, that we control the board of directors and work very closely with management and operate with what we call "no surprises." That differs from many people who are involved in the leveraged buy-out business.

One of the other phenomena

that we are seeing today is that every small bank and some small insurance companies around the country have the opportunity for the first time to participate in leveraged buy-outs through sub-participations with the banks. For example, Bankers Trust led a recent leveraged buy-out of Owens-Illinois and they committed 500 million dollars. When it's all over, my guess is they will be left with about 150 million dollars. They will have stripped off the fees, and banks in Japan and Europe, and Des Moines, Iowa, and maybe Ann Arbor will be participants in Owens-Illinois.

On the other hand, you have the company CEOs who have seen that this is a way for them to chart their own destinies. It is a way for them to own a meaningful piece of their own company and more importantly to stay independent, to run the company for the long-term and not have to deal with the security analyst who often forces companies to make short-term decisions when long-term decisions are required. Quarter-to-quarter earnings are not even a factor once we buy a company and take it private. We must insist the company be run for cash flow and run for the long-term. Leveraged buy-outs also provide the executive the opportunity to stay away from the unwanted raider.

Probably at the bottom of all of this is a greed factor, and that is that an enormous amount of money can be made by executives and by the people putting the deals together. It's one of the reasons for the substantial growth in the leveraged buy-out business.

In concluding, I feel strongly that leveraged buy-outs will continue to proliferate in size and in number. Don't forget that LBOs have been around for many years the way we know them, 20 in our case. And we've been through upturns and downturns, inflation/deflation, high interest rates and low interest rates. In my opinion it will be the stock market and the inherent values in companies that will determine the volume of LBOs in the future, not the availability of capital.

Directors' Responsibili

PA

"We have to impose political and social control on institutional investors."

First, I want to ask Bruce to stop referring to me as an entrencher of corporate management. From now on, Bruce, I would like to be known as an "advisor on the maintenance of corporate institutional loyalty." (laughter) I would like to offer to John Gutfreund if he would like it my boiler plate, staggered board, and poison pill. They're readily available at competitive rates, (laughter)

I think the most significant question we face today is where we go in this whole field. Mention has been made of Adolph Berle and the original Berle and Means thesis of 1932. Felix has mentioned that Mr. Berle changed his mind in the '50s and '60s and I think it's of critical importance to focus on that change. In the '50s and into the '60s, Professor Berle recognized that there was a fundamental change in the ownership pattern of American business from what he had first recognized in 1932. And there was a shift taking place from management control to institutional investor control. And he then embraced the enterprise theory — the concept that corporations should be managed not just in the interests of the shareholders, but in the interests of the enterprise as a whole, which includes, of course, the employees, customers, suppliers, and the community in which a corporation lives.

I am a believer in the enterprise theory and I think the most significant economic problem and probably the most significant social

By Martin Lipton, *Senior Partner,* Wachtell, Lipton, Rosen and Katz

ies With Respect to Takeovers

and political problem that faces us for the next decade or so in this area is how Congress resolves this question. Are we going to resolve the question by allowing what I call unrestricted institutional shareholder dominance of corporate activity? Or are we going to impose a sharp social responsibility on institutional shareholders so as to level the field in which these fundamental questions are decided?

As I indicated before, I am not a believer in the total elimination of the hostile tender offer. I think some mergers are not only good but necessary. My thesis is not to eliminate takeovers or to eliminate mergers or to eliminate restructuring of a business. However, I think that we cannot ignore the social impact of this activity and one can't say that the focus should only be on the maximization of shareholder wealth. First, one has to recognize that we don't really understand what maximization of shareholder wealth is, and that in a society like ours, we often have to sacrifice individual wealth enhancement to the societal need.

Where does that bring me? I think we have to change. I think we have to change the tender offer rules. I think we have to level the playing field with respect to that, but I think we have to do something far more fundamental. We have to impose political and social control on institutional investors. I think we accomplish absolutely nothing in terms of long-term policy objectives by changing the rules with respect to directors' responsibility or changing the rules as to how takeovers or tender offers are made.

I think that we can accomplish the change in a number of ways. The present Proxmire committee thinking is to amend ERISA so as to remove the question as to whether trustees of pension funds may consider long-term investment objectives and forego immediate stock profits. ERISA would be changed so as to provide that the trustees could take into account long-term values and the benefits to the beneficiaries of a particular pension fund, so that a company's pension fund that has its own securities could take into account the ancillary benefits to employees such as continuing employment and the future value of the company. I think this is a very important change.

Warren Buffett made a suggestion that I think is significant and should be pursued and that is to force institutions to act as long-term investors (which they *claim* is their policy) and to provide for a penalty, whether it is in the form of a tax or a recapture, if institutions hold for the short-term and not for the long-term. Warren Buffett suggests a 100 percent tax on any profits realized within one year. I think the one-year period is far too short. I would opt for a five-year period and perhaps scale the penalty or recapture, depending on the length of holding. But it's only if we can change the actions of the institutions that now control almost all the major public corporations that we can really address the question of director responsibility.

I think Don Clark is absolutely correct when he says that the way to deal with director responsibility is not through tender offers, but rather to give shareholders a meaningful opportunity to address the management question. There I would change the proxy rules to provide that any shareholder who has a substantial stake in the company — you have to protect against the gadflies with a hundred shares — any shareholder with three percent of the voting securities of the company would have the same access that management has — free and equal access to the proxy machinery. That way, if the shareholders disagree with the way the company has been run and would like the company to be liquidated, if they would like it to be restructured, and so on, or, indeed, if three institutions each holding one percent of the stock would like to achieve that and they can get together, aggregate their one percent holdings into three percent and present a plan for the restructuring or the liquidation of the company, you would have really meaningful shareholder influence on the way a company is being operated. At the same time, we would have eliminated much of the game playing, the financial maneuvering, that takes place in the takeover market today.

Commentary #3

Harris: Thank you, Marty. Now let's turn it back to the panel.

Grundfest: If we think through the implications of your proposal, Marty, they really are fundamental in an extraordinary way. When you seek to impose political and social control on institutional investors, it's fascinating how far that takes government intrusion into the market process.

Now, we're not talking about the regulation of the take-over process itself, we're talking about regulation of stockholder incentives. It's really questioning the responsibility of stockholders in the way they exercise their franchise and it seems to me that you would require that government impose these political and social controls because you don't trust institutional stockholders to behave rationally. Then we have to add certain changes in ERISA which were put in, as I understand it, in part to deal with potential conflicts of interest, and we have . . .

Lipton: I think we're overlooking what the institution is and whose incentive is involved in the institutional turn-over of securities. As Joe Flom said before, the institutions reinvest, and I think he used a department store example where the opportunity to sell at 13 times earnings as against an 8 or 9 price earning industry average at the time warranted selling the shares of one department store and moving into the shares of another department store.

"What you're doing is maximizing shareholder values by creating a structure that realizes profits today that would otherwise be made over the next 10-20 years."

FELIX **ROHATYN**

When you view it from the standpoint of the institutions themselves and the investments of the institutions, all you have is a revolving door. As one oil company is taken over, the institution will reinvest the proceeds in another oil company, or oil companies, or periodically, as they see fit, they move from one industry to another industry. The people who are making these decisions are the managers of the institutions, and they're making the decisions not with respect to the long-term profitability of the institutions and the long-term investment results of the institutions, but they're making the decisions to improve their own quarter-to-quarter performance because it's their compensation and it's their ability to attract funds to manage that is determined by their quarter-to-quarter performance.

What we've done is turn over a major factor of control of American business to people who have a tremendous incentive to force a short-term outlook — the exact opposite of the outlook that Don Kelly and Don Clark espoused as good management. Now, I'm not sure that my recommendation as to how to control that process is the best way. It's a new area. But there is no question in my mind that that is the future problem of American business, and unless we solve that problem, we will continue a process of overspeculation, overleveraging, and focus on short-term rather than long-term results, to the great detriment of the business of this country.

Rohatyn: Marty and I agree on lots of things, but I would not support these proposals. I do think that you can argue that you could put a modest tax on short-swing turn-over of institutional investors, if the holding is below a year and the tax is modest in size.

But I think the point that is worth making is the question of leverage and comparing the structure of Japanese companies to the structure of American companies and talking about the much increased leverage that is bearable in the Japanese structure. There are two factors that I think are worth noting, one of which goes somewhat to Marty's point. Because so much of the holdings of Japanese industries are held by financial groups that are exceedingly stable and don't turn over with any kind of frequency because the process of take-overs is almost unknown in the Japanese market, and because the leverage that's created is part of, again, institutions that are involved in the shareholding and have invested in the companies, you have a very different financial structure. The ability to sustain very much greater leverage on a long-term basis is quite different because of a much stabler environment and a much stabler shareholder.

The other point I would like to make is on a point of corporate restructuring, which is worth thinking about — I'm not saying it's good or bad, but, I believe, it is an economic reality. When you maximize shareholder values by doing a restructuring where you shrink the capital structure of the company by 30-40 percent by borrowing a billion, 2 billion, and paying it out to the shareholders by buying half their stock and at a very large premium, the reality of life is that what you're doing is maximizing shareholder values by, in effect, creating a structure that realizes today profits that would otherwise be made over the next 10-20 years. Because what you're going to have to do to operate the company to service that debt, is to reduce investments and other growth efforts that otherwise would have been realized over a period of years. That may be good for the country, bad for the country, it may be indifferent, but, I think, that is the economic result.

Lipton: I would like to raise a question and I think I should address it to Joe Grundfest, because no one else on the panel would dare answer. Why would an investment banker ever speak to an arbitrageur? Joe?

"When you seek to impose political and social control on institutional investors, it's fascinating how far that takes government intrusion into the market process."

JOSEPH GRUNDFEST

Grundfest: Well, we had a little chat last night about zones of grey. There is the law as written and then there are, for want of a better term, practical litigation realities and questions of appearance. The hypothetical we dealt with last night involved somebody walking by and seeing a group of CEOs, LBO experts, and take-over lawyers get out of a limousine. This gathering is observed on a public street, and a person draws inferences from that public observation that the executives' corporation may soon be the subject of a bid. Can you go ahead and can you trade?

Now clearly, if you are somebody who doesn't know these people, you have no contacts, and there are no phone calls going back and forth, the law as it stands today would say there is no breach of fiduciary duty, there is no misappropriation. You can go and trade on the basis of whatever inference you draw from that information.

If, however, you are a colleague in the sense that you talk frequently to one of these people, and if you know that if somebody looked at your phone records, they would find a lot of phone calls going back and forth between you and one of the people you observed, you then have a serious question of judgment and a serious question of appearance. What would it look like if you observed this scene, drew the inference, and then went and started trading? People will draw incorrect and unreasonable implications based on that. As in all walks of life, a little bit of common sense will get you a long way.

So, getting back to your question about conversations between arbitrageurs and investment bankers. They certainly can be legitimate. Moreover, they certainly play a very vital, valuable, and important role. Information flow is what the market is all about. Buyers buy because they think prices are going to go up. They find sellers because sellers think prices are going to go down. I think we would be doing a disservice to the market if in our approaches to the insider trading laws we overreached and tried to shut down those channels which are legitimate.

Rohatyn: You know there is a story about George S. Kaufmann, who was a wonderful playwright, watching a lady play a hand of bridge very badly. When it was over, she turned to him and said, Mr. Kaufmann, if you were me, how would you have played the hand? And he said, madam, under an assumed name, (laughter)

Harris: Ladies and gentlemen, I think on that note we will bring this program to an end. I want to thank each and every member of the panel for participating, for being here, and hopefully for providing all of you with interesting first-hand knowledge of what it is all about. Thank you all for coming.

Pictures at the Reception

On the night preceding the formal opening of the J. Ira Harris Center for the Study of Corporate Finance, a dinner and reception was held for the founder members, panel members, and other honored guests. Pictured at the reception are:

This page, top picture: Left to right, Donald N. Frey, Chairman of the Board of Bell & Howell Co.; J. Ira Harris, senior executive director of Salomon Brothers Inc., Chicago; Paul W. McCracken, Edmund Ezra Day Distinguished University Professor Emeritus of Business Administration, Economics, and Public Policy.

This page, lower picture: Left, Joseph Flom, partner in Skadden, Arps, Slate, Meagher & Flom, New York, who was a member of the panel, and Jay Pritzker, chairman of the board of Hyatt Corporation.

Facing page, top picture: Left to right, Thomas A. Roach, Regent of The University of Michigan; Congressman Dan Rostenkowski, D.-Ill., Chairman of the House Ways and Means Committee; University of Michigan President Harold T. Shapiro; Edmund M. Carpenter, President of ITT Corporation.

Facing page, lower picture: Left to right, Jackie Harris, daughter of J. Ira and Mrs. Harris; Jerry Pearlman, Chairman and President of Zenith Electronics Corporation; Mrs. J. Ira (Nicki) Harris; Michael Rosenberg, Vice President of the Samuel Keywell Company; and Barbara Pearlman.

Photos by Dean Russell


Barbara

Among Ourselves

An informal collection of items, including news of the faculty, of alumni, and of the school, and assorted other information, opinion or comment that we think will interest you.

Stephen M. Ross, BBA '62, Establishes Professorship in Real Estate at B School

Stephen M. Ross, BBA '62, has pledged the funds to establish an endowed professorship in real estate at the Michigan Business School. It will be named the Stephen M. Ross Professorship in Real Estate.

Mr. Ross is president and founder of The Related Companies, Inc., a national, multi-faceted, full-service real estate company headquartered in New York City. He is a native of Detroit, and holds a law degree from Wayne State University. He also has a masters of law degree in taxation from New York University. In 1980, he was the recipient of the Master Builder Award presented by the Associated Builders and Owners of Greater New York. He also was presented the Humanitarian Award for 1986 by the American Jewish Committee.

"This professorship will bring additional strength to our finance faculty," said Dean Gilbert R. Whitaker, Jr. "Adding an excellent teacher/scholar in this area will make a real estate finance option in our degree programs extremely attractive and will greatly enhance the effectiveness of our joint MArchitecture/MBA program."

The terms of Mr. Ross's gift will allow the School to undertake a national search for outstanding candidates with a goal of having the successful candidate join the faculty by the fall of 1988.

The Related Companies, Inc. was founded in 1972 by Mr. Ross to develop, own, finance, and manage subsidized and conventional residential apartment properties. The company has experienced dramatic growth in the last few years, and is now a multi-faceted organization with extensive experience in residential, commercial, and mixed-use properties. The firm's syndication specialists have raised capital for more than 180 limited partnerships, representing in excess of $250 million in equity. In addition, Related is a partner in several joint ventures with leading financial and investment banking institutions and, through its own separate financial subsidiaries, itself provides mortgage banking services to developers and other clients.

Stephen M. Ross, BBA '62

Census Answers Some of the Questions About Who Are the U of M Alumni?

The University of Michigan had a 46% reply to the 251,000 questionnaires mailed out in the all-alumni census. That means that 115,000 replied, or 11,000 more than it takes to fill the U-M stadium on a football Saturday.

Here are some of the census findings and a few interesting "bits and pieces."

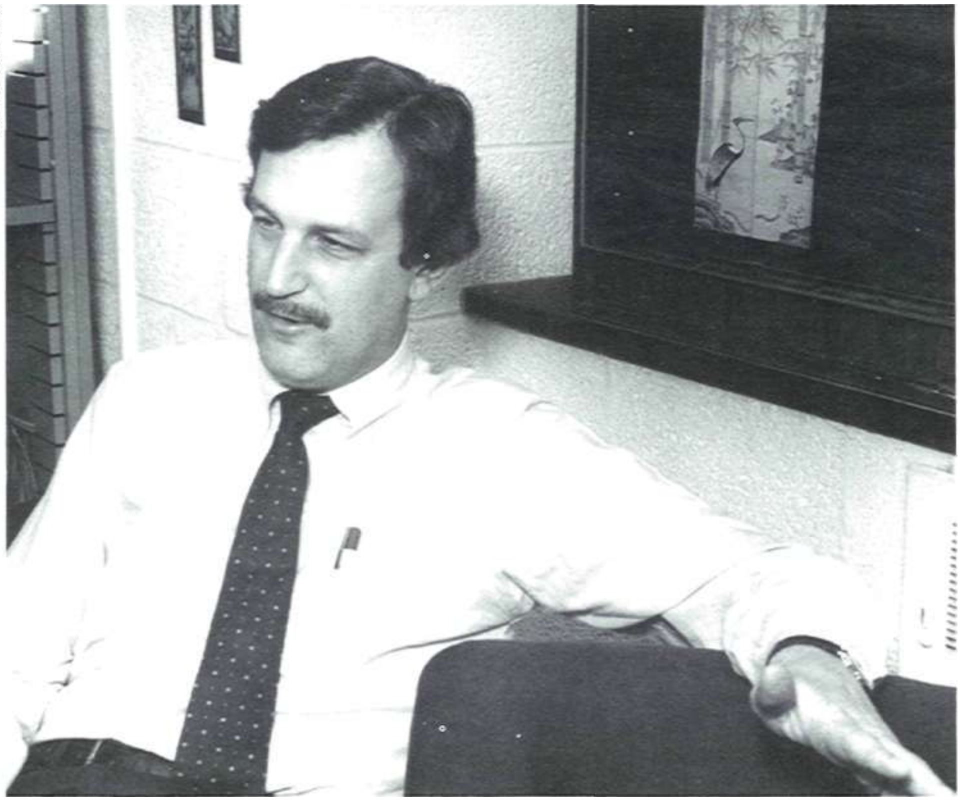
- The oldest respondent was born March 5, 1883, and graduated from U-M in 1907.
- The most distant returns came from: Victoria, Australia; Papua, New Guinea; Katmandu, Nepal; Dhaka, Bangladesh; Lahore, Pakistan; and Tokyo, Japan.
- The strangest return was the charred remains of a reply salvaged from the wreckage of a mail plane in Montana. Just enough of the address remained for the Postal Service to forward it.
- 94% indicated a positive attitude toward The University of Michigan, with 46% being strongly positive.
- 60% of the respondents were men; 40% women.
- 12% were in their 20s; 27% thirties; 22% forties; 16% fifties; 11% sixties; 8% seventies; and 4% eighty years or over.
- 19% were single; 72% married; 6% divorced; and 3% widowed. 32% of the men and 50% of the women were married to someone who had attended U-M.
- Looking specifically at business school alumni, the census had a response rate of 50% (males 84%; females 16%).

B School Annual Fund Exceeds $1 Million for the First Time!

The Business School's Annual Fund has exceeded $1 million for the first time in the School's history. Final tallies are now complete and we can report that 5,804 alumni and friends of the School contributed $1,341,613.00 in 1986-87.

"Passing the million-dollar hurdle was a milestone for the School, and one that illustrates the extent to which private support has increased over the past seven years," commented Anneke de Bruyn Overseth, associate dean for external relations. "We look forward to sustaining and increasing this level of growth, which is so essential for the Business School to maintain and improve its position as one of the very best in the nation. However, for the moment it's nice to pause to celebrate our accomplishment, and to thank every one of you who contributed to making it possible."

D. C. Goings



B. Joseph White, new associate dean at the Business School, brings both academic skills and corporate experience to his new appointment.

• Of business school alumni, 19% were single; 76% married; and 4% divorced.

• The top three occupations of business school alumni were accounting and auditing, 15%; marketing, 10%; and finance/ economics, 10%.

• The largest proportion of business school alumni had a full-time personal income of between $40 and 60 thousand (30.7); next was an income between $60 and 100 thousand (24.9%); followed by $30-40 thousand (15.8%); $100-200 thousand (12.5%); $20-30 thousand (9%); over $200 thousand (4.7%); and under $20,000 (2.3%).

Alumni who have not yet returned their questionnaires are encouraged to do so, as analysis and readjustment of the statistics will continue as long as new information is made available. Questions about the census can be directed to Gerlinda Melchiori, project director, at 6018 Fleming Building, University of Michigan (telephone 764-9238).

B. Joseph White Is Appointed Associate Dean

B. Joseph White, who was an associate professor of organizational behavior and industrial relations on our faculty until 1981, is rejoining the Business School as associate dean.

His administrative appointment, for a five-year term beginning Sept. 1, was approved by the U-M Regents at their July meeting. He will also serve as professor of business administration, with tenure.

White became a member of our faculty in 1974, was promoted to associate professor in 1978, and left the school in 1981 to become vice president-management development for Cummins Engine Company, Inc. in Columbus, Ind. Later he was promoted to vice president-personnel and public affairs.

As associate dean, White will have responsibility for academic affairs, including the BBA program, and oversight of the Kresge Business Administration Library and the School's Computing Services area. "We are very pleased with this appointment because Dr. White's academic and industrial experience will bring important skills to the Dean's Office," commented Dean Gilbert R. Whitaker, Jr. "Dr. White had a good research record and an outstanding record of teaching when he left the Business School in 1981. On his return to Michigan, he will renew his research and writing efforts with a focus on the dual insights of his academic and corporate backgrounds."

White now serves on the Board of Directors of the Cummins Engine Foundation, the Human Resources Roundtable, the Conference Board, and as chairman of the Executive Committee of the Board of Directors, Southern Indiana Health Organization.

He received his B.S. degree from Georgetown University, his MBA from Harvard University, and his Ph.D. from U-M in 1974.

Robert Hooker, MBA '58

Robert Hooker, MBA '58, Takes Over as the New Chairman of the DAB

Robert Hooker, MBA '58, president of Transnational Motors, Inc., in Grand Rapids, is the new chairman of the School's Development Advisory Board. He replaced John R. Edman, BBA '50, MBA '51, Chairman of General Motors Acceptance Corporation and Motors Insurance Corporation.

Hooker began his career as advertising manager and consumer products development manager for Sackner Products, then became vice president of Import Motors Limited, Inc. He became executive vice president of Transnational Motors, Inc. in 1977 and president in 1981. He is active in community affairs, and is presently on the boards of the Gerald R. Ford Foundation; the Pine Rest Foundation; the Grand Valley Colleges Foundation; the Grand Rapids Sesquicentennial Committee; and the Players Made in the USA tennis group, besides his chairmanship of the Business School Development Advisory Board. One of his four children, David S. Hooker, graduated from the Business School with his MBA in 1987.

The Development Advisory Board began meeting in the spring of 1980 with major responsibility to serve as the volunteer structure for the $15 million campaign for our new buildings. Its first chairman was Louis Allen, BBA '51, MBA '56, executive vice president-finance, Beznos/Beztak Co. He was followed by Edman, who was also the national chairman for major gifts for the U-M's Campaign for Michigan.

"The Board will now concentrate its work on expanding the School's permanent endowment," said Dean Gilbert R. Whitaker, Jr. "I think that we will do wonderfully under Bob's leadership. We are very fortunate that he has accepted this important leadership position for the School."

DOR's Book on Resources for Professional Women Goes into Second Printing

Current issues facing professional women and effective training programs for women are described in *Preparing Professional Women for the Future: Resources for Teachers and Trainers,* edited by V. Jean Ramsey and published by the Division of Research.

The book was conceived as a set of resource materials for individuals designing and teaching courses, conducting training workshops, or developing programs for professional women. It is written with all professional women in mind — those who are entering the workplace and those who are well established in their careers, as well as for their teachers and trainers.

The book is divided into four major sections, and includes two extensive bibliographies — one of books and the other of films and videotapes. It collects the best papers and workshop materials from two conferences on Women and Organizations.

Section One — Competence, Confidence, and Credibility: Keys to Progress — contains Margaret Finn's keynote speech to the first Conference on Women and Organizations, which establishes the theme for this book: women must not only be competent, they must also have confidence in their own abilities and those of other women. Only then will they develop the credibility they need.

Following sections — Critical Skills for Professional Women and Recent Findings from Research on Professional Women — highlight such topics as "Professional Negotiations: How to Get What You Both Want," by Theresa L. Clow, "Career Design: How to Find a Good Fit," by Brenda M. Beckman, "Women and Organizations: A Study of Mentorship," by Carol M. Michael and David M. Hunt, and "The Role of Sports in Developing Female Managers," by Kathleen C. Brannen and Randolph M. Feezel.

Information which the book provides is innovative and stimulating. Take, for instance, Dorothea Nuechterlein's thought-provoking article "Motherhood and the Career-Minded Woman." Nuechterlein describes a small-scale research project that she has conducted over the past half-dozen years among 500 undergraduates in different North American countries. Students are asked to state their expectations regarding possible future marriage roles; they then go over the same list, guessing how their opposite-sex peers would respond. The ten statements used deal with such items as whether financial decisions will be made jointly, whether child care and other household responsibilities should be shared, and whether the wife should combine motherhood and career.

The responses she has received have demonstrated three consistent patterns. First, in comparing female responses with male guesses, the men prove to be remarkably accurate. In fact, it is not unusual that, on selected items, the men will guess the women to be more liberal than the women's responses would suggest. Second, this is not true the other way around: females are usually quite mistaken about male attitudes on most of the items, with only a few trends in the right direction. For example, most young males seem to support the idea that if both partners work outside the home, both should share responsibility for work inside as well. However, barely half the women guess that men will feel that way. Third, the most significant comparison is that between the attitudes of both sexes. On nearly every issue there is extraordinary consensus among the students surveyed, with males at times expressing more liberal attitudes than do their female counterparts.

Although Nuechterlein states the proviso that hers is an impressionistic study, done without scientific controls, she emphasizes that every replication largely confirms those preceding it. Thus, she says, the suspicion emerges that present-day North American collegians indeed share many expectations concerning possible equalization in marriage roles, but only the males realize it.

Conclusions such as these make a strong case for the need for women to educate themselves, and, having done so, to become more assertive as they explore their options for the future.

V. Jean Ramsey received her Ph.D. from the School of Business Administration in Organizational Behavior and Industrial Relations in 1979. She is now Professor and Chairman of the Department of Management and Quantitative Methods, Illinois State University, Normal, Illinois.

Preparing Professional Women for the Future: Resources for Teachers and Trainers can be obtained from the Division of Research ($10.00, paper), 313-764-1366.

by Virginia W. Hayes

Gretchen Jackson, formerly director of Alumni Relations, has been promoted to director of the Business School Annual Giving Programs. She is pictured here on the left, along with Ellen Abramson, new director of Alumni Relations. Ellen is hard at work on the fall alumni programs, and with the dramatic growth of the Business School Fund, Gretchen is busier than ever.

Texas Instruments Pledges $100,000 to the Paul W. McCracken Professorship

The first "Texas Instruments Director Award" has been voted by the Board of Directors of Texas Instruments Inc. to be given in honor of Paul W. McCracken, who retired as a general director of the company in April, 1986.

The award, which is meant to recognize the service of a general director upon his retirement, provides that $100,000 be contributed to an educational institution recommended by the retiring director. With this gift from Texas Instruments, the Paul W. McCracken Collegiate Professorship in Business Economics has reached a funding level, in cash and pledges, of more than $400,000.

Income from the endowment will be used to pay the partial salary of the individual named to the Paul W. McCracken Professorship in Business Economics. Appointment will be to a five-year renewable term.

Professor McCracken is the Edmund Ezra Day Distinguished University Professor Emeritus of Business Administration, Economics, and Public Policy. He served as chairman of President Nixon's Council of Economic Advisers, and has written extensively on economic policy matters. He is the recipient of numerous scholarly honors and awards.

Those wishing to make tax deductible contributions to the professorship in honor of Professor McCracken should send their contribution, made out to The University of Michigan, to the Paul W. McCracken Professorship, Development Office, School of Business Administration, The University of Michigan, Ann Arbor, Michigan 48109-1234.

Alumni Office Offers Programs for Fall

October is a busy month for alumni programs. It starts with an alumni reception at Fairlane Manor in Dearborn on October 7, to be followed by a reception in Bloomfield Hills, October 8.

"Beyond the Right Stuff: Some Thoughts on Entrepreneurial Management" will be the topic of the Chicago alumni program to be held October 13 at the University Club of Chicago. The speaker will be John E. Tropman, professor of administration at the U-M School of Social Work and 1986-87 winner of the Zell-Lurie $25,000 prize competition in the Teaching of Entrepreneurship. His prize-winning course, taught last year at the Business School, was entitled "The Entrepreneurial Manager."

A reception for Pittsburgh alumni is planned at The Duquesne Club in Pittsburgh for October 20.

In November, the Detroit Alumni Program will feature George Siedel, professor of business law, in a talk entitled "Alternatives to Litigation." That is scheduled for November 6 at the Westin Hotel.

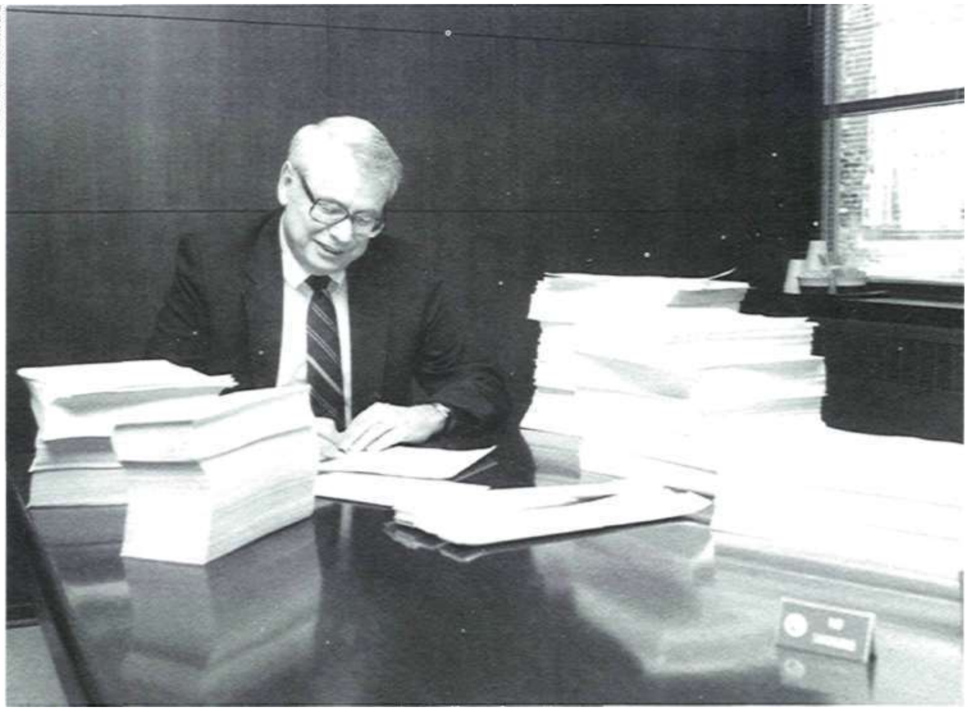
The Grand Rapids alumni will hear a talk by Merle Crawford, professor of marketing. He will speak on "Where's the Innovation in Product Innovation" on November 13 at the Amway Grand Plaza Hotel.

David Brophy, associate professor of finance, will speak to San Francisco and Los Angeles alumni on November 11 and 12, respectively, on "The Changing Venture Capital Marketplace."

The second "Saturday Morning at the Business School" program will be held November 21. George Cameron, professor of business law, will speak on "Product Liability Reform."

More Donors, More Dollars Than Ever Before

D. C. GOINGS



One impact the dramatic growth of the Business School Fund has had this year has been on the hand and pen of Dean Gilbert R. Whitaker, Jr. He personally signs acknowledgment letters to all donors, which amounted to 12,000 signatures this year. Here he is shown signing one of the 12,000. Papers representing the other 11,999 are stacked next to him.

The Post-Reagan Economy is Featured on Reunion Weekend

"Saturday Morning at the Business School" on October 31 will feature a panel on "The Post-Reagan Economy." Speakers will include Allan D. Gilmour, executive vice president and chief financial officer of Ford Motor Company; Paul McCracken, Edmund Ezra Day Distinguished University Professor Emeritus of Business Administration; and Martin Zimmerman, former associate professor of business economics at the Business School who has just been appointed Chief Economist for Ford Motor Company. This will be followed by a tailgate party before the U-M-Northwestern football game. This is also the fourth annual Business School Alumni Reunion Weekend.

Book Fund in Memory of Stephen Hannagan Is Established

A book fund in memory of Stephen Hannagan, a member of the BBA class of 1988 who died tragically last fall, has been established.

Because of Stephen's keen interest in the field of entrepreneurship, the book fund in his name will focus on volumes dealing with that subject.

Gifts to the fund are tax deductible, and can be mailed to: the Stephen Hannagan Book Fund, Development Office, School of Business Administration, The University of Michigan, Ann Arbor, Michigan 48109-1234.

1987 Pryor Award Given for Entrepreneurial Concept of an Intergenerational Academy

D. C. GOINGS

Kelli Matthew (left) and Sandy Giudici, both MB As '87, won the 1987 Pryor entrepreneurial award for their concept of a preschool-senior academy.

The concept of an intergenerational academy that will combine child care with senior citizen programs has won the fourth annual Pryor Award and $2,500 for two 1987 MBA graduates of the University of Michigan School of Business Administration.

Sandy Giudici and Kelli Matthew designed the award-winning plan to serve the needs of both young children and people over 65.

The Pryor Award was created by Millard H. Pryor, a member of the first class to graduate from the School of Business Administration in 1926. He established the award with a $50,000 grant to the School as a challenge "to commit the entrepreneurial dreams of students to paper."

The academy designed by Giudici and Matthew would be a non-health-oriented service with intergenerational programming. On the preschool level, it would help answer the increasing demand for child care "due to demographic and sociological trends in the U.S. work force" that are expected to continue throughout the 1990s, according to the winners.

They also hope to establish the preschool academy as a leading authority on early childhood development and to foster cooperative alliances with major corporations, office buildings, and technological parks.

"The preschool academy will strategically position itself in contrast to current unaccredited centers by providing a level of programming, facility features, and staff higher than currently offered in most areas," say Giudici and Matthew.

The "senior" part of the academy will be a comprehensive, non-health-oriented program that will include a permanent facility specifically designed for older people. The purpose of the senior academy is to help senior citizens overcome isolation and depression through socialization and to provide a sense of belonging and appreciation through the intergenerational programming offered in coordination with the preschool academy.

"The U.S. population over the age of 65 is expected to comprise 20 percent of the total population by the year 2030, in contrast to 11 percent today," note Giudici and Matthew.

Both students bring a wide range of business experience to the project.

Giudici earned her bachelor's degree in business administration from Oakland University and worked for General Motors in human resources and business planning and materials management. She also has served as a marketing/planning consultant for the Institute for Financial Planning, Inc. in Farmington Hills, Mich. She is now an operations scheduler for the Hewlett-Packard Medical Products Division in Massachusetts.

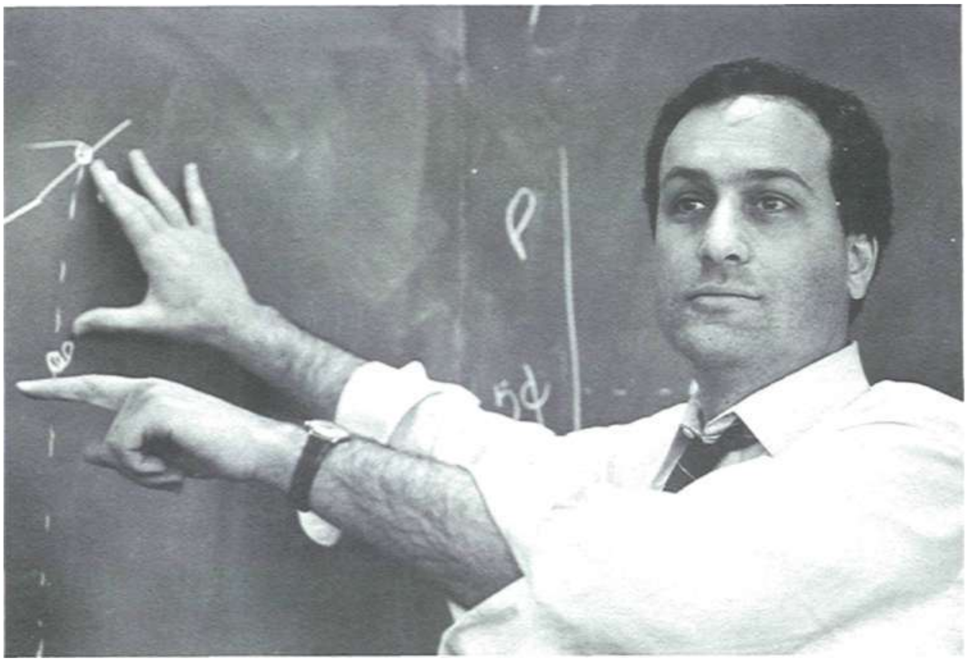
Matthew, who received a bachelor's degree in economics and management from Albion College, has been a senior accountant on the audit staff of Ernst and Whinney, serving manufacturing and health care clients. She recently accepted a job as manager of health care consulting at Ernst and Whinney.

Judges who reviewed the business plan and chose the winner included Herbert S. Amster, CEO and Chairman of the Board, Irwin Magnetic Systems, Inc.; James A. Parsons of the venture capital Firm of Regional Financial Enterprises; Ian R. N. Bund, managing director of MBW Management, Inc.; and Michael Gallagher of the Ann Arbor Medical Clinic.

Committee members who oversee the administrative activities of the Michigan Individual Entrepreneur Project and who set policy for the project include Millard Pryor; Dr. John Psarouthakis, Chairman and President of J. P. Industries, Inc.; James Filgas, professor of business administration; LaRue T. Hosmer, professor of corporate strategy; and David Brophy, associate professor of finance at the Michigan Business School. Executive director of the project is Linda Powell.

The Pryor Award competition is open to all undergraduate or graduate students who are registered during the academic year. Proposed business ventures may center on consumer or industrial products and services or real estate projects.

Faculty News Notes



Martin B. Zimmerman, associate professor and chairman of the department of business economics and associate professor of economics, has left the Business School to become Chief Economist for Ford Motor Company. Professor Zimmerman received his A.B. summa cum laude from Dartmouth and his Ph.D. from the Massachusetts Institute of Technology. He was a national fellow at the Hanover Institution at Stanford from 1980-81 and served as senior staff economist for the President's Council on Economic Affairs in 1985-86. He has researched and published widely on the causes and effects of government regulation of industry, the impact of regulation on risk-bearing and managerial efficiency, and economic policies in the field of energy. He began his new post at Ford on August 24.

Six faculty members have been promoted or awarded tenure this year. They are:

Clifford Ball, from assistant to associate professor of statistics, with tenure; **David Blair,** from assistant to associate professor of computer and information systems, with tenure; **Michael Johnson,** from assistant to associate professor of marketing; **Stanley Kon,** from associate (with tenure) to professor of finance; **Judith Olson,** granted tenure as associate professor of computer and information systems; and **C. K. Prahalad,** from associate (with tenure) to professor of corporate strategy.

Kathy Stecke gave a plenary overview of "FMS Operating Problems" at the National Congress in Systems Engineering in Santiago, Chile, in August, and also gave an overview of "O.R. Models in Flexible Manufacturing" at IFORS '87, in Buenos Aires, Argentina. In addition, she is an associate editor for *INFOR,* the Canadian Journal of Operational Research and Information Processing, and a special department editor for *Management Science* for a forthcoming issue to be focused on flexible manufacturing. **Tom Schriber** is an associate editor of that special issue.

Allen Spivey has been appointed to a committee to study the feasibility of a National Statistical Science Research Institute. The committee is jointly sponsored by the National Science Foundation and the American Statistical Association, and has been charged with considering all areas of statistics and the many interrelationships of statistics with various Fields in the social and physical sciences and in engineering. The committee will also be concerned with issues of blending theoretical and applied aspects of research in statistics.

Johnson, Smith & Knisely, executive management consultants, have awarded **Noel Tichy** and his co-author, Mary Anne Devanna, of Columbia University, the "New Perspectives on Executive Leadership" award for their book, *The Transformational Leader* (Wiley, 1986). It was judged the best business book by a panel of senior industrial executives. The award carries a grant of $5,000, which Professors Tichy and Devanna will use to establish fellowships to encourage doctoral students to do research in the leadership area. They will be seeking matching grants from corporations.

The Business School's *Human Resource Management Journal* annual symposium was held this year in Tokyo, Japan, from June 2-5, 1987. Fifty participants (half from academia and half from industry) from the United States, Canada, Australia, the United Kingdom, Sweden, France, Hong Kong, and Japan participated in the discussion of human resource management in the multinational corporation. Both a special issue of the journal (Spring 1988) and a book to be published in 1988 will include the symposium proceedings. Attendees from the Business School included **Noel Tichy, Carole Barnett, Vlado Pucik,** and **Wayne Brockbank.**

Thomas C. Kinnear's article, "Individual Differences and Marketing Decision Support System Usage and Satisfaction," has been published in the May issue of *Journal of Marketing Research.* It was co-authored with **George Zinkhan,**

Ph.D. 1981. Tom has been elected to the Board of Directors of the American Marketing Association for a two-year term, July 1987-1989, and will serve as AMA's Vice President of Marketing Education in 1988-89.

Paul Sweeney presented his paper, "One-Dimensional Cutting Stock Decisions for Rolls with Multiple Quality Grades," at the TIMS/ORSA joint national meeting in New Orleans in May. Paul also chaired the session on production management: process planning.

George Siedel presented a seminar on alternative dispute resolution to faculty members in the School of Business Administration at Central Michigan University on April 30. CMU is planning a Center for Dispute Resolution, which will be housed in a new addition of the Business School.

E. **Han Kim** was invited by the Japan Securities Research Institute to give a speech on mergers and acquisitions to a group of Japanese professors and researchers in Tokyo. He was also a keynote speaker at a symposium celebrating the first anniversary of Lucky Economic Research Institute in Seoul in April.

Vern Terpstra recently participated in a World Bank program in Chile. He says he represented The University of Michigan in a country which seems to know only two American universities — Chicago and Harvard. (Two Harvard Business School professors were also on the program.) The Michigan connection received special comment when Vern was introduced. During the program, he had several meetings with Chilean government officials, executives, and academics.

Gary Hansen, a recent corporate strategy Ph.D. graduate, has received the Strategic Management Society Award (best dissertation award) from the Business Policy and Planning Division of the Academy of Management for 1987. This same award was won in 1985 by **Harbir Singh,** another recent corporate strategy graduate, who is currently on the Wharton faculty.

James Pilcher, professor of finance, became professor emeritus of finance this summer. He has been a member of our faculty since 1948, and holds the B.A., M.B.A, and Ph.D. from The University of Michigan. He served as a director of the Detroit Chapter of the Financial Executives Institute and of the Great Lakes Federal Savings & Loan Association, and as a trustee for the City of Ann Arbor Employees Retirement System. A graduate scholarship is being established in Pitcher's honor. Further details will be provided in a future issue of Dividend.

Arthur F. Southwick is the author of Chapter 4 in the book, *Teaching Health Law: A Guide on Health Law for Health Services Administration,* published by the Association of University Programs in Health Administration, with Arnold J. Rosoff, JD, and David F. Berwall, DBA, as editors. The chapter is entitled "Content of Graduate Health Law Courses."

Robert K. Kazanjian's article, "Implementing Internal Diversification: Contingency Factors for Organization Design Choices," has been published in a recent issue of *The Academy of Management Review.* It was co-authored with Robert Drazin of Columbia University.

Gunter Dufey spent most of the 1987 summer semester at Univ. des Saarlandes at Saarbruecken as a visiting professor under a DFG (German National Science) grant. He gave a weekly seminar on "Internationale Finanzmarkte" and did research on the regulatory environment of financial innovation in Germany. In addition, he looked after the students participating in the new exchange program between the Univ. des Saarlandes and the University of Michigan Business School.

During the annual meeting of the Graduate Management Admission Council (GMAC) in Kansas City, Missouri, **Judith Goodman** was elected to a four-year term on the board of trustees. The GMAC has 81 member schools and a board of eight trustees, who are elected by the membership. Goodman has been active in the GMAC since 1982.

David Wright has passed the final examination to become a Fellow of the Society of Actuaries. His paper, "Reducing the Risk of Misspecified Priors During Bayesian Estimation of Accounting Information," has won the Big 10 accounting manuscript competition. The paper was presented in May at the Big 10 doctoral consortium at the University of Illinois.

George D. Cameron Ill's paper, "Research Visibility," won first place in the outstanding paper competition at the Tri-State Regional Business Law Association's meeting held at Livonia, Michigan. Judges were Horace Gilmore, U.S. District Court; Patricia Boyle, Michigan Supreme Court; and Roman Gribbs, Michigan Court of Appeals. Last year, Indiana swept the awards.

In June, **Linda Lim** presented her paper on "The Impact of World Economic Trends on Trade and Economic Development in Developing Countries" at the Conference on U.S. Development Assistance for the 1990s, at the Center for Advanced Study of International Development, Michigan State University. The paper will be published in a book with other papers on the conference topic. She also presented a paper on "Singapore's Foreign Policy" at the Conference on Southeast Asian Foreign Policy, Department of Political Science, University of Windsor, in June. The paper will be published in a book on the conference subject, to be edited by David Wurfel and Bruce Burton.

Walter G. Kell, professor of accounting, has been granted emeritus status by the Regents. He held teaching positions at Michigan State University and Syracuse University, before joining our faculty in 1961. He has always been active in the profession, serving as vice president and president of the American Accounting Association. He is active in the American Institute of Certified Public Accountants and is on the board of directors and on the accounting and auditing procedures committee for the Michigan Association of Certified Public Accountants. He is the author of the textbook, Modern Auditing (with William C. Boynton and Richard E. Ziegler), and an author (with others) of Internal Control in U.S. Corporations.

Class Notes

MQ KARYL V. LYNN, BBA
TltF '48, MBA '49, has retired from Colt Industries, where he was director of personnel administration for 14 years. He will remain as a consultant for Colt for one year, and will also continue to teach an executive compensation course developed four years ago for the American Compensation Association, as well as continue to lead an annual symposium on executive compensation, which he started 16 years ago. He will also continue to serve on the board of directors of the American Compensation Association. Karyl writes that he retired in 1985 from the position of chairman of the Association for International Practical Training, but plans to remain active on that board. Karyl lives in Hillsdale, New Jersey.

9 Cf *A* ROBERT G. LITTLESON,
O^T BBA '53, MBA '54, writes that he has started his own consulting business after more than 30 years as an accountant in manufacturing and marketing companies. After serving as vice president of finance, CFO, and corporate secretary of public and privately-owned firms, he moved to Charlotte, North Carolina in December of 1986, where he started CFO Financial Services. The company serves small to medium manufacturing and marketing firms as a "part-time" CFO and serves large companies in the field of financial training and education. Robert has taught accounting and finance as adjunct instructor at Mallinckrodt College in Wilmette, Illinois, and at Queens College and Central Piedmont Community College in Charlotte, North Carolina.

Donald R. Mandich, BBA '46, MBA '50, Comments on Trade and Cheaper Dollar

Donald R. Mandich, BBA '46, MBA '50, chairman of Comerica Inc., wrote a column in the April 23 *Detroit News* on the cheaper dollar and the trade deficit. Mandich served on the Foreign Exchange Committee of the New York Federal Reserve Bank for four years. He is a member of the Visiting Committee of the Business School.

Excerpts from his article follow:

"We are warned that if we don't keep a strong dollar, foreigners will punish us for that 'sin' by not investing in U.S. securities — stocks and bonds — or they won't hold our dollars anymore.

"Hogwash! Foreign investors can buy far *more* shares of stock and more bonds if the dollar is cheap. If foreigners choose not to hold the dollars anymore, they can sell them — they cannot destroy them — and others will obviously buy them. If they don't hold stocks or bonds, however, what will thev do with the cash?

"If there is a 'sin,' the 'original sin' is on the side of the foreigner who has chosen to sell his goods to us for dollars and then wishes the United States to preserve the value of his dollars. . . .

"The only long-term solution to a continued imbalance in trade is to require foreign countries to limit their dollar holdings and spend them here. In the face of any unwillingness on their part to do this, we will have to impose and enforce quotas. This is a policy nobody wants. It is one that is difficult and expensive to police.

"In the short-run, however, devaluing the dollar is a necessary step in bringing American trade relationships back into balance. The falling dollar should not be thought of as 'cheap.' It is only more properly priced vis-a-vis its trading partners. A devalued dollar will help tourism in the United States, strengthen exports, and attract the purchase of investments at bargain prices."

9/? *C* JAMES A. DAMM, BSE '61,
O A MBA '62, has been named associate superintendent, Bureau of Business Management, for the Dade County public schools in Miami. Dade County school district is the fourth largest in the country. In that position, James is responsible for maintenance and operations, facilities planning and construction, food services, transportation and supply, and distribution departments. His previous job was in a similar role with the independent school district in Dallas. He writes that his younger son will be entering the University in LS&A this fall. "

9/? t PROFESSOR JOSEPH W.
\3\J DELLAPENNA, BBA '65, of the Villanova University School of Law, has been selected for a Fulbright Senior Lectureship in Law at Jilin University for the academic year 1987-88. Jilin University has what is generally considered one of the better law schools in the People's Republic of China. Over the last ten years more than 50 law schools have been opened there in an effort to create a legal profession, reversing a nearly 25-year-long policy of determined efforts to eliminate lawyers from

Chinese society. Jilin University is located in Changchun, a city of about 2,000,000 in the Northeast of China. Changchun is the capital of Jilin (formerly Kirin) province. Professor Dellapenna will be on sabbatical from Villanova during his time in China, and will return in 1988. He previously spent a Fulbright year in 1978-79 at National Chengchi University in the Republic of China (Taiwan). His manuscript on *Suing Foreign Governments and Their Corporations in U.S. Courts* has been accepted by the Bureau of National Affairs for publication later this year.

}/? *M* ROBERT A. HULL, MBA \3 4 '67, is now vice-president and co-owner of Kingsbury Casting and Accurate Castings, Inc., the family foundry business which he joined in 1975 after working in the foundry group at Deere & Co. for several years. He has a degree in metallurgical engineering from Purdue. In 1986, Robert was elected to the LaPorte County Council, which is the budgetary and financial arm of county government in Indiana. He writes that he is a "single" parent with two children, Eric 17, and Ellen 14.

JEROME M. HESCH, BBA '66, MBA '67, writes, "I have recently published (co-authored) a law school casebook entitled 'Federal Income Taxation: Problems, Cases, and Materials' (West Publishing Company 1987). The book incorporates the 1986 Tax Reform Act. My favorite law school course to teach is accounting for lawyers, a subject that allows me to bring up many of the concepts and principles I was exposed to while at the Business School. In fact, many of the approaches and skills I was exposed to as a student in the Business School have found their way into my law school courses. My wife and I have two children and live in Coral Gables. If any classmates are ever in Miami, they should give me a call."

PAUL FOOTE, BBA '67, writes that he is relocating from New York University to Pepperdine University in Malibu, Calif., where he will be associate professor of accounting.

STEPHEN C. WEXLER, MBA '67, says, "My MBA training at Michigan was fabulous. As President and CEO of the 189th fastest growing private company in the USA, I feel that I use my Michigan training regularly and often visualize the classrooms. I founded Wexco International, which is dedicated to enhancing the state of the art of construction management and claims management. Through our five divisions (construction management, claims management, critical path method, Wexpro software company, and seminar division) we have made a real mark." He writes that his wife Bette is executive vice president and daughter Cheryl is senior vice president. The company is located in Los Angeles.

'fiQ RICHARD FINE, MBA ,69, vf %J tells us he is heading up a new division of Cambridge-Lee Industries/Inc, a multi-national company with headquarters in Boston. The division (entitled the "Accessory Division") consists of imported high quality bathroom products made in Europe (such as medicine cabinets, lighted mirrors, bathroom accessories, and vanities). He says the U.S. market for upscale products for the kitchen and bath is growing at a rapid pace due to dramatic increases in remodeling. He and his wife live in Holliston, Mass. with their three children.

Geary Rummler, BBA '59, MBA W, Is Elected to the HRD Hall of Fame

Geary Rummler, BBA '59, MBA '60, has been elected to the Human Resources Development (HRD) Hall of Fame — one of two people chosen out of 24 candidates. He holds a Ph.D. in Continuing Education from The University of Michigan.

Geary began to make a name for himself in 1962, when he joined the U-M's Bureau of Industrial Relations and founded the University's Center for Programmed Learning. In 1969, Geary joined Thomas Gilbert in a consulting venture called The Praxis Corp., which became an influential force in the HRD world during the 1970s. In 1979, Praxis was bought by Kepner-Tregoe of Princeton, N.J. Geary served briefly as president of KT's Strategy Group, then launched his own firm, The Rummler Group, of Summit, N.J., specializing in developing human performance systems.

Although Rummler has published several books and a number of articles on topics ranging from labor relations to instructional design, his reputation rests not so much on describing HRD strategies as on carrying them out. He has been a pioneer in *applying* instructional and performance technologies in organizations ranging from aircraft manufacturers to the Internal Revenue Service.

In a nutshell, Rummler is a "systems" man. When he looks at a worker, he rarely sees a trainee with some deficiency that can be cured by a simple injection of two parts knowledge and one part skill. He sees instead a performer operating within a complex environment that may require any number of adjustments in order for the person to do the job properly.

"Understanding the performer isn't enough," he insists. "You have to manage the system to effect a real change in results. . . . Put a good performer up against a bad system and the system will win every time."

The HRD Hall of Fame was established and sponsored by *Training Magazine* and Lake wood Conferences as a permanent way to recognize and honor the people who have made significant contributions to the theory and practice of human resources development.

HARLAN L. REBEL, MBA '69, was recently presented with the honorary and professional degree of engineering of mines by the University of Missouri-Rolla during the May 17, 114th annual commencement at UMR. Rebel is director of mining and exploration for the United States Gypsum Company of Chicago. He joined U.S. Gypsum in 1956, and has held various manufacturing management positions since then, including plant manager of operations in Sperry, Iowa, and Hagersville, Ontario, Canada. He was manager of manufacturing for the Wood Fiber Division from 1978 to 1985, when he was named to his present position. Harlan is a member of the national and local chapters of the American Institute of Mining, Metallurgical, and Petroleum Engineers, and the Industrial Advisory Board of the College of Engineering at the University of Wisconsin. He has served as building committee chairman for the United Church of Christ, Naperville, Illinois. He and his wife, Marcia, are the parents of three children and live in Naperville.

'*7 A. ROGER W. HEINS, MBA / ^K. '74, has been promoted from manager-treasury operations at Mobay Corporation to manager-treasury operations at Bayer USA, Inc. (parent company to Mobay Corporation and Miles Laboratories). He lives in Clair, Pennsylvania.

^M K DAVID D. HINMAN, BBA / D '73, MBA '75, has joined the Superior Products Company of Southfield, Michigan, as financial vice president. He received his CPA from the State of Michigan while associated with the public accounting firm of Peat, Marwick, Main *8c* Company. David is the current president of the Southeastern Michigan Chapter of the American Subcontractors Association. He and his wife, Patricia, live in Birmingham, Michigan, and have two children, Susan and Robert.

Please Tell Us About Yourself

We would like to include more news about alumni in *Dividend,* and hope you will help us by providing us with information about yourself. We'd like to know where you are working, and other news about you, such as promotions, new business ventures, any business or academic honors, authorship of books or articles, or other information that would be of interest to alumni. If you would take the time to fill out the form below and send it to "Pringle Smith, Editor, Dividend Magazine, Graduate School of Business Administration, University of Michigan, Ann Arbor, Michigan 48109," we would very much appreciate it.

Name: Degree(s) and Class Years:

Business Position:

Business Address:

Home Address: _

Please write below some personal or business news about yourself that we can share with other alumni.

Ronald E. Ferguson, MAS '65, Becomes Chairman and CEO of General RE Corp.

Ronald E. Ferguson, MAS '65, became chairman, president, and CEO of General RE Corp. on June 1, 1987. General RE Corporation is a holding company with subsidiaries operating in the fields of reinsurance, insurance, and insurance services. The domestic reinsurance subsidiaries comprise the largest reinsurance operation domiciled in the United States and one of the largest in the world. Companies of the Group operate from offices in 29 cities in the United States and Canada, and from offices in 12 cities overseas.

Ferguson joined General Reinsurance Corporation in 1969 as an actuarial assistant and worked his way up through the company, becoming assistant vice president in 1972, vice president of the research/actuarial division in 1974 and of the management information division in 1975. In 1977, he became senior vice president, and in 1981 was appointed vice president and group executive of General RE Corporation, the parent company of General Reinsurance Group. He became president, COO, and director of General RE in 1983. He is a member of the American Academy of Actuaries, a fellow of the Casualty Actuaries Society, and a founding member and a past-president of Casualty Actuaries of New York. He also holds directorships in numerous reinsurance corporations.

9JT/? PARESH CHARI, MBA '76, 4 \3 joined the Ameritech Publishing corporate planning and development department (which deals with strategic and business planning) in Sept., 1986 after six years with (Pullman) Kellogg and three years with Enserch Corp. in Houston, Texas. While at Enserch, he was treasurer and manager of finance for one of their subsidiaries. He is married and has two sons, Ashwin and Ajay, aged 6 and 4. He and his family live in Troy, Mich.

9 ^ ^ JOAN E. HAUSER, MBA / / '77, has been promoted to manager, Corporate College Relations & Recruiting-East, at IBM. She is responsible for coordinating activity at the universities where IBM regularly recruits in the Northeast.

'*7Q ROBERT ROTH, MBA '79, / %y worked on the audit staff at Arthur Young & Company in New York after graduation from Business School and while obtaining his CPA. In 1982, he left Arthur Young to join Home Box Office, Inc., a subsidiary of Time, Inc., as a manager of finance. In his current position he supervises the billing, accounts receivable, credit, and audit departments for what he says is "the number 1 pay TV channel in the U.S." He writes that he was married in December, 1984, to his wife Linda.

9 Q / \ JOE S. RICHIE, MSME '74, OVJ MBA '80, has worked in truck operations marketing at Ford Motor Company, and at Cummins Engine Company in product planning and marketing since receiving his MBA. In July, 1986, he joined the marketing department of Freightliner Corporation in Portland, Oregon with responsibility for managing the development and marketing of vehicle maintenance computer software for freightliner's dealers and truck fleet customers.

DANIEL H. ROSE, BBA '80, has recently become the VP-Finance for Amsteel International, Inc. of Farmington Hills, Mich. He previously was an audit senior manager in the Detroit office of Peat, Marwick, Main & Co. Dan and his wife Karen have one son, Matthew, and live in Farmington Hills.

9Q "| PHILIP M. COMERFORD, Ol BBA'81, received an MBA from the Darden School and a doctorate of law from the law school as well as the University of Virginia during final exercises on May 17 in Charlottesville. Philip has accepted a position with Citicorp Investment Bank in New York.

PETER BERGMAN, MBA '81, moved to the Los Angeles area three years ago after being laid off from Atari. He now works for Epson Ambrica, a subsidiary of the $3 billion Seiko-Epson Corporation. He was recently promoted to director of product marketing, responsible for Epson's complete line of personal computers, printers, and consumer electronics products. He works with TIM DITOMASO, MBA '82, who is a product manager. He and his wife Muriel often see other Michigan LA-area alums. She is a food technologist at Hunt-Wesson in Fullerton, CA.

? O O G. SCOTT HAISLET, BBA O^ '82, has joined William J. Atkinson in forming Atkinson & Haislet, certified public accountants, a professional corporation in Oakland, California. He writes: "This is a great opportunity to own my own business with little risk of capital and the opportunity to consult with some of the most fascinating business people in the country — those of the San Francisco Bay Area. Our practice involves small business consultancy and personal financial planning. Contrary to popular belief, we do much more than tax returns. In a nutshell, we attempt to put money in our clients' pockets through tax avoidance and financial control of assets and business operation. In addition to traditional services of audit, review and accounting and compliance related to tax return filings, we also work in the areas of financial forecasting and projections, litigation support, estate (family wealth) planning, business valuations, feasibility studies, systems consultation, structuring settlements related to civil litigation, and a variety of other financial matters. I was previously employed by Merrill Lynch as an account executive (the personal financial results of that venture allowed me to compile the resources to enter into self-employment), and with two Big Eight CPA firms and a local San Francisco CPA firm in tax and business consulting."

ROSEMARY BLACK, MBA '82, was promoted to manager at Arthur Andersen & Co. Rosemary and her husband Bill are both managers in the Columbus, Ohio office. (She says it's a little too close to OSU during football season.) She and her husband have a new son, William Emery, born in October, 1986.

TONY ZAMBELLI, BBA '82, has joined Tunstall Consulting, Inc., based in Tampa, Florida, as a corporate financial consultant. The firm specializes in the creation of comprehensive business plans used to secure appropriate capital for rapidly growing companies and in acquisition and leveraged buy-out situations. Tony is a CPA in both Michigan and Florida, and says he looks forward to meeting more Michigan alumni in the Tampa area. He previously worked for four years with Peat, Marwick, Main & Co. in both the Detroit and Tampa areas.

J O O CHERI L. JACOBS, BBA '83, **O J** was promoted to manager at Price Waterhouse in Pittsburgh, effective July 1. Cheri, most recently a senior consultant in the management consulting services department, has been with Price Waterhouse since 1985. Previously, she was a financial analyst at Baxter Travenol Laboratories in Deerfield, Illinois. She is a member of the American Institute of Certified Public Accountants, the University of Michigan Alumni Association, and Alpha Phi Sorority.

Mary L. Campbell, MBA '79, Will Manage a New Venture Capital Fund

Enterprise Management, Inc., an Ann Arbor-based venture management company, announced recently that Mary L. Campbell, MBA '79, has joined the firm to manage the venture capital fund which the firm is in the process of forming. The new seed capital fund, called the Enterprise Development Fund, was created to invest in Michigan companies soon after their formation (often called "seed stage"). Earlier this year Enterprise Management was selected from among 14 firms which made proposals to the Michigan Strategic Fund to be a recipient of a $2 million investment from the State.

Before joining Enterprise Management, Campbell served as President of Michigan Capital and Service, Inc., the Ann Arbor-based venture capital subsidiary of National Bank of Detroit (NBD). She has a broad range of experience in finance and venture capital, both with NBD and other well-known financial institutions.

"We are pleased to have an individual with Mrs. Campbell's venture capital experience join Enterprise Management," said Hayden H. Harris, President. "Her investor experience complements the firm's strong operating expertise and will allow us to develop a strong venture capital capability to assist emerging companies."

A partner in forming Enterprise Management is Thomas Porter, MBA '67. Porter started his business career with Procter & Gamble, and later became vice president of marketing for Yard-Man. He recently served as president and CEO of Environmental Research Group, Inc., one of the nation's leading environmental monitoring firms. He and Hayden Harris founded Enterprise Management in 1984 to provide a variety of management services to new and developing companies. It has assisted a number of successful local companies, including Software Services Corporation, COSI, National Sanitation Foundation, University Microfilms, Quad Six, Deucalion, Cottage Inn, and International Consumer Technologies.

9Q *A* JACK DOLMAT-CONNELL, O A MBA '84, worked after graduation at Data General Corporation in a variety of compensation positions. He is now manager of compensation and benefits for Digital Equipment Corporation's semiconductor operations. There he is responsible for all of the compensation and benefits activities for about 3,000 employees, including employees at two facilities in Massach and a new one opening in Edinborough, Scotland. He and his wife Carrie have a new baby boy, Scotc, born in December 1986 and a daughter Stephanie, almost six. Carrie, who is a 1981 U-M graduate and holds an MS in natural resources from the U-M, is executive aide to the mayor in Marlboro, Mass., where the family lives.

9 O **fif** PAUL CANCHESTER, BBA, *OD* '80, MBA '85, has been appointed finance manager of the Illinois Hospital Association (IHA). In this position, he will develop statewide policy for the financing and delivery of medical care to Medicaid recipients and the medically indigent. IHA is the state professional association that represents the interests of community hospitals in Illinois. Before joining IHA in 1984 as a finance intern, Paul was a reimbursement analyst and staff accountant for the Oakwood Hospital Corporation in Dearborn, Mich.

Ph.D. Notes

3 £lf\ JOHN D. DANIELS has \J%J recently moved to Peru, where he is with the Academy for Educational Development. John complains that mail takes eighteen days to reach him, but we've had that experience in the States, without even having had the privilege of going to Peru!

ERIC FLAMHOLTZ is active both as a consultant and as a professor. President of Management Systems Consulting Corporation, which he founded in 1978, he is also Professor of Management at the Graduate School of Management at UCLA and Assistant Director of the UCLA Institute of Industrial Relations where he heads the Center for Research on Human Resource Management. Jossey-Bass recently published two of his books — *Human Resource Accounting* and *How to Make the Transition from an Entrepreneur ship to a Professionally Managed Firm.*

9^ "1 STEVE DAWSON, now in / *JL* the Finance Department at the University of Hawaii at Manoa, reports that he had a visiting appointment at the University of International Business and Economics in Beijing for the spring term 1987.

'72 BOB ALLISON is now at Ouachita Baptist University, Arkadelphia, Arkansas, having left Wayne State in Detroit last July.

'73 WILLIAM CARLSON writes enthusiastically about St. Olaf College's strong economics program which graduates more than 100 econ majors with strong quantitative skills each year. Many students have joint majors with a foreign language and/or spend a semester abroad.

9^ *A* LARRY (VICTOR) GAMBOA / ^t wrote a lengthy letter describing his involvement with Soldiers for Christ (a series of seminars to be given to the new armed forces of the Philippines), the Brotherhood of Christian Businessmen and Professionals, and the Institute for Pastoral Development. He and his wife, Priscy, have three children — Yanee, 9; JB, 7; and Marie, 3.

'76 LAURENCE MADEO moved to St. Louis, Missouri at the end of 1986, where he is now assistant professor of Management Information Systems at the University of Missouri-St. Louis.

9 ^ Q JORGE CALDERON-ROSSELL / O has been with the World Bank Group for the last eight years. He is now in the Capital Markets Department of the International Finance Corporation, an affiliate of the World Bank, which he has found to be a "very satisfying professional experience."

9 Q **fif** JULIAN CATTANEO, in O *%J* addition to acting as associate professor and director of research and publications at the faculty of business administration, the University of Windsor, Canada, is also editor of the newsletter of the International Management Division of the Academy of Management and is past chair of the International Business Division of the Administrative Sciences Association of Canada.

Deaths

The Twenties

Alfred M. Pelham, a business administration major who graduated from the U-M in 1922, died April 3 in Detroit after a long illness. Information about him was sent to us by a classmate of his, H. T. Stark, who graduated in 1921 from the U-M, also with a business administration major.

Mr. Pelham had been Wayne County director of budget and finance, city controller under Detroit Mayor Jerome P. Cavanaugh, vice-president of finance at Wayne State University, interim president of Wayne County Community College, and fiscal adviser for Detroit Mayor Roman Gribbs.

He retired from Wayne County government in 1957 after 32 years of service, the last 18 as county budget director, and joined WSU shortly afterward.

He attained further stature after he took a leave of absence from WSU to enter city government in January 1962 as chief fiscal officer with the Cavanaugh administration — the highest city administrative post ever held by a Black.

The new mayor cited city finances as his most difficult problem, and Mr. Pelham, first as Cavanaugh's interim financial adviser, then as city controller, charted Detroit's course back to fiscal stability. He also served on innumerable boards and commissions, and in 1973 was presented with one of his proudest honors, the Brotherhood Award of the National Conference of Christians and Jews for "promoting the best interest of all members of the community, of every race and religion, in his many and arduous civic responsibilities."

To quote his obituary in the Detroit News of April 4, "To his countless friends, Mr. Pelham was well-known for his personal warmth and wit as he was for his financial knowledge. Asked once about the secret of his ability with figures running into the millions, he quipped, 'I've got 12 fingers.' "

" 'There's no question that Al Pelham was one of this city's and this state's great men,' (Detroit) Mayor Coleman A. Young said. 'It will be a long time before we see his kind again.' "

Surviving in addition to his wife Doris are a son, Alfred M., Jr.; a daughter, Frances Carnaghi; and four grandchildren.

Bernard A. Nagelvoort, a loyal Michigan alumnus, died in Anchorage, Alaska, on April 30, 1987, after an illness of several months. He came to the University in 1922 and was awarded an A.B. degree in 1925 and an MBA in 1926. He was a member of the first class to graduate from the Business School. In this class there were only thirteen students including three orientals, two Chinese and a Japanese. Now there are only two members living. At the University and throughout his life, Mr. Nagelvoort was familiarly known as Bernie by a host of friends and business contacts.

After graduation he entered the investment banking field in Detroit with the Guaranty Trust Company and later worked at other financial institutions. But in the fall of 1932 he left the financial community and in association with Millard H. Pryor, another Michigan alumnus, became affiliated with the Independent Stove Company of Owosso, Michigan, under a management contract which gave them majority control when certain financial goals had been met. This contract went into effect at or near the lowest level of the great depression of the early 1930s. The company's name was changed to Renown Stove Company and later to Renown Corporation.

Through this transaction these two young men, both with financial experience, took the entrepreneurial approach to business careers in marked contrast to other members of the 1926 class. Surely there was much risk involved and, in fact, the going was very rough indeed for the first two or three years, but they weathered the storm largely through a loan from the RFC (Reconstruction Finance Corporation), a federal agency. After the rigors of the depression subsided the stove business became at least reasonably profitable. Mr. Nagelvoort handled production and labor relations; Mr. Pryor — sales and other outside functions. As entrepreneurs Mr. Nagelvoort and Mr. Pryor also became interested in other enterprises, notably The Barnes Manufacturing Company of Mansfield, Ohio; the Toledo Commutator Company which they bought and moved to Owosso. In 1939, Mr. Pryor became President of Barnes, and soon thereafter Mr. Nagelvoort became Executive Vice-President. Later he became a director of the Inter-American Engineering Company of Fremont and Huyler's of Indianapolis.

After the beginning of WW II, Renown and many other small manufacturers became interested in war-related production. As Mr. Nagelvoort said, "When WW II broke out it soon became apparent that a lot of industries in this country were going to have to convert their facilities into something more vitally needed than stoves could possibly be." So Renown management soon became interested in salvage suction and discharge assemblies and concluded that the market for them would be substantial so long as boats were being sunk, harbors blocked, etc. Then the question was whether Renown was in position to produce these products. So there was a thorough study of production capability, needed equipment, and procurement problems. The decision was in the affirmative. A contract was secured from the U.S. Navy and production was started in 1941. Before long, shipments of these products were being made to Great Britain, France, and the USSR. This all happened before Pearl Harbor, but this event just increased demand. This rapid shift from stoves to war-related products by Renown management surely was a significant accomplishment.

Later Renown contributed to the war effort by the production of salvage gears, aircraft spark plug cleaners, and magnesium castings. That Renown played an important part in the war effort was recognized when the coveted Army-Navy E Award was made to all employees. All contracts for war material were terminated after V-J day in 1945. But in 1948, contracts were secured from the Navy Department and later from the Army Quartermaster Corps for production of a large number of wall clothes-lockers. Also in 1951, Renown secured a contract from the Army Air Corps to produce gasoline dispensers. Finally in 1953, Renown was liquidated and all equipment was sold. The land and buildings were sold in 1956.

The Nagelvoorts continued to live in Owosso until 1980 when they moved to Ann Arbor, and on to Anchorage in early 1987. Even in the hectic days of the 1930s and 1940s, Bernie, his wife, Caroline, and their two children, were an integral part of the social, civic, and religious life of the community. They achieved a nice blend of business activities with family life and participation in many endeavors to improve the lives of other people in the community. Yet his influence and contributions went far beyond the local level. In 1963, he accepted a position proffered by the International Bank for Reconstruction and Development (World Bank) to serve as an advisor to the general manager of the Industrial Finance Corporation of Thailand. This was a most interesting assignment but one which was undoubtedly frustrating at times. Nevertheless, this two-year assignment (1964-65) was rewarding in many ways both to Thailand and to the Nagelvoorts. It gave them the opportunity to travel extensively in that part of the world.

Soon after their return to Owosso Mr. Nagelvoort became active in the affairs of the Interlochen Center for the Arts, the home of the National Music Camp at Interlochen, Michigan, and was a member of its National Advisory Board in 1967. He was active in fund-raising efforts for most of the following year, but through no fault of his own the project was unsuccessful and abandoned in 1970.

Mr. Nagelvoort was a strong, quiet, unassuming individual. He had all the good qualities of his Dutch ancestors who migrated from Amsterdam to a Nebraska farm in 1880. He was a rather conservative person with a high level of personal integrity. Like most Dutchmen he had a very strong family orientation. Yet his humanity extended beyond family to all of mankind. It was a pleasure to be with him often over the several decades since the first class graduated from the Business School in 1926.

Surviving in addition to his wife Caroline are a son, Bernard C, who received his MBA from the Business School in 1957, and a daughter, C. Elaine Mills, of Anchorage, Alaska.

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