

M-1 "MIDDEE" WAS CALLED / (CASH)

MANAGING CHANGE:
THE AMERICAN CAN COMPANY EXPERIENCE

REMARKS
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(copy to
Wybrand
Partners ready)

BOCA RATON HOTEL AND CLUB
BOCA RATON, FLORIDA
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C&L PARTNERS' MEETING

THANK YOU FOR ASKING ME TO SPEAK ABOUT
~~I DEEPLY APPRECIATE THIS INVITATION TO~~
ONE OF MY FAVORITE TOPICS - RESPONDING
~~PARTICIPATE IN YOUR ANNUAL PARTNERS' MEETING~~ *TO CHANGE.*

~~AND TO DISCUSS THE TOPIC OF RESPONDING TO~~
CHANGE.

AND ALL OF US IN THIS ROOM KNOW THAT
~~YOUR INVITATION DOES NOT COME AS A SURPRISE.~~

HOWEVER: IF THERE IS ONE COMPANY THAT HAS
UNDERGONE A COMPLETE AND TOTAL TRANSFORMATION
5 YEARS
IN THE PAST ~~15~~ YEARS, IT IS AMERICAN CAN.

C&L PARTNERS' MEETING

UNTIL THE LATE 70'S

~~IN THE 1970'S~~, WE WERE A TRADITIONAL

"SMOKESTACK" INDUSTRY, LIKE STEEL, RUBBER,

AUTOMOBILES AND GLASS, WE WERE ONE OF THE

INDUSTRIES THAT HELPED FUEL AMERICA'S ECONOMIC ~~WAS ALSO~~

GROWTH FOR SOME ^{60, FORTUNE LISTED US AS 1 OF 5 MAJOR} ~~40~~ YEARS. WE WERE A SOLID, ^{CORPORATIONS THAT}

^{ALMOST} SINGLE PRODUCT MANUFACTURING COMPANY. WE

~~HAD MADE 20TH~~
AMERICA POSSIBLE

WERE OLD LINE AND CASH RICH. ALONG WITH ONE

OTHER COMPANY, WE DOMINATED A STABLE MARKET

THAT ^{WAS CHANGING SLOWLY ON THE} ~~SHOWED NO SIGNS OF CHANGING.~~

^{SURFACE BUT RAPIDLY UNDERNEATH}

(
RCA
AT&T
ACC
~~FORD~~
~~...~~)

WITHIN A DECADE, THOUGH, ALL THAT ^{APPARENT} STABILITY

AND COMFORT HAD DISAPPEARED.

ACC MADE

URBANIZATION POSSIBLE
THROUGH PROGRAMS OF
FOOD. IN EARLY 20'S
WE HAD MORE AGREEMENTS
THAN DEPT. OF AL.

C&L PARTNERS' MEETING

WITH THE COMPLETION OF THE SALE OF OUR
PACKAGING SECTOR TO TRIANGLE INDUSTRIES IN A
FEW WEEKS, WE WILL BE A COMPANY WITH TWO
PRINCIPAL BUSINESSES -- FINANCIAL SERVICES AND
SPECIALTY RETAILING -- BUSINESSES THAT BEAR NO
RELATIONSHIP OR LINK TO OUR PAST. BY NEXT
SPRING, WE EVEN ~~ARE GOING TO~~ ^{WILL} HAVE A NEW NAME.

BY TODAY'S STANDARDS, THAT MUCH CHANGE MAY
~~NOT BE AS~~ ^{UNIQUE BUT IT IS} NOTEWORTHY ~~AS IT WAS TEN OR 15~~
~~YEARS AGO. INSET,~~ ^{IN A WORLD WHERE} THERE IS SO MUCH FERMENT

IN OUR ECONOMIC LIFE THAT IT SOMETIMES SEEMS
THAT CHANGE IS THE ONLY CONSTANT ~~IN OUR~~
~~ECONOMY.~~

C&L PARTNERS' MEETING

~~THE~~ WHEN WE EMBARKED UPON OUR OWN PROCESS OF REORGANIZATION AND DIVERSIFICATION, THERE WERE VERY FEW EXAMPLES OR GUIDELINES TO FOLLOW. SINCE OUR PROCESS IS NOW ABOUT COMPLETE, THIS IS AN APPROPRIATE TIME TO REVIEW THE ^{BROAD} OUTLINES OF THAT CHANGE AND THE DECISION-MAKING PROCESSES THAT ACCOMPANIED IT.

FINALLY, I WILL CONCLUDE WITH SOME ^{HIGHLY TENTATIVE} COMMENTS ^{AND DISCUSSION} ABOUT THE BROADER SOCIAL ^{BUSINESS} IMPACT OF THE CHANGES WE ARE WITNESSING THROUGHOUT THE BUSINESS COMMUNITY.

C&L PARTNERS' MEETING

FIRST, OUR OWN STORY.

WHEN ANY ORGANIZATION CHANGES AS MUCH AS WE
~~HAVE~~^{HAVE}, THE OBVIOUS QUESTION IS: WAS THE TRIP
REALLY NECESSARY?

IN OUR CASE IT WAS.

TWO FACTORS OVER WHICH WE HAD NO CONTROL MADE
IT CLEAR THAT OUR PAST WAS OVER AND OUR FUTURE
LAY ELSEWHERE.

C&L PARTNERS' MEETING

*SLOW DECLINE OF MARKET FOR
FRESH PROCESSED FOOD AS FROZEN &
MORE RECENTLY FRESH FOODS HAVE*

ONE WAS A 1950 FEDERAL COURT ANTITRUST
DECISION THAT MADE THE PACKAGING TECHNOLOGY WE
DEVELOPED AVAILABLE TO ALL COMERS, INCLUDING
SOME OF OUR LARGEST CUSTOMERS. THE MARKET WE
HAD ONCE DOMINATED WOULD NOW BE A WIDE-OPEN
MARKET.

*EDWARDS IDEAS
DISGUISED BY
RAMP GROWTH U.S. 4%
ELIMINATION OF
GROSS DISCOUNTS
DROVE OUR CUSTOMERS INTO SEC
MFC.*

*ECONOMIC
UNUSUAL FACTORS*

THE OTHER WAS THE NEW SET OF UNORTHODOX RULES

THAT STARTED TO DOMINATE THE ECONOMY IN THE

1970'S. THAT WAS, YOU RECALL, A TIME OF

HIGH ENERGY PRICES, *INCREASING* VOLATILE INFLATION,

RISING SHARPLY ~~FLUCTUATING~~ INTEREST RATES. IT WAS A

TIME OF SLOW GROWTH IN THE GNP AND DECLINING

IN THE ECONOMY PRODUCTIVITY₁ -- NOT GOOD OMENS FOR ANY BASIC

MANUFACTURING COMPANY.

C&L PARTNERS' MEETING

THE HANDWRITING WAS ON THE WALL. A COMPANY

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IN

WITH HEAVILY CAPITAL-INTENSIVE BUSINESSES

AS LOW TO ZERO GROWTH

INDUSTRIES WITH DECLINING MARGINS.

CANS AND PAPER -- SIMPLY COULD NOT SURVIVE

5/24/64

DOUBLE DIGIT INTEREST RATES AND INFLATION.

^

C&L PARTNERS' MEETING

WE COULD MAINTAIN A LEVEL OF MANUFACTURING
CAPACITY THAT WAS CONSISTENT WITH MARKET
CONDITIONS, BUT THERE WAS NO WAY WE COULD
REMAIN A COMPANY WHOSE PRIMARY BUSINESS WAS
NOT ONE BUT TWO CAPITAL-INTENSIVE BUSINESSES:
CONSUMER PAPER AND FOREST-BASED OPERATIONS,
AND METAL PACKAGING. THESE BUSINESSES HAD
CLOSE TO
~~ABSOLUTELY~~ ZERO GROWTH IN COMBINATION. THEY
HAD EXCESS CAPACITY AND DECLINING PROFIT
BUSINESSES HARDLY
MARGINS. THEY COULD ~~NOT~~ GENERATE ENOUGH CASH
~~EVEN~~ TO REINVEST IN THEIR OWN OPERATIONS, LET
ALONE SUPPLY FUNDS FOR DIVERSIFICATION INTO
BUSINESSES WHERE PROFITS WERE GROWING OR HAD
TO CHANCE TO GROW.

C&L PARTNERS' MEETING

OUR PROBLEMS WERE OBVIOUS TO EVERYONE. WE
NEEDED MAJOR INFUSIONS OF CAPITAL JUST TO
STAY COMPETITIVE, BUT ALL OUR CAPITAL WAS TIED
UP IN MACHINERY, EQUIPMENT AND PRODUCTION.
WE WERE 76TH ON THE FORTUNE 500 LIST IN TERMS
OF SALES, BUT 344TH IN TERMS OF AVERAGE TOTAL
RETURN TO ^{2011 EQUITY} ~~OUR INVESTORS~~. THE RECESSION AND
THE HIGH INTEREST RATES, MEANWHILE, WERE
CUTTING INTO NET INCOME BY 33 PERCENT.

C&L PARTNERS' MEETING

WE HAD THREE CHOICES. WE COULD HANG ON,
PRESERVE OUR MANUFACTURING JOBS AS LONG AS
POSSIBLE AND GRADUALLY STRANGLE TO DEATH. WE
COULD ENCOURAGE SOMEONE ELSE TO TAKE US OVER
AND RESTRUCTURE THE CORPORATION INTO A MORE
PROFITABLE VENTURE. OR WE COULD REORGANIZE *OUR ASSET BASE*
CONTINUE TO
AND DIVERSIFY THE COMPANY OURSELVES.

WE CHOSE THE LATTER. WE DECIDED TO SELL OFF
LARGEST BLOCK OF
OUR SALEABLE ASSETS IN ORDER TO GENERATE THE
CASH THAT WOULD ALLOW US TO REORGANIZE AND
DIVERSIFY.

C&L PARTNERS' MEETING

ANTICIPATING CHANGE IS ONE THING, THE ACTUAL
PROCESS ANOTHER. AT THAT POINT, WE FACED
THREE DIFFERENT SETS OF ISSUES:

- O WHAT KINDS OF BUSINESSES SHOULD WE BUY
INTO?

- O WHAT KIND OF DECISION-MAKING PROCESS
SHOULD WE ESTABLISH WITHIN THE COMPANY IN
ORDER TO MAKE THOSE CHOICES?

- O AND, IN A MANAGEMENT SENSE, WHAT KIND OF
COMPANY DID WE WANT TO BECOME ONCE THIS
PROCESS WAS COMPLETE?

C&L PARTNERS' MEETING

BEFORE DECIDING WHAT KINDS OF BUSINESSES TO
BUY INTO, YOU NEED TO HAVE A FAIRLY SOUND
SENSE OF THE DIRECTION IN WHICH YOU THINK THE
ECONOMY IS HEADING. OUR STRATEGIC PLANNING
TOLD US ~~THAT INTEREST RATES AND INFLATION~~
~~WOULD CONTINUE TO FLUCTUATE AND~~ THAT REAL
ECONOMIC GROWTH, ~~IN AN INDUSTRIAL SENSE,~~ WOULD

REMAIN SLOW AND UNPREDICTABLE. *WITH HEAVY PRESSURES
ON MANUFACTURING COMPANIES CONTINUING FOR
THE FORESEEABLE FUTURE*

C&L PARTNERS' MEETING

ON THE OTHER HAND, SOME MAJOR SHIFTS WERE

VISIBLE WITH RESPECT TO ~~DEMOGRAPHY~~ ^{CONSUMER DEMOGRAPHICS} AND INCOME.

A MUCH SHARPER, MORE SOPHISTICATED PATTERN OF

CONSUMER DEMAND WAS EMERGING. THE MORE WE

LOOKED AT THIS PATTERN THE MORE APPARENT IT

BECAME THAT DISTRIBUTION ^{COMBINED WITH SERVICE INDUSTRIES} WAS THE WAVE OF THE

FUTURE.

C&L PARTNERS' MEETING

ONE OBVIOUSLY COULD NOT IGNORE MANUFACTURING
OR MARKETING COMPLETELY, BUT IN STRATEGIC
TERMS THE AGE OF ^{LOW TECH} MANUFACTURING HAD PASSED AND
SO TOO HAD THE AGE OF MARKETING, OR SO IT
SEEMED TO US, WE WERE ON THE THRESHOLD OF AN
ENTIRELY NEW AGE, ONE IN WHICH COMPANIES WOULD
RISE AND FALL IN DIRECT RELATIONSHIP TO THE
SKILL WITH WHICH THEY WERE ABLE TO IDENTIFY
AND DEVELOP SPECIALIZED SYSTEMS OF
DISTRIBUTION THAT WERE CONSISTENT WITH THE
CHANGING INCOME AND LIFESTYLES OF THE AMERICAN
PEOPLE.

C&L PARTNERS' MEETING

THAT IS WHY WHEN YOU LOOK AT OUR ACQUISITIONS
OVER THE PAST TEN YEARS YOU FIND NOT SIMPLY
COMPANIES WITH LIQUID ASSETS. YOU FIND
COMPANIES WHOSE PRIMARY FOCUS IS DEVELOPING
HIGHLY TARGETED AND SOPHISTICATED DISTRIBUTION
SYSTEMS FOR THEIR PRODUCTS OR SERVICES. YOU
FIND SPECIALTY RETAILING COMPANIES, AND YOU
FIND COMPANIES INVOLVED IN FINANCIAL SERVICES
AND INSURANCE.

C&L PARTNERS' MEETING

THESE TWO BUSINESS SECTORS DID NOT JUST POP INTO OUR HEADS ONE DAY. THEY WERE THE CONCLUSION OF A VERY DELIBERATE AND VERY LENGTHY SEARCH FOR THE RIGHT KIND OF BUSINESSES. WE SPENT A YEAR BETWEEN THE SPRING OF 1980 AND THE SPRING OF 1981 ANALYZING 120 DIFFERENT TYPES OF SERVICE BUSINESSES, BUSINESSES THAT FOR THE MOST PART WERE WORKING-CAPITAL INTENSIVE, NOT FIXED-CAPITAL INTENSIVE LIKE CANS AND PAPER. WE WANTED BUSINESSES THAT WOULD GROW RAPIDLY AND STEADILY.

C&L PARTNERS' MEETING

*FINANCIAL SERVICES, SPECIF. INSUR. TO
MAY 10/74*

IN THE END, WE PICKED ~~INSURANCE~~ BECAUSE IT

HAD A STEADY INCOME GROWTH, IT WAS

NON-CYCLICAL, AND IT HAD AN INVESTABLE ASSET

POOL. THE TRICK, HOWEVER, WAS FINDING THE

RIGHT COMPANY, AND WE PICKED ~~THE~~ ~~INSURANCE~~ ~~COMPANY~~ SPECIALTY

HAD ~~THE~~ ~~INSURANCE~~ ~~COMPANY~~
IN LATE 70'S
RETAILING. BECAUSE THE ECONOMY WAS MOVING

TOWARD SPECIALIZED PRODUCT LINES AND

~~SPECIALIZED GEOGRAPHIC DISTRIBUTION AREAS.~~

WHAT WE CALLED "NICHE" MARKETS.

*SOMETHING HERE
ON MAIL ORDER
GROWTH AS A
RESULT OF RAPIDLY
INCR. WOMEN'S WORKING*

*↓ DIRECT MAIL BECAUSE OF RAPIDLY
GROWING % OF WOMEN IN WORK FORCE*

C&L PARTNERS' MEETING

TO KEEP THE IDEAS FLOWING AND MAKE SURE WE
CONSIDERED ALL THE ALTERNATIVES, WE
ESTABLISHED A STRATEGIC WORK GROUP OF HALF A
DOZEN OFFICERS WHICH MET EACH WEEK. THIS
GROUP ALSO BROUGHT ^{ALL OF} TOP MANAGEMENT INTO THE
PROCESS. THAT PROCESS CERTAINLY HELPED ME
MAKE UP MY MIND. BUT ITS PRIMARY BENEFIT WAS
THAT ALL OUR SENIOR MANAGERS PARTICIPATED IN
OUR DECISIONS. WE MAY NOT HAVE MADE DECISIONS
EVERYONE AGREED WITH. BUT WE MADE DECISIONS
EVERYONE WAS WILLING TO CARRY OUT *BECAUSE THEIR
CASE HAD BEEN HEARD.*

C&L PARTNERS' MEETING

THAT PROCESS HELPED US ARRIVE AT OUR DECISION
TO SELL OUR PAPER OPERATIONS AS A WHOLE
BUSINESS INSTEAD OF PIECEMEAL. WE DID THAT
BECAUSE WE WANTED TO PRESERVE AS MANY JOBS AS
POSSIBLE.

C&L PARTNERS' MEETING

ONCE THESE CHANGES WERE UNDERWAY, WE ALSO HAD
TO GIVE SOME THOUGHT TO WHAT KIND OF COMPANY
WE WOULD BECOME IN MANAGEMENT TERMS. AMERICAN
CAN HAD BEEN A TRADITIONAL ~~MANAGEMENT~~ ^{MANAGED} COMPANY.
WE HAD A HIGHLY CENTRALIZED, HIERARCHICAL
DECISION-MAKING SYSTEM, NOT DISSIMILAR TO
WHAT YOU MIGHT FIND IN A MILITARY ORGANIZATION.
A FEW TOP PEOPLE MADE THE DECISIONS, AND
EVERYONE ELSE CARRIED THEM OUT WITHOUT QUESTION.
THAT STYLE WORKED IN THE 1940'S AND EVEN INTO
THE FIFTIES AND SIXTIES. ^{POSSIBLY} ~~BUT IT WASN'T GOING~~ ^{TO} ~~WORK IN THE EIGHTIES.~~ ^{THO I THINK WE WERE DECIDING} ~~OURSELVES,~~
~~TO WORK IN THE EIGHTIES.~~ ^{HAD FLOWN} ~~IN~~ ^{IN} 70'S -
COULD NEVER WORK IN 80'S.

WHY? — BECAUSE PACE OF
CHANGE HAD PICKED UP RAPIDLY

C&L PARTNERS' MEETING

TO SURVIVE IN THE MARKETPLACE OF THE EIGHTIES,
A COMPANY WOULD NEED TO MOVE QUICKLY AND
EFFECTIVELY. IT WOULD NEED TO BE FAST ON ITS
FEET, SO TO SPEAK, AND POSSESS A SENSE OF
PACE AND TIMING THAT THE OLD INDUSTRIAL
COMPANIES RARELY HAD.

C&L PARTNERS' MEETING

quickly & smoothly

SO WE MOVED TO A DECENTRALIZED SYSTEM OF
MANAGEMENT AND DECISION-MAKING IN WHICH OUR
KEY EXECUTIVES AND MANAGERS HAD BOTH OPERATING
AUTHORITY AND AUTONOMY. WE WERE MOVING INTO
BUSINESSES THAT REQUIRED FASTER DECISIONS,
AND WE DIDN'T WANT TO SPEND OUR TIME LOOKING
OVER EVERYONE'S SHOULDER EVERY DAY. WE WANTED
AN ENVIRONMENT IN WHICH PEOPLE WITH
ENTREPRENEURIAL INSTINCTS WOULD BE COMFORTABLE
AND IN WHICH THEY COULD FUNCTION EFFECTIVELY.
WE WANTED OUR SECTOR HEADS AND THE HEADS OF
THE INDIVIDUAL BUSINESSES TO TAKE CONTROL OF
THEIR OPERATIONS, TO RECEIVE CREDIT WHEN
THEY SUCCEEDED AND TO BE HELD ACCOUNTABLE IF
THEY DIDN'T.

C&L PARTNERS' MEETING

I DON'T THINK THERE IS ANYTHING PARTICULARLY UNUSUAL OR REMARKABLE ABOUT HOW AMERICAN CAN RESPONDED TO CHANGE. THE PLAIN TRUTH IS THAT WE FOUND OURSELVES IN A POSITION IN WHICH WE HAD FEW OPTIONS, AND WE CHOSE THE OPTION THAT OFFERED US THE BEST CHANCE TO SURVIVE AND PROSPER AS A CORPORATION. WE MADE SOME GOOD DECISIONS, BUT IN RETROSPECT THE PROCESS WAS NOT AS NEAT AND ORDERLY AS IT NOW APPEARS.

IT CERTAINLY WAS NOT PAINLESS.

C&L PARTNERS' MEETING

MANY, MANY PEOPLE LOST THEIR JOBS, SOME HAD
~~ENORMOUS~~ ^{enormous} DIFFICULTY FINDING OTHER JOBS,
BECAUSE WHEN PLANTS CLOSED THEY WERE UNABLE
TO MOVE TO ANOTHER TOWN, PEOPLE WHO STILL HAD
JOBS WONDERED HOW LONG THOSE WOULD LAST. THE
ANXIETY WAS HIGH THROUGHOUT THE COMPANY, AND
~~HAS REMAINED HIGH AND IS STILL HIGH TODAY~~
IT ¹ ~~STAYED HIGH FOR MANY YEARS.~~ SO ~~THE~~ ^{TOO} THE
ANGER LEVEL, NOT UNEXPECTEDLY, MORALE OFTEN
WAS LOW BECAUSE THE FUTURE LOOKED SO UNCERTAIN
TO SO MANY PEOPLE.

C&L PARTNERS' MEETING

THAT'S THE SIDE OF THE CHANGE STORY THAT
DOESN'T OFTEN GET TALKED ABOUT IN THESE KINDS
OF MEETINGS. BUT IT SHOULD BE. WE NEED
SOMETIMES TO REMEMBER THAT JUST AS THERE IS A
DARK SIDE OF THE MOON, THERE ALSO IS A DARK
SIDE OF CHANGE. IT'S A PHENOMENA WE NEED TO
ADDRESS BECAUSE THE MORE COMMONPLACE CHANGE
BECOMES WITHIN CORPORATE AMERICA, THE MORE
INCLINED WE SEEM TO ACCEPT IT WITHOUT QUESTION.
AND THERE ARE SOME QUESTIONS ABOUT CHANGE WE
NEED TO ADDRESS.

SUCH AS WHY ALL THIS CORPORATE CHANGE IS
OCCURRING IN THE FIRST PLACE.

C&L PARTNERS' MEETING

THE ANNOUNCED MOTIVES ARE CLEAR ENOUGH,
CORPORATIONS ARE CUTTING STAFFS, REORGANIZING
AND RESTRUCTURING, DIVERSIFYING AND DOWNSIZING,
THEY SAY, IN ORDER TO BE MORE COMPETITIVE IN
WORLD MARKETS, TO STREAMLINE THEIR OWN
MANAGEMENT SYSTEMS AND TO MAKE THEIR STOCK
MORE ATTRACTIVE TO INVESTORS.

C&L PARTNERS' MEETING

I CAN SYMPATHIZE WITH A CORPORATION MAKING
MAJOR STRUCTURAL CHANGES WHEN ITS SURVIVAL IS
AT STAKE. BUT AS I WATCH THE FREQUENCY WITH
WHICH CHANGE IS OCCURRING, I HAVE TO WONDER *AT TIMES*
IF WE ARE NOW SEEING CHANGE FOR ITS OWN SAKE --

JOB LOSS, LACK OF PRODUCTION AND ECONOMIC
HARDSHIP NOT IN ORDER TO SAVE A DROWNING
CORPORATION, BUT BECAUSE PROFITS WERE NOT AS
HIGH THIS QUARTER AS LAST, OR BECAUSE A
TAKEOVER ARTIST WANTS ONE MORE NOTCH ON HIS
GUN BELT.

C&L PARTNERS' MEETING

I MEET WITH A JAPANESE CEO EACH YEAR. HIS
COMPANY WAS ONE OF OUR LICENSEES IN ~~THE HEYDAY~~ ^{NOT WHILE I GROW RAPIDLY ON OUR} ~~TECHNOLOGY~~ ^{TECHNOLOGY}
~~OF THE CAN BUSINESS.~~ ^{TODAY MAJOR} EVERY ADVANCE IN CAN
~~TECHNOLOGY~~ ^{WE} ~~IS~~ LICENSED FROM HIM, ~~WHICH~~ —
~~MEANS~~ WITHIN A GENERATION OUR TWO
COMPANIES WENT THROUGH A COMPLETE ROLE
REVERSAL.

HE TELLS ME HE IS COMPLETELY BAFFLED BY THE
EMPHASIS AMERICAN CORPORATIONS PLACE ON
SHORT-TERM RESULTS AND GAINS, BY OUR APPARENT
OBSESSION WITH A PRESENT THAT TO HIM BEARS NO
RELATIONSHIP TO THE PAST OR THE FUTURE.

C&L PARTNERS' MEETING

HIS FRAME OF REFERENCE, ON THE OTHER HAND,
IS TO A BUSINESS WORLD WITH A PAST, A PRESENT
AND A FUTURE. HE SPENDS MOST OF HIS TIME ON
DECISIONS THAT ARE NOT GOING TO AFFECT HIS
COMPANY UNTIL LONG AFTER HE HAS RETIRED.

C&L PARTNERS' MEETING

ALL OF US KNOW HOW CONVENIENT IT IS TO USE

LONG-TERM GOALS AS AN EXCUSE TO COVER UP

SHORT-TERM LACK OF PERFORMANCE. WE KNOW, *FOR YEARS WAS STANDARD MGT. EXCUSE.*

TOO, THERE MUST BE SOME KIND OF BALANCE

BETWEEN SHORT AND LONG-TERM GOALS; THAT IF WE

ARE NOT SUCCESSFUL IN THE SHORT TERM, OUR

LONG TERM GOALS WILL BE IRRELEVANT. AND WE

CAN'T JUST BLINDLY FOLLOW THE JAPANESE MODEL.

IN SOME RESPECTS, THE JAPANESE SYSTEM IS MORE

RUTHLESS. THEY HAVE A SYSTEM IN WHICH THE

CENTRAL GOVERNMENT CAN YANK TOP MANAGEMENT IF,

IN THE OPINION OF THE GOVERNMENT, THE MANAGERS

ARE NOT PERFORMING. ~~THAT MEANS A JAPANESE CEO~~

~~FUNCTIONS UNDER AN ENTIRELY DIFFERENT SET OF~~

~~CRITERIA.~~

*ON THE OTHER HAND IF I COULD ~~ONLY~~ ^{ONLY} LIST ONE
CAUSE FOR THE CRISIS OF D.S. MFG & LACK OF
PRODUCTIVITY IT WOULD HAVE TO BE SENIOR
MGT. ^{OF D.S. CORP.} AND IF I HAD TO GIVE A SINGLE
REASON FOR THAT ³⁰ IT WOULD BE TOO MUCH
EXERCISE TO LIST MORE...*

C&L PARTNERS' MEETING

~~NEVERTHELESS~~, I THINK THE TIME HAS COME WHEN
CORPORATE AMERICA MUST BEGIN TO ASK ITSELF
WHETHER WE ARE PLACING TOO MUCH WEIGHT ON
CREATING SHORT-TERM VALUE FOR OUR SHAREHOLDERS,
AND WHETHER THIS SHORT-TERM EMPHASIS IS
DAMAGING TO OUR LONG-TERM ECONOMIC INTEREST
BOTH HERE AND IN WORLD MARKETS.

ONE IRONIC
FOOTNOTE!

MUCH OF THIS WE HAVE DONE TO
OURSELVES.

A.C.C. FOR EXAMPLE

1980 - 6% INSTI. FUNDS, 94% INDIVID.

1986 - 70% INSTI, 30% INDIVID.

WHAT ARE INSTITUTIONS - BY & LARGE
PENSION FUNDS & MUTUAL FUNDS.

A.C.C. ~~CONSIDERS~~ ~~SCREENS~~ PENSION FUNDS
MAY. PERFORMANCE & CHANGES LOWEST
EACH YEAR. - YET WE COMPLAIN
CONSTANTLY ABOUT EXCESSIVE ATTENTION
ON SHORT TERM PERFORM.

C&L PARTNERS' MEETING

~~FOR EXAMPLE~~, WE ARE NOW IN THE FOURTH YEAR OF
THE LONGEST BUSINESS RECOVERY SINCE WORLD
WAR II. WE LOOK PRETTY GOOD TO OURSELVES
COMPARED WITH WHERE WE WERE FIVE YEARS AGO.
BUT HAS ALL THIS CHANGE MADE US MORE
COMPETITIVE? HAS IT STRENGTHENED OUR ECONOMIC
BASE? HAS IT LAID THE FOUNDATION FOR ECONOMIC
GROWTH.

C&L PARTNERS' MEETING

THERE IS NO QUESTION A LOT OF PEOPLE HAVE
MADE A LOT OF MONEY OFF THE CHANGE THAT HAS
BEEN OCCURRING, PARTICULARLY THE CHANGE
ASSOCIATED WITH ALL THE MERGERS, BUY-OUTS AND
ACQUISITIONS OF THE PAST SEVERAL YEARS, BUT
ALL THIS SHORT-TERM PROFIT-TAKING OBSCURES
TWO FUNDAMENTAL PROBLEMS.

THE FIRST IS THAT MUCH OF THE CHANGE OCCURRING

MAY NOT BE
WITHIN OUR ECONOMY ~~IS NOT~~ PRODUCTIVE. IT ^{YET} ~~DOES~~ NOT
CERTAINLY CREATES PERSONAL WEALTH, BUT ~~IT DOES~~ NOT *WE DO NOT KNOW WHETHER IT*

CREATES MARKETS, AND ~~IT DOES NOT~~ CREATES JOBS. *THERE IS NO PROOF*

~~IT TENDS TO DO THE OPPOSITE: SHRINK MARKETS~~ *YET THAT IT DOES*
NEITHER.

~~AND REDUCE JOBS.~~

C&L PARTNERS' MEETING

No DOUBT THE 1980'S, ~~THE 1980'S~~, IS THE ERA OF THE QUICK
DEAL AND THE JUNK BOND. IF WE CAN'T SOLVE OUR
PROBLEMS QUICKLY, WE SELL THEM TO SOMEONE
ELSE. AND THERE'S ALWAYS A THIRD PARTY OUT
THERE TELLING US THAT IT'S THE BEST WAY TO GO.

ROBERT REICH OF HARVARD'S JOHN F. KENNEDY
SCHOOL OF GOVERNMENT ADDRESSED THIS PHENOMENA
IN A RECENT NEWSPAPER INTERVIEW. THIS IS
WHAT HE SAID:

C&L PARTNERS' MEETING

"LOOK AT THE NEWSPAPERS TODAY. YOU DON'T SEE
STORIES ABOUT NEW PRODUCTS OR INNOVATIVE
BREAKTHROUGHS. YOU SEE STORIES ABOUT THE
THRUSTS AND PARIES OF CORPORATE LAW AND
FINANCE. THAT'S THE MOST INNOVATIVE PART OF
OUR ECONOMY RIGHT NOW, AND THAT IN ESSENCE IS
THE PROBLEM."

C&L PARTNERS' MEETING

WHAT HAPPENS IN THESE TRANSACTIONS, AS REICH
AND OTHERS HAVE POINTED OUT, IS THAT HUGE
AMOUNTS OF MONEY ARE SHIFTED FROM ONE SEGMENT
OF THE ECONOMY TO ANOTHER, AND THE TIME AND
ATTENTION REQUIRED TO STAY ABREAST OF THESE
ACTIVITIES DRAINS MANY COMPANIES OF THE TIME,
PEOPLE, ENERGY AND MONEY THAT IS NEEDED TO

DEVELOP NEW PRODUCTS AND SERVICES *AT LEAST THEORETICALLY.*
OUR RECORD AS MANAGERS WAS NOT GREAT WHEN WE
DIDN'T HAVE TO WORRY ABOUT TAKEOVERS.

THE SECOND PROBLEM WE NEED TO CONSIDER IS THE
IMPACT THIS SHORT-RANGE CHANGE MAY HAVE ON
CORPORATIONS AS SOCIAL INSTITUTIONS.

THIS MAKES ME A MAVEKICK I SUPPOSE
CURRENT PHILOSOPHY IS THAT CORPORATE SOLE
RESPONS. TO SHAREHOLDERS.

AMUSED BY DEFINITENESS OF ALL PROS & CONS
ABOUT AN UNPREDICTABLE END RESULT.

C&L PARTNERS' MEETING

A MAJOR SHORTCOMING ^{of} ~~IN~~ CORPORATE AMERICA
~~THAT SEEMS TO BE GROWING BECAUSE OF FOCUS OURSELVES~~
~~TODAY IN MY ESTIMATION~~ IS OUR TENDENCY TO

ISOLATE OURSELVES FROM THE REST OF SOCIETY.

IT'S AS IF WE CONSTRUCT A BOX, PLACE OURSELVES

IN IT AND THEN NEVER LOOK OUTSIDE OR BEYOND.

OUR WHOLE OUTLOOK AT TIMES SEEMS TO BE SHAPED

BY WHATEVER FACTS, VALUES AND IDEAS WE TOOK

WITH US INTO THAT ISOLATION BOOTH.

C&L PARTNERS' MEETING

MY CONCERN IS THAT THE SHORT-TERM INCENTIVES
IN TODAY'S ECONOMY THAT PREVENT US FROM
DEVOTING OUR TIME AND ENERGY TO DEVELOPING
NEW IDEAS AND NEW MARKETS ARE ALSO PUSHING US
DEEPER INTO THAT ISOLATION BOOTH, CUTTING US
OFF EVEN MORE FROM THE REST OF SOCIETY.

C&L PARTNERS' MEETING

ON ONE LEVEL, I CAN UNDERSTAND WHY THIS IS
HAPPENING. WE ONCE HAD DECADES TO ANTICIPATE
AND RESPOND TO CHANGE. NOW WE HAVE INSTANT
AND UNPREDICTABLE CHANGE. ~~WHOLE ECONOMIC~~^{PLANNED}
~~CYCLES ONCE LASTED DECADES. NOW WE ARE LUCKY~~
~~IF THEY LAST TWO YEARS.~~ WE ONCE HAD PLENTY OF
ROOM FOR ERROR AND PLENTY OF TIME TO CORRECT
OUR MISTAKES. NOW THE CONSEQUENCES OF A
SINGLE MISTAKE CAN BE DEVASTATING.

C&L PARTNERS' MEETING

THE POINT I WANT TO MAKE -- THE POINT THAT I BELIEVE MUST BE MADE IN ORDER TO BRING SOME PERSPECTIVE TO THIS PROCESS OF MANAGING CHANGE -- IS THAT THE PRIVATE DECISIONS OF CORPORATIONS HAVE A PUBLIC IMPACT. THEY AFFECT THE PEOPLE WHO WORK FOR US, THE COMMUNITIES IN WHICH WE ARE LOCATED, AND ON A MORE GENERAL LEVEL, THE SOCIAL AND ECONOMIC FABRIC AND STRUCTURE OF THE NATION.

C&L PARTNERS' MEETING

THE RESPONSIBILITY OF A BUSINESS IN THE
PROCESS OF CHANGE DOES NOT BEGIN AND END
SOLELY WITH ITS SHAREHOLDERS AND ITS OFFICERS.

IT ALSO INCLUDES ITS EMPLOYEES, THEIR FAMILIES
AND LOCAL AND REGIONAL ECONOMIES. *AND INVOLVES
A WIDE RANGE OF IMPORTANT ISSUES
INCLUDING BUSINESS ETHICS.*

C&L PARTNERS' MEETING

THAT MEANS THAT IN ORDER TO MANAGE CHANGE
SUCCESSFULLY WE WILL HAVE TO DO A BETTER JOB
OF ANTICIPATING CHANGE AND A MORE THOROUGH JOB
OF EXPLORING ALL THE OPTIONS BEFORE US. IT
MEANS WORKING WITH OTHERS, SUCH AS UNIONS AND
CITY AND STATE GOVERNMENTS, IN ORDER TO SAVE
JOBS, STEM THE FLOW OF CAPITAL, DEVELOP NEW

PARTNERSHIPS AND GENERALLY MINIMIZE THE

ABOVE ALL IT MEANS THE CONSTANT REVITALIZATION of
HARMFUL IMPACT OF CHANGE. IT MEANS BEING *HEJ*

AWARE OF THE WORLD OUTSIDE OUR DOOR. IT MEANS

MAKING DECISIONS THAT TAKE INTO ACCOUNT THOSE

WHO HAVE DEPENDED ON US AND UPON WHOM WE HAVE

DEPENDED AS WELL.

*Loss of productivity of the workforce
is loss of management productivity, flexibility,
creativity. We must find some way out
of crisis of reversal ourselves.*

C&L PARTNERS' MEETING

~~THERE~~ ^{THAT} IS A DIFFERENT KIND OF MESSAGE THAN
BUSINESS USUALLY HEARS, BUT IT'S THE KIND OF
MESSAGE WE NEED TO HEAR TO EXPLORE AND TO
UNDERSTAND IF WE ARE GOING TO SUCCEED AT THIS
NEW AND GROWING BUSINESS OF MANAGING CHANGE,

THANK YOU.