

MANAGING CHANGE:
THE PRIMERICA EXPERIENCE

REMARKS

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PRIMERICA CORPORATION

A CASE STUDY IN
INTERACTIVE STRATEGIC RESTRUCTURING
ASSOCIATION FOR CORPORATE GROWTH
THE KING EDWARD HOTEL
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ASSOCIATION FOR CORPORATE GROWTH

THANK YOU,
JIM, IT'S ALWAYS A PLEASURE TO SPEAK
ABOUT ONE OF MY FAVORITE TOPICS -- THE SUCCESSFUL
RESTRUCTURING OF AMERICAN CAN COMPANY, NOW
PRIMERICA. IT'S ALSO A PLEASURE TO BE HERE WITH
JERRY SCHWARTZ AND BRENT HALSEY. THEIR
RESTRUCTURING EXPERIENCES AND MINE ARE SOMEWHAT
INTERTWINED, AS I WILL EXPLAIN SHORTLY.

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FIRST, THE
AMERICAN CAN STORY

UNTIL THE LATE 70S, THE COMPANY KNOWN AS AMERICAN CAN WAS A TRADITIONAL "SMOKESTACK" BUSINESS. LIKE STEEL, RUBBER, AUTOMOBILES AND GLASS, IT WAS ONE OF THE INDUSTRIES THAT HELPED FUEL AMERICA'S ECONOMIC GROWTH FOR SOME 60 YEARS.

FORTUNE LISTED US AS ONE OF THE FIVE MAJOR CORPORATIONS THAT HAD MADE 20TH CENTURY AMERICA POSSIBLE. THE REASON -- THE ECONOMICAL, AND READILY AVAILABLE SUPPLIES OF PRESERVED FOOD ALLOWED THE EXPANSION AND URBANIZATION OF THIS NATION.

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WE WERE A SOLID,
ALMOST SINGLE-PRODUCT MANU-
FACTURING COMPANY. WE WERE OLD LINE AND CASH RICH.
ALONG WITH ONE OTHER COMPANY, WE DOMINATED A STABLE
MARKET THAT WAS CHANGING SLOWLY ON THE SURFACE BUT
RAPIDLY UNDERNEATH.

WITHIN A DECADE, THOUGH, ALL THAT APPARENT
STABILITY AND COMFORT WAS TO DISAPPEAR.

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WITH THE SALE OF AMERICAN CAN PACKAGING TO TRIANGLE INDUSTRIES IN NOVEMBER OF LAST YEAR, AMERICAN CAN BECAME A COMPANY WITH TWO PRINCIPAL BUSINESSES -- FINANCIAL SERVICES AND SPECIALTY RETAILING -- BUSINESSES THAT BEAR NO RELATIONSHIP OR LINK TO OUR PAST. AS A RESULT OF THAT SALE, EVEN THE FORMER NAME WENT TO TRIANGLE. IN APRIL OF THIS YEAR, WE CAPPED FIVE YEARS OF RESTRUCTURING WHEN WE CHANGED OUR NAME TO PRIMERICA CORPORATION. IN JUNE, AS PART OF OUR COMMITMENT TO ACQUIRE HIGHPERFORMING COMPANIES, WE BOUGHT SMITH BARNEY, ONE OF THE MOST RESPECTED OF INVESTMENT BANKS. AND IN JULY, WE ANNOUNCED OUR INTENTION TO DIVEST FINGERHUT -- A VERY FINE COMPANY IN THE DIRECT MAIL INDUSTRY -- IN ORDER TO MAINTAIN A STRONG BALANCE SHEET, WHICH WILL GIVE US ADDITIONAL FLEXIBILITY AS WE CONTINUE TO PURSUE OUR AGGRESSIVE GROWTH PLANS

OUR FUNDAMENTAL
RESTRUCTURING IS NOW ABOUT
COMPLETE.

BY TODAY'S STANDARDS, THIS MUCH CHANGE MAY NOT BE
UNIQUE, BUT IT IS STILL NOTEWORTHY IN A WORLD WHERE
THERE IS SO MUCH FERMENT IN OUR ECONOMIC LIFE THAT
IT SOMETIMES SEEMS THAT CHANGE IS THE ONLY
CONSTANT.

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ALTHOUGH THE
RESTRUCTURING HAS LARGELY BEEN A
QUESTION OF STRAIGHTFORWARD DIVESTITURES AND
ACQUISITIONS IT WAS, HOWEVER, COMPLEX IN THE
SENSE THAT WE RE-EXAMINED ALL OF OUR BUSINESSES IN
THEIR ENTIRITY. THAT INITIATIVE SPARED US THE FATE
OF SOME COMPANIES WHICH FACED RESTRUCTURING AT THE
HANDS OF A THIRD PARTY.

FORTUNATELY, THE COMPANY WAS ABLE TO MOVE RATHER
SMOOTHLY FROM FIXED CAPITAL-INTENSIVE BUSINESSES TO
A NEW FLEXIBLE, DIVERSIFIED SERVICE FIRM, POISED
FOR RAPID GROWTH.

AND ALL THAT IN THE LAST FIVE YEARS.

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MOST
IMPORTANTLY, AS A RESULT OF RESTRUCTURING,
PRIMERICA HAS RECORDED DRAMATIC RESULTS. IN TERMS
OF OVERALL FINANCIAL PERFORMANCE, 1986 MARKED THE
FOURTH CONSECUTIVE YEAR OF SUBSTANTIAL INCREASES IN
OPERATING EARNINGS. BUSINESS OPERATING INCOME HAS
RISEN ALMOST SEVENFOLD SINCE 1982.

THIS MORNING, I WILL REVIEW THE BROAD **OUTLINES** OF
THE RESTRUCTURING ACTIONS AND THE DECISION-MAKING
PROCESSES THAT ACCOMPANIED THEM.

AND THEN SHARE MY THOUGHTS ON THE RESTRUCTURING
PHENOMENA ITSELF.

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WHAT WE LOOK
BACK ON AS A SMOOTH PROCESS, WAS IN
ACTUALITY, FULL OF TWISTS AND TURNS -- A JOURNEY
INTO UNFAMILIAR TERRITORY WITHOUT A ROADMAP. IN
FACT, WHEN WE EMBARKED UPON OUR OWN PROCESS OF
REORGANIZATION AND DIVERSIFICATION BACK IN 1981,
THERE WERE VERY FEW EXAMPLES OR GUIDELINES TO
FOLLOW.

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

IN OUR CASE IT WAS.

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

FIRST WAS THE SLOW DECLINE OF MARKETS FOR
HEAT-PROCESSED FOOD, AS FROZEN AND MORE RECENTLY,
FRESH FOODS MADE ENORMOUS INROADS. DISGUISED BY
RAPID GROWTH IN THE BEER AND BEVERAGE CAN MARKETS,
THE INDUSTRY WAS CHARACTERIZED BY SALES GROWTH, BUT
RAZOR THIN MARGINS AND UNACCEPTABLE RETURNS ON
CAPITAL.

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THE OTHER WAS
THE NEW SET OF UNUSUAL ECONOMIC
FACTORS THAT STARTED TO DOMINATE THE ECONOMY IN THE
1970S. THAT WAS, YOU RECALL, A TIME OF HIGH ENERGY
PRICES, INCREASING INFLATION, SHARPLY RISING
INTEREST RATES. IT WAS A TIME OF SLOW GROWTH IN
THE GNP AND DECLINING PRODUCTIVITY IN THE ECONOMY
-- NOT GOOD OMENS FOR ANY BASIC MANUFACTURING
COMPANY.

DESPITE ITS SIZE AND PRESTIGE, THE COMPANY'S FUTURE
PROSPECTS NARROWED. COMPANIES LIKE AMERICAN CAN,
WITH HIGH FIXED-CAPITAL REQUIREMENTS, WERE FACING
DOUBLE-DIGIT INTEREST RATES **AND VOLATILE INFLATION.**
BY 1980, IT BECAME **CLEAR THAT** THE COMPANY WAS NOT
WELL POSITIONED FOR THE **FUTURE.**

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THE
SHAREHOLDERS WERE NOT BEING VERY WELL REWARDED
EITHER. IN THE EARLY 1980S, THE STOCK WAS SELLING
AT SEVEN TIMES EARNINGS AND ABOUT HALF ITS BOOK
VALUE.

THE HANDWRITING WAS ON THE WALL. AMERICAN CAN WAS
COMPANY WITH TWO HEAVILY CAPITAL-INTENSIVE
BUSINESSES, IN SLOW GROWTH INDUSTRIES WITH
DECLINING MARGINS. TOGETHER, WE SIMPLY COULD NOT
SURVIVE DOUBLE DIGIT INTEREST RATES AND SKY HIGH
INFLATION.

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THE BUSINESSES
HARDLY COULD GENERATE ENOUGH CASH TO
REINVEST IN THEIR OWN OPERATIONS, LET ALONE SUPPLY
FUNDS FOR DIVERSIFICATION INTO OTHER BUSINESSES,
WHERE PROFITS WERE GROWING OR HAD TO CHANCE TO
GROW.

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 ON EQUITY.
THE RECESSION AND THE HIGH INTEREST RATES,
MEANWHILE, WERE CUTTING INTO NET INCOME BY 33
PERCENT.

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THERE ARE
MOMENTS IN THE HISTORY OF ANY ENTERPRISE
THAT ARE CRITICAL. MOMENTS THAT CAN TURN INTO
CRISIS OR OPPORTUNITY. OUR COMPANY FACED SUCH A
CRITICAL POINT IN THE EARLY 1980S. IT WAS CLEAR
THAT NOTHING SHORT OF A RADICAL RESTRUCTURING WAS
IN ORDER.

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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 AND CONTINUE TO DIVERSIFY THE COMPANY OURSELVES.

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

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

- 0 WHAT KINDS OF BUSINESSES SHOULD WE BUY INTO?

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

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

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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 REAL ECONOMIC
GROWTH WOULD REMAIN SLOW AND UNPREDICTABLE, WITH
HEAVY PRESSURES ON MANUFACTURING COMPANIES
CONTINUING FOR THE FORESEEABLE FUTURE.

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ON THE OTHER HAND,
SOME MAJOR SHIFTS WERE VISIBLE
WITH RESPECT TO 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.

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**ONE OBVIOUSLY
COULD NOT IGNORE MANUFACTURING OR
MARKETING COMPLETELY, BUT IN STRATEGIC TERMS THE
AGE OF LOW TECHNOLOGY 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.**

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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.

IN THE END, WE PICKED FINANCIAL SERVICES -- SPECIFICALLY INSURANCE -- TO START WITH, BECAUSE IT HAD A STEADY INCOME GROWTH, IT WAS NON-CYCLICAL, AND IT HAD AN INVESTABLE ASSET POOL. ALSO, INSURANCE COMPANIES WERE UNDERVALUED AT THE TIME, MAKING THEM EXCELLENT INVESTMENTS. THE TRICK, HOWEVER, WAS FINDING THE RIGHT COMPANY TO ACQUIRE IN THE LATE 70S.

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AND, WE HAD PICKED SPECIALTY RETAILING BECAUSE THE ECONOMY WAS MOVING TOWARD SPECIALIZED PRODUCT LINES, WHAT WE CALLED "NICHE" MARKETS AND DIRECT MAIL BECAUSE OF RAPIDLY GROWING PERCENTAGE OF WOMEN IN THE WORK FORCE.

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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.

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THAT PROCESS HELPED US ARRIVE AT OUR DECISION TO
SELL OUR PAPER OPERATIONS AS A WHOLE BUSINESS
INSTEAD OF PIECEMEAL. THE FACTORS WHICH IDENTIFIED
THIS BUSINESS FOR SALE INCLUDED:

- 1) IT WAS (PROFITABLE, WELL MANAGED AND]
ATTRACTIVE TO PROSPECTIVE BUYERS;
- 2) IT WAS ESSENTIALLY A STAND-ALONE BUSINESS,
SINCE IT WAS AN ACQUIRED BUSINESS ITSELF;
- 3) IT'S SALE WOULD GENERATE THE CASH WE WOULD
NEED TO MOVE INTO FINANCIAL SERVICES AND
DEVELOP OUR RETAILING OPERATIONS;
- 4) AND FINALLY, THE BUYER, JAMES RIVER WOULD
RETAIN THE MAJORITY OF EMPLOYEES. WE WANTED TO
PRESERVE AS MANY JOBS AS POSSIBLE.

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INCIDENTALLY, AMERICAN CAN'S CANADIAN PACKAGING OPERATIONS HAD SIMILAR ATTRIBUTES -- ATTRIBUTES WHICH MADE THE BUSINESS ATTRACTIVE TO A QUALIFIED BUYER, AND ALLOWED THE BUSINESS TO BE SOLD WITHOUT DRAMATIC RESTRUCTURING PRIOR TO SALE. SEPARATELY, CANADIAN NATIONALISM MADE IT EXPEDITIOUS FOR A U.S. PARENT TO SELL ITS OPERATIONS ACROSS THE BORDER, PLACING THOSE OPERATIONS UNDER CANADIAN OWNERSHIP.

WE WERE, OF COURSE, ABLE TO FIND EXCEPTIONALLY WELL QUALIFIED BUYERS IN JAMES RIVER AND ONEX CAPITAL. WE WERE ALSO ABLE TO BENEFIT FROM THEIR GROWTH AND SUCCESS, BY OBTAINING IN THE FORM OF COMMON STOCK POSITIONS IN EACH ORGANIZATION.

[INCIDENTALLY, IT IS ALSO MY PLEASURE TO SERVE ON THE BOARDS OF EACH ORGANIZATION.]

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WE HAD A SIMILAR SITUATION WITH THE SALE OF OUR REMAINING PACKAGING BUSINESS TO TRIANGLE INDUSTRIES LAST YEAR.

THE CASH ACQUIRED FROM THE SALE OF OUR U.S. PAPER OPERATIONS TO JAMES RIVER IN 1982 WAS USED LARGELY TO BEGIN BUILDING A FINANCIAL SERVICES SECTOR. BY 1984, THE COMPANY HAD ACQUIRED ASSOCIATED MADISON COMPANIES, AND WITH IT, JERRY TSAI JOINED THE FIRM.

WE OPERATED FIVE INSURANCE FIRMS -- PENNCORP FINANCIAL AND ITS MILICO SUBSIDIARY WHICH IS TODAY THE LARGEST SELLER OF INDIVIDUAL LIFE INSURANCE IN THE WORLD; NATIONAL BENEFIT LIFE; TRIAD LIFE; TRANSPORT LIFE; AND THE VOYAGER GROUP.

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WE HAD ALSO ACQUIRED AMERICAN CAPITAL MANAGEMENT AND RESEARCH, A TOP-RANKED MUTUAL FUND MANAGEMENT AND MARKETING FIRM.

IN THE TWO YEARS THAT FOLLOWED, WE ADDED A LEADING MORTGAGE BANKING SUBSIDIARY, DEVELOPED A PARTNERSHIP WITH A LEADING ASSET MANAGEMENT FIRM, SOLD OUR REMAINING INTERESTS IN PACKAGING TO TRIANGLE INDUSTRIES AND ACQUIRED SMITH BARNEY.

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JUST TO GIVE YOU AN IDEA OF THE SCOPE AND PACE OF THE RESTRUCTURING: SINCE 1982, WE HAVE MADE APPROXIMATELY 15 ACQUISITIONS AND 30 DIVESTITURES WORTH IN AGGREGATE OVER \$3.5 BILLION. TEN YEARS AGO PRIMERICA WAS GENERATING NEARLY ALL OF ITS REVENUES FROM MANUFACTURING BUSINESSES. AND BY YEAR-END 1986, ALL OF PRIMERICA'S REVENUES CAME FROM SERVICE BUSINESSES. AT THE END OF 1986, WE DIDN'T OWN ONE BUSINESS THAT WE HAD TEN YEARS AGO.

ALSO INCLUDED AMONG THE DIVESTITURES WERE SALES OF THE COMPANY'S MANY NON-EARNING ASSETS --
TIMBERLANDS AND OUR HEADQUARTERS BUILDING IN GREENWICH, CONNECTICUT.

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AND THE ACTION CONTINUES...THE ACQUISITION OF SMITH BARNEY AND THE PENDING DIVESTMENT OF FINGERHUT -- TWO MORE TRANSACTIONS IN THE COMPANY'S ONGOING RESTRUCTURING SCENARIO.

AS I MENTIONED, WE NOW HAVE A FAMILY OF HIGH-PERFORMING COMPANIES IN FINANCIAL SERVICES AND SPECIALTY RETAILING. WE ARE TODAY A MAJOR FORCE IN INVESTMENT BANKING, INSURANCE, MUTUAL FUND AND ASSET MANAGEMENT AND MORTGAGE BANKING.

ALTHOUGH WE ENTERED THE FINANCIAL SERVICES BUSINESS ONLY FIVE YEARS AGO, IN 1986 THE SECTOR ACCOUNTED FOR 70 PERCENT OF PRIMERICA'S PROFITS FROM ITS ONGOING OPERATIONS.

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OUR SECOND INDUSTRY SEGMENT IS SPECIALTY RETAILING, WHICH LAST YEAR ACCOUNTED FOR APPROXIMATELY 30 PER CENT OF OUR INCOME FROM CONTINUING OPERATIONS.

THIS SECTOR HAS TWO COMPONENTS: SPECIALTY STORES, WHICH SELL MORE RECORDS, TAPES AND COMPACT DISCS THAN ANY SUCH SPECIALTY CHAIN IN THE U.S., AND FOR THE TIME BEING, DIRECT MAIL MARKETING COMPANIES, IN THE FINGERHUT GROUP.

IN SUMMARY, WE HAVE CREATED A BRAND NEW COMPANY. WHAT WERE FOR US, NON-STRATEGIC BUSINESSES HAVE BEEN SOLD. AND NEW BUSINESSES WITH EXCITING GROWTH PROSPECTS HAVE BEEN ADDED. OUR EARNINGS AND RETURN ON EQUITY HAVE IMPROVED DRAMATICALLY.

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ONE MORE NOTE ABOUT THE RESTRUCTURING PROCESS....

TO ACCOMPLISH ALL OF THESE ACTIONS -- JUST ABOUT
ONE SALE OR ACQUISITION A MONTH FOR THE PAST FIVE
YEARS -- WE ALSO NEEDED A DIFFERENT KIND OF
MANAGEMENT TEAM.

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ONCE THE DIVESTING ASSETS WAS UNDERWAY, WE HAD TO GIVE SOME THOUGHT TO WHAT KIND OF COMPANY WE WOULD BECOME IN MANAGEMENT TERMS. AMERICAN CAN HAD BEEN A TRADITIONALLY MANAGED COMPANY. WE HAD A HIGHLY CENTRALIZED, 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 1940S AND POSSIBLY EVEN INTO THE FIFTIES AND SIXTIES, THOUGH I THINK WE WERE DECEIVING OURSELVES. IT HAD FLOUNDERED IN 70S - AND COULD NEVER WORK IN 80S.

WHY? BECAUSE PACE OF CHANGE HAD PICKED UP RAPIDLY.

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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.**

THIS MEANT THAT WE WOULD NOT ONLY HAVE TO CHANGE OUR BUSINESS MIX, BUT CHANGE THE VERY WAY WE OPERATED. **CORPORATE FUNCTIONS WERE TO BE PUSHED OUT TO THE BUSINESS-UNIT LEVEL. WE WOULD MOVE AWAY FROM THE OLD SCHOOL OF CENTRALIZED CORPORATE MANAGEMENT, TOWARDS A STRUCTURE IN WHICH DIVISIONS AND SUBSIDIARIES COULD OPERATE WITH GREATER AUTONOMY.**

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SO, WE MOVED QUICKLY AND PAINFULLY 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 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.

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IMPORTANTLY, IN ALL OF OUR ACQUIRED BUSINESSES WE LOOKED FOR THE SAME CHARACTERISTICS IN MANAGEMENT - WE WEREN'T JUST BUYING ASSETS, BUT ONGOING BUSINESSES WITH STRONG MANAGEMENT AND GROWTH POTENTIAL.

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.

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IT CERTAINLY WAS NOT PAINLESS.

WHILE ON THE ONE HAND OUR STRATEGY CALLED FOR THE SALE OF "NON-STRATEGIC BUSINESSES," IT ALSO CALLED FOR A COMPLETE RESTRUCTURING AND STREAMLINING OF OUR PACKAGING BUSINESS AND CORPORATE STAFF TO MAKE IT MORE COMPETITIVE.

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MANY, MANY PEOPLE LOST THEIR JOBS. SOME HAD GREAT DIFFICULTY FINDING OTHER JOBS, PARTICULARLY PACKAGING, 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. SO TOO, THE ANGER LEVEL. NOT UNEXPECTEDLY, MORALE OFTEN WAS LOW BECAUSE THE FUTURE LOOKED SO UNCERTAIN TO SO MANY PEOPLE.

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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 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.

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.

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I CAN SYMPATHIZE WITH A CORPORATION MAKING MAJOR STRUCTURAL CHANGES WHEN ITS SURVIVAL IS AT STAKE.

LAND I OBVIOUSLY ALSO SYMPATHIZE WITH ORGANIZATIONS THAT GROW IN THEIR CHOSEN AREAS -- FOR THE LONG TERM -- VIA ACQUISITION. COMPANIES LIKE PRIMERICA, JAMES RIVER, ONEX CAPITAL, TO NAME THREE THAT COME TO MIND.]

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.

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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.

WE ARE NOW IN THE FIFTH 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

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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 WITHIN OUR ECONOMY MAY NOT BE PRODUCTIVE. IT CERTAINLY CREATES PERSONAL WEALTH, BUT WE DO NOT YET KNOW WHETHER OR NOT IT CREATES MARKETS, AND CREATES JOBS. THERE IS NO PROOF YET THAT IT DOES EITHER.

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THE EMPHASIS IN THE AMERICAN ECONOMY NO LONGER IS
ONE PROBLEM-SOLVING; IT IS ON PROBLEM-DUMPING.

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PROBLEM-SOLVING USED TO BE THE MAJOR CONTRIBUTION OF AMERICAN BUSINESS. THE CHALLENGE WAS TO SOLVE A PROBLEM, CREATE ECONOMIC GROWTH, DEVELOP NEW PRODUCTS, OPEN NEW MARKETS.

NO DOUBT THE 1980S 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 WHO IS WILLING TO SOLVE THE PROBLEM. AND THERE'S ALWAYS A THIRD PARTY OUT THERE TELLING US THAT IT'S THE BEST WAY TO GO.

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

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

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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. WE ARE FASCINATED BY APPARENT REALITY OF ALL PROS AND CONS -- BUT WITH AN UNPREDICTABLE END RESULT.

ASSOCIATION FOR CORPORATE GROWTH

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 MAVERICK, I SUPPOSE, SINCE CURRENT PHILOSOPHY IS THAT CORPORATIONS' SOLE RESPONSIBILITY IS TO SHAREHOLDERS.

A MAJOR SHORTCOMING OF CORPORATE AMERICA THAT SEEMS TO BE GROWING BECAUSE OF THIS FOCUS ON SHAREHOLDERS 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.

ASSOCIATION FOR CORPORATE GROWTH

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.

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. 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.

ASSOCIATION FOR CORPORATE GROWTH

I AM NOT ARGUING AGAINST THE IDEA THAT CORPORATIONS ARE PRIVATE ENTITIES. NOR AM I ARGUING AGAINST NECESSARY CHANGE. I AM NOT EVEN ARGUING THAT TODAY'S CORPORATE EXECUTIVES ARE NOT UNDER POWERFUL PRESSURES TO MAXIMIZE SHORT-TERM RESULTS.

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 OVERALL SOCIAL AND ECONOMIC STRUCTURE.

ASSOCIATION FOR CORPORATE GROWTH

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, IT INVOLVES A WHOLE RANGE OF IMPORTANT ISSUES INCLUDING BUSINESS ETHICS.

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 HARMFUL IMPACT OF CHANGE. IT MEANS BEING 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. ABOVE ALL ^{f1} MEANS THE CONSTANT REVITALIZATION OF MANAGEMENT. LOSS OF PRODUCTIVITY OF THE WORKFORCE IS LOSS OF MANAGEMENT PRODUCTIVITY, FLEXIBILITY, CREATIVENESS. WE MUST FIND SOMEWAY SHORT OF CRISIS FOR RENEWING OURSELVES.

ASSOCIATION FOR CORPORATE GROWTH

WE OFTEN SPEAK ABOUT HOW THE UNITED STATES IS A PLURALISTIC NATION, REFLECTING MANY DIFFERENT COMPONENT PARTS AND POINTS OF VIEW. BUT IT ALSO IS AN INTER-DEPENDENT NATION. AND AN INTER-DEPENDENT NATION, NO MATTER HOW STRONG, SECURE OR SUCCESSFUL IT FEELS AT A GIVEN MOMENT, CANNOT FUNCTION IN THE LONG RUN IF ITS INSTITUTIONS START GOING THEIR SEPARATE WAYS, IF THEY FAIL TO SEE THE GOALS THEY SHARE IN COMMON WITH THE REST OF SOCIETY, IF THEY FAIL TO MEET THEIR PUBLIC RESPONSIBILITIES AND OBLIGATIONS.

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.