LETTERS TO THE EDITOR

They have less [illegible] latitude

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An American corporate business system driven by hostile takeovers and the threat of takeovers, featuring highly efficient allocation of assets among LBO companies, won't be competitive in the long run. Even if it were, I believe that it would not be acceptable to most Americans because it fails to provide the degree of social justice that we want.

Hostile takeover mania, with its genesis in the "I want it, therefore, I shall have it" mentality, is a step backward toward the Darwinian law of the jungle, which is degrading and undermining our society by festering greed, unethical conduct, and even criminal behavior.

Risk diversification, pay-for-performance systems, and efficient and competitive organizations were not invented by and certainly are not the sole purview of LBO companies. Furthermore, Jensen emphasizes that stock ownership and high-incentive pay that reward cash flow will motivate senior managers in LBO companies to maximize value. But he omits reference to other employees, except to note that LBOs have increased employee productivity, which is a highly dubious claim. To the extent that it is true, it has been accomplished mainly by downsizing, which has demoralized millions of people because of jobs lost, careers disrupted, and reduced community support.

Even those persons who have been able to keep their jobs are disillusioned by tenuous employee security. People also resent the enormous disparity of income between senior management in LBO companies and the vast majority of other employees. Yet productivity and product quality depend chiefly on their performance.

Evidence of the toll that the LBO boom is taking on the spirit of America's work force is evident in a recent survey by *Industry Week* (July 17, 1989). Two-thirds of the 800 surveyed managers involved in a takeover said the takeover or LBO has had a negative impact on morale. Employees haven't shared in the financial rewards the restructuring produced. Even more disturbing was the finding that managers believed their companies' underlying efficiency had suffered, even though cash flow may have improved and costs declined.

Jensen also neglected to refer to managing technology, the pivotal issue in global competitiveness. Even the most astute financing and accounting cannot correct a deficiency in the company's technological foundation. Unfortunately, most U.S. companies do not manage technology as effectively as the Japanese – largely because they are unable to match the Japanese pace in moving research results to the marketplace. Hence, even if LBO companies allocate capital very efficiently, they will still come in second.

Innovation demands a high degree of cooperation within a company. An environment conducive to cooperation isn't present in the LBO company, which gives undue preferential treatment to senior managers and owners. In Japanese companies, employee interests come first, followed by those of the customers, stockholders, and, finally, executives.

Finally, the adverse effect on community support is manifested in part by the disappearance of most of the movers and shakers who have provided the leadership to implement constructive change in our cities. These individuals, mainly CEOs of our largest companies, could get significant projects under way in a single meeting. Today's leadership is weak and diffused. Staying lean and mean leaves little room for community initiatives. In fact, to participate even in a modest way is to risk being tagged as a do-gooder with little concern for the bottom line. Such neglect of the environment in which business must operate will have serious negative consequences in the long run.