

K350/DRAFT-WCN-1/24/89

Q: WHY IS THE CURRENT TAKEOVER CRAZE BAD FOR BUSINESS?

A: I CAN'T THINK OF ONE REDEEMING FEATURE OF HOSTILE TAKEOVERS. ON THE NEGATIVE SIDE, THEY INFLICT SOCIAL INJUSTICE ON MILLIONS OF PEOPLE, AND THEY UNDERMINE INNOVATION AT A TIME WHEN A MASSIVE SURGE IN INNOVATION IS NEEDED TO IMPROVE COMPETITIVENESS.

INNOVATION

LOOK AT THE DESTRUCTION FROM INNOVATION FIRST. LET ME NOTE THAT IN THE SIMPLEST TERMS, RAIDERS ARE NOT INNOVATORS AND CREATORS OF WEALTH, BUT CONSOLIDATORS AND LIQUIDATORS. THEIR MAJOR GOAL IS SHORT TERM PROFIT; WHEREAS, INNOVATION WHICH REQUIRES LONG TERM INVESTMENT IS NEEDED TO CREATE NEW PRODUCTS AND IMPROVE MANUFACTURING. AFTER A RAIDER TAKES OVER, THE TARGET COMPANY IS SO HEAVILY LOADED WITH DEBT THAT INTEREST SAPS THE ABILITY TO ADEQUATELY FINANCE INNOVATION TO GET NEW PRODUCTS INTO THEIR MARKETPLACE AND INCREASE AUTOMATION AND THE EXTENSIVE EMPLOYEE TRAINING THAT IS REQUIRED IN ORDER TO REDUCE MANUFACTURING COSTS AND IMPROVE QUALITY GO IMPROVE COMPETITIVENESS.

FURTHER, HOSTILE TAKEOVERS AND THE THREAT OF HOSTILE TAKEOVERS CAUSE DISSIPATION OF THE MOST IMPORTANT PART OF

THE INNOVATION RESOURCES IN TARGET COMPANIES -- SKILLED PERSONNEL AND UNDERMINE TEAMWORK.

EXPERIENCE SHOWS THAT A HIGH PERCENTAGE OF SENIOR EXECUTIVES LEAVE AFTER A TAKEOVER. FOR EXAMPLE, A SURVEY MADE IN 1984 BY LAMALLIE ASSOCIATES, AND EXECUTIVE SEARCH COMPANY, CONCLUDED THAT APPROXIMATELY FIFTY PERCENT OF SENIOR MANAGERS LEAVE WITHIN A YEAR AFTER THEIR COMPANIES ARE TAKEN OVER, AND 75% WILL PROBABLY LEAVE WITHIN THREE YEARS.

SOCIAL INJUSTICE

HOSTILE TAKEOVERS ARE A MAJOR SOURCE OF SOCIAL INJUSTICE, BECAUSE OF THE EMPLOYEE TRAUMA FROM JOB LOSSES AND CAREER DISRUPTIONS WHICH IS NOT CONFINED TO MEMBERS OF SENIOR MANAGEMENT BUT OCCURS AT ALL LEVELS OF MANAGEMENT AND IN OTHER AREAS. THIS IS CAUSED BY THE EXCESSIVE TRAUMA THAT IS INFLICTED, STARTING WITH FEAR OF JOB LOSS AND/OR CAREER PATH BEING IN JEOPARDY.

THE INITIAL PHASE OF A HOSTILE TAKEOVER IS UNNECESSARILY NERVE-WRACKING BECAUSE OF LACK OF INFORMATION OR

CREDIBILITY OF ASSURANCES ABOUT THE AGGRESSOR'S PLANS. THERE ARE ALWAYS COMPANY COMMITMENTS TO EMPLOYEES, BOTH IMPLIED AND STATED, RELATING TO JOB RESPONSIBILITIES AND CAREER PATHS. EMPLOYEES EXPECT THEM TO BE FULFILLED, YET THEY UNDERSTAND THAT DUE TO COMPETITION, ADVERSE ECONOMIC CONDITIONS AND OTHER FACTORS NOT UNDER THE COMPLETE CONTROL OF MANAGEMENT, SOME MAY NOT BE FULLY MET. HOWEVER, WHEN A RAIDER ENGAGES IN AN UNNECESSARY AND UNILATERAL TAKEOVER, IT CAUSES ABROGATION OF MANY COMMITMENTS IN THE TARGET COMPANY THAT INFLICT COLD-BLOODED AND UNJUST HUMAN INJURY -- COLD BLOODED, BECAUSE THE AGGRESSOR KNOWS THAT EMPLOYEE INJURIES WILL BE CAUSED; AND UNJUST, BECAUSE IT COULD HAVE BEEN AVOIDED EITHER BY ACHIEVING THE TAKEOVER OBJECTIVE IN ANOTHER WAY OR BY RECOGNIZING THAT THE OBJECTIVE OF "I WANT IT AND THEREFORE I SHALL HAVE IT" IS NOT NECESSARILY A LEGITIMATE ONE.

FOR MANY EMPLOYEES, FEAR OF JOB LOSS IS REPLACED BY FORCED DEPARTURE DUE TO CHANGED PLANS, OVERLAP IN POSITIONS BETWEEN THE TARGET AND ACQUIRING COMPANY, OR BECAUSE OF THE ELIMINATION OF JOBS TO ACHIEVE SAVINGS TO HELP PAY FOR THE COST OF THE TAKEOVER.

FOR THOSE EMPLOYEES WHO HAVE THE OPTION OF CONTINUING EMPLOYMENT, THERE IS A WIDESPREAD FEELING OF DISGUST AND

RESENTMENT OVER BEING VICTIMIZED. A DIVISIVE US VS. THEM ATTITUDE OFTEN DEVELOPS AS WELL. AS A CONSEQUENCE, THOSE EMPLOYEES WHO CAN FIND OTHER ACCEPTABLE EMPLOYMENT LEAVE. MANY OF THOSE WHO STAY ARE DISILLUSIONED AND HAVE LESS COMMITMENT AND LOYALTY TO THEIR COMPANIES. FOR EXAMPLE, A RECENT SURVEY BY INDUSTRY WEEK MAGAZINE SHOWED THAT NEARLY 60% ARE LESS LOYAL TO THEIR EMPLOYERS THAN FIVE YEARS AGO, AND THE MAJOR CAUSE IS TAKEOVER MANIA.

LACK OF COMMITMENT AND LOYALTY, ALONG WITH DISTRUST, CREATES AN ADVERSE CLIMATE FOR TEAMWORK WHICH IS ESSENTIAL FOR TIMELY AND EFFICIENT RESULTS IN INNOVATION. SUCH TEAMWORK IS NOT ONLY REQUIRED AMONG EXECUTIVES AND R&D TECHNOLOGISTS TO DESIGN THE BEST PRODUCTS, BUT TEAMWORK ON THE FACTORY FLOOR IS NECESSARY FOR THE LOWEST COST, HIGHEST QUALITY OUTPUT.

Q: WHAT WILL HAPPEN IF WE CONTINUE TO IGNORE THOSE PEOPLE LIVING IN THE SHADOWS?

A: WE WILL SEE SOCIAL UNREST -- SIMILAR TO 1967 WHEN ARSON AND RIOTS SWEEP THROUGH MY HOME TOWN OF MINNEAPOLIS AND 68 OTHER CITIES IN AMERICA. BEFORE THAT TRAGIC OCCURRENCE, IT WAS WIDELY BELIEVED THAT SUCH AN EVENT WOULDN'T HAPPEN IN OUR BEAUTIFUL CITY, BUT IT DID, IN A DEPRESSED AREA ON THE NORTH SIDE. THE CAUSE WAS MAINLY LACK OF DECENT JOBS AND THE OPPORTUNITY TO PARTICIPATE IN THE GOOD LIFE THAT THE VAST MAJORITY IN THE CITY ENJOYED.

AT THAT TIME, I SAID, "YOU CAN'T DO BUSINESS IN A SOCIETY THAT IS BURNING, AND THAT CONTROL DATA SHOULD DO ITS PART TO HELP ELIMINATE THE ROOT CAUSE BY PUTTING JOBS THERE."

THE COMPANY DID THAT IN NORTH MINNEAPOLIS AND IN SIX OTHER POVERTY STRICKEN AREAS. THIS WAS DONE COOPERATIVELY WITH THE FEDERAL GOVERNMENT, CITIES AND COMMUNITIES. IT WAS A REWARDING PROGRAM FOR BOTH THE COMMUNITIES AND CONTROL DATA. THE COMMUNITIES BENEFITED FROM THE JOBS, THE PLANTS WERE PROFITABLE AND COMPETITIVE. ALSO, CONTROL DATA EMPLOYEES, WORLDWIDE, WERE ENORMOUSLY PROUD OF THE PROGRAM AND OUR CUSTOMERS APPLAUDED OUR EFFORTS, ESPECIALLY THOSE OVERSEAS.

CERTAINLY, THE RECENT RIOT IN MIAMI IS A WARNING THAT SHOULDN'T BE IGNORED.

HOWEVER, AN EVEN WORSE EFFECT AND MUCH MORE WIDERANGING IS THE LOSS OF THE CONTRIBUTION DISADVANTAGED PEOPLE COULD MAKE TO PRODUCTIVITY AND COMPETITIVENESS INSTEAD OF BEING A DRAG. AS YOU KNOW, OUR STANDARD OF LIVING IS ERODING BECAUSE OF DECLINING COMPETITIVENESS.

SO IT'S IN EVERYONE'S INTERESTS TO SUPPORT PROGRAMS TO GET THE DISADVANTAGED INTO JOBS WITH DECENT PAY.

Furthermore, today's stock and bond markets are going to be paying a large share of the retirement programs for everyone.