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The Restructuring of Corporate America

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THE RESTRUCTURING OF CORPORATE AMERICA

BY DANIEL R. FISCHEL*

On December 1, 1988, the *Wall Street Journal* announced that the bidding for RJR Nabisco was over. Kohlberg Kravis Roberts & Company, better known as KKR, had won by offering $25 billion, or $107 per share. The leveraged buyout transaction, financed almost exclusively by debt, including billions of dollars in junk bonds, was the largest and most controversial in American history.

The size of the fees alone boggled the imagination. Lawyers, bankers, and other "advisors" received $1.2 billion in fees from this single transaction. Even the deposed Ross Johnson, RJR Nabisco's former chairman, one of the losers in the bidding contest, walked away with $53 million in severance pay and other compensation.

What was accomplished by the transaction, other than making everyone involved in it rich? RJR Nabisco in 1988 was the nineteenth-ranking company on the Fortune 500 list with sales approaching $20 billion. Its food and cigarette products, including Oreo cookies, Barnum's Animals crackers, and Winston cigarettes, were among the best known and heavily advertised in the nation. But few believed that the company could be run better now with management having as its highest priority the repayment of debt. At a time of widespread concern that America was ceding world economic dominance to the Japanese with their greater focus on long-term planning and investment, the transaction seemed to symbolize everything wrong with the deal-driven decade of the 1980s.

Robert Reich, then teaching at Harvard before later becoming secretary of labor under President Clinton, captured the negative public reaction to the transaction perfectly in an article published in the *New York Times* in early 1989. Titled

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"Leveraged Buyouts: America Pays the Price," the article criticizes the deals of the 1980s and particularly the buyout of RJR Nabisco. These deals created paper profits, Reich argued, but hurt American workers and competitiveness in the world. "America," Reich concluded, "has had enough. Even by the cynical standards of the 1980's, Wall Street is giving greed a bad name."

Time magazine made an even harsher assessment. In its December 5, 1988, cover story on the RJR Nabisco transaction, titled "The Game of Greed," *Time*, like Reich, claimed that the deals of the 1980s raised serious questions about "greed, debt and the well-being of American industry." The RJR Nabisco transaction was simply the largest of the many "fruitless paper-shuffling deals" of the 1980s. The reporter went so far as to see the buyout as a threat to American survival:

> The sums are so vast, and so apparently out of line with any foreseeable benefits that the deal might bring to American industry, that they raise deep and disturbing doubts about the direction of U.S. business at a time when many firms lag badly in foreign competition. Seldom since the age of the 19th century robber barons has corporate behavior been so open to question. The battle for RJR Nabisco seems to have crossed an invisible line that separates reasonable conduct from anarchy.

Time's historical reference to the age of the robber barons struck a nerve. The bitter sallies against greed and the excesses of capitalism in the 1980s closely mirrored comparable attacks on J. P. Morgan, Andrew Carnegie, John D. Rockefeller, Jay Gould, and other prominent industrialists and financiers in the late nineteenth and early twentieth centuries. In fact, the leveraged buyout of RJR Nabisco itself had a close historical parallel—J. P. Morgan's 1901 debt-financed acquisition of eight steel companies to form U.S. Steel. That transaction, the largest acquisition in American history until the RJR Nabisco buyout, was also widely condemned at the time. Critics attacked the size of the deal and the role of the financiers on Wall Street who made it possible. Some even predicted that the transaction would lead to "socialism" and "rioting in the streets," just as

Time predicted the RJR Nabisco buyout would lead to "anarchy."

The only problem with the historical parallel was that *Time* did not take it far enough. The age of the robber barons was also the time of the second industrial revolution, one of the great periods of economic growth in modern history. The critics of the robber barons focused superficially on the perceived excesses of the time but ignored their much more important legacy of building a nationwide system of railroads, power generation, and modernizing production, both industrial and agricultural. And the creation of U.S. Steel, far from leading to rioting in the streets, was ultimately viewed as one of J. P. Morgan's greatest accomplishments. U.S. Steel went on to become one of the most important and successful corporations in America for much of the twentieth century.

Time's criticism of the RJR Nabisco buyout and the other deals of the 1980s, like the outcry over the robber barons a century earlier, thus missed the significance of what was occurring. A deeper grasp of history might have suggested a different story, emphasizing how the 1980s, like the age of the robber barons, were completely misunderstood by contemporary observers. In fact, the decade's wave of restructuring transactions, including the RJR Nabisco buyout, created tremendous wealth for investors and society as a whole. During the 1980s, the Dow Jones Industrial Average tripled from 1,000 to 3,000 and the real value of public firms' equity more than doubled from $1.4 to $3 trillion. Selling shareholders alone received $750 billion in gains (measured in 1992 dollars) from restructuring transactions between 1976 and 1990. Millions of new jobs were created in the process.

Radical change always produces major dislocations with winners and losers, and the 1980s were no exception. The restructuring revolution's biggest winner was the innovative and entrepreneurial investment banking firm of Drexel Burnham Lambert, particularly its high-yield or, as it was more popularly known, junk-bond department headed by Michael Milken. Drexel, which through its high-yield bond department became the financier of many of the big restructuring transactions of the 1980s, including the RJR Nabisco buyout, went from nowhere to being the most successful investment banking firm on Wall Street. Michael Milken in turn went from obscurity to become one of the richest men in America. Drexel's and Milken's success, however, created bitter enemies. First there were the displaced investment bankers who found themselves increasingly irrelevant as Drexel and Milken became more and more dominant. Then there were senior management of corporate America who now were faced with the choice of doing a better job or being unceremoniously dumped from office following a Drexel-financed takeover. Approximately 10 percent of the Fortune 500 in existence in 1980 disappeared entirely as a result of restructuring transactions. Through their lobbying arm, the Business Roundtable, the management establishment, together with the displaced investment banks and other opponents of change such as labor unions, formed a powerful interest group dedicated to waging holy war against Drexel, Milken, and the other players in the restructuring revolution that was threatening their very existence.

THE NEED FOR RESTRUCTURING AND THE MODERN CORPORATION

In 1932, Adolph A. Berle and Gardiner C. Means published their classic work, *The Modern Corporation and Private Property*, without question the most influential book on corporate America ever written. Berle and Means's central thesis was that the large corporation of the twentieth century differed markedly from its nineteenth-century predecessors. Historically, corporations were small-scale ventures in which the shareholders, whom Berle and Means referred to as the "owners," were the decision makers. Because they bore the consequences of their decisions, they had every incentive to work hard and try their best. If they didn't, the only people hurt would be themselves.

But this all changed when corporations grew increasingly large by raising money from thousands of outside investors who had no involvement in running the business. Control now rested with professional managers, not with the true "owners" of the corporation. Worse still, the real owners no longer even had the ability to hire or select who would be in control. Rather, the managers themselves, not the shareholders, nominated the candidates to serve as directors. The owners' role is limited to rubber-stamping this self-perpetuating scheme by casting a vote, typically by proxy, in favor of whomever is nominated by those in control.

Managers in the modern corporation, in Berle and Means's view, no longer have a reason to perform well. The firm's owners benefit if the corporation is profitable, but those in control care much less about performance precisely because they are not owners. And, since their domination of the voting machinery makes it next to impossible for them to be replaced, they have no reason to exert themselves to maximize profitability. Better to be lazy and enjoy the perks of office. Formulated during the Great Depression, Berle and Means's pessimistic assessment of the modern corporation seemed right on target.

The small-scale firms idealized by Berle and Means worked fine so long as the wealth of the owners was sufficient to conduct business. For business ventures where more capital was required, money could be borrowed from a bank. But for some large business ventures such as, for example, building a nationwide system of railroads, more capital is required than can realistically be borrowed from a bank. In these situations, entrepreneurs can raise funds from investors worldwide in exchange for a share of the profits. This is in essence a description of the modern publicly held corporation, in which investors provide firms with needed funds to pursue investment projects for which large amounts of capital are required. Whatever their flaws, large corporations are necessary for economic growth in a modern society.

Still, Berle and Means were on to something. Because in large corporations investors and decision makers are not the same people, conflicts of interest are inevitable. Managers who are performing poorly, or whose skills have become obsolete, have no incentive to fire themselves. While investors have the theoretical ability to nominate their own slate of directors and wage a proxy fight to oust the incumbents, this rarely occurs. In most cases shareholders, just as Berle and Means said, are too dispersed and uninformed to coordinate effectively for a proxy fight.

The difficulty of implementing radical corporate change became, if anything, greater in the decades after *The Modern Corporation and Private Property* was published. Stock ownership of officers and directors in the corporations they managed, never high to begin with, declined steadily after the 1930s. This made it even less likely that senior management would favor investors' interests over their own when there was a conflict between the two. At the same time, laws such as the Glass-Steagall Act of 1933, which prohibited banks from owning stocks, and similar laws, which restricted stock ownership by insurance companies and mutual funds, reduced the influence of large, sophisticated institutional investors. These laws also gave corporate managers greater discretion to pursue their own objectives at investors' expense. Finally, corporations simply became larger, again making it harder for atomistic and dispersed investors to monitor performance in any meaningful way.

One strategy widely used by corporate managers to increase size was to enter new and unrelated lines of business. This process of conglomeration, frequently accomplished by acquisition, became increasingly common after World War II. With the conglomerate merger wave of the 1960s, growth through diversification became the dominant strategy of American business. Giant firms, such as ITT, Esmark, and Northwest Industries, engaged in multiple and unrelated lines of business, seeming to represent the way of the future. Acquisitions in the 1970s and early 1980s such as Marathon Oil by U.S. Steel, Montgomery Ward by Mobil, and Hughes Aircraft by General Motors, demonstrated that few firms could resist the conglomeration temptation.

If Berle and Means were writing a sequel in 1980, these developments would have provided powerful additional ammunition for their original thesis. Growth through diversification created obvious benefits for corporate managers. Bigger firms meant more resources and staff under their control, which in turn usually meant greater security and prestige, as well as increased compensation. But how did shareholders benefit from conglomeration? They received none of the increased power and prestige associated with increased size. Nor did shareholders need their corporations to diversify because they could accomplish the same objective themselves at far lower cost. From shareholders' perspective, there was no reason for corporation A in the steel business to pay a lot of money to acquire corporation B in the clothing business. A shareholder who wanted to diversify and invest in the two businesses could simply buy shares in both. With the development of diversified mutual funds in the 1970s, shareholders could invest in the entire market at trivial cost.

The diversification explanation for conglomeration now seemed little more than a rationalization for managers increasing their salary and perquisites at investors' expense. But what could shareholders, the same powerless investors identified by Berle and Means, do to reverse the trend of continuing corporate expansion, frequently into unrelated lines of business? Investors, of course, could refuse to buy on those extremely rare occasions when established corporations attempted to raise additional funds by selling new equity. Alternatively, they could sell their existing shares, but this accomplished little to send management a message. The price someone else was willing to pay reflected the firm's business prospects. At most, one powerless shareholder was substituted for another.

The Restructuring Revolution

Approaching the 1980s, corporate America was badly in need of a change. American firms had become larger and more diffuse in their operations. Corporate accountability to shareholders was weak, and shareholders had little or no ability to force those in control to maximize profitability. The Dow Jones Industrial Average, reflecting these unfortunate realities, was mired in a long-term slump.

The restructuring boom of the 1980s—the wave of hostile acquisitions, tender offers, leveraged buyouts and recapitalizaions, divestitures, spin-offs and the like—dramatically altered the economic landscape. What occurred was nothing less than a revolutionary change in corporate structure, a radical shift in power from managers to shareholders. Berle and Means never even imagined that such a fundamental shift could occur without regulatory intervention.

The boom occurred when it did because of six overlapping and interrelated major developments. First, the energy crisis of the 1970s caused a tenfold increase in the price of crude oil from 1973 to 1979, with expected continued large increases in the 1980s. The profitability of energy firms exploded, triggering a race to increase drilling and development efforts and find substitute energy sources. The energy crisis also had big spillover effects as firms and households changed their behavior to economize on energy costs by, for example, migrating to the Sunbelt states, insulating their houses, or buying small, fuel-efficient cars. When the expected increases in energy prices in the 1980s did not occur, and oil prices fell instead, the industry crashed, forcing a major contraction.

Second, unprecedented improvements in information processing and telecommunications technology in the 1970s and 1980s produced innovations such as the development of personal computers and the wireless telephone. These innovations created industries of their own, but their impact was much broader. Tasks previously performed by large numbers of individuals at corporate headquarters could now be handled by many fewer employees who could work at decentralized locations. As the technology improved and the costs of computing capacity fell during the 1980s, the work patterns of every industry had to adjust.

Third, competition intensified dramatically in many sectors as markets became increasingly globalized. Japan and Germany, whose economies recovered rapidly after World War II, became major international economic powerhouses. American firms now had to compete in a way they never had to before in such basic industries as automobiles, steel, tires, and electronics. Financial markets also became increasingly international. The high nominal inflation of the late 1970s, itself related to the energy crisis, caused investors to search the world for attractive investment alternatives.

Fourth, major regulatory developments in the late 1970s and early 1980s created new entrepreneurial opportunities. Deregulation of the oil and gas, airline and transportation, financial services, and broadcasting industries occurred during this time. These developments were in turn related to external events that made existing regulatory schemes obsolete. The energy crisis of the 1970s and the resulting high nominal inflation, for example, ended the viability of price controls on oil and gas and interest-rate ceilings that could be paid to depositors by financial institutions. Similarly, the advent of cable television immediately rendered the regulation of the broadcasting industry obsolete. Regulation, like industry, had to be modernized.

Fifth, the election of President Ronald Reagan in 1980 resulted in a major relaxation of U.S. antitrust policy. Transactions could now go forward without government intervention on antitrust grounds unless clearly anticompetitive. This in turn facilitated restructuring because it enabled assets and businesses to be readily combined and transferred among firms without regulatory interference.

Sixth, the dramatic growth of the high-yield bond market made it possible for takeover entrepreneurs who themselves otherwise lacked sufficient funds to make credible threats to acquire firms of virtually any size. The investment banking firm of Drexel Burnham, and particularly Michael Milken, the head of its high-yield bond division, was primarily responsible for this development. Drexel and Milken established contacts with the emerging class of takeover entrepreneurs—T. Boone Pickens, Carl Icahn, James Farley, Sir James Goldsmith, Ronald Perelman, Saul Steinberg, Kohlberg Kravis Roberts & Company, among others—who routinely came to Drexel to finance takeover attempts knowing that Drexel had a stable of institutional clients interested in investing in Drexel deals. Drexel became known as a firm that could, if necessary, finance a takeover bid by raising billions of dollars within a matter of hours. Its reputation was so formidable that a Drexel-backed deal for billions of dollars could go forward even if no money had been raised. All that was necessary was a letter from Drexel announcing that it was "highly confident" the funds would be available when needed. These Drexel "highly confident" letters became the scourge of corporate America.

The coalescence of these six developments created a window of opportunity to restructure American business. Restructurings tended to be concentrated in industries such as oil and gas, financial services, and insurance, where firms had failed to adapt to changing economic and regulatory conditions. Restructurings also occurred in industries where there had been rapid technological change, such as tires and broadcasting. Finally, inefficiently run firms, particularly conglomerates that had grown too large by acquiring other firms in unrelated lines of business, were another prime source for restructurings. Firms in each of these categories needed a major shake-up, a fundamental change in business strategy.

Restructurings facilitated such fundamental change by altering target firms' organizational and financial structure. Reorganized firms typically had much more concentrated equity ownership and higher leverage than before. More concentrated equity ownership meant that senior management and large shareholders had a greater incentive to focus on profitability. The better job they did, the more money they made. Streamlining and cutting back on unprofitable business lines also became more attractive as an option. The perquisites of office were terrific so long as someone else was paying. Now that senior management had to pay more of the tab themselves, perks became much less indispensable. If downsizing and streamlining operations meant a smaller office and staff, greater wealth from increased stock values was a nice consolation.

Leverage also was an agent for change. When purchases of outstanding equity were financed with debt, shareholders immediately received a significant return on their investment. And the obligation to repay the debt forced firms to contract. Funds that had previously been used to finance unprofitable investment projects or acquisitions now had to be paid out to lenders. To pay down debt faster, firms frequently sold peripheral businesses to third-party buyers who specialized in those areas. Throughout corporate America there was a renewed emphasis on focus, on developing core businesses and reversing the post-World War II trend toward conglomeration.

Restructurings made it possible to do something about mismanaged firms as never before. The much maligned leveraged buyout transaction of RJR Nabisco was a perfect example. RJR Nabisco was formed in 1985 when R. J. Reynolds Industries, a tobacco company founded in 1875, merged with Nabisco Brands, a food company. In 1986, F. Ross Johnson, formerly CEO of Nabisco, became CEO of RJR Nabisco. Johnson's tenure was marked by disastrous business decisions coupled with personal extravagance. He invested $400 million in the development of a smokeless cigarette that consumers hated. To gain market-share, he introduced and heavily marketed discount cigarettes, which hurt profitability by diverting customers from RJR's more profitable lines, Winston, Camel, and Salem. At the same time, Johnson tried to manipulate reported earnings to convince investors that nothing was amiss. Johnson, for example, adopted a practice of loading cigarettes on its already well-stocked distributors by selling to them at discounts just before scheduled price increases went into effect. While RJR was able to report higher sales and earnings, it paid a big price. Management forfeited future sales at higher prices, accelerated the payment of excise taxes, and alienated smokers who wound up purchasing stale cigarettes.

Johnson was also a man who enjoyed the perks of office. He built ostentatious new corporate headquarters filled with expensive art, acquired a fleet of corporate jets for personal use, and purchased exclusive residences for weekend retreats. Because of his fondness of being seen with celebrities, particularly sports stars, he spent millions to hire them as "consultants."

Not surprisingly, the market was less than thrilled with RJR Nabisco under Johnson's tenure. In 1987, the year before the buyout, RJR's stock price fell 8.6 percent while that of Philip Morris, its closest competitor, increased 19 percent. RJR Nabisco, in short, was ripe for a change of direction, a restructuring. This is exactly what KKR's leveraged buyout of RJR Nabisco accomplished. Equity ownership was concentrated, leverage increased, and Johnson was thrown out as CEO.

These changes achieved their desired result. Under new ownership and leadership, RJR Nabisco became a far more profitable company. Costs were reduced immediately by eliminating excesses such as thirty luxury apartments, seven of eleven corporate jets, thirty athletes on retainer, and thousands of unneeded positions. Many low-profit product lines were sold, while spending on research and development, and marketing and sales for high-profit businesses was increased. Loading, the smokeless cigarette, and the discount-brand strategy were all eliminated. New successful products, particularly Teddy Grahams snack food, were introduced. Debt was quickly paid down using proceeds from asset sales and the sale of new equity. By the end of 1991, the RJR Nabisco buyout created more than $10 billion of value for investors. The critics, like *Time,* who predicted the buyout would threaten American survival and lead to anarchy could not have been more wrong.

Senior corporate management across America were forced by the restructuring wave to be more responsive to investors' desires for efficient performance and high securities prices. Those who did not were only inviting a hostile tender offer or leveraged buyout. Better to make necessary, even if painful, changes than be out of a job. If a hostile bid was made or anticipated, the best defense frequently was to copy the prospective acquirer's strategy and hope that was good enough.

Goodyear Tire & Rubber Company was a case in point. Faced with declining prospects in the tire industry, Goodyear decided to diversify by acquiring the Celeron Oil company for $800 million in 1983. Goodyear's equity value declined by almost $250 million as a result, because investors saw no benefit in the combination of tires and oil. In 1986, Sir James Goldsmith began purchasing Goodyear shares aggressively with the announced intention of reversing the company's diversification program. Alarmed by the threat of a hostile takeover posed by Goldsmith, Goodyear launched a debt-financed share repurchase, paying $2.2 billion to acquire Goldsmith's shares and an additional 36.5 percent of the outstanding stock. Remaining shareholders, including senior management, now owned a larger share of a more leveraged company. The company's disastrous diversification efforts were at an end. Investors approved. Goodyear's equity value increased by more than $750 million on a market-adjusted basis during the time from Goldsmith's investment to the leveraged recapitalization.

What Goldsmith did for Goodyear, Boone Pickens did for much of the oil industry. During the first half of the 1980s Pickens, through his company Mesa Petroleum, launched takeover bids for Cities Service Company, KN Energy Corporation, Gulf Oil, Phillips Petroleum, and Unocal. Almost single-handedly, Pickens forced a major and needed contraction in the oil and gas industry. Cities Service, for example, was trading at $35 when Mesa began purchasing shares. When Cities Service was bought shortly thereafter by Armand Hammer's Occidental Petroleum for $53 a share, Mesa and other Cities Services investors made a huge profit. Pickens then turned his sights to Gulf. After Gulf refused his demand that it spin off some of its oil reserves into a trust for shareholders, Pickens decided to wage a proxy fight to throw out Gulf's directors.

Pickens lost the proxy fight but won big in the marketplace. Gulf stock had been trading at approximately $38 when Mesa began accumulating its shares. Pickens had put Gulf in play, and there was no turning back. Chevron eventually acquired Gulf in a $13.3 billion deal at $80 per share. For Mesa and other Gulf shareholders, it was hard to imagine a better outcome. The chain of events triggered by Pickens's demand that Gulf return the value of some of its oil reserves to its shareholders had caused Gulf's stock to rise by more than forty points, doubling its value. And the deal also accomplished Pickens's objective of forcing the industry to contract. When Chevron acquired Gulf, $13.3 billion that could have been used for unproductive drilling and expansion programs was returned to shareholders instead.

Within a few months, Mesa struck again, this time launching a tender offer for Phillips, located in Bartlesville, Oklahoma. Although Pickens was born in Oklahoma, Bartlesville regarded him as anything but a favorite son. Memories were still too fresh of what happened to Cities Service's Oklahoma operations after Pickens forced the sale of Cities Service to Occidental Petroleum. The company downsized and thousands of workers lost their jobs. Bartlesville was determined to fight Pickens to prevent the same thing from happening again. Special church services were organized for the sole purpose of asking God to help Phillips and the people of Bartlesville to defeat Pickens.

Phillips's management and their investment bankers ultimately decided more than divine intervention was needed. They decided to buy victory by purchasing Mesa's shares for $53 per share and pay Mesa an additional $25 million for "expenses." For Mesa, which began purchasing Phillips shares in the high 30s, this deal was too good to pass up. Phillips was rid of Pickens, but its troubles were not over. Carl Icahn immediately began threatening a takeover attempt, publicly criticizing Phillips for having bought out Mesa in what was commonly referred to as a greenmail transaction. Eventually, Phillips solved the problem by repurchasing almost half its shares at $53, the same price paid to Mesa, financed by $3 billion of new debt. The required retrenchment followed inevitably, as Phillips now had to sell assets and avoid unprofitable investments to pay down its debt, just as Mesa or Icahn would have had to do if either of them succeeded in their bids.

Mesa had taken on a series of bigger, better-known oil companies and made money every single time, almost $500 million in total profits. In each case, bellicose posturing by company executives about the need to continue with business as usual had been followed by capitulation. Now the industry was out to crush Pickens, but Pickens was undeterred. He decided to make a bid for Unocal, another large oil company.

After acquiring 14 percent of Unocal stock in the open market, Pickens announced a two-step $8.1 billion offer to acquire the remaining shares. Mesa said it would pay $54 in cash to acquire 37 percent additional shares and then acquire the remaining shares by paying $54 in high-yield debt securities underwritten by Drexel. Unocal countered by offering to purchase 29 percent of its outstanding shares by paying other high-yield debt securities valued at $72. The catch was that Unocal's offer was structured so that Mesa, a 14 percent shareholder, was ineligible to participate in the $72 exchange offer. When the Delaware Supreme Court upheld Unocal's exclusionary offer, Mesa was beaten. Unocal stockholders had no reason to sell to Mesa for $54 when they could exchange their stock for $72 in debt securities.

The press viewed Mesa's defeat as a victory for Unocal and its chairman, Fred Hartley, but with a big price tag. Although Unocal and Hartley "won," the *Wall Street Journal* reported, "Unocal hardly came out of the war unscathed." By having to "quadruple" its long-term debt to $5.3 billion to finance its $72 exchange offer, Unocal would have to cut back on its operations "for years." Hartley's gloomy assessment, shared by the *Journal*, was that this retrenchment certainly wasn't "anything to brag about."

Hartley and the *Journal* had it exactly backward. Pickens's efforts made Unocal a vastly more profitable company. Prior to Pickens's arrival on the scene, Unocal was a company with little debt and lots of cash, which it spent on major expansion and exploration ventures. In the five years preceding its leveraged recapitalization, Unocal announced five such major investments in a declining industry, which had the combined effect of reducing shareholder value by $640 million. In the years following the recap, the company, now disciplined by its increased debt, announced no further new investments. Unocal's forced reversal of its expansion program resulted in investors regaining much of the value previously lost by bad management decisions.

The 1980s had many similar success stories: the restructurings of CBS and ABC in response to pressure from Ted Turner; the end of conglomerates like Beatrice and Northwest Industries, which were acquired and restructured by KKR and Jim Farley respectively; and the restructuring of Allegis Corporation, parent of United Airlines, after a takeover attempt by Coniston Partners. The restructuring of Allegis alone, which involved a leveraged stock buyback coupled with the resignation of the chairman, who during his tenure had made a series of value-destroying diversifying acquisitions, caused Allegis's stock to rise in value by more than $1.5 billion on a market-adjusted basis.

Of course not every transaction during the 1980s was a success story. Some restructurings failed; some other firms that would have benefited from change avoided restructuring altogether. Overall, however, the successes vastly outnumbered the failures. Firms involved in restructurings were typically leaner, more profitable operations as a result, and corporate managers now had to be sensitive to the bottom line as they never had before. Corporate accountability was restored. As in all periods of rapid change and innovation, there were losers as well as winners. Old-line Wall Street investment banking firms watched on the sidelines while the upstart Drexel went from near bankruptcy to become the most profitable investment banking firm in the country. Entrenched corporate management of the Fortune 500, who were forced to streamline their operations and be more accountable or be replaced altogether, were also opponents of change. The savings and loan industry, a staple of government housing policy since the 1930s, became insolvent and obsolete. As traumatic as these dislocations may have been, we should not forget that the 1980s were a period of tremendous wealth creation and innovation in financial markets. When we assess the way in which our laws and those who administered them responded to the financial revolution of the 1980s, we must take care to hold the entire picture before us.

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