

[← Back to Original Article](#)

## Paper Chase

*BIG DEAL: The Battle For Control of America's Leading Corporations.* | 07 By Bruce Wasserstein (Warner Books: 820 pp., \$30) | f7

June 28, 1998 | SUZANNA ANDREWS | *Suzanna Andrews writes for several publications, including Vanity Fair, Rolling Stone and Mirabella*

Ten years ago, Ivan Boesky was serving time in prison for masterminding one of history's biggest insider trading scandals. Michael Milken had been indicted on 98 counts of securities fraud and racketeering and would soon begin his own prison sentence. Drexel Burnham Lambert, the Wall Street investment bank that had come to symbolize the excesses of the 1980s corporate takeover mania, was on the verge of bankruptcy. Many of the companies that had been involved in the biggest deals of the time were themselves struggling to stay afloat. Indeed, as the 1990s began, it seemed that a calm had come over corporate America. The high-testosterone capitalism of the 1980s--when scores of companies were bought, sold and busted up--had played itself out. Or had it?

Almost every day now the news is filled with accounts of yet another corporate merger or acquisition. Quick: Which foreign publisher just bought Random House, and which one bought Simon & Schuster? Name the two phone companies that were bidding for MCI before it was sold to WorldCom. What company just bought Chrysler? Who can keep track of which Internet company is buying which? Or which of the Baby Bells has merged with which?

From 1993 to the end of last year, a mind-bending \$2 trillion worth of corporate assets changed hands. In sheer number of deals, the '90s will probably outpace the '80s, and when it comes to size, the biggest deal of the '80s--the \$25-billion takeover of RJR Nabisco--already looks like pocket change next to this year's \$83-billion planned merger of Travelers Group with Citicorp.

Clearly, the forces of capitalism are alive and well, but what are they up to? What is driving these mergers? Who benefits from them? Is it just boys at play with their toys or is there some fallout from this process that we should care about?

Bruce Wasserstein's "Big Deal: The Battle for Control of America's Leading Corporations" arrives at a timely moment. Clocking in at an ambitious 820 pages, it is an attempt to tell the story of the changing corporate landscape during the last 30 years and to offer a behind-the-scenes look at "the most famous takeover brawls of our time" by the man who is regarded as something of a legend in the business of mergers and acquisitions.

Many more people have heard of his illustrious sister, Pulitzer Prize-winning playwright Wendy Wasserstein, but Bruce Wasserstein, although less famous, has himself helped to create some great drama. One of Wall Street's best-known investment bankers, Wasserstein was a familiar fixture in corporate boardrooms in the '80s, one of a handful of star investment bankers whose advice on mergers and acquisitions CEOs would pay millions of dollars for.

He was present at the creation of hundreds of deals, among them the takeover of RJR Nabisco; the struggle for control of Paramount; Philip Morris' \$13-billion acquisition of Kraft; and, more recently, Dean Witter's merger with Morgan Stanley. Wasserstein saw the boardroom fights, the late-night screaming matches, and if anyone had insight into the fears, aggressions and ambitions that drove CEOs to stalk other companies or to sell their own, Wasserstein, canny and quick to pounce, did.

On the face of it, almost no one would be better positioned to explain the wild world of corporate takeovers. He knows the game, and he played it with relish, famously leaking fascinating tidbits of information about deals to the press when it suited his interests--so much so that the financier Henry Kravis, who bought RJR Nabisco, suspecting him of leaks on that takeover deal, shut him out of key meetings.

Now, with 820 pages in which to tell his stories freely, Wasserstein has, remarkably, revealed nothing about his personal experiences on the front lines. The result is a book that is far duller than it has a right to be, considering how colorful and flamboyant Wasserstein was in his heyday. In a group of men that was known for colossal egos, he had perhaps the biggest, and his writing of this book seems to be motivated by that more than by any desire to tell a compelling story. To be sure, colorful characters and dramatic moments are hinted at in Wasserstein's account: For instance, Cornelius Vanderbilt's run at the Erie Railroad, which at one point found the railroad's executives evading an arrest warrant trumped up by the robber baron in New York, holed up with \$6 million of the company's funds in a Jersey City hotel, being defended by policemen and three water cannons. But such stories are all but buried in a disorganized book that is as blandly written as a college text on mergers. Wasserstein's reliance on press clippings and contemporary accounts, to the virtual exclusion of his own first-hand experience, suggests that there were things he didn't want to say--which makes sense. After all, many of the characters and companies mentioned in "Big Deal" were or are clients who paid Wasserstein millions of dollars in fees; others are obviously potential clients. This latent conflict of interest may explain why "Big Deal" is most effective in recounting history and explaining why companies merge.

Companies have grown by merger in the United States ever since the Industrial Revolution. Over the years, according to Wasserstein, "the rationale, style and intensity of successive merger waves have varied," but the underlying, elemental forces driving the merger process have not changed. Although separated by almost 100 years, the expansion through merger of the railroad, oil and steel industries in the 19th century and the empire-building of 1960s conglomerates were driven by the interplay of the same five forces: government regulation or deregulation; technological changes; fluctuations in the financial markets; the personalities of the corporate CEOs; and the changing perception of the ideal corporate size, which Wasserstein calls "the tension between scale and focus."

Railroads were the 19th century equivalent of today's high-tech industries. Like the microchip, computer and Internet businesses, railroads were an exciting new technology that promised new ways of communicating and new avenues of commerce. From the time the Baltimore and Ohio railroad was founded in 1828, railroads spread like wildfire across the United States, financed by millions of dollars from investors eager to profit from this new industry. By 1890, however, the railroads were overbuilt and laden with debt. With the Panic of '93 and the economic turmoil that followed, many railroads became insolvent, and thousands of people were thrown out of work. Into the chaos stepped J. P. Morgan, acting on behalf of European clients who had provided the start-up capital for the American railroad industry. In a process that became known as "Morganization," he spent the next several years forcing order on the overcrowded industry, merging railroads and restructuring their tottering businesses.

The American oil and steel industries followed a similar pattern. These industries, which were eventually identified with the Rockefellers and the Carnegies in

the same way railroads were linked with Morgan, also began as the result of promising technological innovations, attracted start-up capital and then began to expand through mergers. Some companies collapsed; others thrived and took over the weak. Standard Oil, for example, was started by John D. Rockefeller in 1862 with an investment in a small Cleveland refinery. By 1872, nearly all of Cleveland's refineries had sold out to Rockefeller; by 1880, Standard Oil controlled 90% of the nation's oil business. In the beginning of this century, with the 1890 Sherman Antitrust Act in place, the government became a player in the "M & A" world. Spurred on by Populist critics and others who argued that the enormous corporate behemoths that resulted from these mergers left consumers vulnerable to price gouging and other anti-competitive practices, the Taft administration famously forced the break-up of U.S. Steel, Standard Oil, General Electric and International Harvester, much as the U.S. Justice Department would do almost 80 years later with AT&T.

If technology, the financial markets and the government shaped the first big American merger wave, it was the stock market, fashion and sheer hubris of CEOs--what Wasserstein euphemistically calls "the role of leadership"--that drove the buildup of the conglomerates in the '60s. This was the decade that began with the optimistic certainty that the "best and the brightest" could manage anything with their big brains and reams of data--anything from Vietnam to gargantuan corporations, regardless of whether their businesses had any common denominator. As Wasserstein makes clear, much of the 1960s frenzy of deal-making looks bizarre today. RCA, a defense, technology and broadcasting firm, acquired frozen food businesses; Textron acquired a crazy quilt of companies in everything from zippers, chain saws and rocket engines to helicopters. ITT, the poster company for conglomerates--the target of a failed hostile takeover attempt last year--merged voraciously in the '60s and ended up controlling companies such as Sheraton and Avis. Harold Geneen, ITT's aggressive, arrogant CEO, even tried, and failed, to take over ABC before ITT began its long-running battles with government antitrust officials and with the Securities and Exchange Commission over its acquisition of Hartford Fire Insurance Co.

The market rationale for this '60s expansionism-by-takeover was a booming stock market, in which growth in earnings per share and a higher stock price were most easily achieved by buying other companies. By the mid-'70s, however, most of these leviathans were muscle-bound and poorly managed. What the corporate raiders of the 1980s saw so clearly was that many of these corporations had become more valuable dead than alive; their individual parts were worth more than their whole.

Wasserstein explains how the conglomeratization of the '60s paved the way for the takeover frenzy of the '80s. But his treatment of the wild deal-making of that decade is devoid of any of the sense of drama of that period, or the controversy. He says absolutely nothing new about a time that many of his readers know a great deal about. Characters such as Milken, the odd, secretive and brilliant man who controlled the junk bond market, and raiders such as T. Boone Pickens, the colorful Oklahoma oil man, and Carl Icahn, who bought and then nearly destroyed TWA, have been brought to life much more vividly in other books and the press. In a book otherwise unburdened by a point of view, Wasserstein appears to side with those who believe that Milken was unfairly hounded by the government. But the bitter and protracted struggle between the government and Milken--and the issues the conflict raised, which included manipulating the markets and scamming clients--certainly deserve more attention than Wasserstein has given it.

What is driving the current turbocharged merger environment? For answers to that question, the reader might be advised to skim the four chapters in Wasserstein's book that deal with the frenzy of deal-making today in the high-tech, banking, media and health care industries. These are excellent primers on how, for example, rapid technological innovations have propelled mergers in the cellular phone business; how government deregulation and competitive pressures have encouraged mega-mergers among banks; and how current fashion for size and the drive to control both the content and the distribution have given rise to new media conglomerates like Disney and Time Warner. But for insight into the personalities that dominate today's deal-making, the drama of the deals or, for that matter, for any critical evaluation of the wisdom of these deals, the reader would be better off perusing any of the business magazines--or reading *Premiere* or *Vanity Fair*. Wasserstein's mini-profiles of today's deal makers are obsequious. We learn, for example, that Sumner Redstone, chairman of the troubled media company Viacom, is a genius who "almost gurgles with enthusiasm about his business." A client? One wonders.

Today's mergers, according to Wasserstein, are driven by "strategic thinking." After years of downsizing and cost cutting, Wasserstein tells us, corporate CEOs are asking themselves: "What kind of a company do we want to be?" This is but one example of the patronizing tone of this book. One hopes that CEOs ask themselves much more challenging questions than this. Wasserstein adds nothing to the discussion of who benefits from today's merger mania and what the fallout will be. How well-managed will a massive conglomerate like Travelers Group-Citicorp be? The history of such companies doesn't give us much encouragement. Will the FDIC have to step in and clean up future messes that result from this frenzy of mergers in the banking industry? It is an industry that has not, historically, been a well-managed one. (Indeed, Citicorp Chairman John Reed's management of that institution brought the bank to the brink of disaster in the early '90s). What will be the effect of having so many books published by so few publishing companies--most of them foreign? And, indeed, who benefits from the re-monopolization of the telephone industry? If you're a client of Bell Atlantic, affectionately known by its customers as "Hell Atlantic," you can't be faulted for wondering why AT&T was ever broken up. At least that was a monopoly that gave decent customer service.

But Wasserstein has not set out to tackle the question of how we are affected by the corporate game of mergers and acquisitions. His book seems, ultimately, to have been written for his clients. Not that they will read it. But it will look impressive on the coffee tables of their corporate suites.