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### Interview with Richard Jenrette

Donaldson, Lufkin & Jenrette

April 2002

Interviewer: Amy Blitz, HBS Director of Media  
Development for Entrepreneurial Management

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## RICHARD JENRETTE

### The Early Years

I was born on April 5, 1929, in Raleigh, NC. There are certain things of note about that date. April fifth is an Aries astrologically. It's the first sign of the zodiac. Aries like to start new things, like new companies. It seems like people who are Aries are good at starting things, though they're not always good at finishing things. Also, because I was born in 1929, my earliest years of recognition were in the 1930s, the Depression. The Depression didn't seem so bad at the time, because everybody was suffering. Everything is relative. I grew up in a period that wasn't very affluent, and I think that has been more of a blessing than not. I went to public schools. Back then, most people were too poor to go to private schools, but it didn't matter because the public schools were very good. The teachers were wonderful, and I always felt like I had a very superior education at the public schools in Raleigh. I've given teaching fellowships there to express my gratitude to them. Anyway, I got a great public school education.

My father was an insurance salesman and he was out making sales. I was one of three children. My brother was ten years older than I, and my sister was fifteen years older, so I was the youngest of the lot. I grew up in a time before Little League and things like that. We had to organize our own Little League. I took the lead in organizing neighborhood baseball, basketball, and football teams. We had something called the Budley Eagles, named after the neighborhood I was in. We literally created our own field. A neighbor let us clear a field. We almost set the town on fire burning it off, but we had to make our own ball field. We organized our teams according to neighborhoods. Early on, I figured out that I wanted to be the scorekeeper and the manager. I would organize our team. I could pick the batting order or who was to start, and I could decide what was a hit and what was an error. I also calculated everybody's batting average. I learned the importance of control. I worry about today's kids who have their parents plan everything—Little League, everything gets planned for them. We had to do it ourselves, and it was a great experience for me.

We also learned how to get along with all people. I think our neighborhood had the first integrated baseball team in the South. The neighborhoods were somewhat segregated then and there were probably old slave quarters in the neighborhood I lived in. To make a nine-person baseball team, we had to have African-Americans and we didn't think anything about it. I remember one neighbor said to my mother, "Do you know your son is playing with Negro children?" My mother said, "Yes. So what?" Anyway, I didn't realize that I was breaking ground with the first integrated baseball team in those days. I had a very democratic experience growing up—not a lot of money but not a lot of poverty either. We all got by. We had to organize ourselves—even kick-the-can games. We had a good entrepreneurial experience growing up because we had to create our own entertainment. There was no TV and no Internet to surf.

## **Lessons from the Military**

After I got out of college, I went with my father's life insurance agency. I was called into the Army during the Korean War and sent to basic training. The best thing the Army did was get me out of the insurance business. I don't think I would have enjoyed selling insurance all my life.

I went in the Army as an enlisted man, which, again, was another good democratic experience. The regiment was half black and I was one of two college graduates in about 200 people. Being in the Army, you learned the value of freedom. You learned that some sergeant could tell you to clean the latrine or pick up the cigarette butts. You also learned discipline by getting up early in the morning for reveille, living out of a footlocker, making up your bed so you could bounce a quarter on it, and things like that. You also learned that among blacks and whites, it wasn't the color; it was the person. I've always felt that the Army was a great leveling experience. While nobody liked the draft, it was very democratic. Everybody had to go in. Some of the poorer people came in and learned a lot of discipline and, for those of us who had gone off to college and been fraternity brothers, it knocked us off our pedestals very quickly and brought us back down to the common-man level.

At the end of basic training at Fort Jackson, half the company was sent to Korea. We were all standing at attention, awaiting our destiny. I was sent to Baltimore, Maryland, to the school for the Counterintelligence Corps. The assignment was like deliverance. But I didn't have to go to Korea. I don't know how many of the people in my company were killed over in Korea. Nobody wanted to go. But they went. Anyway, my assignment was during the McCarthy era, when we were seeing Communists under ever doorstep, and I was trained as a special agent. The best thing about that was we got to wear civilian clothes concealing our rank. It was an interesting organization too. They picked people out of basic training who had gone in as enlisted men and had good grades and things like that. I was fortunate to get that assignment. I was put with a sort of elite group. That was the first time I ever met a Harvard graduate, by the way. There were quite a few Harvard graduates where I was, and I discovered I could hold my own with them.

At the Counterintelligence Corps, we were taught interrogation and surveillance techniques. We came out with our cloak and dagger techniques, and were sent out to find some Communists. Well, they sent me to North Georgia. There weren't too many Communists in North Georgia. This is 1953 to 1955. I spent two years doing background investigations of people who were being considered for handling confidential, sensitive, top-secret documents, people who had to get a top-secret clearance. I did investigations for the University of Georgia and other colleges in North Georgia. I have to admit, I never found a Communist during my whole time in North Georgia.

I think my experience as a special agent made me a little more liberal because there was a bit of hysteria then. I was assigned to the so-called "complaint" investigations, where anyone who had anything in their background that suggested they might have a

Communist tie-in would be investigated. I remember one case in which some guy who had gone to the University of North Carolina had listed in his résumé that he had attended a meeting of the Communist Party of the United States of America when he was at Chapel Hill. He put this information on his application when he went in the Army. Red flags went up. They spent almost two years investigating him and couldn't find anything wrong. So I was assigned to interrogate him. I said to him, "You put down that you attended a meeting of the Communist Party of the U.S. Could you tell us about that?" He said, "Well, I was in Phi Delta Theta. A bunch of us heard there was a meeting of the Communist Party, so we went down to heckle them." I asked him, "Why did you put down that you attended the meeting?" He said, "Well, I thought the FBI was checking and taking attendance, so I just wanted to be truthful." For two years we had investigated this guy rather than coming out and asking him upfront about the incident. Fortunately, I was at Chapel Hill at the time and actually remembered the incident, so I was able to free him from further investigation.

The story is just a lesson in hysteria, a little vignette. It's a part of why I'm not really an "avenging angel" kind of person. Overall, the Army was good and, most of all, it made me appreciate my freedom. I was glad to get out.

### **The HBS Experience**

Harvard Business School changed my life for the better for a lot of reasons. After I finished with the Army, my father thought I'd come back to the life insurance business, and I did. But, I remembered a guy who had trained me who had said, "Dick, one great thing about the life insurance business, everybody is a prospect. Every time you go to the country club to play golf, you come back with a client. Everybody's a prospect, and you're sitting there like a big spider ready to pounce if they say they've had a birthday, or a new baby, or bought a new house." I asked myself, "Do I want to spend the rest of my life pouncing on people because they've said something?" Then I remembered what a dean at Chapel Hill had said. He said, "Dick, the Harvard Business School wants to get more Southern boys." This was affirmative action in 1957—white southern males. Most of the Business School student body came out of the Ivy League schools and places like that. I think I may have got into Harvard Business School thanks to that kind of affirmative action. But I knew I did not want to be a life insurance salesman all my life, and this was like—you're drowning out there, what are you going to do, and the Dean's words came to me so I applied and was accepted to Harvard Business School.

I remember going through New York on my way to Boston and thinking my life had changed forever. Overall, the school was terrific. The beginning was like future shock. It was a little like basic training in the Army, with an effort to break you at first, loading more work on students than they could do. I had always been a good student, but I had always tried to do everything very conscientiously. One of the first lessons at the business school was that you can't read everything. You've only got so much time. You have to make decisions. I was staying up late and grinding. One thing I thought I could do was write. I'd been the editor of a newspaper. But I did something called Written Analysis of Cases, WACs. The first one came back with an "unsat," or unsatisfactory. I thought, "Oh,

my God! If I can't even do well in a writing course, what will I do?" I had a sinking spell and I thought about going to Harvard's Department of Economics or somewhere else. I had to ask myself again, "Is this what I really want to do?"

Eventually, I pulled myself together and suddenly began to get better. I began to speak up more in class, and it turned out, everybody had gone through future shock. I began to make some friends and then, at mid-semester, my grades were pretty good. In the first year, I was in the top 10 percent and I got into something called the Sentry Club. That gave me confidence. I didn't make Baker scholar, though, because I probably played around too much the second year. The first year you were assigned roommates, but the second year you could pick your roommates. A group of us took over the top floor of Mellon Hall. We had a big long living room, called the long room, and three or four bedrooms. Every Saturday night we'd have a wonderful party. The Wellesley girls would come in and it was just a terrific group of people. I ended up getting elected Class Secretary from all that entertaining, I guess. It was a thoroughly enjoyable experience.

As I think back on the HBS experience, though, the best thing about it was not the specifics. We were being taught the "big picture." It sounds such a cliché to talk about the big picture, but it's true. We were transported to being a senior executive twenty to thirty years out. In those days there was a presumption that to be the CEO you would have to go up through manufacturing. Nirvana would be head of General Motors or U.S. Steel or something like that. The core curriculum was basically manufacturing, marketing, finance and human resources, human relations, and administrative practices. Everybody pooh-pooed the fourth subject area. Some thought they were good at finance, some thought they were good at marketing, and a few thought manufacturing was it. But as I look back, human relations was the single best course I took because it really is what life's about, which is looking at things from all sides, from other people's points of view. Over and over, I see people have a great strategy but an arrogant execution. They fail to call somebody in advance or alert somebody to something. This second-year course in administrative practices and human relations probably did me more good than any other.

The business school students were always trying to figure out, "What is the HBS solution?" I think that mindset may have come from the initial experience with WACs, the written analyses, where there seemed to be the "HBS" way of doing it. Some of the professors would tell us that there was no HBS solution and I remember that sticking in my mind. In the cases we were given, there were a number of approaches. You could cut costs, expand, or get out of the business. You could centralize. You could decentralize. Students always assumed that there was one right answer. I think the faculty succeeded in getting across the idea that there is not necessarily one right answer and that there could be a number of ways to solve a problem. The only right answer was to get the company going in the right direction and there were a number of ways to do that. The idea that there is no one school solution, and that there are many approaches that can be equally successful to a business problem, is something that has served me very well in life.

## Early Career

After I got out of business school, the key question was where to go. Some of the class wanted to go to California. A few wanted to go back home. I had two job offers back in my native North Carolina, at Wachovia Bank and Burlington Industries. Believe it or not, a textile company was a hot company back then. Textron and Burlington were two Harvard Business School darlings. Thank heavens I didn't go to Burlington Industries. They grew out of textiles with a lot of acquisition. Wachovia Bank might not have been too bad.

I also had job offers from Citibank and Brown Brothers Harriman. I remember the defining moment for me. I came to New York on a job interview with Citibank. I met up with a business school classmate at the Harvard Club bar afterwards. The whole experience was glamorous, and I decided right away that I didn't want to go back to North Carolina. I love North Carolina, but I wanted to see what I could do in New York. So I decided to be in New York. Then I had to decide on a job. I went with Brown Brothers Harriman. I always liked something smaller and Citibank, even then, was very big. Brown Brothers was an old-line partnership. It was a private bank and still is. It formed in 1818 and it managed money, took deposits, did letters of credit and all kinds of arcane financing methods. When I went there, I was assigned to the research department and later was shifted into being a portfolio manager.

The most glamorous client they assigned me, right before I left to start DLJ, was Gloria Swanson. I was scheduled to have lunch with Gloria Swanson, and they were going to present me as her portfolio manager, but they told me, "Dick, since you're leaving to start your new firm, it would not be a good idea for you to meet Ms. Swanson." So I never got to meet Gloria Swanson. One thing I remember about her, though, is that she had three managers: Brown Brothers Harriman, J.P. Morgan, and the Bank of New York. Back in those days, people didn't have competitive money managers; it was never done. You had one manager who did everything. Years later, Donaldson, Lufkin & Jenrette pioneered multiple managers of pension funds. I had thought it was a good thing when Gloria Swanson pitted Brown Brothers against Morgan and Bank of New York; it got everybody on edge. Years later, DLJ, through Alliance Capital, pioneered the idea, "Don't let one bank manage your pension fund. Introduce a little competition to get it on the edge." I think we really started multiple managers of pension funds, for better or worse.

Brown Brothers, for me, was like a good finishing school—old New York money. I noted, however, that eighteen out of the twenty partners had gone to Yale and you had to wait about twenty years to become a partner. Since I hadn't gone to Yale, my prospects didn't look good. I might have made it if I had stayed, but after two-and-a-half years, Bill Donaldson and Dan Lufkin approached me about forming DLJ. I just decided that, on the one hand, Brown Brothers was wonderful, but on the other hand, it was too slow. I'd be there forever and there wasn't much upward mobility. Bill and Dan were two very exciting people that I'd known in business school, and I knew they'd be successful in one way or another. We were all bachelors at the time, so we said, "Let's go for it."

## Finding the Opportunity

Bill and Dan had gone to prep school, Yale, and Harvard Business School. They were very much alike in many ways. I was a Southerner. I had been with an old-line firm, Brown Brothers Harriman, and I was a token non-Yalie. Of the first ten people we hired, I think eight out of the ten had gone to Harvard Business School, and half of them had done their undergraduate work at Yale. Anyway, I was the non-Yalie in the group. I knew Bill and Dan would succeed. I didn't think the business plan made a lot of sense, but I knew we'd figure out some way to make money.

I've always believed in networking. You know, some people spend all their time studying and never have a good time. I tried to do both. I always loved parties in college. In my era, I think I knew a lot of the leading bright lights from everywhere—Cornell, Yale, Princeton, and Wisconsin. I met them in the service, in fraternity parties, at HBS. Everybody I ever met knew Dan Lufkin or Bill Donaldson. People might have gone to Harvard, Princeton, Yale, Trinity, Williams, or Amherst and they all knew these two. Bill and Dan are just very attractive and popular and bouncy. They have very affectionate personalities, and I knew that they were winners. I knew we'd figure out something *and* that they would be fun to work with.

Dan Lufkin had started out working with a private investor, Jeremiah Milbank, and he had become enamored of small companies. This was in 1960. Eisenhower had been president before that and we had had about three or four years of economic stagnation. The old blue chip stocks, such as GM, Goodyear, and Ford hadn't had any growth for a long time. Lufkin had this theory that to get future growth, you were going to have to have small, entrepreneurial, growing companies. He believed they could run circles around these big bureaucratic companies and he was right. Originally, Lufkin was the more visionary partner. He had this great vision of small, growing companies.

Bill Donaldson had also been on Wall Street and the research he got was statistical, shallow, and superficial, with nothing on the economics of a company. Having come out of business school, where we had looked at the marketing side of a company and the manufacturing advantages, Donaldson thought that the research was no good on Wall Street and that there was a need for in-depth research. Well, I had done some research at Brown Brothers, and I liked to write, so I bought into Donaldson's idea. The vision Donaldson brought was that Wall Street and the New York Stock Exchange were totally focused on the retail mass-market investor. We, on the other hand, saw money coming in from institutions, mutual funds, and things like that. Bill felt that Wall Street was ignoring this emerging institutional investor market and that, with pension funds, mutual funds, and things like that, you also didn't need to have five thousand or ten thousand salesmen to build a business. You could just go to a few big banks.

So I think Donaldson saw this emerging institutional market. Lufkin saw the need for small, growing companies. I saw two people I thought were winners and I thought I could

help them. We also thought that managing money was important and I had done that at Brown Brothers, so my mission was twofold. First, to set up the whole back office including the clearing mechanism and how to execute an order. That was an experience. I knew nothing about it myself, but I became the Chief Administrative Officer. I set up the investment management department, which later became Alliance Capital, and we all did research. Second, since I had been an editor, I quickly became the editor of all their research reports. Lufkin, especially, would write extravagant statements. I remember when he started out, he'd write: "This is a marvelous company." And it would turn out to be a dud. My mission was to use my Brown Brothers experience to tame Bill and Dan, to restrain their youthful exuberance, if you will. That's why they began to call me the bear, because I was more cautious in the firm.

We started doing research. Sure enough, the institutions brought in a lot of commission dollars. Commission rates were fixed, so an institution buying a million shares paid the same commission per share as an individual. As a result, institutions were paying massive sums in brokerage commissions and getting nothing back for it. So we offered them some real research for their commission fees. They were so tired of giving business to Merrill Lynch and other firms that they began to put business into us. They weren't necessarily buying the stocks we were recommending, but they were putting orders in for General Motors, U.S. Steel, Xerox, AC Nielsen and OM Scott. Xerox was actually one of our first recommendations—the company had just started about that time. I hope along the way somebody said, "Sell," but Xerox was a great stock for a long time. Anyway, these were small companies traded over the counter. Fortunately, DLJ had joined the New York Stock Exchange, thanks to Bill Donaldson. Pre-NASDAQ, we didn't need to join the Stock Exchange in order to trade stocks over the counter, but Donaldson said, "We need that 'Good Housekeeping Seal of Approval' from the New York Stock Exchange." Well, it turned out the big orders we got were these excess commissions from Citibank, Chase, Putnam, and Fidelity, who had to pay out large fixed commissions and were getting lousy research. They were also glad to get someone to look at these small, innovative companies. So the commissions began to pour in, and we hit a gusher.

We thought we'd be paid in the stocks—that was a mistake I made initially. I did a little calculation and said, "Lufkin and Donaldson, we can produce twenty reports a year and prudently buy only 10 or 20 percent of a float with these companies. Now, multiply that out by the number of shares times the commission. The net is we can't make any money on this." It turned out, however, that the big money was in trading other stocks on which we had not even issued an opinion. The gusher we hit was that we didn't realize how fixed commission rates created a pot of gold. As institutions got more money and were more actively trading their accounts, there was turnover. On the New York Stock Exchange, a lot of institutions turned over 10 or 20 percent a year when we started. Ten years later it had gone to mutual funds, with 100 percent turnover. The institutions turned their total portfolio every year. So you had more money going to institutions, turnover rates going from 20 to 100 percent and you had a market growing 25 to 30 percent a year. We just hit a gusher and nobody knew how profitable we were.



The New York Stock Exchange Board of Governors said that if you wanted to buy and sell on the New York Stock Exchange, you paid a fixed commission rate. It was considered one of the nice things for the small investor that the big institutions weren't able to bargain down. In other words, the small investors supposedly got the benefit of a liquid market. In reality, the big institutions were subsidizing the small investor, which meant the institutions were giving out all these brokerage fees as they got bigger and as their trading became more active, and the fixed commissions were generating huge commission dollars. The institutions didn't think they were getting any value in most cases from the fees so they were delighted when DLJ offered in-depth research.

Not only did we catch the wave, but we also ignored the retail investor and aimed solely at the institutional investor, which was the coming growth market. We also ignored the big blue chips and focused on small-growth companies. We did all this in the 1960s, when institutions had been 70 percent in bonds and the rest in U.S. Steel, General Motors and companies like that, but they were beginning to think about smaller growth companies. This was a time when the Putnam Growth Fund and the Fidelity Growth Fund started and we were the only people providing research on that emerging growth company market. Our product took off. Everything doubled or tripled in about two years. It looked like we had the Midas touch. We just happened to hit it right and the market was wonderful. DLJ immediately became profitable.

### **DLJ's Innovations**

In terms of innovations, we did several things that were very important. The first was Block Trading. It used to be that institutions would dribble out their orders—a thousand here, three hundred there. A guy on the floor of the Stock Exchange, who had been a fraternity brother of mine, Truman Bidwell, said, “Dick, if you want to do a lot of business on the New York Stock Exchange, you're going to have to take some risks. If you put up a little bit of your capital to position a block, you get a lot of business.” Bidwell, who became President of the New York Stock Exchange, explained that he did business for Goldman Sachs. He said, “The key to Goldman Sachs is that they will put in their own capital. Other than Goldman, nobody is putting up their capital to position a block.” He also said, “Institutions don't want to sell in these small amounts. Increasingly, they want to move a big block.” Even though we didn't have much capital, DLJ became the only other firm, in addition to Goldman Sachs, to put some of our capital at work on the desk to facilitate block trades. Merrill Lynch, for example, would not take any risk to execute an order. They would dribble it out. By putting up a little capital, DLJ became a big factor in big blocks of stock. People were giving us business not just to get our hot research, but also because we were good at executing. Wall Street firms or partnerships didn't want to risk partners' capital positioning blocks. Everybody still had the Depression mentality, so DLJ got in early on the big block trading.

The second innovation we had was that we decided to manage money. DLJ was serving institutional investors and we said, “If we have all this good research, shouldn't we begin to manage money ourselves?” From the beginning, we had a few classmates who had given us money to manage. I ran this part of DLJ's business. We had a breakthrough

when Litton Industries gave us about \$8 million of their \$100 million pension fund—\$8 million was a huge sum then. Dick Hexter, a Harvard Business School graduate who was a technology analyst, prevailed on Litton to give us a chance managing a piece of it. Litton, at that time, was like Intel. It was the *beau ideal* of technology, though something happened to Litton along the way. Anyway, we got a piece of the Litton pension fund and did well. Soon, Whirlpool, which was on the Litton board, gave us a piece of their pension fund, and several other companies that were related to Litton did the same.

We had discovered a new market, a dissatisfied pension fund market, which had been dominated by banks and insurance companies and was almost entirely invested in bonds and blue chip stocks. We introduced competitive management. This is where the Gloria Swanson story comes back in. The idea was to introduce a little competition. The result was a mixed blessing. Some of our big institutions, especially Chase, which seemed to be losing a lot of its money management business to us, were unhappy. We'd constantly be taken to the woodshed at Chase and told, "We're giving you all this business and you're taking accounts away from us. Naughty." I finally decided to call DLJ's money management business Alliance Capital. It was a fig leaf, if you will. That way, it wasn't DLJ taking an account away from Chase or Bankers' Trust; it was something called Alliance Capital—an entity that was a little different, a little separate. You wouldn't think switching the name to Alliance Capital would make a difference, but it did. There was no longer the stigma of DLJ taking accounts away from our big institutional clients, so Alliance took off. We began to grow rapidly in asset management, especially the pension fund business. We set up Alliance as a separate corporation with a separate name and separate identity, thus getting it away from DLJ even though DLJ owned 100 percent of it.

DLJ reports were also totally different. It used to be that Wall Street research was aimed at the small, retail investor and Wall Street, in its rather superior way, felt the little investor didn't know enough to handle in-depth reports. Wall Street assumed the investor wanted only two or three paragraphs saying "We recommend so-and-so." Wall Street research was very brief and statistical, and not very analytical. We had the idea at DLJ to do in-depth research, somewhat like we'd seen in the Harvard Business School case studies. We figured that if you were going to invest in a small-growth company, which wasn't very liquid, you couldn't just jump in and act. You really needed to know the company well. What were its key strengths? What was its management like? How good were the managers? What channels of distribution are they going to use? How is the product sold? We went in-depth in our research, sometimes providing thirty to forty pages. Everything was covered: a company's manufacturing, how it sold the product, its competitive strengths. We'd always interview management, but we put more stress on what competitors and customers said than on what management said. The thing I hate about Wall Street research today is it has been taken over by spin doctors. Researchers today are weaned on companies' short-term estimates, when what they really need to do is go out and talk to the competition or people that use the product, and they need to try the product. Anyway, our reports were like a breath of fresh air and came out of what a company really was doing.

Since we were only calling on institutions, we invented something called the Analyst Salesman. We didn't have to pay for a sales force. If we did a report, I would go out and talk to Fidelity, Putnam, and Morgan Bank. We bypassed a whole expensive sales force. We were talking with the institutions that pulled all the capital together, based on our recommendation. We needed only a few good orders, so we eliminated the sales force, for starters, and invented the Analyst Salesman, which was the beginning of the all-American analyst as a glamorous figure. The analysts on Wall Street used to be called statisticians. I'm afraid Wall Street is going back to that and doesn't realize that statisticians aren't going to continue to be paid millions of dollars a year for the research being done now.

Overall, DLJ was not in investment banking. We were on the side of the investor—either the institutional investor or the investor in funds we were managing ourselves. And we hit it right. We had good ideas about the need for research, focusing on small, growing companies. We had a good idea about serving institutions rather than individuals. We had a good idea about getting into pension fund management because of a trend in dissatisfaction with previous fund managers. These were all good ideas that led to ten glorious years, which culminated in public ownership in 1970.

### **Going Public**

We actually decided to go public the day we started the company. Bill Donaldson believed that someday New York Stock Exchange firms would be publicly owned. He would ask, “What is the logic in Wall Street saying that companies should go public and that it's good for you, but it's not good for us?” Back then, members of the New York Stock Exchange were all private partnerships or limited corporations. To change ownership, you had to receive approval from the Board of Governors of the New York Stock Exchange. The reason given was to prevent the Mafia from taking over our markets, or something like that. The real reason was that they were afraid that without their approval, the big banks could join the New York Stock Exchange. The big banks were publicly owned, so the Board of Governors thought that requiring their approval for a change of ownership in a Wall Street firm was a way to keep the publicly owned institutions off the stock exchange. Even so, DLJ argued for the logic that eventually the New York Stock Exchange would go public.

When we started DLJ originally, we didn't have any money. We had put up one third of the capital, and we got friends and classmates to do the rest. From the beginning, Donaldson was saying, “We believe, somewhere down the road, the Stock Exchange is going to go public, so this will be a good investment.” That was one of our original pitches to friends. It was really in our mindset when we started the company—more in Donaldson's mindset than mine. From my Brown Brothers pedigree, in a firm that had been a partnership since 1818, the notion about us and other Wall Street firms going public was not a high selling point. Bill was quite visionary in that.

We then began with a very profitable decade. We had 50 to 60 percent return on equity and 50 percent profit margins. We began to get more imitators who had worked out how profitable it was to do what we were doing. Also, because we were positioning capital on blocks, we felt we needed access to more capital. So we decided to go public, which was against the law. I remember that Dan Lufkin had just been elected to the Board of Governors of the New York Stock Exchange. The first meeting after he had been initiated, he had the job of telling this august assembly, “Now that we’re a member, we’re going to go public. If you don’t like it, you can kick us off the New York Stock Exchange, but we’re still going to trade institutional orders.” He explained that we would execute institutional orders in what was called the third market, which is where you could put together big block trades and you didn’t need to go to the floor of the New York Stock Exchange. So he said, “We’ll simply do them off the board and we’ll continue business.” It turns out that a lot of the members, like Merrill Lynch, really wanted to go public, too. They were saying “Go, boy, go!” I don’t think the Stock Exchange would be the world’s preeminent marketplace today if the members had not gone public to receive access to permanent capital. The change has been good in the long term.

DLJ felt that it needed capital because the markets were requiring more capital to do trades. The volume of trading was so big that a private partnership couldn’t do it. It just took more capital—and permanent capital. The partnerships would dissolve at the end of every year. If you had a bad year, partners could walk away. So what was needed was permanent capital. We had started in December of 1959 and the 1960s was our decade. Kennedy was the youngest president ever. It was one of these “Youth will be served” periods. Then in 1969 we decided to go public and we became public in April of 1970. The bad thing, from our point of view, was that we had to reveal how profitable our firm was. That brought in even more imitators. More than that, it gave a lot of impetus to the institutions who were arguing that either they should be able to join the Stock Exchange or they should be able to negotiate commission rates because they were paying too much. The institutions cited our high level of profitability to show that their commissions were too high. I think that by letting it all hang out, everyone—customers, competitors, imitators—saw how very profitable our business could be. They also saw that we had a money management vision that was very profitable and getting very big. The institutions, our customers, used this information as ammunition to beat on the SEC and, finally, to eliminate fixed commission rates.

All of this happened in the middle of the Middle East oil crisis. Markets had collapsed, interest rates were going up, trading volumes were going up. Right then, the SEC unfixed commission rates. If DLJ hadn’t gone public and put in some permanent capital, and if several other firms like Merrill Lynch hadn’t gone public, I don’t think Wall Street could have survived the 1974 market crash. In the old partnerships, you could take your money out at the end of every year and I think that after a year like 1974, everybody would have run for the hills and taken their money out. But once you’re public, the only way you can get your capital out is by finding somebody else to whom you can sell your stock. You can’t demand the corporation give back your stock. Anybody who got scared in our company had to sell their stock. They had to find a buyer for it somewhere. As a result of

going public, though, Wall Street had permanent capital, which really helped us and Merrill and some of the others get through that difficult period.

Also, when DLJ went public, we agreed that we wouldn't sell for a couple years. I think this agreement helped us hold on to people. We had begun to lose people who were setting out to start new firms and things like that, but when we announced we were going public, nobody wanted to leave. We had to announce the decision to go public a year and a half in advance. When everybody who was going to leave heard the news, they thought, "Why give up a golden goose?" Our decision to go public locked in people who wanted to wait for the rewards, and it gave us tools to help hang on to people. You have to remember that these things can be double-edged swords. Just as the ability to issue options and give our people stock was an upside, there was also a downside. Some people had borrowed money to buy our stock and they got wiped out when the options became worthless. The virtuous circle that we had enjoyed in the 1960s went the other way in the 1970s. So you have to manage by being humane, providing a nice place to work with creative people, not by saying that working for us means you're going to get rich quick.

DLJ, during its first decade, was up and away the hottest firm on Wall Street. We were hiring every HBS Baker scholar around and investment banking was in the doldrums. It was a time when there was surplus capital, and very little opportunity to invest. Companies were not raising new capital, so the problem was how to put the capital to work. In the 1950s, the economy had been sluggish and companies were overcapitalized, if anything. The investment banks like Morgan Stanley and Goldman Sachs were sitting around twiddling their thumbs. I think Morgan Stanley had 300 people at the time and \$18 million in capital. A funny thing happened in the 1970s, though, when money got very tight and when commissions were unfixed. Suddenly our gold mine, the fixed commission rates, disappeared. Commissions dropped from forty cents a share to four cents a share. That's a pretty big percentage price drop, at a time when volume was dropping as well. Because of the capital shortage, companies began to issue new stock when the economy finally got going.

### **Options for Expanding the Business**

I say DLJ missed an opportunity in the 1960s and early 1970s because we could have picked up any major investment banking firm for a song. The best fit would have been Morgan Stanley and DLJ. We were already right in the same building. But I think it didn't happen because of peoples' egos. Morgan Stanley had no research. They had about eight salespeople, and they syndicated with mostly blue chip companies while the nonwhite-shoe firms like Merrill Lynch and Paine Weber did the dirty work of selling the deal. Morgan Stanley would sit there, first boss and lord of the manor. We would have been a good fit with Morgan Stanley because we had similar people and the cultures were somewhat similar. We both had Harvard Business School-Ivy League types, but Morgan Stanley was a little haughtier and DLJ was a little more of the people's firm. We would have been the perfect fit, but it didn't happen. Morgan Stanley decided to start its own research department. At various times, we could have acquired other firms, but strangely, DLJ didn't want to do it. By then there was a chutzpah at DLJ about us not needing these

other firms. We were thinking, “We can invent it ourselves. We’ve invented everything else. Let’s not buy these dead old firms.” I was the one who wanted to buy the old firms.

We did start a venture capital affiliate called Sprout Capital, but by the time we started getting into it, we had gone public and our earnings suddenly collapsed because fixed commission rates had gone and there was no underwriting and bond business. We had a bond business and actually made some money there. Anyway, we had to move towards being a full-service firm at a time when we didn’t appear to be that strong, and we were no longer walking on water. Also, Morgan Stanley’s and Goldman Sachs’ banking businesses were starting to pick up. We thought that institutions would be suspicious of research from the investment banks because it would be tainted. We thought the investment banks would not be successful in research because they would not be seen as objective, and I think that view, twenty years later, has been borne out. What we didn’t anticipate was that institutions actually thought the investment banks like Morgan Stanley and Goldman might let some inside information slip through, into their reports. The institutions welcomed research from the investment banks and began to pour commissions into them.

When DLJ went public in the 1970s, the stock did very badly. It’s like being a cross country runner and collapsing before you get over the finish line. I remember some wise person said, “When you see stock exchange firms going public you know it’s time to sell.” Well, that was a good comment. The market went off in 1970. It came back a little bit in 1972. Then from 1973 to 1982 the market did nothing. For ten years the Dow Jones average could not go through 1,000. It teetered between 700 and 1,000. The market was going nowhere. Thank God we had a nest egg from going public. Unfortunately, we had no investment banking and that became the marquis business

### **Near-Death Business Experience**

In the 1970s, our profitability shifted to underwriting and trading. We had a number of crises in 1973. It was the only time in the entire forty-two years of the firm’s existence that the firm lost money. I think we lost \$8 million, which seemed like a near-death experience since we had capital of maybe \$40 million at that time. Well, I became CEO in December of 1973. Bill Donaldson had gone to Washington as undersecretary of state to Henry Kissinger during the Arab oil crisis. Interest rates went up to 16 percent. Carrying costs were out of sight. The bond market crashed. The stock market went way down. Trading volume dried up and they cut the fixed commission rates. Everybody lost money that year. But, we were public. We were one of the few firms that had gone public. Everybody said, “Aha, they finally got hit.”

Dan Lufkin came back into the firm at that point. He called me during the middle of the year and said, “Bear, I think you need some help.” It was an inauspicious year to become CEO. I said, “Sure come on back.” I liked him and he came back. It turned out we had two different views on what to do. Dan had always liked small companies but DLJ had begun doing research on big companies, was managing money, and was also in the bond

business. Dan wanted to go back to the basics. He wanted to shrink the firm back. I wanted to sail on. We ended up two good friends disagreeing on what to do with the firm.

One of the things Dan did was to bring in McKinsey. One of their suggestions was the same as his, which was to get back to basics. One suggestion was to sell Alliance Capital and get back to the brokers' business, which I thought was a sick business. Money management was one of the few good businesses we had, but McKinsey suggested that selling it would be a way to restore the capital. They proposed selling Alliance for \$1 million in cash and a \$5 million note. I fought it. I was able to prevail and we kept Alliance. Today it has a market value of \$12 billion. It was almost sold for \$1 million in cash and a \$5 million note to rebuild the capital back in 1974. If we had sold Alliance then, I think we would have foundered later. Another argument for selling Alliance had to do with the government putting ERISA in place, Employment Retirement Income Security Act. Under ERISA, you weren't supposed to have conflicts of interest. There were some who legitimately thought that just giving Alliance a different name wasn't enough of a fig leaf in regards to ERISA. These people thought they would do better independently. Hanging on to Alliance was virtually an act of will power.

I mentioned that at Harvard Business School there wasn't a school solution. Lufkin and I years later talked. He said, "You were right when you said, 'Hang on. Keep the bond business,' because the bond business made a lot of money in the next few years. 'Keep the money management business,' because it continued to do well." He also said, "I was right too, about the firm shrinking back. That was the year Kohlberg Kravis Roberts & Co. was started. If we'd shrunk back to doing just private investing, I bet we would have made even more money than DLJ did later." So there was no one solution. My solution worked, but Lufkin's might have worked just as well.

We had another crisis moment in 1973, when we sold 25 percent of the company to American Express as an anchor to windward. Fortunately, American Express bought its share before the Arab oil embargo and interest rates went up. They bought it right at the top of the market. Luckily they gave us all some personal liquidity. None of us had ever sold any stock, so we had the liquidity to go through it. Anyway, we had an unhappy shareholder in American Express and so American Express spun us off to their shareholders. That's when our stock practically went down to zero. I'm never going to forget it. We had a divided camp. Lufkin had one school of thought about where he wanted to go and I had another.

By good fortune, I was having dinner with a Saudi Arabian Sheik the night American Express spun off their stock. I had befriended the Sheik along the way. This was when oil was \$40 a barrel and it seemed like all the wealth of the world was going to Saudi Arabia. DLJ went over there and we got some big accounts for Alliance Capital. I think some of our biggest accounts may still be there. Anyway, the Sheik came in for dinner and I was telling him that American Express was going to spin off their shares. I said, "I think the stock will go to zero. They have so many shareholders and it won't mean anything to them." He said, "Well, let's just get out a basket and buy all you can." So he gave me an open order to buy all the shares that came out. We just sat there as people began to

dribble it out and we ended up buying 10 to 15 percent of the stock. We probably bought half of what American Express sold. The Sheik became my patron, if you will. He ended up owning about 20 percent and he backed me completely. That allowed me to solidify my control so that, for better or worse, I could sail my own way.

Eventually, we came on good times again. That's another one of the lessons you learn, that there is a rhythm and it doesn't rain all the time. It rained a long time in the 1970s. It wasn't until 1982, when Reagan came into office that the market decisively broke out. Another era of good times was at hand.

### **Selling to Equitable**

We got through that crisis with everybody arguing that the options were worthless. Some people had borrowed on their stock. Nobody was happy and nobody knew whether I could lead anything or not. At the same time, I had gotten a strong investor who began to help bring in business, and things got better. We had a few warring factions, but we were able to get a team that pulled together and we knew we had solid control of the vote. It was almost like going back to being privately owned. We got through the turmoil and times got better and Alliance did well. Everybody was saying, "Oh, thank God we didn't sell it." The bond market also did well and the stock market came back. By 1985, some of our investors were saying, "Well, my God, everything is so good right now. Isn't this time to sell?" By then the Glass-Steagall legislation was shaky, so I met with the head of Equitable and he made an all-cash bid for DLJ. We sold the company in December of 1984 to Equitable. Subsequently, DLJ became public again.

One of the things DLJ did right in the early 1980s was that when Drexel Burnham Lambert went under, we picked up a lot of their junk bond people. As a result, DLJ had a great capability for replacing high-yield bonds *and* we had a venture capital arm. We also started a merchant banking firm. DLJ had a great pitch to middle-sized companies that we could sell high-yield bonds and we could sell stocks and merchant banking bonds. Then, in the mid-1980s we saw Glass-Steagall legislation crumbling. We figured we needed a big partner, so we joined forces with Equitable. Equitable agreed to give us total autonomy. We could keep the name and keep our offices separate. Then, with Equitable, we started a bridge loan fund. If you needed money to do an acquisition, we would make you a bridge loan, either an equity offering or a junk bond offering, which they called a high-yield offer rather than a junk bond. Equitable's bridge loan fund gave DLJ a big leg up on even Morgan Stanley, Goldman Sachs, and Merrill, who didn't have a big partner. DLJ post-Equitable had a surge with its bridge loan fund, its merchant banking funds, and its venture capital fund. We made hay so, at its peak, DLJ came to be the fifth-largest investment banking firm. DLJ became part of Equitable but, for all practical purposes, was autonomous. Also, Alliance Capital was split off.

### **Later Career**



I was vice-chairman of Equitable but they put me in charge of all the investment subsidiaries, which were DLJ, Alliance Capital, something called Equitable Capital, which was Equitable's asset management group, and Equitable Real Estate, which is the world's largest manager of real estate. I had those companies reporting to me.

Equitable was a mutual company. It could not raise capital. It was owned by its policy holders. Equitable had made some unwise decisions and guaranteed investment contracts where they had been getting pension fund money. They had promised very high rates but a lot of the high-yield bonds backing those were paid off and the company had a big negative spread on this whole book of business. Equitable was being eaten alive by this. They were trying to cut costs and they were talking about selling subsidiaries. I didn't know what to do about it. The one thing we suggested was to take a piece of Alliance Capital public and show what its value is.

We took part of Alliance public and demonstrated that Alliance, instead of being carried at its book value, was actually worth several hundred million dollars. Taking Alliance public shored up Equitable's capital. In the same vein, they talked about selling DLJ to ensure other capital. The board of Equitable said, "Aren't we selling the crown jewels to support a dying life insurance business in a mutual form?" To make a long story short, Equitable was changing the chief executive. They approached me to become Chairman, President, and Chief Executive Officer. In 1990 I became the CEO of Equitable. I had all of these investment subsidiaries, which were the crown jewel. I also had an almost moribund insurance company because of these past contracts on guaranteed investment contracts. In my mind, there was only one answer, which was to go public--the same thing we did at DLJ.

### **Taking The Equitable Public**

New York State had passed a law allowing de-mutualization in 1988. This was 1990. I said, "We've got to have more capital. Let's de-mutualize." One of my favorite mantras is "Turn problems into opportunities." Just as when DLJ was going public, the mutual life companies all resisted public ownership for Equitable. I said, "It's crazy to deny yourself access to public ownership." So we took Equitable public. It was as pioneering as DLJ going public. We were the first big mutual life company to sell our shares in public. It was a very complicated process. It was made more difficult by the fact that Equitable was in trouble. To do the deal, we had to get some capital immediately. The only way I could get the capital was to get an outside investor. We calculated we had to have one billion dollars and so, in 1991, we set out in search of one billion dollars.

By then, raising money was another crisis. George Bush the first was president and we were having another recession. I always seem to come into leadership at a bad time. It was like *deja vu*, just like when I became the head of DLJ and the roof caved in and everything was going wrong. I said to the insurance departments, "I can get one billion dollars. I have to be able to tell people how much ownership they are getting when we de-mutualize the company." They said, "Oh, no, no, we can't do that because we don't know

what the company is worth.” I said, “Well, we’ll have an outside investment banker get an opinion.” They said, “No, what if it goes public and then the stock goes up later and you’ve sold it too cheaply?” The insurance department was worried about being sued. I said, “I’m looking for one billion dollars and then we’ll have a public offering. Whatever the stock sells for after the public offering, we’ll divide that into \$1 billion, and that’s how many shares you get. Naturally no fiduciary could do that. We had been talking to a lot of pension funds who said, “Well, tell me how much ownership I get.” We had to do this. In the end only AIG and AXA, a French insurance company, were willing to do it. AIG said, “You’ve got one billion dollars, but we want all the stock.” The insurance department didn’t like that. The French said, “We’ll take a chance.” The offering worked out for AXA. They ended up with 49 percent of the company.

The one billion dollars doubled the firm’s capital. That was essential. That got the credit ratings. We were about to be downgraded to below where the policy holders would have left. All you had to do was cash in your policy. So going public stabilized Equitable’s credit rating, brought in the capital we needed, and got us back up where we should be.

We also cut costs by \$200 million annually. Then we stopped talking about selling the investment subsidiaries. Instead, using the Alliance example, we decided to take a piece of DLJ public to demonstrate the value of the DLJ business. I always wanted to get DLJ independent again, so I convinced the French and Equitable that DLJ would do better if it had some public stock. They could give options and things like that. As a result, in 1994 DLJ once again became a public company. This move demonstrated that DLJ was quite valuable. DLJ had been carried at book value on the Equitable balance sheet. So by taking Alliance and DLJ public, and by raising new capital, we got Equitable to end up being one of the best capitalized companies in the business. Three or four years later, if we had put all the capital in the holding company, which was the life insurance company, Equitable would have been the best capitalized company in the business and would have gone from being almost bankrupt to being a rich company

A couple of years after I left Equitable, I actually bought the remaining minority shares. But when I was with Equitable, DLJ was still independent. When AXA Equitable finally sold DLJ to Credit Suisse, DLJ was sold for \$13 billion. The sale was a real bonanza for Equitable, which had purchased DLJ for \$440 million. In fact, for \$440 million, Equitable had gotten DLJ and Alliance. DLJ sold for \$13 billion and Alliance is worth \$12 billion, so a \$400 million investment is worth \$25 billion today. I was there for all this, but all I did was help keep the good people, let the DLJ people feel they had autonomy, get the bridge loan fund, and help Alliance by merging Equitable Capital into it. We got the company going again, and I retired in 1996.

### **Lessons Learned**

DLJ was very entrepreneurial. Alliance was very entrepreneurial. Then you put in Equitable, which was a mutual company that had no shareholders, no options, no public

stock, and was more bureaucratic, with a French mentality. One of the things you might ask is what lessons have I learned from that?

First, keep your subsidiaries separate. Luckily, when I went into Equitable, all the subsidiaries were still reporting through me and I was able to defend them somewhat in the Equitable Tower. Basically, Equitable was smart in many ways. It left the DLJ name alone, left the company feeling it had its pride and integrity. Equitable didn't try to micromanage DLJ. The same was true with Alliance. Equitable kept the Alliance Capital name on it and let Alliance do its thing. I think if they had tried to call everything Equitable—Equitable Securities or Equitable Management—employees would have left. They would have lost their pride. The clients would have been mad. I don't understand this mania of putting one brand name on everything. *Vive la difference* is my view on it.

What Equitable did with its investment subsidiary was to apply different sets of rules. For example, at Equitable, employees were never able to invest side by side with the life insurance assets. Whereas one of the reasons DLJ was successful in its merchant banking funds was we allowed employees to invest in these funds and even loaned them some money to do it. So when the employees were investing, they weren't doing it just to get an investment banking plan. They had their own money at risk. So DLJ's merchant banking funds were extremely successful. Had these employees been part of the Equitable, however, that wouldn't have been possible.

So the key thing is not to put all of a company's subsidiaries in one pot and homogenize. DLJ was going well, Alliance was going well, Equitable Real Estate was going well, and the life insurance company started coming back. We gradually saw evolution not revolution. For example, we pioneered something called variable life. With a twenty-year bull market, life insurance wasn't a very popular product. With variable life, the policy holder could elect to put the cash value partly into equities, managed by Alliance or some other fund. We had the task of helping the life agents make the transit from selling just life insurance to selling savings, annuities, retirement savings plans, and mutual funds. The transition occurred, but the juxtaposition with DLJ and Alliance helped that transition to bring more of an equity culture to the old Equitable, which was originally bonds, bonds, bonds. I think a substantial part of Alliance's mutual fund sales were through the Equitable field force, though we never forced it. It was all gradual.

Today, if you buy a policy at Equitable, it still says, the Equitable Life Insurance Society of the United States. I'm glad they kept that. I think globalization is good in many ways, but why homogenize everything? Many companies don't realize that if you've got a good brand, keep it. Equitable is a 14-year-old brand, a good name. Why change it?

Instead, we've seen this long saga, where DLJ tangos with the Arabs, tangos with American Express, tangos with Equitable, and then does the last tango with Credit Suisse First Boston.

## The Credit Suisse First Boston Merger

In that last tango with CSFB, the DLJ people clearly felt that the way of the future was to have a lot more capital in order to be able to position blocks, make loans to companies, as well as just underwriting. They felt that AXA had taken control and wasn't really committed to the business. That was about half right. AXA hadn't decided to sell DLJ, but AXA was suspicious of the investment banking business, and they felt pressure to get back to their core competence, which was insurance. So the DLJ people felt that AXA wasn't really committed, and that all of the other big banks were moving onto DLJ's turf. From there, the DLJ people decided they needed to have a big bank involved to protect their interests. And they looked at Credit Suisse First Boston (CSFB), which in 1999 had that great year underwriting dot-coms. CSFB really went up in equity underwriting, and actually pulled ahead of DLJ, while DLJ still had great strengths in the high yield bond business.

On paper it was a good combination. CSFB was strong in underwriting technology stocks and DLJ was strong in high yield bonds. There was a recession in the first year of the merger, however, when the dot-coms collapsed and the junk bonds collapsed. To try to do a merger like that in a bad environment is very hard. Even in the best of times, my experience has been that mergers of equals almost never work. That's a dirty little secret investment bankers won't tell you. And this was a merger of equals. So it was a difficult merger. For example, the DLJ people had three-year contracts and other benefits, and the CSFB people resented that. So that ratcheted up CSFB's demands for compensation. There were also a lot of staffing overlaps, a lot of overpaid people, and the environment got bad. DLJ had made \$800 million through August of the year it was sold, so it probably would have made at least a billion dollars that year. I think First Boston made over a billion dollars that year as well. So the two companies were probably making a total of about \$2 billion per year. Put the two companies together, and what've you got? A billion dollar loss, since the two companies combined made about \$1 billion per year.

The DLJ people got a great price. They sold right at the top of the market. They sold for cash. They made good deals. They were right strategically; the big banks are taking over the business. You have to have lots of capital to survive today. So the merger was right in a lot of ways, but one thing wrong was the loss of the DLJ name, the loss of the DLJ identity. The spirit just went out of the thing. And then when things started going badly, the people who had put the deal together were discredited. So CSFB brought in John Mack. Two rights had made a wrong putting the two companies together. So John Mack came in with a sense that he was not responsible for the mess, and was going to bring his own people in from Morgan Stanley to straighten things out. So now yet another culture was coming in: Morgan Stanley. By this point, everybody was feuding, fussing, and fighting. It'll settle down at some point and maybe it'll be a great company. But it's kind of an interesting case history of how difficult and inefficient mergers really can be. This merger mania that we've had is not all it's cracked up to be.

Another lesson of the CSFB deal had to do with organizational culture. I think DLJ had been very much of a humanistic, egalitarian company. If you need a day off, or your kid's

doing something special, go: be part of that. It was never a mean place. Some firms have a culture of shouting and screaming and it works, like Solomon Brothers, for example. You never had that at DLJ, and that worked for us. Each style can work independently but put them together and there will be battles. In this case, CSFB had more of a sock-it to 'em, let 'em have it kind of culture, whereas DLJ's approach emphasized taking care of customers, with an eye toward the long-term. The DLJ people were horrified by the CSFB culture. And the CSFB people thought the DLJ people were softies. So it was just a bad culture clash.

### **Looking Back at DLJ**

When DLJ started business, one of our core objectives was to have fun. When it came to earnings, we had to make a return commensurate with capital invested and the abilities of the people, but it wasn't about making a maximum return. It was about serving our customers well and having a great culture. DLJ was a nice place to work. You might not have gotten rich quick, but you didn't get laid off in mild recessions. People weren't screaming at you. You were around very bright people. It was a good place to work.

The problem I find today is that too many people aren't really entrepreneurs. They're starting businesses to get rich quick. They want to go public, sell, get out, and sail off into the sunset. Sailing off into the sunset is not as wonderful as it's cracked up to be. Most people I know who do that are perfectly miserable and later want to come back in. I think it's a shame that entrepreneurs have got this get-rich-quick mentality. When we went public initially, we did it because we really did need more capital. The business was getting more capital intensive. We never had any thought of cashing out and sailing away. But I worry that too many entrepreneurs today are going public for the wrong reasons--to just cash out and sail into the sunset.

We wanted to build something that would last. We also wanted to be our own bosses. We wanted to have some control over our lives, and we realized that the best people at DLJ wanted it that way too; that's why we never were heavy-handed in watching over the staff. We let people do their thing, if you will. Our people enjoyed it, and often would work for less than they could earn elsewhere just to be part of the DLJ culture. I'm biased of course; I thought it was sort of a Camelot place where it rained at night. But I do think our people enjoyed DLJ and rarely were we picked off; even though they might get offered more money to work elsewhere, they would stay there.

In terms of my role, I was sort of there when DLJ needed me. I always felt that Donaldson and Lufkin were more the originators of the idea; it was their brainchild. I was the one who saw that this was really a good thing and carried it on and took it from being just a highly focused company to more of a broad-based enterprise integrating diverse businesses. I also always believed in hiring people smarter than you are because they'll make you look good. I started hiring bright students. I found that the bright students paid their bills better than the party boys. We ended up having student body presidents, editors of college newspapers; we focused number one on scholarship.

Overall, I've styled myself a contrarian but I'd be the first to say that's not the school solution. There are generally two ways to do things. You can do things the traditional way, the way everybody else is doing it, but you execute better. To do that, you do your homework better and you train more. Alternatively, you can do things the contrarian way. I think as I look back on DLJ, we took a contrarian approach. When we started the firm, everything was oriented to mass market investors. We said, "The heck with that. We're going to focus on institutions; they are the future." We saw that the other firms were buying bonds of big companies. We focused instead on small growth companies, and then that caught on. The same was true in life insurance. When we first got into that business, the prevailing sense was that it was good to be mutual and not for profit. I don't know why that was true then, but now the insurance companies all agree that the life insurance industry lost share to banks and investment banks and mutual funds for many, many years as a result of that philosophy. The insurance companies are coming back now, though.

### **Restoring Old Houses**

Everybody needs a hobby, and I'm a little suspicious of people who are 100 percent, 150 percent, night and day, in their work. You need a little respite from work. Somehow I've always been interested in old houses. I remember, as a kid, I think I saw *Gone with the Wind* too many times, and I just loved Tara. I always thought it would be nice to have a plantation someday. I used to draw pictures of houses when I was a kid. People said, "You're going to grow up to be an architect." Luckily I never did.

I just always liked old houses. While I was growing up, I was drawn to Monticello. And at Chapel Hill, I remember the fraternities were Greek temples, with columns in front. And perhaps from *Gone with the Wind*, or growing up in the South, I had this thing about houses with columns, and moonlight and magnolias. I think going to Harvard Business School influenced me further. I loved the campus, with its Georgian architecture. I loved the rest of the Harvard campus, especially Harvard Yard with all of the old buildings. And I loved just being in Boston. Then at Brown Brothers Harriman, when I first came to New York, I loved the wonderful, high-ceilinged partner's room with roll-top desk, and a fireplace at the end of it. It just seemed so comfortable and so timeless, and there was something comforting to me about that idea of preserving and learning from the past.

I almost built a modern glass house once, after DLJ went public I had some land down the Delaware River, and I was going to build a three-cube house. About that time I happened upon Edgewater up on the Hudson. Edgewater is an 1820 colonnaded house on a peninsula of the Hudson River, and it really was the house of my dreams. I called the architect and called off the three glass cubes. There was a period in there when if you were going to build anything, it had to be something Bauhaus and modern. But that wasn't my taste. I think my taste was influenced by growing up in the South, where for so long we have looked backward and have thought life was better before the Civil War, though of course it's a lot better now than it ever was then.

I think that respect for history carries over into business. To succeed, you need a sense of history, of how cycles work, and even of how money is created. I also think I have a deep respect for preservation and restoration that is a theme running through my business career and my passion for old houses. Looking back, it seems my most heroic moments at DLJ and at Equitable were in times of adversity, times like when DLJ needed restoring in 1974. Likewise, Equitable needed restoring in 1988. Just like I see an old, run-down house that was once beautiful, the need for restoration gets my adrenaline going. I think, “Wouldn’t it be nice to bring that back?” I knew that DLJ had been beautiful and that it could be beautiful again. I felt the same about the Equitable. It’s always a challenge – but a rewarding one – to take something that was great and make it great again.

### **Summary Reflections**

The advice I give to entrepreneurs is, first try hire bright people. Try to hire someone smarter than you are, and they’ll make you look good. So many people are afraid of competition that they hire lackeys. I’ve always found that hiring really bright people, hopefully smarter than I am, will make me look good too. I think that’s good advice.

The second thing I’ve found is that problems create opportunities. I remember when we started DLJ, we were all great fans of Peter Drucker. Drucker’s mantra was to focus on your opportunities, not your problems. I never was quite sure how you just forget about your problems, but I liked the notion. Being a good contrarian, I turned that around. I said, “Problems create opportunities.” For example, Equitable got in trouble financially, and it had to be “mutualized.” That was the right thing to do. But the mutual culture of not-for-profit was so ingrained there that had they not had problems, I could have never convinced them to go ahead and face up to the need to mutualize. Since then, Prudential’s been mutualized; Metropolitan Life has been mutualized; John Hancock has too. Equitable led the way on that, and everybody agrees now it was the right direction for the industry. It’s got the life insurance companies going again, they’re alive. Always, when something awful happens, instead of just wringing your hands, look around and ask yourself, “How can we use this moment to push through something that is the right thing to do anyway, strategically?”

To succeed as an entrepreneur, I think you need a driving motivation. For example, if I were ten years younger I’d be restarting DLJ in research right now because I think research has gone back to where it was when we started. There’s really a crying need for better quality research. Being an entrepreneur, I think you need to recognize a need that’s not being met, rather than just repeating what other people are doing. I suppose there’s nothing wrong with being a copycat, but for me it’s more fun to see an unmet need and fill it, rather than just copying somebody else. And to that, it’s important that it be fun, that you’re not just waiting to go public, or to get a big bonus and go next door, or sell out. You should take pride in your product and pride in your colleagues, and you should be proud of your company.

I see that sort of being lost today. Often executives are just beating their chests and saying, “We’re laying off 20,000 people and the other 80,000 people--who knows who’s going to be laid off next.” That attitude just throws companies into chaos. I see so many bad business practices being sanctioned by Wall Street analysts, cheering. “Hey, he’s going to cut costs! 20,000 people!” But I don’t know any great company that’s been made great by extended cost cutting. Look at AT&T, Eastman Kodak, and Xerox. They’ve laid off so many and look where it’s gotten them. You can’t make a company great by cost cutting. You’ve got to build and innovate.

In terms of personal success, some people define success by their net worth. I’ve probably made more money buying old houses and antiques than I ever made on Wall Street, just for the record. But I certainly made far more money than I ever dreamed of when I hopped in the old car and drove up to Boston. Looking back, I am most proud about the people whose lives I think I’ve affected for the better. And maybe that’s an egotistical statement, but so many people have said they had a good experience at DLJ, they felt it was a decent firm that was not taking advantage of people, was trying to be on the side of the angels, trying to do the right thing, and was just a nice, civilized place to work. I get so many messages to that effect from former colleagues. And that makes me very happy. That was true at Equitable too. I don’t think I ever hurt anybody. I think everybody I’ve worked with over the years came out better from the experience. They had a good work experience, they made some money, and they did well. I don’t think I ever did damage. I didn’t benefit by stepping on people.

Looking at entrepreneurial risk, I think the classical risk for an entrepreneur is in knowing when to delegate. An entrepreneur may be very good at starting something, but then can’t grow with the business, and can’t delegate. Entrepreneurs often don’t understand that they have to have smarter people around them, and then they have to delegate, to let these smart people do their jobs. I think that’s the biggest risk of an entrepreneur. Personally, I never thought I had all of the answers. I always thought it was better to have partners. Three brains are better than one. But sometimes entrepreneurs have some success, it goes to their heads, and then they try to micromanage things. They won’t delegate. They think they walk on water, and they don’t realize that times change and you get out of touch.

My final bit of advice for entrepreneurs is don’t leap too quickly. We started DLJ three years out of business school, but we’d worked. My two years at Brown Brothers Harriman were very useful in helping me put a little polish on DLJ when it started. So, it’s fine to leap, but make sure that when you do you’ve got a good grounding, you’re properly financed, and you have a good game plan. And don’t try to do it all alone. Get some partners. Entrepreneurship is great, but be careful of leaping too quickly before you’ve seen all of the angles.