WILLIAM DONALDSON

The Honorable William “Bill” Donaldson *(Donaldson, Lufkin & Jenrette), HBS 1958, was one of the founders of DLJ. He saw that a new breed of institutional fund manager was emerging who would need higher quality research on firms’ projected stock price performance than was being offered on Wall Street at the time. DLJ was set up to meet that need. Bill also made sure the firm had a seat on the New York Stock Exchange, and he later helped overturn regulations so DLJ could be the first investment bank to go public on the NYSE. Bill went on to co-found Yale’s School of Management, to head the NYSE, and, among other leadership roles in business, philanthropy and academia, he was selected in 2001 to lead the Securities and Exchange Commission under President George W. Bush. Bill described his experiences in a video interview in his office in Manhattan, March 2002. Interviewer: Amy Blitz, HBS Director of Media Development for Entrepreneurial Management.*

The Early Years

I was brought up in Buffalo, New York. I was born in 1931, right at the height of the Depression. I grew up under relatively modest circumstances. It was the 1930s, which was a tough period of time. I remember Hitler invaded Poland and the war started during my schoolboy days. All the older brothers were off fighting the war and I think that had a major impact on me as I grew up. My father had tried to start a company in the late 1920s and that went belly up in the Depression, and that was certainly an influence on me during my formative years as well. My father had started a little castings company that serviced the automotive industry. The stock market crash hit him pretty hard and hit our family pretty hard. My father spent the rest of his life trying to recoup from the loss and pay back his debts. It was a major influence on me.

My father always had the attitude that if I wanted something, I ought to go out and get it. My first entrepreneurial venture was a traditional lemonade stand, which I set up at the bus stop in front of my house. I also had a newspaper corner, which I expanded into a route. Growing up in Buffalo, we were right across the border from Canada. In Canada, you could get a driver’s license when you were only fourteen years old. Naturally I wanted to get a driver’s license and then a car. Again, my father said, “Well, if you want one, go ahead and get one.” So, I launched my first publishing venture. We published a joke book called, *Read ‘em and Grin* which we peddled door to door. I earned enough money to buy a Model A Ford, which cost all of $25 back in those days.

Later, during my school days, I worked every summer as far back as I can remember. I had all sorts of jobs. I unloaded freight cars in a wholesale warehouse operation. I ran a gas station all summer long. In my senior year, another fellow and I put together a company called United Enterprises. At its peak, we had fifty or so people working for us and we did everything from painting houses to tending lawns to minor carpentry work. We had high school and college-type people working for us all over Buffalo. That business was a lot of fun and very entrepreneurial.

The Marines
When I was in college at Yale, the Korean War was raging. Growing up in Buffalo with all the older brothers and some of the fathers being in World War II, I had a great admiration for the people who went off and served. When the Korean War came in the early 1950s, I had a feeling that this was my time to go. I was heavily influenced by an older friend of mine who came back to Yale when I was a senior. He had been a Marine Lieutenant in Korea and had been badly wounded. I can remember listening to him talk about the Marine Corps and the challenges of it. I think I decided that day I was going to join the Marines, which I did.

The Marines was a terrific experience for me. To this day, I am a great admirer of the Marine Corps as an organization. When I joined, I was twenty-one years old and I don't think I really knew what I was getting into. The war was still going on. By the time I finished my training the war was over, so I did not see combat. I served overseas in Japan and Korea and, ultimately, in Hawaii. I learned a lot in the Marines. The Marine Corps took a totally diverse group of, mainly, young men–there were a few women Marines, but not many–and transformed them into a group with a common *esprit de corps*. They took a totally diverse group of people, from the football players of Oklahoma to people from Harlem, people from all different walks of life, and molded them both physically and mentally in a relatively short period of time into a unit.

It amazes me that the Marines are able to replicate this process year after year after year. They do it in a number of different ways. First of all, they have little fat guys and little thin guys who go down to Quantico. At the end of fourteen or fifteen weeks everybody has either lost weight or gained weight. That's the physical change. They also have an ability to make you willingly accept the orders of superior officers. The Marines imbue officers and, ultimately, all soldiers with a way of treating people of lesser rank so that they have a willingness to respond. One way they do this is with simple little things such as when the unit is in the field the last man to eat in the chow line is the highest-ranking officer. There's a great respect for taking orders because that's how the place works. At the same time, at the lowest level, order depends upon the individual managing himself. So, it's a combination of leadership from above with entrepreneurial action from the lesser-ranked marines. Everyone has to have a willingness to do what is needed to get the job done. So, it comes back to teamwork.

The mindset of the Marines has had a terrific impact on me throughout my whole life. Dan Lufkin, who was one of my early partners at DLJ, was also in the Marines. I think there were a few things we learned in the Marines that we applied at DLJ.

Early Career
When I got out of the Marines I was hell bent on getting into helicopters. I had been an infantry officer, but on my last tour I became the aid to an air wing general. He was a helicopter pilot and, for the first time, a pilot was in charge of ground troops and helicopters, all operating as a single force. Helicopters started to be used in Korea and we were doing amazing things with helicopters. When I got out of the service I was

convinced that helicopters were the wave of the future and that everybody was going to have one in their garage. I wanted to somehow get into that business, so I first went to Sikorsky Aircraft. A general had introduced me to the company and they offered me a job in the manufacturing end of the business. That job didn't seem quite right. Then I went to New York Airways, which was just getting started, and they offered me a job as a ticket taker in their new terminal on the east side of New York. That also didn't seem quite right for a former Marine Lieutenant.

So I went down to visit with a friend's father, who worked at a Wall Street firm. He said helicopters were fine, but maybe they weren't the end all be all. He said, "Here on Wall Street, we're interested in all sorts of different things." I asked, "What *do* you do here on Wall Street?" He said, "Well, I'll offer you a job. You come to work for me and I'll teach you what they do on Wall Street." That sounded like a good opportunity. So, as you can see, I wound my way to Wall Street through great analysis.

It was an exciting experience to be out of college, out of the service and finally working. I really didn't know anything about the business, but I was thrown right into working for the senior partner of this firm. As a result, I had a pretty broad vision of what was going on. The firm was G.H. Walker and Company, which was a medium-sized investment banking firm. It had its origins in St. Louis. As a matter of fact, the senior partner was George Herbert Walker, who happens to have been the uncle of George Bush, and the great uncle of George W. Bush. We were doing all sorts of financing things and I was like a bag carrier. I got involved in a number of different transactions. As a matter of fact, the former President Bush had just formed Zapata Petroleum and we were the underwriters. We raised money for that. That was the kind of work I was doing–I was the junior man working on financing.

Even though what I was doing was exciting and everything was new, it took me about six months to convince myself that I wanted to be a professional in the business world and that I wanted to have more knowledge than I was picking up on the job. In fact, I had always thought about going to Harvard Business School. I had applied to the school before I left Yale, but I decided to go into the Marines. Harvard Business School had always been in the back of my mind. I think I was doing okay at G.H. Walker and doing some interesting things. I had been given quite a lot of responsibility. Still, I had this urge to know what I was talking about and decided to go to Harvard Business School.

The HBS Experience

I had gone to work right out of the Marines, so I was a year behind Dan Lufkin and Dick Jenrette. Dan went directly from the Marines into school and Dick Jenrette was in Dan's class. I went to HBS in 1957. During the summer in between my years at the business school, I went back to G.H. Walker and Company and I had an absolutely unique experience. G.H. Walker and Company had invested in a wax refinery out in Salt Lake City, Utah and it was having real troubles. I went out there with one of the senior partners from the firm and lived in Salt Lake City to help save this wax refinery. Towards the end of the summer, I was offered an opportunity to stay and run the company. I was sorely tempted to do that. It looked like a great opportunity and it was something I felt we could turn around. Fortunately, I decided to go back to the business school for my second year.

HBS was a terrific experience. One of the best parts of it was the people who were my classmates. They came from diverse backgrounds. I don't know the exact percentage, but a substantial proportion of us were veterans. I roomed with a friend who had been a year ahead of me at Yale and in the Navy. When I was being mustered out of the Marine Corps at Treasure Island, I saw this Navy Lieutenant who was getting a hard time from a bunch of Marine guys. He turned out to be this friend of mine. We started talking and I asked him what he was going to do now that he was getting out of the service. He said, "Oh, I think I may go to Harvard Business School." I said I might do that too, if I don't do the helicopter thing. So, we ended up rooming together. I can remember many hours sitting in our little room while the football game was going on at the Harvard Stadium, asking ourselves, "What are we doing writing papers on Saturday afternoon? We're old and mature and we're veterans. We ought to be doing something else." But it was a terrific experience, with great classmates.

The professors and the case method were also great. The bottom line for me was that the case method gave me the courage to ask questions. It gave me a life-long feeling that if you push something far enough, nobody has an answer. I learned that there are ways of getting deeper and deeper into something that you think you already understand. You would take a look at a case, study it, and think, "Yes, I've got the answer," or "I understand it." Then, you would get together in a group and you'd find that there were five other approaches to it. Finally, with those five solutions, you thought you really had it iced. Then, you would go in the classroom and find out there were many, many things you hadn't thought of. The experience imbued in me a real appreciation for the positive side of collective thought. I'm a great believer in the case method.

A person can be thrown into lots of different situations and lots of different industries over a career. Without the constant exposure we had through the case method, a person might have said things like, "I don't understand that," "It's too technical for me," or "I don't understand how to arrange an assembly line." The case method gave me the courage to delve into things that I didn't know anything about and ask, "Why are they doing it this way?" rather than just accepting that it's done this way because people know what they're doing in this business. You learn to look at everything and think, "Maybe it could be done this way." You might get slapped down in production by, let's say, some engineer from General Electric who gives you a big technical answer about why it can't be done that way, but then you push him or her and you begin to understand why. "Why are we doing it this way?" is a question that can be asked about everything.

I think entrepreneur is an appellation that's too narrowly applied. I have a theory about entrepreneurship and what constitutes entrepreneurship. People think of entrepreneurs as just the people who start for-profit businesses. I think entrepreneurship is a series of attitudes, analytical skills and approaches to things that can be applied in large organizations, both for-profit and nonprofit organizations.

Finding the Opportunity
The idea for Donaldson, Lufkin & Jenrette (DLJ) came from a series of events. When I finished HBS, I went back to G.H. Walker and Company, into the part of the business that I thought was most interesting, which was the merger and acquisition financing department, as opposed to brokerage or operations. Dan Lufkin had been working for Jeremiah Milbank, which was a "junior varsity, Rockefeller-Whitney" kind of office. Mr. Milbank was a very wealthy man and he had a couple of young guys investing his money for him. Dick Jenrette had gone to the investment counsel end of Brown Brothers Harriman. Dan and I lived together as bachelors in New York. We used to come home at night and complain about the way business was being done. The kind of advice that was being given to Milbank and the kind of research we were getting seemed very superficial and very retail oriented. It was just beige, buy this, sell that statistical analysis coming out of the back rooms of Standard & Poor's, as we used to say. Basically, the research was statistical analysis as opposed to business analysis.

We had two thoughts that led us to form DLJ. The first was that we were seeing the emergence of the institutional investor. During the war, most everybody put their money in bonds. Coming out of the war, the banks were the last to go into stocks. Mutual funds were just getting started, and with them emerged a new breed of institutional investor. Wall Street was geared to individual investors, and we saw this new breed of professional investor who was going to need something totally different in order to make big, long-term decisions about investing other people's money. They were going to need a different sort of analysis than what Wall Street was putting out. During the 1950s, the banks and trust departments were moving out of being heavily invested in bonds toward common stocks, and mutual funds were starting to form around specific investment philosophies. As a result, there was a whole new set of investors. When we first started our business, I think the statistic was something like 95 percent of the stock in this country was owned by individual investors. Very little, probably 5 to 10 percent, was owned by institutions. Of course, that all reversed in the next twenty years. Now, institutions dominate the market in terms of percentage of stock outstanding. We felt there was a real need to service the institutional investor with a different sort of research.

Our second thought was about the need to deliver analyses that would be a lot closer to what a McKinsey might do than just a Standard & Poor's recommendation of the week. The reports would give an understanding of a business, not just an analysis of the numbers, to a prospective buyer of a stock. Of course the numbers are important, but we were interested in doing what we called scuttlebutt research, like talking with the marketing vice president. We were out calling on competitors and suppliers and really understanding the economics of the marketplace so that we could make a judgment on where the company fit in, where it fit in with its competitors, why it was doing things the way it was doing them, and why it was being criticized or not criticized by its competitors.

Third, we saw that most of the investors at that time were buying big name stocks. They were buying the General Motors, General Mills, and General Foods of the world because they felt safe in those big names. We looked at the marketplace itself and the "Generals" were all selling at twenty-one to twenty-two times earnings while a whole series of smaller, lesser-known companies were leaders in their industries–companies such as Dun and Bradstreet, OM Scott, AC Nielsen, and Xerox, which were all smaller companies at the time. We said the big institutional investor needs to have the courage to buy those smaller companies, but he needs more analysis in order to do that. By the way, those smaller companies were growing at 15 to 30 percent and selling at seven to nine times earnings while the Dow was growing at 4 percent and selling at twenty-two times earnings. We saw a dramatic opportunity for faster earnings growth, as well as expanding multiples, if the big investors had courage to buy into smaller companies.

So those were our original thoughts. I can only speak for myself but I think we were motivated by more than these original ideas because, right from the beginning, we saw that we would be able to take our research-based analysis and build a major investment banking firm. We thought that research was going to be the core to everything we did. There were several other aspects to the business model, the most important of which was the New York Stock Exchange's fixed minimum commission schedule. In effect, we were starting a consulting firm, but instead of being compensated by the hour, we were going to buy a piece of machinery called a seat on the New York Stock Exchange. That enabled us to be paid in higher leverage dollars because institutions were paying as much per share for an order of one million shares as an order for one hundred shares. There was huge leverage in having a seat on the Stock Exchange and that meant the ability to be paid in a very attractive way. We saw opportunity in the fundamental research we were doing and the nature of the companies we went after, the smaller companies and so forth.

Then there were a whole series of other things that we were interested in building. I think perhaps the most important was that the whole compensation system in Wall Street was based on getting somebody to buy and then sell something and then buy something else. We thought this was crazy. We decided that we were going to talk to institutions and say, "The best thing you can do is buy a Dun and Bradstreet and then keep that stock and let us keep you informed and give you the courage to go through downturns and so forth, because the best thing you can do is to make a long-term investment." We basically told the institutional clients that we wanted to be compensated in a steady flow of brokerage dollars. We didn't want to be compensated for just our ideas. If our ideas were any good, we told them to pay us in anything they wanted. We told them to buy General Motors through us, or whatever they wanted, but to give us a flow of brokerage dollars and let us enable them to stay with a good investment idea.

Another idea or concept we had was that, internally, the brokerage dollars that came in belonged to the whole firm, not to any individual person working for the firm. We established a compensation system within DLJ where everybody was working on all the accounts. We were doing research and presenting it to institutional clients. The institutions wanted to talk to the people who had done the research but the client account didn't belong to anybody, it was the firm's account. At the end of the year we would ask our institutions whom they liked within our firm and who had been doing the best job for them, and we internally analyzed who was having good ideas. But we tied rewards not only to doing a good job but also to the teamwork that was inherent in that. We were all for one and one for all. That was very different from the confederation of individuals that prevailed in Wall Street at that time where everybody had their own accounts and was fighting for accounts and stepping on everybody else's head.

Structuring the Firm

Our success had a lot to do with the type of people that we hired. We only got the smartest men and women we possibly could. I think we were way ahead of our time in that we had a lot of women working at DLJ in the early days. There weren't a lot of women coming out of the graduate schools but we hired the best and smartest women we could out of college and brought them in as associates in the firm. We were way ahead of ourselves and way ahead of the industry in doing that. A lot of those women went on to do other things and, obviously, women have become as much a part of the environment today as men. The other structural thing about DLJ was that it was a very level organization in terms of partnership. We were a corporation but we acted like a partnership. We had all sorts of incentives to motivate people to be part of a team. Only a part of the incentives were monetary. I think we were all highly motivated to take on the world and do things differently.

We looked at everything we did and said let's think this through and think how we want to do it. For instance, we published a booklet early on called *Common Stock and Common Sense.* It was just a little book but it outlined our philosophy about smaller companies that were leaders in their industry but were not being bought because people didn't have the courage to own them. We wrote about how the current investment practices didn't make much sense when you had the potential to widen the multiple and increase growth in earnings. We set that out as a philosophy. The companies we wrote about were not start-ups and they also weren't giants. They were companies that were leaders or becoming leaders in their fields. American Photocopying, which was the forerunner of Xerox, was one of our great investments.

Early on, there were a lot of companies that were in relatively mundane industries but were carving out a niche. One of our best investment ideas and one that gave us a big problem later on was OM Scott, the lawn seed company. We saw OM Scott as a company that was creating its own market. In other words, through their fertilizer and lawn care they were creating a market for lawns and developing a market of their products. That was very appealing to us. It fit one of our definitions of a true growth company, one that was creating its own market, like Xerox did. There was a market for what American Photocopy was doing, but Xerox really created the market for copying. They brought some competition into the business.

In addition to this *Common Stock and Common Sense* booklet, which we sent out to everybody, we also started to publish an annual report. Although we were privately held, we published an annual report. We never talked about how much money we were earning but we talked about what we were trying to do. We used it to lead our customers and our clients, give them a forecast of what the next stage of DLJ would be and what little businesses we were getting into. A lot of people–most of our customers and clients and some competitors too–read our annual reports with great interest.

Launching the Venture
I think I've always had entrepreneurial instincts. They go back to the time of the lemonade stand, the newspaper stand on the corner, and United Enterprises. In college I was the publisher of the *Yale News* and, while doing that we published a 100th anniversary issue, which we sold. I've always been interested in entrepreneurial undertakings. I don't think I was moved by the idea that we were going to start an investment banking firm. I was moved by the idea that I wanted to help start something new. I was heavily influenced by the concept of team effort.

We didn't have any money to begin with. We had to go out and raise the money. We got into the car and drove around to talk with friends and classmates and people we'd grown up with and people who had some confidence in us. We told them we were thinking of starting this business and we laid out the business plan. A number of people invested in us. Some didn't because they were advised by people on Wall Street that we weren't going to be successful and they would be crazy to invest in a new Wall Street firm when there were already big firms down there. I think the people who invested were people who knew us pretty well. Our story was that we were going to build something for the long haul. We were not building a company just to sell it. We wanted to build a great organization and we wanted to apply a lot of our theories while building the organization. I think our mission was appealing to certain people.

We had done several things, from the start, in terms of getting a *Good Housekeeping* Seal of Approval. The first was that we bought a seat on the New York Stock Exchange, not only because it was the piece of machinery I've talked about, but also because it was like getting a *Good Housekeeping* Seal of Approval. We were three young guys and if we could be a member of the Stock Exchange and subject ourselves to all the controls, we would be giving institutions the courage to deal with us. We weren't a fly-by-night operation; we were members of the Stock Exchange. Being a member of the Stock Exchange was a big decision for us. And we were constantly searching for companies that met our criteria as interesting buy options. They would be lesser known, have dominant positions and would be creating their own markets. Then we turned around to look at who our customers would be. I think one of our earliest customers was JP Morgan and Company.

We also picked a partner in a prominent law firm to be our lawyer. We wanted somebody old enough to be a partner yet young enough to still be doing his own work. We picked a terrific guy. We were kind of nudging each other to start this company. We weren't 100 percent sure that we were going to do it. At one point we said, "Well, we've got to get a lawyer," and we went to see this fellow. So, we sat down with him and said, "We're thinking about starting this business, but we haven't raised any money and we're not 100 percent sure we're going to go with it. How about, in your spare time, you think about how the company should be organized." A month later he called me and said he wanted to have lunch with Dan and me. He also said he had drawn up the papers. I said, "You did what?" He said, "I got the papers drawn." That gave us another little nudge.

At the time, Dan and I were talking about wanting to get a third partner. We both had such similar backgrounds. We both went to Yale and both had been in the Marines, and we thought we ought to have somebody with a different background. We thought about Dick Jenrette. He's a Southerner, a little bit older, working for Brown Brothers. So, we approached Jenrette. We both thought, "He'll never do it. He's set for life at Brown Brothers." Anyhow, we took Dick out for dinner and gave him the full court press about this thing. He called the next day and said, "I don't really think you can make a business out of what you guys are going to do, but I'm with you. I'm willing to try." So he did. He joined us.

And then we started doing research. We weren't just calling up companies and asking whether we could come see the CEO or the CFO. We were out in the field. For example, I can remember there was a company up in Rochester that was in the dental business and had a fancy new dental machine. Dan and I went to a dentist's convention in New York, posing as two young dentists. We went and talked to all the dentists about the machine and what they thought of it. As a result, we decided not to invest in that company. I wrote a report on American Greetings, a greeting card company, and everywhere I went, I'd go into a store and check on how American Greeting Cards were moving versus Hallmark. What we were looking for, ideally, were companies that were in growth markets and helping develop those markets by their very existence. We were looking for companies that had a strong concept of what they were doing and were motivated. This sounds like motherhood and apple pie, with companies of high integrity, and it was a big measure for us and within our firm.

Establishing the Culture

Right from the beginning we had ten corporate objectives at DLJ and those had to do with certain business aspects of what we would be doing, which were things that added high value. Throughout, our objective was to have integrity in what we were doing and also to have fun. We didn't mean ha-ha kind of fun. We meant that if you were going to spend most of your waking hours working, it better be that you were really enjoying it. We wanted to create an environment where people were enjoying the work. Part and parcel of doing that was getting good people who were smart, who had broad-gauged interests and were fun and stimulating to be with. That was very important in our recruiting. We did all the recruiting ourselves. We went back to HBS and everywhere. Our early quality control was in making those recruiting judgments.

Within the company, we tried to have other things that people were doing. For example, there was a project started by an HBS graduate who was subsequently killed in a scuba diving accident. Dick Hexter was a wonderful guy. He came to me one day and talked about 1976, which was going to be the 200th anniversary of the American Revolutionary War. And he said, "Why don't we put together original paintings, writings, and papers about the Revolution and then, in 1976, put out a train and take it across the country. Then we can give it to some museum or something." I agreed and so Dick became the leader of that and as we started to do business around the world, when we went to London, we would call on all these dealers to contribute writings or paintings or other memorabilia to the project.

Going Public

I think DLJ is best known for going public. We treated the firm as a corporation; we acted as a partnership. We attempted to grow steadily every year by reinvesting profits into the firm. We reinvested every year so the business would grow. As time went on, it became apparent to us that the rule the New York Stock Exchange had against public ownership among members didn't make any sense at all. When we first got started, the institutions would buy stocks through us and pay us for our research. Then they wanted us to have the capability to do block placements. In other words, we had to develop an ability to do what's called a block placement business. We had to be able to risk our own capital to do these block transactions. We could see that we were going to need more and more capital if we were going to get into the derivative phase of the business. Unfortunately, the New York Stock Exchange did not allow public ownership among members, which stemmed from a historical concept that they wanted only partnerships since there was unlimited liability with partnerships. We began to question the Stock Exchange rule.

We decided that if we waited for the Stock Exchange to change its rules, it would take years. Meanwhile, the tradition was that every year the Wall Street member firms would cut up the melon and distribute their earnings to partners in their firms. The members were very reluctant to make investments that were needed in computers and technology. By the late 1960s, we had this paperwork crisis on Wall Street. The New York Stock Exchange had to close down a couple of days a week. The investment banking brokerage firms had to work weekends. There was such a huge paperwork jam. The basic reasons for the jam were the increased volume that had begun in the late 1960s and the fact that none of the member firms had made investments in technology to keep up with the paper flow. Older partners in the older firms wanted to keep the earnings and take the money out of the business.

We decided to take on the public ownership issue with the Stock Exchange. We went to First Boston because, at that time, First Boston was publicly owned. It was one of the oldest and the best investment banking firms. Also, because it was publicly owned, it couldn't be a Stock Exchange member. First Boston was anxious to become a member of the Stock Exchange so they had a vested interest in being our underwriter. We had a super-secret project. We knew that if we approached the Stock Exchange and tried to talk them into changing the rules, given the Board of Directors and bureaucracy, we would get nowhere. We worked for almost a year to prepare ourselves to go public. We got an underwriter, did the preparation for the prospectus, and prepared to answer the criticism that would inevitably come from those who thought we were "breaking up the club" or doing something that shouldn't be done. Obviously, we decided that we could not sell any stock ourselves, that we would just sell stock to raise capital for the business. We also put a bit of a bluff in our prospectus. We said that if the Stock Exchange didn't change its rules, we would get off the Stock Exchange and do business in the over-the-counter market. Also, based on legal opinions, we asserted that the Stock Exchange rule was illegal. When push came to shove, we were ready to challenge the rule.

Finally, the day came to announce that we were going public. The announcement was run like a military operation. A few minutes after 4:00 p.m., we simultaneously filed a registration statement in Washington and sat down with the leaders of the Stock Exchange. We told the Stock Exchange what we had done. We didn't ask permission; we just did it. We had prepared all sorts of rationales about why Wall Street needed the capital and why public ownership was a good way to go. We talked about the paradox of Wall Street promoting public ownership and yet not allowing its own institutions to be publicly held. We had analyses about the capital needs that were coming into Wall Street and how inadequate the capital was for trading inventories, block placements, and financing the many new businesses that were coming along. As we showed, Wall Street was under-capitalized because so much of the money had been taken out of the street, year after year after year.

The announcement made quite an impact. For the first time, we showed the public exactly how profitable our firm was. That was bad because it showed a lot of other Wall Street firms what the profit margins were in the business we were doing and it attracted a lot of competition from some of the big guys. But I think the world believed we were right in going public. I like to think that some of the future-looking people who were competitors also agreed with us. I know there were a lot of people who didn't agree. We had to contend with the SEC, because they knew that if we were successful, all the other firms would go public shortly after and the SEC would have to make decisions on accounting rules and more. They knew that we would be the prototype and they looked at things like our inventories and our lock-up investments, and how we valued those and flowed them through the P&L. The SEC weren't just looking at us; they were doing it for a long line of people who were yet to come. It took almost a year, but we finally prevailed. The Stock Exchange changed its rules. We didn't have to resign our membership. And we went public.

We were followed shortly by just about every firm that could also go public. There was tremendous turmoil in the late 1960s because of this paperwork crisis and now the first big merger movement in Wall Street hit. A lot of firms disappeared. A lot of other firms raised money. Merrill Lynch went public. Slowly but surely, most everybody went public with the exception of some holdouts like Goldman Sachs, who only went public fairly recently. Like us, Goldman had to go public for capital so that it could compete with some of the banks that were getting into the investment banking business.

Our IPO was clearly the thing that drew national attention and had a major impact on the industry. As far as I'm concerned, though, some of DLJ's philosophies of management make me happiest. Forty-three years later, those philosophies were still with DLJ, from the type of people brought in to the way teamwork was organized. DLJ had an *esprit de corps* that carried on through bad times. There were bad times in the 1980s, after fixed minimum commissions went out. Those were bad times for all of Wall Street. Still, DLJ had always been known as a unique place to work because of the atmosphere and philosophies inside the company.

Expanding the Business
There was a kind of a prelude to the elimination of fixed minimum commissions. It was the introduction of something called buy-in discounts. Gradually, pressures were building about the extreme height of brokerage commissions that institutions were paying. You could see the handwriting on the wall. Ultimately, fixed minimum commissions were going to go and, in the interim, they were going to be eroded. As a result, DLJ started to do number of different things. First and foremost, we integrated forward into the investment management business. We basically said, "Look, if our research and our advice is so good, why do we sell it to other people? Why don't we apply it ourselves to the management of money?" We had to make our first decision about whether or not getting into competition with our customers would hurt our business. We went back and forth and decided to take a risk. We decided that if our research was good enough, nobody was going to cut us off. They might get mad if we took an account from a Morgan bank or something, but that would only be temporary. If our research was good enough, they'd buy it and take us on as a competitor.

We decided though that we would need a different brand name for our money management business and we called it Alliance. It was named that way for two reasons. The first was that we all had a great respect for a company in Dundee, Scotland, that was known as The Alliance Trust Company. The fellow who ran that business was one of the smartest investors I've ever come across. I used to travel to Dundee, Scotland several times a year to present our research to The Alliance Trust Company, which is the largest Scottish investment fund. The second reason for the name we chose was that we planned to add and acquire some other investment counsel firms in an alliance since our first effort in the investment management business was in the pension fund business. The banks had the pension fund business all sewn up, but they did not have a very good record. There were a lot of corporations out there that wanted to break away from bank managers and we saw that as a terrific market for us. We also saw pension fund management as a pretty logical market for us. If we were doing research on companies and they liked the research we did on them, they might think we were a pretty good place to have their money managed.

We started the Alliance Management Company and we essentially built it around a major thrust into the pension fund market. We very quickly became the largest non-bank manager of pension funds in the 1960s and early 1970s. Alliance was a diversification effort and we ran it as a separate division. Today, Alliance is big–one of the top four or five mutual fund companies.

There were a couple of people at DLJ who said the agency business–running other people's money and selling research to other people–is never going to be as profitable a business as investing our own money. They also pointed out that agency work is hard work. They said let's take the capital we've created and invest it ourselves. Let's get into the leveraged buy-out business. Let's get into businesses where we can make huge capital gains and we can do it with a lot fewer people. We had a battle over this idea. Those of us who saw the firm as being more than just a money machine prevailed. We said, "No. We want to build a major investment banking firm. We've only just started. We don't want to just turn ourselves inward and invest our own money." We made a tough decision.

I think we actually would have started to attract different sorts of people had we not launched Alliance. I think we would have killed the joy and *esprit de corps* of building something, of building an investment banking firm that was starting to compete with the biggest and the best. I think those of us who helped decide to stay on track didn't want to shrink ourselves down to be a hedge fund or an LBO fund or something. At that time, we wanted to build a business, expand it, and diversify it. And, although it's a cliché to say, I think money is chips in the game. If you don't have a successful business, if you're not making money, you don't deserve to exist. But I don't think money was the principal objective. I think there was the challenge of what we were doing, the challenge of building something, and the challenge of not only our product line and diversification, but also of bringing together people in an organization that had *esprit de corps*.

Near-Death Business Experiences

We decided early on that our institutional customers ought to be worldwide and so we went to London, Scotland, Geneva, etc., and provided services–Scottish investment trusts and so forth. I had just come back from a trip to Europe and we had gotten a lot of people to buy into a company that we were very interested in. Investors liked our research. When I got back to the office, I found that the earnings we had been projecting were not going to materialize. The company had an internal problem, which was a short-term problem, but the earnings were not going to be what we said they would be. I got back on a plane and went back to meet with all the people we had talked with throughout Scotland and England. I told them exactly what was going to happen, what our judgment was, and exactly why we thought the company was still a good long-term hold. Then we put together a syndicate to take out the people who didn't want to stick with it. We didn't just go back to people with a problem; we also tried to bring them a solution. We were able to get a bunch of stock, and then some people doubled down and we got new people in. Even so, that was a horrifying experience.

A second severe situation is now used as a case at Harvard Business School. It was with OM Scott, the famous lawn seed company. It was one of our favorite investments and has done extremely well. One day, I walked into a hardware store out on Long Island. It had been a particularly rainy spring. I asked the hardware guy how his Scott products were moving. He says, "Not well at all. It's been terrible." Then he said, "I don't really care." I asked him why he didn't care and he said, "Well, our cellar's full of Scott lawn seed but the bags are here on a trust receipt basis." When I asked him what he meant he said, "It means we can give the inventory back to Scott if we don't sell it." I thought that was interesting. I got on the phone and talked to Dan and Dick. Sure enough, we had not understood the trust receipt way of selling. We had not been told or we had not understood it. It was a huge disaster. The stock had done nothing but go up. So, we again felt it was a solvable problem, but it was a problem we hadn't anticipated. We were very close to the customers who had bought Scott stock from us. We didn't just say, "Too bad. We were wrong," and move on to the next thing. We tried to have a solution, which was getting some people convinced that it was an opportunity to buy since the stock was going to go down. We gave some people an opportunity to get out by selling at a price that wasn't a disaster to them.

Overall, if we had a problem we faced up to it. That was a tradition at DLJ.

Reflections on the Industry Today

Today, I think the industry has changed and not necessarily for the better. I think the elimination of fixed minimum commissions gradually took research as we were practicing it and made it a less-profitable business. At the same time, we've just had a booming decade in which, all of a sudden, research became the handmaiden to the underwriting business. The research business really isn't standing on its own and it's not standing on quality. Research has become a selling device to get underwriting business. It's sad. In addition research has gone back to being quite statistically oriented. Firms have their models and they're following a lot of companies and they plug the numbers into their models. It's a game of projected earnings versus quarter-to-quarter projections, and it's a much more superficial business. I think the process is unhealthy and we're beginning to see the consequences.

Take Enron, for example. It's easy for me to say because I didn't have to do it, but it would seem to me that if the real analytical work had been done at Enron–which a few people did–people would have seen what was going on. If there was dishonest accounting, that's hard to find from the outside, but just understanding the business and the analytics that would go with that would have put up some red flags.

Credit Suisse Acquires DLJ

DLJ was sold. I didn't have anything to do with it. I'm sad about the sale. I'm sad because, from a strictly business point-of-view, a tremendous price was paid. About $13 billion for DLJ was a very, very steep price. It was nice for shareholders, but I think the real value in DLJ was the ethos and ethics of the firm, and the reputation it had. That value disappeared completely. It was swallowed up. In many ways, DLJ had an extremely good reputation here, although it may not have been as well known overseas. The name was another asset that just disappeared. A lot of money was paid for people to go down the elevators at night. There were other times in the history of DLJ when it could have taken a different course but, for whatever reason, it was cash-in time, as opposed to keeping the company independent and taking it the next step.

I think that you have to be very careful when you recruit for a company, and be careful about how leadership is developed. You have to make very sure that the leaders continue to be sympathetic with the long-term goals of the firm. That doesn't mean that something should never be sold, but DLJ was hardly a company that was failing in any way.

Dan, Dick and I, we all made an equal contribution in trying to build something that was really unique. My particular interest was in the opportunity presented by growth in institutional investments, the Stock Exchange seat, and the profitability model. As much as anyone, I have been a keeper of the flame regarding the long-term entity that we were trying to build. Public ownership was a very important part of that. We all had different little pieces of things that we contributed.

Later Career
Undersecretary of State
Back in the early years at DLJ, I knew I wanted to do some other things with my life. Having grown up around the time of World War II, I had a strong bias for doing public service sometime during my life. When I went to the State Department, the last thing I wanted to do was leave DLJ. We had just sold a piece of the company to American Express. We had gone public. We were doing all sorts of interesting things. But I got a call from Henry Kissinger who made me an offer I couldn't refuse. The Nixon Administration was having very difficult times. Kissinger was about to be appointed Secretary of State and he asked me to be Undersecretary. He needed to bring in somebody from outside the Nixon Administration. I saw it as kind of a call to duty. Being Undersecretary of State was a fascinating experience.

Then, after Nixon left, I went over to the White House with Nelson Rockefeller when he became vice president. It was an opportunity to see how government works under duress. Those were very difficult times. We had the Arab oil embargo and gasoline prices through the roof, inflation, all sorts of things, plus an administration that was in deep trouble. The president resigning created all sorts of organizational problems within the government. It was a real learning experience for me. It's not all that pretty on the inside, in terms of how policy is made and the politics involved. It is quite different from the entrepreneurial focus of a company like DLJ, where everybody's moving in the same direction. The government is almost 180 degrees opposite. People are moving in lots of different directions and it's difficult to measure performance in government. Also, the U.S. government is an entity that will go on and on and on, no matter what somebody does. If you're no longer there, somebody else is there. There are frustrations to it, but I got a lot out of it. I hope I contributed something and it was a wonderful experience.

Dean of Yale's School of Management
While I was in public service, I saw tremendous conflict between business and government. The thought had occurred to me and others that perhaps the heart of the problem is that business and government are taught in different institutions. Maybe there should be a place where people who are going to be public servants or going into the nonprofit sector could learn a little bit about marketing and finance. And maybe there should be a place where people going into the private sector could learn a little bit about politics, policy analysis, and some of the ways government operates. Maybe we could bring these two things together in a unified setting.

I had been a trustee of Yale and Yale was thinking about doing something along these lines, but they had confused thoughts. Yale didn't have a Kennedy School or a Business School as Harvard did. But they did have a good brand name. I thought Yale leaned too much toward a public policy school than a management school. When Yale asked me to become a Dean of this new school and get it started, I said that I wasn't at all sure it should be started in its present mode, but that I would talk to some other schools. I went out and talked to leaders at Harvard Business School, Stanford Business School, Harvard's Kennedy School, and so on. The more I talked, the more I became convinced that Yale was a great place to try this, and that it would be a real entrepreneurial experience trying to start something in an institution several hundred years old. So I ended up being the Dean.

President of the NYSE

After Yale, I put together a group of investors from around the world, international investors, all of whom were successful entrepreneurs themselves and who had a lot of money. They put a good chunk of money into a fund that I was running for private investing. The investors had certain tax advantages because they were international investors and it was offshore. While I was running that, I was asked to become chairman of the New York Stock Exchange. I decided to do that.

People have been predicting the end of the New York Stock Exchange for a long time, especially when the Stock Exchange volume was down in 1990 and, I think, since the demise of the floor-based auction market for machines. In the early 1990s, the markets had not been good and there had been the rise of alternative trading mechanisms. I am a great believer in the auction trading system at the New York Stock Exchange, where natural buyers and sellers meet each other with no intermediary. This is different from dealer markets where the dealer is on all sides so that you sell to the dealer and then he sells to the customer, but you can't meet the customer in a dealer market. I think the fundamental auction market is a very solid one. I'm not sure that you could start an auction market today because dealers all over the world want to have a dealer's market. The New York Stock Exchange also represents a body of rules, regulations, and experience that makes it what it is today.

It's paradoxical that DLJ was fighting with the Stock Exchange and then I was leading it, but I really believe in its value. Going back to Wall Street in the role of chairman was like returning home but in a different role. I was blessed with having some very good people there. To me, being chairman was a real opportunity to run an organization that is quasi-public. The Stock Exchange has a strong regulatory role and strong market-making role. There was also a tremendous technological challenge. We were very much into keeping the auction market but competing with new technology. The whole floor of the Stock Exchange changed dramatically in the early 1990s, in terms of the technology and equipment, and the speed and rapidity with which things could be done. We also had a lot of regulatory problems. The Stock Exchange is a big organization, not so much in the number of employees, but in the number of interfaces and conflicts. If you're the chairman of the Stock Exchange, your largest customer is, let's say, Merrill Lynch. On the one hand, you are the regulator of Merrill Lynch and on the other hand, the CEO of Merrill Lynch is on the Board. It creates quite an interesting role for the CEO of the Stock Exchange. I enjoyed that.

Also, while I was there the globalization of investing was happening. The technology of trading stocks was advancing and the electronic markets were emerging. In the 1980s, probably two-thirds of the earning power in the world was coming from the United States, but in the ensuing ten to fifteen years, two-thirds of the earning power in the world has come from outside the United States. Even so, most American investors in the 1990s had hardly any foreign securities. It was clear that there was going to be great interest in international investing. Theoretically, investors would have a portfolio with earnings coming, proportionately, from different parts of the world. So, there was a great challenge in bringing together and listing foreign companies on the New York Stock Exchange so that we could meet the demand of those companies being traded here. As a result, we were in competition with some of those foreign securities exchanges and had the challenge of convincing them that we could create a bigger market for them with U.S. demand. We had to convince them that they would be better off, and we would be better off, if some of their stocks were traded in New York.

Giving Back

It sounds cliché to say, but I've always been motivated to return something to the society that's been so great for me and my family. I was asked to be a trustee of the Ford Foundation fairly early on. It was a wonderful experience, being part of what was then the largest foundation in the world. We were doing all sorts of interesting things. With the resources that we had to do good, the Ford Foundation was a very exciting place to be. We did a lot of good in the country regarding poverty, symphony orchestras, overseas issues, Indians, and farming. The Ford Foundation was on the cutting edge.

Today I'm chairman of the Carnegie Endowment for International Peace, which is the second largest of the Andrew Carnegie organizations. It has a $250 million endowment and is devoted to world peace. It takes the form of 120 scholars and professionals in Washington who are experts not only in nuclear arms and terrorism, but also in other social problems of the globalized world. We opened an office in Moscow when the wall came down and we now have fifty people in Moscow who have been working for almost a decade to help the Russian transition. I just came back from Beijing, China a month and a half ago where we hope to be increasingly active. I think we're doing some good.

In the interim, I've gotten involved in other things as well. I'm a hospital director, a trustee of Lincoln Center, and so forth. All of these things are ways of giving back, seeing how different kinds of organizations are run and, I hope, being of some help to them.

Summary Reflections

I've done a lot of thinking about entrepreneurship. When I was Dean at Yale, I taught a course on the subject. I feel that entrepreneurship is too narrowly defined and that there are a set of entrepreneurial principles that apply not just to starting a business but also to managing large organizations. We ran a course in which I invited all sorts of people who, in my definition, were entrepreneurs. We were seeking common denominators between entrepreneurs who ran large organization and those who started businesses. I think the first common denominator is that entrepreneurs have a lot of energy. That energy can come in very different packages. The most energetic man I know is Henry Kissinger. He does not look like he has the package, but he's a dynamo inside. I think you can do something about energy by taking care of yourself physically, and I have yet to meet a successful entrepreneur who is lazy or doesn't have a lot of energy.

The second common denominator I have seen among the entrepreneurs I've met is that they see the world in a slightly different way. In my example, we at DLJ saw the investment world in a slightly different way. We saw an opportunity that was there for anybody to see. Fred Smith of Federal Express is a perfect example. He saw all the planes in the airline industry sitting on the ground at night. By looking at the situation from a slightly different angle, Fred saw the ability to move packages at night. Actually, I've seen how great artists see things slightly differently. What is a great work of art, but the work of somebody who sees something slightly differently and creates that vision?

Most people think of entrepreneurs as people who shoot for the moon and, if they don't succeed, they move on to the next thing. I think entrepreneurs have to be very careful about having a fall-back position. They have to use their "peripheral vision" or knowledge and think one or two steps ahead so that they know what they're going to do when the first setback comes. They have to finance themselves well enough so that they're not left out on a limb. At the same time, entrepreneurs are analytical up to a point and then they say, "To hell with it. I'm going to go ahead with the project." In other words, they're out there finding out as much as they can and focusing on their business plan, but at some point they just don't want to hear another person say they can't do it. They go do it. They finally leap and do it. I think it's very important to be able to do that because there are always going to be reasons people will use to talk you out of going ahead. You just have to have courage. It's not that you just jump in blindly, because you will have a fall-back position mixed in.

On the financial side of things, I've always thought that I would like to have as much money as possible so that money doesn't inhibit me from doing things I want to do. But I've never wanted to just make bigger and bigger piles of money than the next person. That has never motivated me. In the things I've done, whether it was DLJ, working in government, the Yale School of Management, or even my most recent post as CEO of Aetna, I like to look back and see that I've made a difference. To me, it's about the satisfaction of making a difference, the satisfaction of working with people, creating teams, and seeing people work toward a common goal.

The inverse of that is I have a visceral dislike of bureaucracies, which is possibly as strong as my entrepreneurial urge. When people in bureaucracies say, "It can't be done," or, "That isn't the way we do it here," that bothers me a lot. Going back to my HBS training, I think there are always better ways to do things. I'm really bothered when people are locked into the bureaucratic approach and the mentality that "this is the way we do things here."

Finally, to be a successful entrepreneur, I think you have to have a real urge in the pit of your stomach. I think you have to have a thick enough skin to handle criticism and adversity, to know that it isn’t straight up. I think you have to be willing to make the inevitable compromises in family and lifestyle. If you’re going to start something and build it, it doesn’t leave a lot of time to do other things. There’s a certain amount of sacrifice and you have to learn to live with that from the family point of view. The time commitment might lessen as you get older, but there are sacrifices.

They say, “Man’s reach must exceed his grasp or what’s a heaven for?” I really believe in that statement.