Ambitions & Acquisitions

How it Started

The seemingly innocent world of student associations, is not all what it looks like. Behind the façade of student amiability, lies a world of ruthless ambitions and a lust for power that make an excellent preparation for the corporate boardroom. When the idea of starting an association for students of the Economic Faculty of Tilburg was first conceived in September 1986, Frank, Marcel and myself had already tried to make it to the board of some of the existing student bodies of those times, like Vite and Integrand. We were all turned down for the top positions in their executive boards and subsequently found ourselves reconsidering our options. “If you can’t join ‘em, beat ‘em” we said. We will start our own association. Months of intense lobbying and fundraising followed. The most important thing we did was find a name for our idea. A good, immediately recognizable brand-name is essential in any line of business. After several months of preparation, we officially registered ‘*Efact’* as a student’s association in February 1987. We stated that Efact would provide a platform for intellectual debate and that it would organize activities that would further the proliferation of economic knowledge among its members. Our real ambition however, never made it to the official charters of our association. We simply wanted to be big. Bigger at least than the other associations that were active in those days. We wanted Efact to be the one and only association for students of the economic department. So we were not pleased that other players were entering the market around the same time we did. Our competitors like the Marketing Association and Mercurius were all niche players while we wanted to corner the entire market. They were nevertheless fishing in the same pond and we considered them to be a nuisance. In November 1987, we launched an intense marketing campaign that made us the largest association with close to 400 members. It was however not enough for us. We seriously considered hostile takeovers as a way of gaining control of our competitors. Hostile takeovers were the order of the day in the late 1980’s. Corporate raiders like Carl Icahn and Ivan Boesky dominated the headlines of the financial press and we intensely admired their work. They were personified by Michael Douglas in the 1987 movie *‘Wall Street’*. Douglas played *Gordon Gekko*, the quintessential amoral corporate raider.
We were scheming to recruit a large number of our own members and make them members of our smaller competitors. Once planted, they would vote away their executive boards and replace them with people of our own. A brilliant plan. Bribing people was not dismissed as a way of accomplishing our goals. As treasurer, I was already setting up a secret slush fund that no external auditor would ever find. And if money wasn’t incentive enough, then blackmail probably was. “Everybody has a weak spot” chairman Frank said while smoking a big cigar, “you just gotta know which buttons to push.” We already had lewd Leo, a sleazy photographer, roaming downtown Tilburg at night, to capture people in compromising situations.
It was not to be however. We had no full control of our own board as somewhere down the line we had taken on Louis, Han and Willem to share some of the executive burdens. These guys actually had a conscience. They had already crossed us once by organizing a conference on the environmental consequences of economic growth. A conference I frowned upon as it was bad for business and might scare away our corporate sponsors and benefactors. It was as if the 1970’s were back, a decade we thought of as the dark ages of the 20th century. Now they challenged us again and

threatened to leak our takeover intentions to the press. With possible serious jail-time just around the corner, we grudgingly told them it was a joke and that we would of course honor every association's sovereignty.

Two Decades Later

When some 20 years later I read that Efact was to lead an effort to unify all economic related associations, I was thrilled. Finally our vision of one big association was to become reality. The dream of wiping out the competition had materialized. Even though I didn't know any board member of Efact anymore, I saluted them. They were my heroes. Two seconds later I wanted to crucify them. The press release also said that the decision to join forces was based on mutual consent. This sounded like a pansy equality basis merger rather than the hostile takeover we had wanted to stage more than two decades earlier. And the worst thing was that the name Efact would disappear. One of the strongest, best known and instantly recognizable brand-names of student history would cease to exist. It was to be traded in for the bland and generic name *'Asset'*. "Asset"? I thought, "It's more like a bad toxic debt."

Greed is Good

If the relatively small responsibility of running a student's association can lead to such unbridled ambition and corruption as described above, than how bad must it be in the real world, where the stakes are so much higher? Obviously it must be much worse. We would never have thought of having white gloved waiters serve us five course meals in the corporate restaurant. We never in our wildest dreams had private elevators that would take us straight to the top floor of the shining office tower without having to stop at the intermediate levels where lower clerks were hard at work. Yet the executive board of ABN Amro thought all of this was their birthright. These guys thought they owned the bank, that they were the bank. They probably thought that the perks they awarded themselves were justified. They were a classic example of an 'agency' problem. They were misusing funds entrusted to them. Jensen & Meckling (1976) wrote a seminal paper on the agency costs of the corporation. If you find this lengthy publication somewhat hard to digest, it is sufficient to listen to Gordon Gekko. In a classic scene from Wall Street, he addresses the board of Teldar Paper, and says "the Carnegies, the Rockefellers, they built an empire, made sure of it, because it was their money at stake. Today, management has no stake in the company." Gekko goes on saying "now I have spent the last 3 months analyzing, what all of these 33 Vice Presidents do, and I still can't figure it out."
So there you have it, the agency problem in a nutshell: managers with little or no stock ownership in the company, are less likely to run it well. When managers can award themselves huge salaries and bonuses that are unrelated to performance, they have no incentive to do their job well. And if they can leave the company with golden parachutes when things get rough, their involvement in the business becomes risk free. They are more like feudal kings than the entrepreneurs they claim to be.
In the remainder of his speech Gekko immortalized the phrase *'Greed is Good'*. Greed, according to Gekko, is not a vice, but a necessary condition for the advancement of human society. Today, with the credit crisis raging, he is often seen as the very essence of all that is bad about capitalism, but that's too simple. Gekko may have been an immoral character, but he had a point. When no person would have ever been greedy for anything, we'd all be contently living in caves. While this

might be an appealing option to die hard environmentalists, most of us would beg to differ.

Crisis, what crisis?

While Gekko identified greed as a positive driving force, he neglected to mention that when greed is unobstructed, it becomes a menace. This is true for any force. It is a basic and old truth, and was eloquently summarized by Lord Acton (1887) when he stated that “power tends to corrupt, and absolute power corrupts absolutely.” Absolute power emerges and flourishes in the absence of proper checks and balances. When power goes unchallenged, it becomes absolute, and its wielders become prone to self aggrandizement. And so CEO’s will acquire other firms to build corporate empires, not because there is economic benefit, but because their ego’s need it. Their greed and ambition get the better of them. In the absence of opposing forces and adequate checks and balances, there’s nothing to prevent them from making unwise decisions and enriching themselves.
Checks and balances imply accountability. In the corporate model, managers are accountable to the stockholders. But accountability is a shared responsibility. If stockholders hold management accountable for every little drop in quarterly earnings, than it should come as no surprise that management’s decisions will tend to favor short term gains over long term value creation. Stockholders and management alike, will have to realize and understand that the creation of business value is a long term process that needs patience. If stockholders and management collectively fool themselves, stock-prices balloon out of proportion. The ultimate balancing power is the anonymous market that sooner or later will price the company’s securities at more realistic levels. A crisis is born, but naturally the seeds were sown much earlier. The causes of today’s credit-crisis are many but in the end it was all the result of failing checks and balances. Bankers wanted to increase their corporate earnings and started to lend money to a customer base previously not eligible for mortgages. Investors did not, or did not want to understand the nature and the risk of the packaged and repackaged loans that banks had loaded on their balance sheets and kept happily buying financial stocks. In the end, the market corrects the collective craze, but the damage is already done. We need a corporate governance model that makes people responsible for their actions and make them feel the joy *and* pain of the consequences. Gekko was right, management should have a stake in the company. Not by way of getting free for all stock options, but by making them invest a substantial part of their net worth and salaries in the stock of the company they run. ‘*Put your money where your mouth is’,* is not a bad guideline here. When it’s also your own money at stake, you tend to think a bit harder before making decisions. And if this does not prevent a new crisis from materializing, at least its result will be that those responsible, also share in the pain. Today’s growing resentment against capitalism largely results from the unfairness of having corporate executives collecting bonuses, while small investors and workers are losing money and jobs. Capitalism, like freedom and democracy, needs constant guarding against its opponents. They need to be defended because the alternatives are just too frightful to behold.

Looking Back

When we started Efact, I quickly learned that the best way to get someone's cooperation is to play on their vanity. Their greed if you will, to be recognized as someone of importance. Someone, whose opinion counts. I learned to overcome my reservations to just ask someone's help or support. When you want to get things done, it is important to contact the right people.
I also learned that I feel best at home in situations where I can operate independently and where I can make a difference. In my current position I have a lot of freedom to shape my work and also have a lot of international contacts that I find useful, both professionally and socially. I also like to think that what I do matters. You know you've made a difference when students tell you they've learned a lot from your lectures or a book you've written. You know that what you do matters when an ex student sends an e mail from China saying she landed a job thanks to a recommendation you gave. But maybe they're just playing on my vanity.

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Literature

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