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Interview with Dan Lufkin

Donaldson, Lufkin & Jenrette

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

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DAN LUFKIN

The Early Years

Entrepreneur is a grand word for someone who works hard. I think an entrepreneur has two ingredients. The first is self-confidence, and the second is high energy level. I think my early years contributed to my becoming an entrepreneur. I came from a very strong, close family, who cared a great deal about each other. I had two brothers. We weren't wealthy, but we worked for our living. We were well grounded. I think that strong foundation was important in terms of developing a sense of self-confidence, which I think is one of the major underpinnings for someone who's going to go off on their own.

I grew up in Rye, New York, which was a very small town at that time. You knew everyone and you were part of a rural community. I think I was also blessed through heredity with a high energy level. Everyone in the family did a lot, and I think that's important. I always thought I wanted to work for myself. To some degree, that was my own belief and to some degree it was from my father. He would say that he had a lot of bad experiences in a larger company and that you can never trust a larger company, nor a corporate hierarchy. My father was a printing salesman. He had been working with the Texas Company way back when. When the Depression came, the company summarily dismissed him and a lot of other people. He had given a good deal to that company and was very fond of it. He was thrust out in the cold and it had a bad impact on him. He went to work for a very close friend of his who ran his own small company. It wasn't a very robust time. This fellow said, "We don't have much, but I'd love to have you come aboard helping us sell." So that is what Dad did.

I went to public school at Milton Point in Rye, New York, through seventh grade. It was a great school and, again, it was a rural community, so you knew everyone and school was a very communal activity. I spent one year in a private school in Rye called Rye Country Day and then I went to Hotchkiss School, which was a secondary, preparatory school in upstate Connecticut. I went there for four years and then I went to Yale for four years, which was financed because I was under the Naval Reserve program.

The Marines

I went into the Marine Corps for two years after college. Since I went through college on the government's bill, I had to go into the service. If you're going to go into the service, the Marines, in terms of individual responsibility, is probably the best place to go. That's why I chose the Marines rather than the Navy, which were my two choices after completing the Naval Reserve Program.

One of the things the Marines does is it serves to build confidence. You are the best. The Marines are the best. The *esprit de corps* is great in the Marines. You're required to be an individual

much more than a member of a community or group, although, obviously, there's military discipline in the Marines, as in other armed services. I think the individuality of the Marine, the strength of the Marine, the can-do attitude of the Marine, the *Semper Fidelis* of the Marine, is something that builds confidence and an "I can handle this one" kind of attitude.

I did well in the Marines. I was Platoon Honor Man. I came up through an officer training program from college as opposed to being an enlisted man through the ranks. There was a little bit of a distinction for people like me and it was hard to be accepted initially.

The HBS Experience

One of the main benefits that I got from Harvard Business School is, obviously, knowledge. I was exposed to a wide range of business activities that I had never been exposed to before. In the second year at HBS, I became fascinated by finance. Before then, I didn't have any idea what I was going to do. The only reason I went to Harvard Business School was that first, I could get in, which was tough and go I think, and second, I had the GI Bill. It seemed to me a shame to waste it. That was the reason I went. It wasn't because I had a burning desire to go into marketing, or a burning desire to become this, that, or the next thing. As a matter of fact, when I was in Korea, in the tents at night, I did preliminary examinations for law school and I did badly on them. So, the question of law school was answered for me.

Finding the Opportunity

Bill Donaldson was a classmate of mine at Yale and Dick Jenrette was a classmate of mine at Harvard Business School. Bill was at Harvard Business School also, but he came a year later. After business school, when I developed an interest in finance, I went to work for a private investor. His name was Jeremiah Milbank and he had a very small office. Bill went to work for G.H. Walker, which is a brokerage firm, and Dick Jenrette went to work for Brown Brothers Harriman, which was a private bank. Bill knew Dick through me. We had talked about starting a firm, but in very general terms, and not really knowing what we were talking about.

The thing that triggered both the idea and the timing of DLJ revolves around my work at Jeremiah Milbank. Commissions were fixed at that time, which was the late 1950s, and commissions weren't unfixed until the mid-1970s, so at Jeremiah Milbank we paid a lot of money in brokerage commissions for so-called stock research. We didn't have any choice in the amount of money we paid because commissions were fixed and there was a lot of money being paid for a very marginal type of service. Most of the investment work I did at Jeremiah Milbank was with a partner of mine, who joined DLJ a year later, George Gould. George and I were together with Mr. Milbank, and most of the investment work we did was our own work. We would go visit companies, spend time with competitor suppliers and conduct other kinds of research to do our own basic background work on industries and companies. We did not get much help from the brokerage community who we were paying commissions.

So basically what we learned at Milbank was that we were paying a lot of money for nothing and we'd much rather pay for something, even if we couldn't use it at all. Also, as George Gould and I did our own research on various companies, we found most of the best results were with smaller companies. Two companies that we bought for Jeremiah Milbank were Henry Holt, the old publishing company, and APECO, American Photocopy Equipment Company, which was very successful. Eventually, Xerox put them out of business. We learned that with newer, smaller companies, we could get a double pronged benefit. One benefit was more rapid growth and the other benefit was an improvement in multiple of earnings.

So we felt that if we could offer better-quality services for the same commission money the brokerage firms were charging for very modest services, that we would be able to capture clients like Mr. Milbank. Also, we narrowed it even further. My old roommate in school was an absolutely wonderful human being, and his father established something called the Wisconsin Alumni Research Foundation. The net bottom line was that my friend's father, Tom Birdingham, managed a portfolio for the University of Wisconsin, which was large at that time, roughly \$100 million, but the portfolio didn't include any small-cap companies when he first took it over. He realized they were paying too much for the blue chips and said, let me show you what you could do with over-the-counter securities, which we now we refer to as NASDAQ. Tom Birdingham had an incredible record based on the performance of what people would think of as risky securities. He would say the risk was in the multiple of the bigger stock, not in the performance of the smaller ones. So, we took a page out of the Birdingham book.

I wrote a little brochure, describing our original theme of what we called "common stock and common sense." We basically compared a larger company to a smaller one and showed the results that can be achieved in terms of multiple expansion as well as more rapid growth from the smaller company, assuming you did your work right. That's why the original research DLJ did, which was my bag, focused on Xerox, which later became Xerox the American Photocopy Equipment Company, and Beauty Counselors, which was a junior edition of Avon products, among others.

In good measure, the thrust of a small company is the long shadow of a single person. As the company grows, you get further and further away from that. Largely, however, we at DLJ identified with the companies we studied and they identified with us. We were small, striving, and beginning, just as they at one time had been and often still were.

Take, for example, OM Scott, the grass seed company. Paul Williams ran that company. I'm sure he was called on by a number of different bankers. But when Paul Williams wanted to do some banking business—forget about the stock business—he called me. He said, "Can you help me place these securities? I need more equity in my company." Why did he choose us? I don't think it was because he thought DLJ was more skilled than anyone else—maybe as skilled, but not more skilled—and certainly not because he thought we were more experienced. He said, "I identify with you. I identify with someone who's doing what I'm trying to do in my business in a different way."

Paul Williams defined our market. We were not interested in the Merrill Lynches of the world. We were interested in, and defined the market for, servicing institutions and we did this by focusing on small, high-growth firms. This decision seems fairly illogical on its surface because an institution, by its very nature, is large, certainly larger than an individual and so would tend to invest in other large institutions. And here we were saying, “OK here’s a small company for you to invest in.”

The one thing we totally missed initially, which actually turned out to be a wonderful bonanza for us and which we didn’t have any idea of when we began our business, was that the institutional fund manager was sick and tired of seeing statistical reports that provided fairly limited value on all the major companies and didn’t reveal much of anything new. The fund managers really liked to see us, and really liked to see what new things we’d uncovered. The familiar method of research at that time was so called statistical research, which is basically manipulation of the numbers of the company, as reported. Our research was a little different since we spent a lot of time on the intangibles of the company, asking questions such as: What do former employees think about the company? What kinds of management practices are in place for employees? What do customers think? What do former and present suppliers think? How does the company do its business? What kind of a citizen is the company? You can tell a lot about a company from its citizenship. One of the great things about Home Depot is not only everything they do, but also their great citizenship. It tells you that Home Depot is an unusual group. Answers to our questions were available; we just had to search them out.

DLJ’s Approach to Research

I would much rather be in the second-best business with the best people than in the very best business with the second-best people. If you’re defining the best people, it’s a given, assuming you’ve checked the person out, that he has management skills and knows the business that he’s involved with. Ultimately, however, the success of the business is going to depend on the character of the people running the company, and that’s what we looked for in our research.

The character of the people manifests itself in so many different ways. It is manifested in the loyalty of employees, the way the company treats its suppliers, and how the company articulates its responsibility to its employees and customers. These things ultimately spell success in a company, I don’t care what the company is selling or what kind of services it provides. Without that character, the company may get along for a while, but when the going gets tough, without that underpinning of strength and integrity, the company is not going to stay together. You get an awful lot through the people who are in the community surrounding a company. You learn a lot about the company, not just the obvious things like supporting the Boy Scouts, but also the less obvious like how they handle affirmative action or difficult situations with employees or environmental issues that may arise through their business. Companies are not all a matter of money. You might say, “Oh, well, Johnson & Johnson can afford that, but the local smelter can’t.” That’s not true.

As an example of how we did this kind of research, once we were doing some work on a dental supply company. Bill Donaldson and I dressed up as dentists and went to a convention. We actually tried out a few of the drills, went to the various booths that were set up and talked to people to see what they thought of the company and its products. In another example, we looked into OM Scott. The grass seed business is a difficult business to investigate. The grass seed business depends a lot on the dealer. So, you had better talk to a lot of the dealers and ask them questions such as: How do they look upon Scott? Why do they look upon Scott that way? Since Eli Lilly was setting up a competitor, why not Eli Lilly? When you go in to buy grass seed, you don't know anything about it so you rely on your dealer. Go to the dealers and say, "Tell me which grass seed I should buy." See how they respond to the question. That's what you want to know. The margins on a fixed commission fee were enormous, so we had plenty of money to do these sorts of investigations—as long as we could build the volume.

Launching the Business

When we started DLJ, I called on more than ten industry leaders on Wall Street. I called on Sydney Weinberg, the old head of Goldman Sachs, Mr. Lehman, the head of Lehman Brothers, Truman Bidwell, on the floor of the Stock Exchange, and others. Not a one said DLJ was a good idea. Sydney Weinberg came close to it when he said, "I won't say it's a stupid thing, but I don't see how you can compete on the issues and in the areas you're describing compared with the strength Goldman Sachs has, which shares your objectives but on a worldwide scale. And how will you compete with a Lehman Brothers, who has a hundred odd years of experience and a history of relationships? Relationships are enormously important." He said, "I won't say don't do it, because you never know, but I wouldn't say it's an odds on favorite." That was the closest it came to "Maybe," and everyone else said, "Are you crazy? Are you nuts?"

We didn't rock or shake anything on Wall Street. One fellow at Lehman Brothers, who has since turned into a good friend, said, "We're going to squash you like a fly on the wall." That was his exact quote. I don't mean to gloat, because we were a very small business providing a very small service to the institutional market, which, at that time, was a relatively small market. We weren't a competitive threat to anybody for a long period of time. We didn't really change or rock management's approach to this business. Little by little research just became more in vogue and little by little, as the markets themselves turned very turbulent and very ebullient, there was a demand for performance. There had always been a demand for performance, but now the demand came into high focus, particularly with the growth of mutual funds, institutional funds, pension funds, and so on. The combination of the growth in the institutional market and more emphasis on performance during the 1960s brought research as DLJ would define it more into focus.

I remember calling on John Dozinel, who's a wonderful man, at Paul Revere Life. He said, "You have ten minutes. Why do you want to see me?" I said, "Here's what we're trying to do," and I explained it to him. He said, "If you help me, if you're successful, and I can use your work, I'll pay you for it. If you don't help me, I won't pay you. Is there any more to discuss?" I said, "No, nothing more," and he said, "OK, thanks. Goodbye." That's how we got customers for DLJ. We

just knocked on doors. We were young, enthusiastic, and energetic. Most people respond to that. They say, “If you’re willing to take a chance, I’ll take a chance on you, too.” As long as we delivered some goods, created some value, and did it in a fair and honorable way, we were able to move along with the institutional market.

Financing the Business

We had no business going into business. We had no source of income when we started. In fact, we didn’t have a business plan. We thought we had an idea that would work in terms of the way we were approaching the business and the people we were approaching, but we didn’t have any idea how long it was going to take. The way we thought through that was to think about what it would take to finance the first three years in the life of the business. We carefully budgeted for three years and it worked out to around \$101,000 dollars a year. We paid ourselves \$7,000 a year salaries and we had a modest rent at the old Kirstein Ship building. We had no fancy overhead and we had orange crates and basic equipment. We had a secretary, Pat Derby, and we had our office manager/accountant, John McNally. I remember these people like yesterday. We had travel expenses and research expenses and all that. We wanted to finance three years of life, but we never quite got there. We raised around \$240,000, mostly from our friends, because nobody else would give us a shot. Most of the people who put in money were our age, and included our classmates and friends.

The first product we developed was research on a company called American Photocopy Equipment, run by a guy named Sam Rockport. I knew Sam Rockport because I had called on him and bought his stock when I was at Mr. Milbank’s. I called Sam and said, “Here’s what we’re doing and I’d love to come out and do some continuing work on American Photocopy Equipment.” He said, “We’d love to see you.” So, I went out and our first published report was on his company. The report was well received and the research was very good, if I do say so myself. I must admit I had a leg up because we’d been following that company for well over a year. That led to other reports, other pieces of research work, which we then would go out and sell to our expanding lists of institutional clients.

We also did a very innovative piece of work at that time, which I was very proud of. It was on Alcon, the small ophthalmic drug company. We sent a letter to prospective customers. The letter went something like this: “I was in Dallas a week ago, Tuesday, and I thought of you and I want to tell you something about this company.” Then we’d type out a six-page letter about Alcon, its background, history, what’s going on with ophthalmic drugs, where these guys came from, and how they were developing a market. Then we would come to the end and write: “I really think that this is a very interesting company for you to consider. I’m not sure it totally fits your XYZ institution, but I think a little bit purchased in your B portfolio might go a long way over the next five years. Give me a call if you have any questions. I hope to see you again when I’m in town. Best, Dan.” Basically, we sent a personal letter that was eight pages long. Back then, mass marketing wasn’t used too frequently, so you would think, “He has written me an eight page letter about this company.”

This was a very effective marketing tool—so effective that one of our competitors stole it and started doing the same thing. Over time, there were other firms that came into play and became competitors. But the competition wasn't overwhelming because what we did required some smarts and not many people wanted to devote their time to it. The type of research we did also required money and most people potential competitors didn't want to spend the money.

As DLJ grew, the size of the companies we covered expanded. We went from Alcon Laboratories to Dun and Bradstreet, AC Nielson, McLean Shipping, etc. We covered a whole lot of companies. There was gradual growth as our markets grew, our institutional coverage grew, and our clients' needs grew. Our research really didn't develop along the lines of volume. Many people misinterpreted the size of our reports and described it as volume. In other words, you can no longer publish two pages, you must publish twenty—it doesn't matter what lies in the intervening eighteen pages because weight is the big determinant.

Going Public

Our prospectus was published in the *Red Herring* during the spring of 1969. A line in there said to watch out, because if our membership on the New York Stock Exchange was not allowed for publicly traded securities then 70 percent of our revenue would be history. That statement was true. Basically, if we had not been able to maintain our membership on the New York Stock Exchange, 70 percent of the revenue that was represented in our prospectus would have vanished. The basics of the business would have been untenable. It would have been a very gamy time.

In 1964, there had been a commission in place studying forms of supplementing capital on Wall Street. Pat Rockefeller had run the commission. Now it was 1969, five years later, and nothing had been done. The rule DLJ would have been violating if it went public was that any change in ownership of a New York Stock Exchange member firm, be it a partnership or a corporation, had to be approved by the Board of Governors. Their approval was fine if the new owner was a partnership or a limited corporation, but how would the board approve 5,000 shareholders? Basically, a member that was publicly held would be in violation, because not every owner who bought ten shares of stock would have an approval. That's why we felt the rule needed changing.

What drove the rule change, more than anything else, was the right timing. In 1968, the market started coming apart. That's when we had Ross Perot, and net capital rules were being violated, and Stock Exchange member firms were failing. All the turmoil that occurred in the late 1960s and early 1970s on Wall Street is a direct reflection of limited capital for member firms on the New York Stock Exchange. So, the rule about member ownership really did need to change. Sometimes, needs aren't recognized and sometimes, old habits die hard. It took a year from the moment we introduced the public ownership program to the time when the Stock Exchange changed the rules so that DLJ was clear and clean to go to offer our shares publicly.

The impact of our IPO on the industry was enormous. I guess I can summarize it in one way by saying that Tom Stahle, who was running Reynolds and Company at that time, wrote a letter to

me six months after the IPO and said, “I just want to tell you something. I really wondered whether the rule change was the right move, but now we are in the process of putting together a public offering.” He said there would be no Reynolds and Company in another year if he could not now access the public markets. It really wasn’t a substitute for public capital, in terms of the way private capital was financing a very growing and expanding base of equity ownership. The volume of trading and the activity associated with member firms, which is the underpinning of net capital, was also key. When going public, DLJ didn’t miss a day in terms of its services, its work, or its performance, and it gave us an underpinning for the very rapid growth of our firm. Overall, DLJ’s IPO was as much a statement for the industry as it was a statement for our company. We needed to underpin the equity in the industry.

Much of what was going on in the firm became management of people and activities rather than management of the actual business itself. As General Doriot, the old professor at Harvard Business School, used to say in his French accent, “Gentlemen, you must remember that there are three types of people who run an organization. First is the entrepreneur, who begins the business. Second is the manager who develops the business and third is the manager who runs the business. Very rarely can they all fit under the same skin.” Little by little, DLJ grew and we expanded into new markets as we got an underpinning of much larger capital. Our equity or net worth at the conclusion of our public offering was over \$50 million. We started out with an equity base of just \$100,000 and the rest of the initial \$240,000 was from borrowing.

Weathering Change

In the 1970s, the size of our company had become unusual. It was different from when we started. I didn’t think there was as much need for me at DLJ as there had been in the 1960s, so I did other things in addition to DLJ. In 1971 I went to the State of Connecticut as Commissioner of Environmental Protection and I was there for three years. I came back to DLJ in 1974 because that was the first time in our history that we had lost money.

We didn’t even lose money in the first month of our operation, if you can believe that. We never had a losing month until 1974. That year, the firm lost \$11 million. Dick Jenrette, who was CEO at DLJ, and I spoke and he said, “Look, if you’re finishing up Connecticut, how about coming back?” At that time, Bill Donaldson had gone to Washington. I said “Sure, I’ll come back.” And I came back for roughly two years.

A few things were going on in the market at the time. First, interest rates were through the roof at 12.5 percent. No one could believe it. Second, the oil crisis had hit. Third, the market itself cratered with the combination of interest rates and the oil crisis. The 1974 market was as bad a market as I’ve seen. It was more Wall Street than Main Street, but the combination of all these market conditions brought DLJ to tough times.

I felt that my own skills were more directly applicable to a small, private bank in terms of investment, not in terms of service, rather than a broad-based, everything-to-everybody service

organization. Dick Jenrette felt very strongly that we should maintain our bond positions, our money management, our counseling, our investment banking, all the service functions we performed. I felt that those services were all valid and we should maintain a desk in research, but that we could use our own capital and capital that we raised for our own private investments.

This was about two years before the beginnings of Kohlberg Kravis Roberts & Co., which is basically what we were talking about at DLJ. We would have been the KKR two years earlier. That's what I wanted to develop. The difficulty with the direction in which I wanted to take the company, and why I think Dick was more right than I was, was not because my strategies were wrong but because my streaming would have eliminated a lot of jobs and his streaming didn't. In my judgment, we had a responsibility to our people and that was a tough time to eliminate jobs. As a result, I didn't argue very hard, or very long, for my approach. I said, "Dick, I understand what you're saying. I understand a lot here, but it doesn't fit what I do. At the same time, we're making money, you're off and running, and you don't need me here, so I'm going to move on."

Then, in 1974, we came out the other side of the trough. The upturn helped, we did our business well, we had good people, we took share of market little by little and we tended to our knitting. I won't say there was one clear clarion call that everyone responded to, but basically, we didn't spend money foolishly, we had underpinnings from the stock exchange offerings, we did our job well, and we grew as the market itself came out of the doldrums. We made a lot of strategic decisions, but the one we obviously bet our life on was the public ownership issue. It was a fairly gamy thing to do. We had worked hard to build up our business and we basically said, "We're putting our business on the line, not only our business but also the lives of all the people who have been with us." I'm not talking about the investors; I'm talking about the employees.

Selling DLJ to Credit Suisse

The Credit Suisse deal was a lousy deal, any way you look at it. It was a bad deal for the people who work at DLJ, a bad deal for people at Credit Suisse, a bad deal for the structure of the combined organization and a bad deal relative to the alternative, which was J.P. Morgan. In my judgment, the deal was fashioned out of greed and individual achievement of money, rather than the welfare of the community as a whole.

Although the merger itself was with the wrong partner, at the wrong time, and for the wrong reasons, it was not a dumb move. The business is changing to such a degree that companies need to join with other groups to perform well, particularly as a one-stop shop. But Credit Suisse is not another brokerage firm, it's not another investment firm, it's not another banking firm, it's not another counseling firm. It's a commercial bank. Why Credit Suisse was a better financial deal escapes me. I never understood why Credit Suisse was willing to pay money for DLJ. The proof of the pudding is that better than two thirds of the good people who were at DLJ are no longer there. Also, why would Credit Suisse get rid of one of the major strengths of the acquisition, which was the DLJ name? DLJ is a name that is based on integrity, service, forty years of performance, an *esprit*, a feeling of pride and confidence among clients and customers.

The industry was changing, though, and that helps explain the sale. With the demise of Glass-Steagall, you basically had the strength of a commercial bank delivering services that investment banks had been delivering heretofore, without letting the investment banking world deliver the service of the commercial bank. The fall of Glass-Steagall has created tough competition that, in my judgment, is going to cause great problems. The strength of the bank service group, associated with the commercial lending function, is tough competition. I think you have to be a firm like Goldman to get through the wicket now. That's why it made so much more sense for DLJ to join hands with J.P. Morgan than Credit Suisse.

How I feel about the Credit Suisse deal is like the story of the fellow in Boston who said that he knew exactly what his children should do, which was invest only in street-rail cars. He believed street railroads were the future, so he restricted their trust to only investing in them. I don't think you can forecast the future and I don't think you should try to "control your baby," so to speak. So, I have no problem with moving on under any circumstances. You do the best you can while you're in a place and, through your direct and indirect actions, you try to leave a pretty good base from which people can grow and operate. Then, if you've done your job right in terms of who you left in place and the base you've left, things will probably be OK.

You also want to make sure that you get people better than yourself. I think it was Reagan who had a sign on his desk that said, "It's amazing what you can accomplish if you give other people the credit." You want to make sure that everyone recognizes the strengths of each individual and who's doing what. You want to spend a lot of time on the things that we talked about earlier, and that's values, integrity and the character of the people that you're employing. If there's one thing I was able to contribute to DLJ—and Bill and Dick did the same—it was the very careful vetting of character and quality in the people we brought into the company. Everyone knows the business they have to do, everyone knows the job that has to be done and everyone understands where the paycheck comes from, but the work doesn't have to be somber services at every moment. It can be fun. It can be fun.

Later Career

Environmental Protection in Connecticut

There was a time when I lived in Connecticut on a dairy farm. I raised dairy cattle in Newtown, Connecticut. I have always been interested in environmental affairs and I became more and more interested, and somewhat knowledgeable, about what was going on in the environmental world. In fact, I was one of the ten people who founded Earth Day in 1970. I had been involved in environmental affairs as an avocation for many years. While living in Connecticut, I spent a lot of time on Connecticut's environment. Connecticut had disparate activities. They were all over the place, and there wasn't any structure or strategy involved.

In 1970, I went to Tom Meskill, who was running for Governor. He was the mayor of Bristol at the time. I said, "You don't know me, but I'm very interested in environmental affairs and you should be too. It's a great cause and I'll put a platform together for you of what Connecticut needs." He said, "I'd love it. It's an area I'm not totally familiar with, and I'd love it." Part of the

platform I developed was legislation to take Fish and Game, Forest, Clean Air, Health Department, and a couple of other things and roll them into one agency called the Department of Environmental Protection. The Senate leader at that time and I got to know each other really well. He helped engineer legislation around the platform, the legislation passed, and the Governor was elected.

Tom was elected Governor in the fall of 1970. He called me and said, “Well, the legislation has passed. We have a Department of Environmental Protection. You wrote the platform. You come run it.” I said, “No way. I can’t do it. I’m working on Wall Street; we just went public about a year ago. I have obligations. I have responsibilities. I can’t do it.” He called me again about a month later and said, “Well, are you going to come and do this?” I said, “I told you, I can’t do it.” He said, “OK, I’m appointing John McDonnell.” John is a very good man. He was head of the Agricultural Commission, but an environmentalist he was not. I said, “You can’t appoint John McDonnell or you might as well not have the legislation. Throw it out the window.” Tom said to me, “Well, you have a choice. If you don’t take it, McDonnell’s getting it.” I told him, “That’s blackmail.” Then I said I’d take it.

I’m thrilled I took the job. I took it in the spring of 1971 and I spent three years of my life there. The department was brand new and we built it up to a total of 900 people when we were finished. One of the unique things about government is that you never get the right to move civil servants, because they all have tenure. You can transfer civil servants around, but you can’t get rid of them. You can’t get rid of people who are really doing nothing. With the Department of Environmental Protection, we had a new department and we wrote a new job description for each particular function so that there wasn’t anybody who fit the bill. That way, we didn’t have to keep anybody. As a result, all the people we brought into the Department of Environmental Protection were there on merit. Nobody was there because of tenure and there was no tenure until the moment the employees arrived. We really had the right and the ability to entirely restructure those functions of government. That was really great.

We were the first state in the nation to have a Solid Waste Recovery Authority, which we set up and financed with public bonding. We were one of the first states, if not the first, to establish inland wetland legislation. We established the strategy and philosophy of nonpoint source pollution management, which is very difficult and very complicated. We also set up a number of programs for storm sewage overflow management, which is really a major problem that comes into our waterways from some of the central cities of Connecticut. Little Connecticut got about a third of all the Northeast funding that was coming out of the federal government. A little more than that, actually, just because our programs were so good and we went at it the right way. Our sewage programs were terrific. I was really thrilled with what we did at the Department of Environmental Protection. The services the department rendered to citizens were great.

I am very disappointed, however, with the opportunity we lost to change the face of Connecticut. That sounds like a big statement, but it isn’t. It’s a true statement. Before Tom left office, we appointed a commission on land use. Through research we figured there were roughly 300,000 acres of farmland in the state that were close to cities and— like the urban growth

boundaries associated with Oregon—were pivotal areas of development and activity that had to be carefully regulated and watched. There was no way the land would be managed properly through local regulation, such as local zoning, so we established legislation.

The 300,000 acres stretched from Northeast Connecticut, where it was a few dollars an acre for development rights, down to Fairfield County, where it was many thousands of dollars an acre for development rights. We figured the average cost of development rights to be around \$1,500 per acre. With 300,000 acres, we required \$450 million. I went to First Boston and asked them to bond it on the basis of a one percent realty transfer tax. A one percent transfer tax is applied to profit from land, home, building, or commercial sales—in other words, it's tax on anything that is greater than the cost of the land. We traced that back and it yielded roughly \$17 million. We would have put out \$450 million bonds in sequence, and we would have financed it with the one percent transfer tax, which would start at a \$17 million annual rate and grow from there. The plan was ideal. It should have worked. It would have been great. The legislation was clean and clear.

The real estate people lobbied against it. I'd try to say to them, "The ambience of the State of Connecticut would be so enriched by this program that the rising tide will raise all ships. You, as a realtor, will have a much easier and much more fruitful time because of the work we're doing." I never could sell that. Also, Tom didn't run for governor again. The Democrats came to power, and the legislation was cannonballed because it was looked upon as a Republican adventure, not a Democratic one. That was in 1974 or 1975. Just think of the configuration of Connecticut in 1974 and 1975, and think about the better part of 300,000 acres around some of the great urban growth centers and what the legislation would have done in terms of growth management, open space, and people's experiences. It would have, literally, changed the face of the state forever. Now that possibility is lost, and that's the saddest thing about that experience.

Looking back on the experience in government, I realized that nine out of ten times the people who are taking risks, taking chances, innovating, and creating aren't starting out in the public sector, mainly because the public sector is not a very good Petri dish. There's not a lot of reward for risk taking in the public sector. You'll find that there are two kinds of people who are taking risks in the public sector. The first are people who have either secured a pretty good base or they've got some money in their pockets so that if they get cannonballed, they won't die. They won't starve. The second are people who have experience taking chances and recognizing the outcome. They don't have to live and die on the fact that it may not work.

Some of the other work I've done in the public sector includes Connecticut Action Now and Pioneer Capital. At its simplest, Connecticut Action Now is a form of mentoring, trying to help finance underprivileged youth, mainly black youth, in New Haven. The program was set up in the late 1960s, but there has always been a need for it. Some friends of mind also formed something in the mid-1960s called Pioneer Capital, which was a minority-enterprise, small-business investment company. With it, we financed Daniels and Bell Inc., the first black-owned NYSE member firm.

After my time in state government, I also wrote a book called *Many Sovereign States*, and it is basically an argument for sending down more responsibility, more money, more funding, and more opportunity to the state level where there is no place to hide and where your neighbor is your legislator. The state level is where you can have a direct impact. It's hard to have an impact on Washington. I see the business responsibility much more effectively executed at the state level than I do at the federal level. I remember when I took the job in the state, I got a call from a very prominent business leader who said, "Dan, what are you doing going into state government? If you want to get something done, go to the federal government. If you wanted to go into public service, why don't I make a few calls for you?" I told him, "I want to go to the state. That's where I think the action is." He said, "Dan, it's a graveyard. There's nothing there. It's a graveyard." He was totally wrong. It's where the businessman's role is very real and where you can get something done.

Ranching

I own three ranches and I used to ranch. I don't anymore. I'm too old. When I ranched, I raised horses and cattle. That was a love. That was an avocation. The cattle business is not a great business. You have to love it. Animal husbandry is something else I've always loved. I had dairy cattle when I first came to Connecticut, then it was quarter horses. I'd raise quarter horses and ride them. In fact, one of the things I'm most proud of—which has nothing to do with entrepreneurship—is that I was the thirty-third or thirty fourth member of the National Cutting Horse Association Hall of Fame. A cutting horse is a horse that separates cattle. Its origin goes back to when people ran their cattle in common, back at the turn of the century and before. You had a horse that dodged and twisted and cut, and it was turned into a competition where a horse is appraised on how well it can keep cattle herds.

Columbia Pictures

Columbia Pictures had some problems back in the mid-1970s and a great friend of mine, Herb Allen, came to talk with me. Herb was a great mentor and, in his own right, was quite an entrepreneur. Herb said, "You should come aboard Columbia Pictures and help out." I went in as chairman of the Finance Committee in 1977 or 1978. I was there until after we sold the company to Coca-Cola in 1982. That was a very gamy time. There was a lot going on in Columbia back then. Kirk Kerkorian tried to steal it; he made a run at it. There were a lot of things going on in Columbia at that time. I think the best contribution I made was to position us with our banks so that they understood what we were doing and how we were doing it. To some degree—and I hate to admit it—we positioned ourselves with the banks by using mirrors. We didn't have the money or the income, but we had assets. At least, we had what were interpreted as assets at that time. It turned out to be right that the Columbia library was worth a lot of money. But the library wasn't generating any money. We were able to convince the banks, however, that the library was worth a lot and that it was only a step away from generating money. While it wasn't quite in line with the timing we anticipated, the library became valuable in the following years.

Leveraged Buyouts

Currently I'm involved in leveraged buyouts. We focus on under-performing companies. To call our targets bankrupt companies is probably wrong, but they are companies that could be on their way to bankruptcy because of bad management, being under-financed, or being mismanaged in terms of industry positioning and so on. We refinance the companies, perhaps change people, turn the companies around, and then look for logical partners or ways to grow the companies both internally and externally. Going back to 1974 through 1976, I thought it might be logical for DLJ to put its skills to work as a private bank. KKR started a year or so later and basically it is a form of private bank with a general partnership structure. It raised funds from institutional investors and bought, leveraged, fixed up, and then sold, or somehow exited, individual companies. It's not rocket science, but it makes a lot of sense to me in terms of financial structure. You bring operating skills with very good people to moribund situations and you finance the business intelligently, which just means using leverage. When you translate all those things out, the rates of return on capital can be quite enormous.

Summary Reflections

Everything is important when you want to pass along information to an entrepreneur or anyone running a business. There are so many facets to cover. It's like a prism reflecting a thousand different lights. One thing that I think is really significant, though, is the ability to inspire others to believe, "We can get it done. We can do it. Don't worry. We're going to get this done." When a leader doesn't have that confidence, even if it has to be jimmied up every now and then, nobody else is going to have it. Whether you're in the public sphere or the private sphere, wherever you are and whomever you're addressing, if people don't follow and they aren't convinced, if they don't say, "I'm following him. He's right. We're going to get this done," then you're not going to get anything done. You may not get something done even if you do convince others to follow, but if you don't start there, you're never going to get anywhere.

I think the greatest risk of an entrepreneurial career is to not to embark on a venture. I think you can't lose in an entrepreneurial career. You gain enormous experience. Whether you fail or win, it is time very well spent. You learn a lot about yourself. You gain great self-confidence. And most other people don't have it. Wasn't it Teddy Roosevelt who said that the real crime is not to try? That's what I've learned more than anything else.

People associate entrepreneurship with risk. Entrepreneurs don't think about it that way. They think, "I can get this done." The only risk an entrepreneur can take that is untenable or stupid is to go ahead without having enough capital or time to really see their venture work or not work, whatever the case may be. It's one of the reasons our plan for DLJ only encompassed one thing. We didn't have a business plan, but we had an idea. We didn't have any way of knowing how it was going to play out, but we said we wanted to give it a chance. So we figured out how to finance three years of business without ever earning a dollar. We could have built nothing in the first three years and still been in business. Most entrepreneurs underestimate the amount of money or time it's going to cost to get the job done—and time is another form of money. As a

result, entrepreneurs under-finance. When they do this, unless they have the good luck of being able to go back to investors again and again, entrepreneurs will not have the opportunity to see an idea through to the end, right or wrong. I think that is when a risk is unnecessary and foolish to take.

Defining Success

I think I would have defined success forty years ago as making a lot of money. Halfway through, I think I would have defined success in other ways. Success took many forms. Public service, for example. None of these things are black or white. Today, I think I would define success in terms of happiness. I used a line in a speech that I gave at *Equities Magazine*'s annual meeting. I said that everyone looks for a return on investment and very few people look for a return on life. I think that as you get older, as you move through life's stages, you begin to look for different kinds of return. There's a return on life, which is happiness, and we all forget the ultimate measure of success, which is good health.

Also, I don't think I focus so much on the successes as on the things that didn't go right. One thing that's interesting too, in that regard: If you asked me to name just one of my greatest successes and just one of my greatest mistakes, I would say the greatest success is in having the right people and the greatest failure is having the wrong people. There's no way of knowing why some people will finally turn out right and some people finally won't. Obviously, there are ingredients such as skills, previous experience, histories, integrity, and character. But some people work right and some people don't. There's no way of knowing in advance. You can pick out the obvious people, but with others, you can't. A mistake that I've often made is giving too much credit for too long when the warning signs are up and the red flags are flying. I'll say, "We'll work it out. We'll do this. We'll supplement it with that. I can understand why you made that decision." I could write a book on the excuses I've made to myself about not taking action.

But I'm very proud of my work in Connecticut. Today, the Department of Environmental Protection still reflects some of the things we built into it those first three years—not everything, but some very good parts of it. I think the work of the department has created a sense that the environment is important to the state, whereas before, I don't think the environment had been focused on. Of course, the country was focused on the environment at that time, but I think the work we did, the organization we put in place, the way we brought together information and presented it to the people and to the legislature, and what has come from our work has set a tone, which sometimes gets muted, but more often than not has positively influenced how the environment is managed in Connecticut. I think that's very good.

My final piece of advice to future entrepreneurs is—go for it. Don't expect something to drop in your lap. Don't look for someone else to accomplish your goals. There's no such thing as a free lunch.