DESIRED EXECUTIVE INCENTIVE MIX AS A FUNCTION OF THE SIZE OF THE COMPANY OWNERSHIP GROUP

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PREFACE

This thesis is primarily concerned with variation of desired executive incentive package mix with changes in stockholder size. The resulting models allow changes in incentive mix desires as a result of merger to be examined. Appropriate action on the part of the acquiring company is then possible before the key executives leave the organization.

The merger movement has passed the crest of its most recent surge; however, it is still very much alive. As long as there are those wishing to sell their companies and those willing to buy them, some form of merger activity will continue.

The models are based on data obtained from "small" manufacturing companies and can serve as a starting point for future studies in the areas of desired incentive mix and changes of desired mix as a result of merger. Some of the pitfalls in obtaining data from the small business executive have been found allowing better predictive models to be made in the future. This will provide future research, a solid base on which to work.

I would like to take this opportunity to express my special gratitude to my graduate adviser, Dr. E. J. Ferguson for his help, guidance, and encouragement in the preparation of this thesis. Additionally, Dr. V. S. Haneman, Dr. G. T. Stevens, and Dr. T. B. Auer have made valuable contributions as members of my committee. Their criticism, suggestions, and ideas have been of great value.

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CHAPTER I

INTRODUCTION

The principle objective of this thesis is the development of a series of models relating company size, as determined by the number of stockholders, to desired executive incentive package mix. Four incentives: (1) stock options, (2) bonuses (all types), (3) salary, and (4) status (company car, office, etc.) make up the models' components. The models may be used in the minimizing of dissatisfaction resulting from changes in the desired incentive package mix of acquired company executives. A merger of the executive's company may cause his desired incentive mix to change. The resulting dissatisfaction may cause the loss of the acquired executives if not alleviated. It is assumed that the key executive is needed and the acquiring company desires to keep him.

Because of deep personal involvement, a merger can be a traumatic experience for the small businessman, far overshadowing his perception of his future. In addition, the unfamiliarity of the new organization and its greater size lessen his ability to verbalize either his present or his future desires in regard to incentives. The acquiring company has its own perception of what the acquired executive's incentive package should be. Unfortunately, the two perceptions are not always the same. By understanding the small-company executive's desired incentive mix before the merger and what executives desire as a group after their companies have gone through mergers, the acquiring company can prescribe an ultimately acceptable incentive package at the start and do the selling required. The models may also be used as an aid in determining which companies to approach if only one type of incentive package is available.

The models are based initially on a search of the literature, interviews, and personal experiences. Data from several studies are used to quantify the models. Two groups of executives are examined for their desired incentive mix: (1) the small independent company executive and (2) the acquired company executive. The independent groups' models vary with the number of stockholders allowing them to be subdivided.

Actual magnitudes of individual incentives are a sensitive area, hence percentages of total incentive packages were used. Percentages also eliminate company-to-company and industry-to-industry variations. A study using data from approximately 70 key executives was used as a basis for this portion of the thesis. The independent companies with 2-20 owners, the independent companies with 30-1000 owners, and the acquired companies with 100-12,000 owners form the three segments of each of the incentive models. For purposes of data handling, each segment was broken into ten data cells. Linear regression was used on various segments of the data to create the models. The hypothesized regression lines were tested for significance of regression through the use of "t" tests (22, p. 20), and the residual sums of squares were tested to verify how well the models fit the means of the data cells (22, p. 29).

The mergers discussed in this thesis involve only the willing acquisition. Tender offers, raiders, and takeovers are seldom mentioned in regard to the smaller owner-manager business. Additionally, the thesis is limited to those companies that are basically "small" having from 100-3,000 employees and are manufacturing companies.

Hypothesis

The hypothesis involves a number of areas and is spelled out in more detail below, but basically it is: Incentive packages desired by "key" executives vary in composition or mix with changes in the number of stockholders. Further, the desired incentive mix of acquired-company executives does not vary with the number of stockholders in the organization and is a different mix from what the independent executives desire.

It is hypothesized in this dissertation that:

(1) Status is of little interest to executives in independent companies having few stockholders and also to those executives in companies having larger numbers of

stockholders. However, there is a middle group to which status does assume importance, therefore, a convex upward curve of desired status results. Acquired-company executives have a desire for status that is independent of the number of stockholders.

(2) Bonuses follow the same general pattern as status; that is, the independent-company executives in companies having few stockholders and those having many stockholders have little desire for the bonus incentive. The middle group has a greater desire for the bonus incentive than the two extremes, again giving a convex upward curve of incentive desire. The acquired-company executives have a desire for bonuses that is independent of the number of stockholders.

(3) Stock options follow the same pattern as the bonus and status incentives for both independent company executives and acquired company executives.

(4) Salary, being the remaining incentive, is of greatest importance to the executives in the companies having few stockholders and those having many stockholders. The salary incentive

> is not as important to the middle group as it is to executives in companies having very few and very many stockholders. The acquired company executive has a rather uniform expectation that varies little with the number of stockholders.

Incentive Change as a Result of Merger

The management in an acquiring company has a major problem in determining what to do with the incentive package of a key executive in a company they wish to acquire. They must either change it or leave it alone, and a strong case can be made for each.

The desire to change the incentive package is particularly strong in cases where only a few of the key executives were major stockholders and the company sold out for a rather large amount of stock or where the existing total incentive package was extremely generous. In fact, a common feeling is: Never give a key executive enough to let him retire out from under an organization when the going gets rough. All too often the president of an acquired organization has a larger incentive package than the man he will report to in the acquiring firm. Albrook (3, p. 162) points out:

> The actual control functions, moreover, are in the hands of a large, entrenched middle management, usually operating by standard procedures. When a new company is acquired, there is a strong tendency to force it into the established routine. And sometimes there is resentment among middle managers

> against outsiders (who may have been given better salaries of stock options) that reinforces their determination to clamp down on the interlopers.

Just as it has been found impossible to keep blue collar employees from finding out each other's salary, it is impossible to keep division executives from finding out how much each is paid. Psychologists point out that a major source of anxiety, frustration, and antagonism is the feeling that one is being treated differently from others. The position of being in a number of different industries and owning companies with a wide range of sizes compounds the problem for the conglomerate. Arch Patton (7, pp. 690-691) has pointed out a number of relationships that tend to force use of dissimilar incentive plans:

> First, large companies tend to pay their executives more than smaller ones. Second, the salary of the chief executive is instrumental in regulating the pay of subordinate executives. Third, the level of compensation for comparable positions among industries varies widely. Fourth, the pay level relationship among various management functions is reasonably constant from industry to industry.

In addition, if the parent company wants to tie the size of a portion of the incentive package to some measure of performance, Patton's (60, p. 96) 1966 study of executive pay detected few instances where there was a positive correlation between the level of top management pay and return on sales or invested capital.

Many articles on acquisition techniques recommend the use of a uniform incentive package, but most authors then back off and indicate that special plans may be acceptable if there is a well-defined organizational breakdown.

> The general company compensation program should be reviewed early in the postmerger period. In most circumstances, the compensation packages of both companies--salary, bonus, options, and fringe benefits--should be rationalized on a common basis. This establishes a one-company atmosphere, eliminates a potential source of divisiveness, and permits intercompany transfers. A common compensation program need not, of course, rule out special compensation features or even separate salary scales that may be desirable in a company with sharply diversified divisions (70, p. 8).

Litton (75, p. 60), considered the "granddaddy" of the conglomerates, does not believe in the uniform plan, but does believe in the "carrot-and-stick" wherever possible.

> ... there is no standard compensation system at Litton, but many different ones, each tailored to its own special circumstances. Nor is there even a standard divisional accounting system. What is standard, however, is the strict accountability that goes along with Litton's brand of autonomy. In short, a Litton manager is expected to perform. 'You get a guy,' says Gordon Murphy, 'make his unit self-contained, and set a goal. If he can hack it, you make his reward proportionate to the goal.'
>
> And if he cannot 'hack' it? 'Then, 'adds Murphy coolly, 'you go cold turkey and get another guy.'

Changing of any incentive package mix creates problems, yet incentives tied to performance may not be present in the existing package to the extent desired by the acquiring company. Reduction of one incentive in order to increase another is difficult since the value of the various incentives is a subjective evaluation on the part of the individual (47, p. 59). Present incentives also have more value for the individual than those in the future, so salary versus stock options and bonuses are not strictly comparable.

Incentives and Stockholders' Size

The executive in a small independent company is aware of his upper position in the hierarchy as it is relatively small and visible to him. The number of others sharing the same relative level are of interest to him and the need to identify himself in this group is of importance to him as the group increases in size. Conversely, when the peer group is large and management is separated from ownership, the executive does not have some of the identification needs that exist in smaller groups, but does have identification needs with a different group. Size of the company and domination over others have importance, but such relationships are not linear.

Status is the primary means of identifying one's position in a hierarchy, however, status in the broad sense is composed of more than just the items normally considered. Stock options and bonuses, although monetary incentives, are also status incentives in that the eligibility for them implies a certain position in the hierarchy. The award of them and identification with the success of the company provides motivation other than simple increased worth of the executive. The pride-of-ownership incentive is as important as the desire for wealth. However, when such incentives are tied to division or company performance, the executive cannot identify his contribution if the company ownership is too diffuse. Too large a peer group and too many eligibles for such incentives reduce their status value and raise questions over their ability to motivate.

The large company executive continues to receive a significant amount of his compensation through company-tied incentives because of the risk reduction it has for the company. In poor times, the executive's bonus is lowered allowing a greater percentage of the profits to be paid to the owners (stockholders) rather than to the managers (executives). Although the executive does not like to have his compensation dictated by a group of "outsiders", the owners (stockholders) are showing a greater and greater interest in just how the companys' managers are compensated.

CHAPTER II

MERGERS AND SMALL BUSINESSES

In order to better understand the need for a model or a series of models allowing changes in incentive desires to be predicted, merger trends and their impact on small businesses should be examined.

The small company will play a larger and larger role in the acquisition programs of the merger oriented companies. There are simply not enough good quality, medium size companies to satisfy the demand for acquisitions. By the final frenzy of the late 1960s, the field had been pretty well picked over. The demand is such that there is now considerable interest in unmerging or spinning off earlier acquisitions and selling them to some other acquisition oriented management or even setting them up on their own. In fact, the magazine Mergers and Acquisitions now devotes a full section to this activity.

> Sales and earnings of many acquired divisions never lived up to expectations; and in other cases, managements of acquired companies have left en masse, leaving the parent firm stuck with a company no one knows how to run. Other reasons behind the surge toward 'deconglomeration' include the government's continued attacks on conglomeration in the form of antitrust suits (53, p. 58).

Another reason behind the acquisition of smaller companies is the companies which were originally acquired by the parent company are often instructed to make further, smaller acquisitions of their own. Such a program is necessary if the gradual erosion of importance and autonomy of the original acquired company is to be prevented. Often, these smaller mergers are handled with less finesse and become buyouts with complete loss of key personnel. Reid (61, p. 17) presents data on the acquisition of manufacturing firms with over 10 million in assets and those under 10 million. His data (in Figure 1) shows the importance of the small business in the current merger trend.

Trends in the legal aspects of mergers tend to increase the attractiveness of small companies as they have less impact on elimination of competition.

> The FTC has announced that, in determining whether to challenge acquisitions and mergers under Section 7 of the Clayton Act, it expedites procedures when the amalgamations appear to be:
>
> 'Mergers which may substantially lessen [existing] competition through horizontal combination of significant competitors.
>
> 'Mergers which may substantially lessen potential competition.
>
> 'Mergers of a vertical nature [involving] significant suppliers and customers which may result in substantial foreclosure or raise entry barriers.
>
> 'Mergers threatening significant increases in barriers to the entry of new competition, conferring undue competitive advantages or threatening to set in motion a merger trend whose cumulative effects may be anticompetitive'(73, p. 36).

Small Firms in Mergers

One often overlooked consideration in the successful

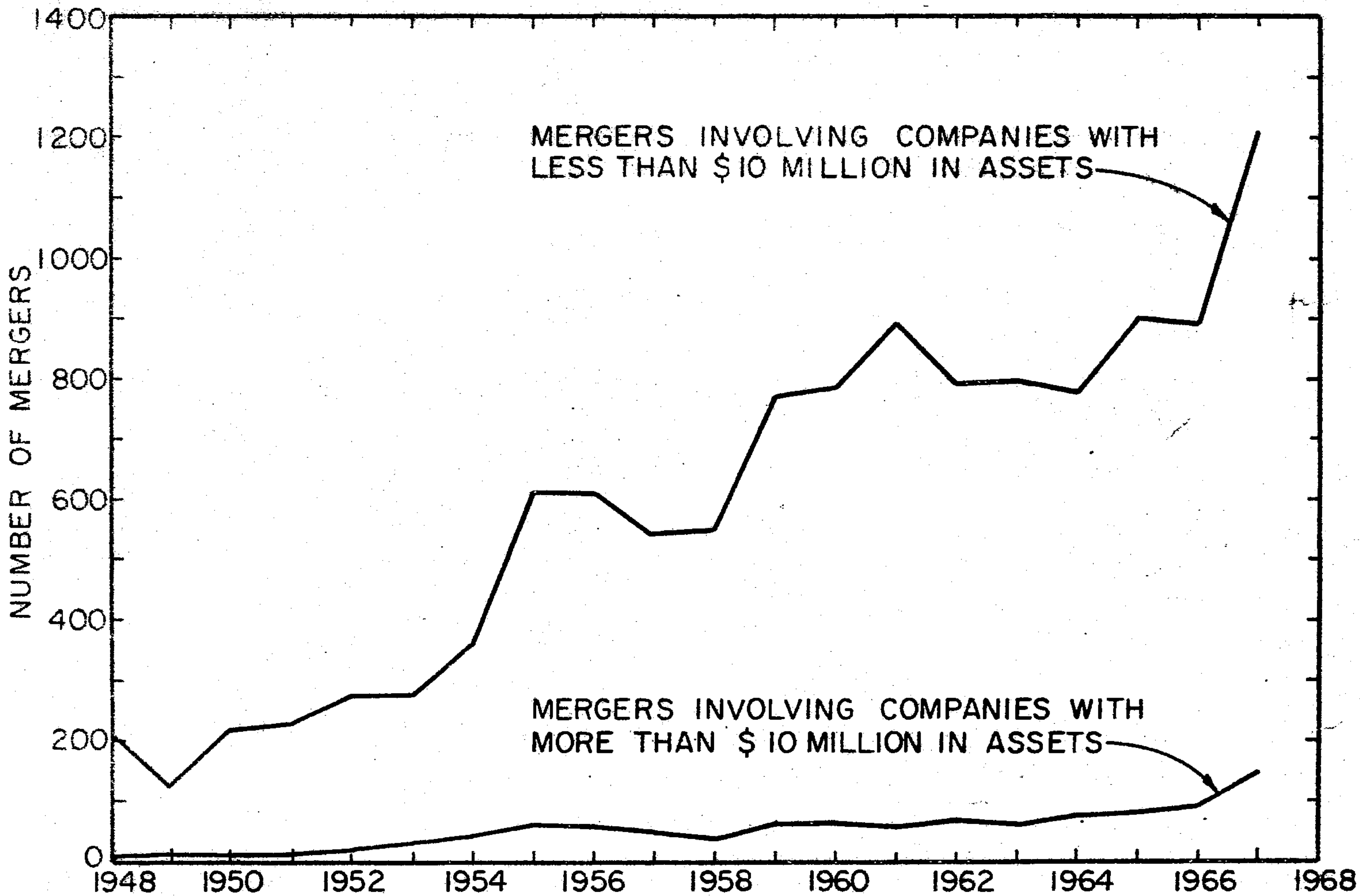

Figure 1. Large and Small Business Mergers by Years

acquisition of the small firm is the amount of time it takes to manage it. One executive pointed out that it takes just as long to handle a small company as it does a large one. Since the staff is limited in the parent company's office, it makes sense not to acquire a firm unless it is large enough to justify the time spent in the acquisition and the ongoing management of it. Too many companies seem to forget the first cost is not the last cost. " 'This little group of companies didn't cost much to buy, but since 1961 I reckon they have lost us $10 million, plus the drain on management time' " (40, p. 92).

Royal Little, former chairman of Textron Incorporated, feels that the large firms should not acquire small businesses and should concentrate on the management of larger companies. The importance of allowing the management a real piece of the action is emphasized by him.

> Little shows the same imperturable nature, discussing the changing nature of the conglomerate that he did so much to invent. He does not find it surprising that many such companies have been approaching Little & Casler (the firm he runs with ex-Textron associate Lester Casler) with offers to unmerge smaller subsidiaries.
>
> Says Little: 'I think that all of the big conglomerates will ultimately find that they had better concentrate on management of the larger divisions instead of those doing $5-million, or $6-million. These units may be perfectly good earners, but it's better to sell them off, or give the managers a chance to go into business themselves' (46, p. 42).

Short (71, pp. 74-75) points out that small, closely held corporations, proprietorships, and partnerships have a fear of merger. A study is reported concerning small firms grossing less than five million dollars per year. The findings revealed a fear of business combination when control is lost. Short points out that the owners of these small firms are usually also the founders and administrators of their businesses. Strong sentimental and psychic attachment had been formed with the company. These attachments would be threatened by merger and the loss of them could not be offset by changes in other incentives. According to Short, the average small business owner-manager sees little difference between absorption and liquidation.

Definitions

It is necessary to define some basic terminology upon which an understanding of this thesis can be based.

1. The horizontal merger is one involving firms which are engaged in principally the same industry. Horizontal mergers have received the largest amount of antitrust attention since they directly involve the elimination of competition in a given area.
2. The vertical merger is one involving firms in which one supplied the other with materials and services. The companies are at different levels in the chain from raw materials to marketing to the ultimate customer. These mergers have received increasing attention as in the duPont-General Motors case.

3. The circular merger involves product extension. It allows a firm to use the same distribution channels with nonsimilar products or services.
4. The concentric merger involves a common thread in the relationship of the firms, which in turn creates "two plus two equals five". To achieve these multiplicative rather than merely additive effects requires a complementary relationship which reflects the degree of fit between the operations joined. The conglomerates highly tout but rarely achieve this synergistic effect.
5. The conglomerate merger is one in which there are no apparent similarities in producing or marketing activities. The typical diversification acquisition of a company is of this type. The conglomerate merger is the most popular of the merger types at present because of its glamour, immunity (until recently) from regulation, and the desire on the part of companies to diversify.
6. A pure merger occurs when one or more companies are absorbed by an existing company. The separate existence of the absorbed firm ceases when the transaction is consumated.
7. An amalgamation is the organization of a new corporation for the purpose of absorbing two

or more companies. The uniting companies are voluntarily extinguished. The new entity takes over both the firms' liabilities and properties.

8. An acquisition concerns one company's purchase of another's total or controlling interest, usually in the form of stock, and the subsequent operation of the purchased company as a separate division or subsidiary.

9. Sale of assets occurs if a company sells its assets to another firm and then goes out of existence without retaining any bartered interest in the acquirer.

The term, merger, is used in this thesis to denote the combination of two or more firms regardless of the final corporate form.

History of the Merger Movement

Mergers and business combinations are not a new American phenomenon. There have been three distinct movements since 1890 and each has had unique motivating characteristics. The first wave occurred between 1890 and 1904; the second began at the end of World War I and continued through the 1920s; and the third began during the latter part of World War II and continued until the end of the 1960s. Figure 2 shows these three movements. The data for

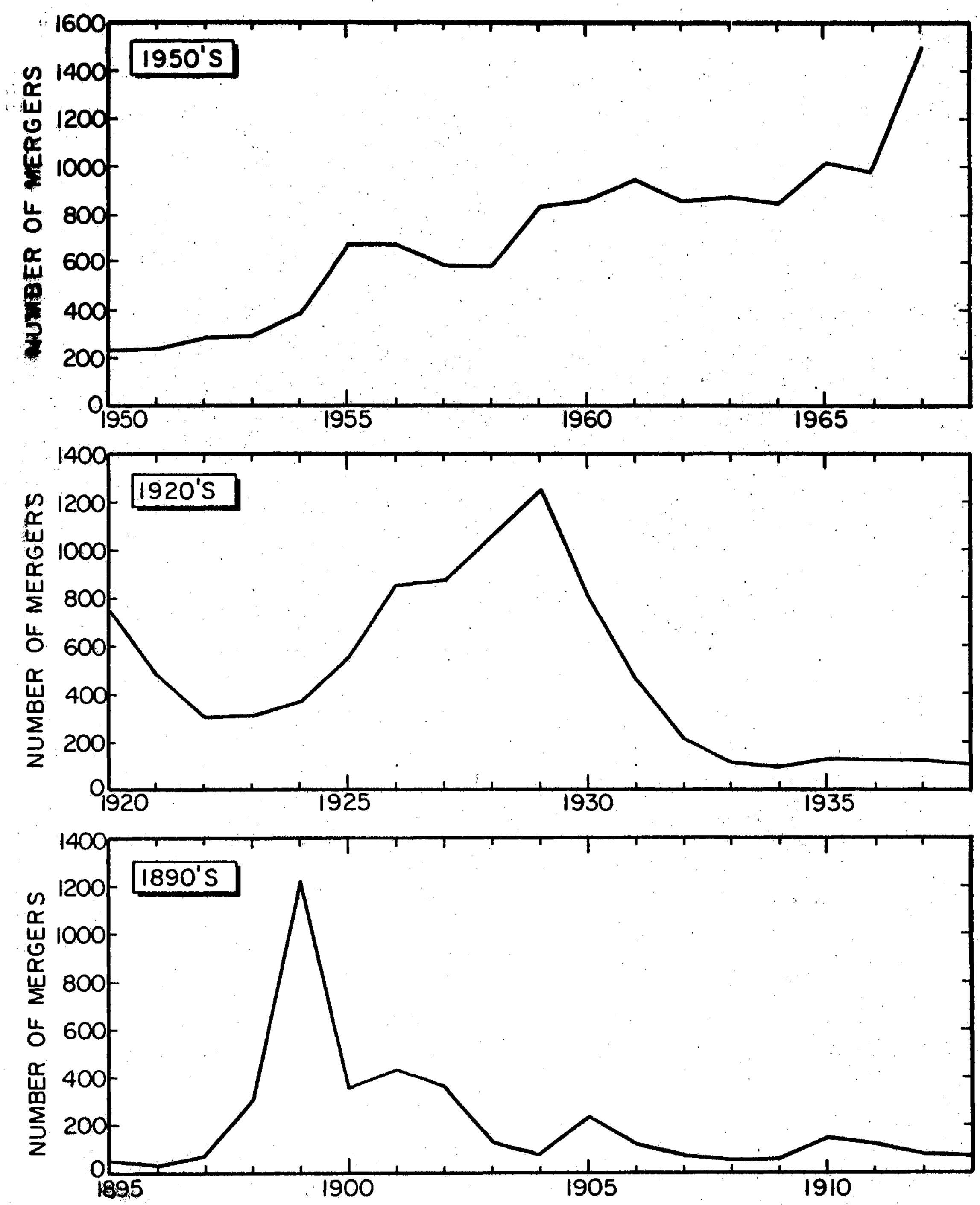

Figure 2. Three Merger Waves

this illustration was obtained from Reid's Mergers, Managers and the Economy (62, Table 2.1).

First Merger Wave

The wave of the 1890s was the first and the shortest of the three merger waves. The main thrust was from 1898 until 1902. During this five year period, there were 2,653 reported mergers with 1,208 reported in 1899 alone. In relation to the economy of that day, this was a considerable amount of activity in a brief period of time. Of 318 important combines in existence in 1903 (total capital of 7.2 billion dollars), at least 236 (accounting for 6 billion dollars) had been incorporated since January 1, 1898 (62, p. 32). The mergers of this period were consolidations encompassing large numbers of firms in the same industry. The purpose was elimination of competition and establishment of a dominant firm. These early consolidation mergers led to the linking of mergers and monopoly in the public mind.

The vast majority of these mergers were of the horizontal type. There were circular and vertical aspects to some of them, but most economists refer to this as the era of the horizontal merger.

Over the years, the following listed factors have been critical in cases testing horizontal mergers:

1. The degree of concentration in the relevant market.
2. The rank and shares of the acquiring and

acquired (companies) in the ... market.

3. Changes, and particularly decreases, in the number of companies operating in an expanding market.
4. Changes in barriers to entry.
5. The elimination of a major independent company from a generally oligopolistic market (73, p. 20).

Second Merger Wave

The second wave crested in the latter part of the 1920s. From 1925 through 1930, there were 5,846 mergers, with 1,245 reported in 1929 (62, p. 56). In sheer numbers, the second wave was over twice the size of the first one. In this five-year period, thirty-seven large firms merged with total assets of nearly 5.4 billion dollars, close to the total of 7.2 billion dollars for the total activity of the earlier wave. Rather than the vast consolidations of the first wave, the mergers in the second wave were more one-at-a-time, or piece meal, and therefore less spectacular.

This movement saw the rise of the vertical and circular types of merger. The horizontal merger declined in use since consolidation was not a significant factor. Possible motives for the use of vertical integration were to achieve technical gains from integration, free the firm from dependence on other firms for raw materials, and to consolidate sales and distributing organizations.

Governmental concern with vertical mergers rests on control of limited sources of supply at one stage of production which may serve as a barrier to the entry of other firms at successive stages. A merger of companies operating in vertically related markets is vulnerable to antitrust action if either market is concentrated.

Third Merger Wave

The most recent merger movement began in 1955 and has been the most persistent of the three waves. During the period of 1955 through 1966, there were 9,834 mergers (62, p. 74).

The present trend is different in that the circular and conglomerate approaches are used more often than in the earlier waves. The mergers are aimed primarily at diversification in which a firm enters into entirely new lines of business. This type of merger may be the forerunner of a new approach to business. The corporation may have a durability lasting beyond its commitment to any given line of business and change its product mix to match its perception of future markets. This switching is most easily done by the use of mergers.

> Concern about conglomerate mergers, from an antitrust perspective, has generally emphasized two issues: the overall concentration of asset ownership and the competitive superiority of conglomerates over single-market companies (73, p. 36).

Mergers' Successes and Failures

It has been widely assumed that mergers were a profitable and successful means of expansion. Attempts have been made by a number of authors to determine how successful mergers have been in terms of profitability and the majority of the results are not encouraging.

Dewing (38, p. 8) was the first to study the merger movement of the 1890s. He selected thirty-five companies that were national in character, had published reliable financial reports and met certain other qualifications.

His first test indicated that earnings of the separate companies before consolidation were eighteen per cent greater than the combined earnings of the first year after consolidation. Dewing's second test resulted in bankers and promoters estimating a thirty-three per cent earnings improvement as a result of consolidation. The estimated earnings proved to be fifty per cent higher than the actual earnings of the first year. The third test showed the earnings in the tenth year after consolidation were seven per cent below that of the first year after consolidation showing that even with time profitability did not reach its original level.

After Dewing came a number of different studies; practically all of them reached conclusions similar to Dewing's. The National Industrial Conference Board studied 48 consolidations from 1900 to 1913 by looking at the rate of return on capital invested and security prices of the firms. The Board arrived at four major conclusions:

> 1) When whole industries have been subject to stagnation, the consolidations went down with the rest.
>
> 2) Industrial consolidations have not been able to avoid sharp decreases in profits in years of depressed economic activity.
>
> 3) When industrial consolidations have burdened themselves with an unmanageable capital structure, they have lost their flexibility and thus forfeited their industrial leadership.
>
> 4) Business combinations are no substitute for effective management (38, p. 10).
>
> ... Johan Bjorksten, a management adviser of Madison, Wisconsin, was not very scientific, but is nevertheless revealing. This study consisted of a survey of published articles about more than five thousand mergers during the period 1955-1965. He concluded that 17 percent of the mergers, or about one out of every six, were known failures (62, p. 94).
>
> In an unpublished study of 120 acquisitions made during the period 1960-1965, Booz, Allen and Hamilton, Inc., a management consulting firm, found that 11 percent were later sold or liquidated and that another 25 percent were judged by management to have been of doubtful worth. Forbes reported on this study as follows: 'We asked executives what seems to me to be the one meaningful question,' explained Conrad Jones, who heads up the New York office for Booz, Allen and Hamilton. 'We asked them, 'If you had a chance, would you do it again?' In only 64% of the cases was the answer, 'Yes' (62, p. 38).

Kelly (38, pp. 70-71) compared the performance of twenty merging firms for five years prior to a major merger with their performance for five years after the merger. The merging firms were compared with a "similar" firm with little or no merger activity to determine relative performance. Success was determined by comparing the performance of matched pairs of firms in similar industries. The conclusions of this study are not surprising. The key to a successful or unsuccessful merger policy is the price paid for the acquisition.

One study used in this thesis based success of a merger on the satisfaction of the acquired company personnel. Unfortunately, a high amount of subjectivity was attached to the answers. The questions were concerned with the satisfaction of the individual, the efficiency of the individual and the resulting competitive position of the company. The full questionnaire is in Appendix A. Three types of mergers were examined, ranging from simple conglomeration to dissolution. A downward shift in all the categories - individual satisfaction, individual efficiency, and corporate competitive ability of the acquired executives and their companies was perceived by the respondents, as the acquiring company's control over the acquired company was increased. The greatest downward shift occurred in the three categories when the acquired company's management was removed. Apparently, such an action is viewed as only slightly better than liquidation.

CHAPTER III

DIFFERENCES IN SELLER'S AND BUYER'S VIEWPOINTS

In order to appreciate why the executives involved in a merger have a difficult time in expressing their desire for various incentive packages, the differences in viewpoint between the buyers and sellers of a company should be examined. Basically, there are two types of executives that are involved in the sales side of the transaction: (1) owner-investors whose ownership is financial in nature and (2) owner-managers who in addition to having a financial interest are directly concerned with business policies and decisions.

The owner-investor sells because he prefers to have his investment in the firm changed to some other form. The owner-manager has more complex reasons. Kinney (4, p. 14) has pointed out that "80 per cent of the operating concerns in the United States are owned by a single individual and that many of the remaining 20 per cent are firms with two or three owners." Clearly, most small businesses tend to fall in the category of owner-manager type firms.

Most publications point out the business reasons for selling and do not emphasize the personal ones. Many observers feel that there must be a problem or the company would not be for sale. Mr. Robert Chambers (16), formerly president of Magna Engineering Company, stated:

> The man I am most envious of is the president of a profitable growing company who:
>
> 1. Owns his company or has completely compatible co-owners.
>
> 2. Has adequate capital not only for current operations but also to finance a growth program that will challenge his young and capable executive team.
>
> 3. Has resolved all his personal estate problems as well as those of other principal stockholders.
>
> Undoubtedly such a man averages no more than four hours a day at his office, the balance spent either on the golf course, with his family, or traveling in foreign lands. His brow is unfurrowed, his shoulders erect, his hair jet black. Such a man should cosult a psychiatrist if he entertains the slightest thought of selling his company.

Seller's Viewpoint

Some of the reasons behind selling are (1) taxation, (2) management problems, (3) capital considerations, (4) product line, and (5) fear.

Taxation

One study reported that the opinions of the managements of 401 companies that sold out or merged between 1955 and 1959 indicated that estate tax and valuation problems were the leading consideration in the decisions of owners of a closely held business to sell out or merge (11, p. 167). Taxation was reported to be of substantial significance in 252 or 63 per cent of the 401 cases. Out of the 252 cases mentioned above, 207 were concerned over uncertainties in valuation of ownership interests, 177 sold out or merged at least partly to obtain marketable stock to get around the problem of valuation uncertainties, and 128 were concerned about the cost of litigation. Estate planning, therefore, is a factor in mergers since it is impossible to predict accurately the valuation that will be placed on the business at the time of the owner's death.

Management Problems

There are many types of management problems which cause owners to desire to sell their company. Some of these are:

1. Dissension in the top management may occur when the original team has time to plan for the future. Attitudes, aims, etc., may change drastically when success allows the entrepreneurs to look at other than the challenge of building the company.
2. The management may find that they have not built an organization in which younger men have a chance to fulfill top job responsibilities. When the management wants out, there is no one to fill their shoes.
3. The company may be getting too large for the few qualified key executives to handle. The management team may have neither the talents

nor the inclination for administration of what they have built.

Capital Considerations

In the first years of a business, the profits are usually small. The profit record is a major guide in borrowing from banks. As the business expands, additional capital is needed either from the profits or from borrowing. New projects needed to remain competitive may have to be shelved if no additional capital is available. However, in Mace's and Montgomery's (48, p. 52) study, they did not find a single company that had to sell because of a lack of money. Other methods than selling out were available such as issuing stock; however, concern over equity dilution and an inadequate sales price for the stock were given as reasons for not doing this.

Product Line

The effect of a narrow or unbalanced product line is shown by the problems that the electronics and aerospace industries are having during the early 1970s. Dependence on one customer, the government, has created great risks for them. When the small firm has a narrow product line, a limited ability to enter new areas, and is confronted by large competitors with broad integrated product lines, the small firm may be wise to sell out. Under the weapons system concept, many items that were previously bought as individual units and assembled by either the military or a contractor are now bought as an over-all assembled item. The prime contractor, regardless of required subcontractor programs, does all he can "in-house". The small, narrow product line company simply does not have adequate ability to take on such large projects as the prime contractor and cannot compete adequately in "make or buy decisions".

Fear

Practically all of these business reasons are actually some form of fear of the future (48, p. 33). In fact, one study found that in most, but not all, cases studied of mergering companies that the one common factor that characterized the decision to sell out was fear. Fear is not a socially acceptable emotion to express; therefore, the practice of disguising the true nature of the seller's motivation is a common feature of the negotiating phase of the merger. The more knowledgeable merger oriented firms are aware of this problem and for that reason usually carefully examine any merger candidates.

Most of the economic or business reasons just given can be re-expressed as a fear of one sort or the other. A major fear is that the work of a lifetime may be lost through some unforeseeable event. The entrepreneur in this case is putting his own well-being ahead of that of his company and is willing at least for the present to put his security ahead of his pride of ownership. The usually limited number of owners in a small firm is an expression of its limited appeal as an investment. Small firms have a difficult time "going public" with their stock. The limited market greatly affects the liquidity of the owner's investment in the company. In order to convert the investment into cash or other investments, the investor must find a buyer or liquidate the firm. Liquidation usually does not bring an adequate price and goes against the growth oriented grain of the entrepreneur.

The fear that a business and technology have become too complex is another common fear. Automation, use of computers, etc., tend to convince the owners that things are now changing too fast for them to keep up. Such rapidly changing technology may even allow a competitor to upstage the company. If this happens, the owners may be forced to make a sizesable investment in new technology just to stay even. Such investments are hard to justify to those owners who are afraid of the future as it requires some of their lifetime savings to be invested in an uncertainty. The possibility that a competitor may merge with a larger company or conglomerate which will then bank roll the competitor into a dominant position is a corollary. In fact, this is one of the advantages claimed for conglomerates, the transfusion of financial, technical, or administrative aid is one of the inducements for a firm to merge.

The fear of loss of key personnel because the compensation package is not adequate is also expressed in the

Mace-Montgomery (48, p. 33) study. With stock openly traded in large companies, the chance to participate in the company through stock options is available. Small companies do not have this advantage and the stock is of limited liquidity since no market exists, making ownership unattractive to the key executives.

Buyer's Viewpoint

The five primary objectives of the buyer are (1) diversification, (2) market expansion, (3) improvement of competitive position, (4) immunity from depression, and (5) the desire for power.

Diversification

Diversification is the term most often linked with the current merger movement. The rapid change of society and its demands require that a company, to be successful, must not concentrate on one item or service. The end result may be a number of subsidiaries completely dissimilar in their products and services.

In diversification, management of the acquiring company thinks more in terms of long-range, <u>no-risk</u> programs and is careful to take <u>extra</u> precautions in view of the fact that the profit life of a product today varies from five to fifteen years and often less. Diversification-minded management seeks constantly to arrange mergers with firms that show growth potential in new areas.

Market Expansion

Very often the main problem is not one of the potential market changing, but of reaching the full potential of the market well in advance of its decline. Diversification is not implicit, though the end result may be a form of diversification if the acquired firm deals in different products distributed through the same channels.

Improvement of Competitive Position

Savings can be accomplished if the acquired organization can be tied to the acquiring company to such an extent that duplicate posts or jobs can be eliminated. This is difficult to do in the conglomerate form if each company is to continue its separate organization. The act of tightening may actually hurt profits in such cases.

Pooling of effort can result in savings. Research and development can be combined to some extent. Marketing can receive products to fill out the product line. A computer can be utilized by several divisions for various efforts. Synergy is hoped for but seldom achieved in these efforts. The required separation for management and control prevents its full realization.

The liquidation of an acquired company can result in substantial savings in both key personnel and in equipment. The form of acquisition and its goals must be considered when acquiring to improve competitive position.

Depression Immunity

When the economy of the nation suffers a slump, certain industries suffer more than others. To alleviate this fear of impending crippling or perhaps death of their business, many such firms get themselves a hard-times crutch in the form of a merger with a stable item producer.

Until the 1969-1971 recession, many of the conglomerates believed that their organizations were recession proof, however, this has not been the case. The recession-depression use of acquisitions may help, but not totally prevent loss of business.

Power

Many organizations are one-man shows. In fact, concern has been expressed about the future of conglomerates when the founder retires.

> More often doubtless than is commonly supposed, the basic purpose in effecting combinations has been psychological rather than economic. Ambitious and successful business and industrial leaders took pride and pleasure in becoming railway kings, monarchs of finance, builders of vast industrial empires. Such combinations gratified the race-old instinct of self-assertion and domination over others. To organize a great combination was at once to give eloquent testimony of creative genius and also to provide a means of satisfying one's desire for power (82, p. 19).

It is important that the differences in viewpoint and purpose of the acquiring company and the acquired company be recognized. The desire to alleviate the fears that the owner-manager has is uppermost in his mind. Since the main desire is to alleviate this fear, other considerations are secondary and tend to be brushed aside or easily covered by some simple statement. He does not fully examine the acquiring company and its goals as related to his company.

The management of the acquiring company is interested in growth of the over-all organization. Acquired companies or divisions are of interest not as individual organizations but only in what they can contribute to the whole. The division that does not perform up to expectations may be modified, liquidated, or spun-off. The chairman of the board of one major conglomerate when asked what steps were taken to help divisions which lost money replied, "We have no divisions that lose money." Such an impersonal approach to the future of an acquisition is not what the owners of a small company want. Most entrepreneurs do not want to see their life work modified, liquidated, or spun-off.

CHAPTER IV

KEY EXECUTIVES IN INDEPENDENT AND ACQUIRED COMPANIES

Presthus (61) defined nine major structural characteristics of large organizations which constitute his bureaucratic model, an ideal type of all large organizations. Although the small company may not have all of these bureaucratic characteristics, the addition of it to an acquiring company does not eliminate theirs and, in fact, reinforces many of them. These characteristics are size specialization, hierarchy, status authority, oligarchy, cooptation, rationality, and efficiency.

According to Presthus' theory, there are three types of individual reactions to the imposition of a bureaucratic structure. The "upward mobile" fully accepts the organizational structure. He identifies strongly with the organization. The upward mobile is roughly defined as one who can take seriously the status system of big organizations.

The "indifferent" regards organizations as calculated systems of frustration, he does not compete for the promised rewards. The indifferent pattern is the typical pattern for most of those in an organization. It is suggested that a large proportion of them have been alienated by the structural conditions of big organization. Indifference is manifested by a desire to find rewards through his extra-vocational orientation. Work is a method to obtain satisfactions not related to work.

The third classification Presthus uses is the "ambivalent". The ambivalent needs the rewards and recognition of the organization, but is unwilling to blindly accept the system. Rationality alone provides his compelling standard. The role normally played by the ambivalent is that of the specialist; he honors theory, knowledge, and skill. His intellectual interests are narrow and deep, his intelligence markedly superior to that of extroverts. Personal goals of this group are usually primary.

The executive in a company with very few stockholders avoids many of these pitfalls. He does not need the status system to identify his position; he is, to a large part, above the organizational structure. The company is his baby and its growth is satisfying; hence, work is not a method to obtain other satisfactions. He is the system or can modify it so he is not asked to blindly accept it.

There have been many comments made about executives "banking their fires" after a merger. New, outside interests are often mentioned; this, along with Presthus' comments, certainly raise the possibility that executives become indifferent or ambivalent after a merger if they cannot find a suitable incentive mix that fits their new position in a new hierarchy.

The ambivalent being somewhat of a loner and his sensitivity to the need for change seems to fit the small company founder who wants to invent and be left alone. It is pointed out again and again by Presthus that such an individual is uniquely unsuited to the bureaucratic organization.

> One way to ease the pain for a president who treasures his autonomy is to place him under the supervision of a tolerant executive who can suspend the rules of corporate bureaucracy. This is particularly important for some scientist-entrepreneurs who have little interest in management (3, p. 155).

Blauner (10, pp. 15-34) studied the alienation of the blue collar worker in Alienation and Freedom. Four types of alienation were found in industry: powerlessness, meaninglessness, isolation, and self-estrangement. It is striking that although he studied factory workers in industry, much of the same forms of alienation are present in the executive whose company has been purchased by another, or one in which he has little say.

A person is powerless when he is an object controlled and manipulated by other persons or by an impersonal system and when he cannot assert himself or modify this domination.

Meaninglessness reflects a split between the part and the whole. This form of alienation occurs when individual roles are not seen fitting into the total system of goals of the organization. The nonalienated state is understanding of the organization's total functioning and activity.

> Rantec sales, Krausz concedes, represented only a minute portion of Emerson's half-billion-dollar business, so he understood why headquarters did not always respond to his requests. 'But you

> begin to feel it doesn't make any difference to them what happens to you (3, p. 164).

Isolation suggests the feeling of being in but not of society, a sense of remoteness from the larger social order, an absence of loyalties. The nonalienated state is a sense of membership and of belonging.

Self-estrangement occurs when activity becomes a means to an end rather than an end in itself. Presthus (61, pp. 205-256) also describes this form of alienation as present in individuals who are indifferent. The opposite pole is involvement, self-expression, and self-actualization.

> With several million dollars of Itek stock, Ayer left this year and now his typical weekly schedule includes one day consulting for Itek, two days raising money for a community hospital in Palo Alto, California (where he lives), and eight hours of flying instruction to win his instrument rating. He also serves as a director of four companies, chairman of one other - and goes fishing (3, p. 162).

Often, the managements of the acquiring companies accuse the executives of losing their drive and are disappointed when motivational schedules do not work. Several respondents to the studies commented on executives that seemed "to simply have received too much money all at once, and now sit around and want to work on 'pet' projects outside of the company." The loss of self-actualization was never mentioned.

Again, the executive in the company with few stockholders does not suffer any of these forms of alienation. However, as the number of stockholders increase, the executive becomes more and more of a manager and less and less of an owner. The responsibility is there but the authority is in question. The executive can see less and less of an impact that his personal efforts have on either the company's growth or his own wealth. In short, at some point the company becomes filled with organization men. Less there be any misunderstanding, the thrust here is not against biggness, bureaucracy is highly functional for the larger company which is where it is usually found. Only one small company, observed by the author, with under 500 people and originally about 30 stockholders had a bureaucratic structure; its past was filled with near bankruptcies and rescues. At the other pole, no large company was observed that had other than a bureaucratic structure.

The fundamental differences between the entrepreneur and the organization man form at least part of the basis for the differences in attitude of executives in small companies as the number of stockholders vary. The company executives in those companies with few stockholders are often the founders of the company and regard it as a highly emotional extension of themselves. Marko (36, p. 315) has indicated the problem in his article on minimizing merger risks:

> We must not lose sight of the fact that we are still dealing with human beings - an individual or even a group of individuals who have grown with and put their life into their company.... In one of our negotiations we met with the principal; we had our attorneys, he had his. We were just about to finish when the principal said 'No I can't do it'. No reason - he just could not do it. We got together with the same principal one year later and we acquired the company. We shook hands, and all of us went out to lunch that afternoon. Midway through

> the meal he excused himself and went into the men's room and vomited. It was a traumatic experience. Selling a company is not an easy thing for an owner to go through.

Key Executives in Mergers

The management of a company is usually asked to stay on after the merger for two reasons: (1) to prevent loss of personnel, sales knowledge, technical knowledge, etc., and (2) the acquiring company has only a few people in the corporate office and no real knowledge of how to run the business it has just bought. Many of the corporate staff are involved in looking at new possible acquisitions and are merely using financial controls to keep tabs on the ones already in the fold.

Several conglomerates have emphasized that what they are buying is talent and not a factory machine. But this talent is often lost because the management of the acquired company refuses to be relegated to simply playing the roles designated for them. This is Parson's (24) concept of creating a structure and forcing people to fit it. The same reasons that gave them the drive to reach the top before the merger will not allow them to remain satisfied with being merely a lower part of another organization. The executive has reached a high position in the pyramid and then has had a new pyramid imposed on top of him. New incentives must be offered to induce him to remain.

Schoonmaker (68) has pointed out how such items as size, power, bureaucracy, anonymous authority, group domination, and management problems lead to anxiety on the part of the executive. The reactions to these anxieties range from excessive drinking to the common cold. Many solutions are suggested, but the only answer is, the corporation must recognize that the "talent" they have acquired is a human being, or as Schoonmaker said, "Enlightened individualism must prevail."

The key executive has one great asset, experience with the acquired company and its business.

> 'The belief that managerial ability is general and transferable appeals not only to journalists, novelists, politicians, and the general public, but to successful managers as well,' Dean and Smith wrote. 'We believe the weight of evidence is to the contrary, that managerial ability is generally tied quite closely to the particular industry setting in which it develops and operates.' A good manager's intuitions, like those of a good card player, come from his long experience with the special rules, technology, and markets of a particular industry; only in extraordinary individuals-so few as to be practically negligible-do we find the ability to absorb a new game intellectually and then compete successfully with experienced players (15, pp. 12-13).
>
> The conglomerate can encounter difficulties if its top management automatically assumes that a skilled manager can function successfully in an industry far removed from his prior experience (14, p. 8).

Lohmann (47, pp. 121-125) points out that the manager has a vantage point from which information is obtained that is not readily available to the other contributors in the organization. Part of the process of managing is the evaluation of information and the method by which it is to be communicated to the other contributors. Experience in evaluation of information peculiar to the company and an understanding of the individuals in the company are necessary.

In the second study for this thesis, the executives in acquisition-oriented companies were asked to respond to two statements concerning key executives in acquired companies. The first statement was: Executives in small companies are more difficult to motivate after a merger than those from larger companies. A set of five stepped responses ranging from strongly agree (5) to strongly disagree (1) were provided. The responses indicate that the surveyed executives feel that small company executives are difficult to motivate.

The second statement was: The key executives remaining after a merger is an important factor in the acquisition of small companies. There was again a set of five stepped responses ranging from strongly agree (5) to strongly disagree (1). The responses to this statement indicate the key executives are needed.

Unwanted Executives

Many articles recommend removing the acquired companies' key executives at once since they are often the entrepreneurs and will not fit into the companies' organizational structures. The executives that are innovative find that the formal structure that has been imposed on them stifles their freedom of action.

> Many acquired presidents discover - if they did not know it before - that they are not 'organization men' but basically entrepreneurs. They would rather plant a garden than tend it, and no corporate structure is flexible enough to retain such men. The reason is put candidly by Morris R. Jeppson, forty-seven, who has merged two companies he founded with High Voltage and with Armour & Co., and left them both. 'Our commitment,' he says 'is not to a company but to technology. And my key people come right along with me, from company to company.' For this kind of foot-loose entrepreneur, a merger is merely a phase in a continuing cycle of innovation (3, p. 156).

Forest D. Wallace of McKinsey and Company and R. H. Malott of FMC corporation pointed out the differences between the organization man and the entrepreneur at a conference at the University of Chicago in 1963.

> Malott
>
> In these Southern California companies that have been purchased in order to acquire the services of the bright entrepreneurs who founded them, don't you find that the talents of these men sometimes are not the talents required for success in the merged company?
>
> Wallace
>
> Yes, I think there is a good deal of that. I can think of one classic case of a real entrepreneur who built a company from nothing to $300-million sales but who was incapable of managing it when it got big. But he wouldn't let anyone else manage it. If he had left the firm about ten years ago, it could really have taken off. Admittedly, the stock went up about a thousand per cent, but I think it would have done even better if the president, who wasn't a big shareholder, had let others manage it.
>
> Malott
>
> Isn't there a type of entrepreneurial skill which is often not compatible with the qualities required for managing a division of a large corporation? The kind of talent that has made a man successful in initiating and developing a small company in many cases, it seems to me, is not the kind of talent that

makes him a successful part of a large corporation.

Wallace

This is very often true. One of the problems in buying such a company is figuring out how to get the man out of the mainstream. It's often better for the acquiring company to buy him off, in terms of early retirement, than to try to find a place for him.

Bicks

You feel that even though he is very different, he can't make a contribution?

Wallace

The entrepreneurial type is different. In fact, he is usually the opposite of what we know today as the ideal organization man (2, p. 180).

Machiavillian Approach

One of the basic assumptions of this thesis is that the key executive in an acquired company is desired and needed; however, there are many times when such an executive must be removed. Although their loss is serious, to let them remain or slowly be eased out will create even more serious problems. In an article on cost reduction, C. M. MacMillan took the Machiavillian approach to the elimination of key executives. Such advice applies to mergers as well.

> Take time to plan well, but when you are ready move fast. The sooner its over, the sooner the conjecture and uneasiness will cease.... Whoever acts otherwise either through timidity or bad counsels is always obliged to stand knife in hand and can never depend on his subjects'.... Men who are kept while their peers are being let go easily conclude that they are superior beings. Now is the time to feed the ego. Forget the I and by word and action make it we (49, p. 75).

CHAPTER V

EXECUTIVE INCENTIVES

The four incentives examined in this thesis are (1) bonus, (2) stock plans, (3) salary, and (4) status. Several of these incentives could be broken down further, but the problem becomes overly complex, hence, only broad categories are used.

Bonus and Contingent Payout

Bonus

Since the key executives of a company are in a position where their decisions have a direct effect on the profitability and growth of a company, they are often paid a bonus, supposedly related to the company's performance. The theory being that the additional motivation will result in improved performance of the company. The same approach is used by many of the acquisition-oriented companies in motivating the key executives of their acquired companies.

The bonus is difficult to apply throughout an organization. The further down the hierarchy the individual, the less effect the bonus will have. In a conglomerate or other acquisition-oriented company, the divisions or acquired companies must be well separated or defined in order that performance measurement be possible. In an independent company, the functions must be very well separated.

Beach (7, p. 682) has pointed out a weakness in profit sharing that also applies to the acquisition-oriented companies' use of bonuses.

> A fundamental weakness of profit sharing is that employees' earnings are tied to profits - something over which they have only modest control. Profits are affected by general business conditions and the state of the business cycle, extent of competition, luck, caliber of top management, and other factors beyond the control of the employees. Of course, employees as a group do have some effect upon profits to be sure. But if top management wishes to adopt such a program primarily for its incentive aspect, then this objective can only partially be realized.

Although Beach (7) is primarily concerned with blue collar workers, acquired company executives can have the same problems.

> He felt the tightening grip of the organization in other ways. Teledyne proposed taking over Microwave's insurance program. It bought a $2-million building that Microwave had been leasing and put it in Microwave's capital account. This depressed the return on "PCI", the parent company's investment, which was Teldyne's ultimate measure of performance. It hurt Kaisel personally since incentive bonuses were pegged to return on PCI (3, p. 153).

The bonus is popular as an incentive since it can theoretically be reduced when the company has poor years; thus, the company can protect itself. However, bonus plans fall far short of providing real motivation. A growing number of companies have been searching for ways to discard or replace bonus practices that appear to be burdensome from the standpoint of cost and valueless as motivators. Many of these companies have found that the payouts are welcomed, but that participation in them bears no relationship to performance results. While executive bonus plans are typically greeted with enthusiasm, interest soon tapers off. One difficulty lies in the tendency to take rewards for granted after a brief period of operation.

The bonus has status connotations in addition to its monetary reward. Many executives do not wish to specify the level at which one becomes eligible; in fact, there appears to be no rule except that they are for the upper echelon. The mere membership in the club is an important incentive.

The smaller companies with few executives rarely pay major bonuses for several reasons. First, the company is an extension of the executive in the truest sense of the word. To empty the coffers at the end of the year is unacceptable. This feeling diminishes as the number of stockholders increase. Second, ordinary bonuses are taxed as ordinary income, but if the company is built up and then at some point in time it is sold, the gain is taxed at the lower capital gains rate. At some point, the bonus based on company profits loses power to motivate executives as they perceive that they can no longer affect the profits and, hence, have no influence on their bonus.

In the acquired company, it is expected of the executive to desire a bonus just as the acquirer wants to reduce risk and increase motivation. "Membership in the club" and the faith in own performance provide motivation in the acquired company. The problem of taking funds from one's own creation is no longer in existence since it is no longer his. The real possible growth in the company by plowing back funds is controlled by the profit plan. Although his bonus is based on division profits, in reality they are determined by the corporate office and are an expression of faith and reward for short term performance.

The bonus must be large enough to be meaningful. Professional consultants recommend that at least twenty per cent of the incentive package must be bonus if it is to have any real incentive effect. A poor year in which the bonus should be lowered or not paid at all can actually be a negative incentive.

A bonus plan based on company profits is a powerful incentive only if there is provision for recognition of individual contributions to over-all corporate success as well; that is, a bonus system which penalizes the outstanding performers because of over-all poor company performance is demotivating.

Lohmann (47, p. 86) points out:

> One skill of managers in a large complex of unit organizations lies in their ability to inculcate in the contributors the necessary connection between the immediate resultant of the formal unit organization and the eventual satisfaction of their personal purposes.

The bonus suffers this problem as an incentive, since it is paid for past performance. The executive tends not to think of his personal gain except at the end of the year at bonus time. Nytronics Incorporated pays their bonuses out in twelve equal payments in an attempt to overcome this problem.

The deferred bonuses can be grouped into two categories: (1) short-term deferrals, and (2) long-term deferrals. Short-term deferrals involve paying part of the award at the time it is declared with the remainder paid over the next few years. Long-term deferrals involve the postponement of the entire award until retirement or other termination. The award is then paid in a series of annual payments. Taxes make the deferred bonus more and more popular. Additionally, the use of deferred bonuses can force executives to stay in order to receive the rewards. The short-term deferral is of use in highly cyclical industries to help even-out the flow of income.

Contingent Payout

The contingent payout is also known as the incentive payment arrangement or the earnout. The acquiring company makes a down payment of cash, stock, etc., and also makes an agreement that additional consideration will be paid if the acquired company meets or exceeds agreed on performance standards for a specified number of years after the acquisition. Since the contingent payment is a form of bonus and a means of continuing status incentives, it deserves mention.

When the acquisition-oriented company executives were asked in one of the surveys for this thesis whether or not they used contingent payouts, over two-thirds indicated they did. The technique has both positive and negative aspects. The main advantages to the acquiring company are obvious: reduced risk and increased motivation for the acquired company's executives.

A separation of the acquired company from the parent company is required if its performance is to be accurately measured. The parent can avoid paying for performance it actually generated in the acquired company and also avoid blame if something goes wrong. The separation prevents the acquiring company from making any changes, providing assistance, and generating any synergy. Integration is delayed and combination or restructuring of the over-all company is made more difficult.

Not all of the risk are to the acquirers; the selling company agreed to the use of the contingent payout in the hope of getting more for the company than in an outright sale. If the company does not meet its goals, then the former owners lose out. Mergers always cause some unrest and the loss of any middle management or other problems may affect both profits and sales. In addition, there is the strain of being under the gun, having to keep on proving one's self when the management may be tired and want out. Thomas Riggs (64), Vice President of Textron, pointed out that if a contingent payout is involved with more than one ex-owner participating, loss of payments due to failure to meet goals can cause internal friction.

The advantages to the selling company are that it can receive a larger payment than through a straight sale. Autonomy and independence are assured unless the seller fails to meet the profit plan. In most cases, there is a bailout clause to protect the parent company. The control may not be as great as the seller thinks. The independence, or feeling of it, can be an incentive of great importance if the owner-managers wish to continue in business. Harold Marko (51), President of SOS Consolidated, pointed out that far from being a method of acquisition allowing autonomy the contingent payout is a method of tight incentive control. The control of incentives controls the entire acquired company. He further feels that most small firms desire formality and this tight control.

Many factors which are not easily determined at the time of the sale, such as goodwill, future profits, etc., may be covered by contingent payouts. The problem of agreeing on price is overcome to a large extent. The acquired company actually pays for itself through its stream of earnings.

The acquired company must be watched so that running on a reduced staff or other short-term techniques are not used to hold up profits in the short term. Such watching implies controls which are what is hopefully being avoided by the use of this technique.

The motivation and the risk reduction seem to outweigh the problems involved. In the era of rapid decisions, it allows some latitude for error in determining the companies' real picture. The technique has been recommended for use with small businesses and closely held companies where the real value is difficult to determine.

Stock and Stock Options

The ownership of stock in a company is often felt to be a powerful incentive for its executives. The independent owner-manager usually receives stock in the acquiring company in trade for his company's stock. Such a transaction avoids tying up the parent company's cash, motivates the acquired executive and avoids certain tax problems. Additional stock options allow the parent company further motivational incentives for use with the acquired company's executives. The desire to make a great deal of money by building the company up either after receiving stock or a stock option is often played on by the parent company as are stock purchase plans. The stock of the parent company is often used as a substitute for the stock in the acquired company to attempt to continue pride-of-ownership. Pride of ownership is discussed later in this chapter.

A stock option represents a company's offer to sell a specific number of shares of its stock to a given individual or group of individuals at a specific price. It gives the individuals the opportunity to purchase the stock during a stated time period. In simple terms, if the value of the stock increases during the option period, it will be to the individual's advantage to exercise the option. If the price declines during the option period, the option need not be exercised. The stock option program tends to emphasize long-term corporate success; whereas, most bonus plans tend to emphasize short-term success. Wettling (56, p. 127) points out that:

> ... stock option plans afford corporate management the opportunity to compensate executives and other employees in a completely discriminatory manner. Unlike stock-purchase plans, which require broad coverage of employees, stock-option programs enable management to pick and choose participants and, within broad limits, arbitrarily determine the number of option shares to be granted to each one.

The power of the stock option as an incentive was drastically reduced by the tax reform acts of 1964 and 1969. The 1964 tax act raised the holding period for capital gains treatment of the increase in value of the stock to three years and reduced the option life to five years. To a large extent, the effect of the 1964 changes were concealed by rising stock prices during the 1960s. Patton (58, p. 21) states:

> This helps to explain the generally myopic view of stock options prevailing long after its passage.
>
> Senior executives, who had profited handsomely from their earlier options, felt it only fair, when old plans expired, to offer the new "qualified" options to oncoming younger executives. The latter, in turn, accepted the options in good faith because of the earlier profitability to their seniors.

The slump of 1969 occurred just when the five-year option period of the early qualified plans was expiring. Patton estimates that one-half of all of the executives who had exercised options in the late 1960s were forced to sell by declining prices for self-protection. The 1969 tax reform bill deals in an indirect manner with the effect of stock options as an incentive. Only the first $50,000 of gains now is eligible for the twenty-five per cent alternative income tax, limiting the maximum effect that this incentive can have. Also, there is now the provision that one element in an executive's compensation package must be evaluated in terms of its impact on another element in his total pay. The 1969 tax act's impact on stock option gains now requires an assessment of provisions involving the maximum tax, the minimum tax, and the alternative tax on capital gains. The net result is to further confuse the value of the stock option incentive. Not only is it mentally discounted as a future incentive, but its value in the future is clouded.

The establishment of a fifty per cent maximum individual tax rate in 1972 gives a large boost to the short-term incentives and further erodes the value of the long-term incentive. The spendable income yielded by this change will downgrade all types of deferred income in importance. One of the major advantages the stock option has for the individual is to receive at least some of his income at a lower tax rate than ordinary income would receive. In fact, several executives in the study stressed this advantage above all others.

The incentive programs in the future probably will not use the stock option to as great an extent as it has been used in the past because of the 1964 and 1969 changes in the tax laws. The uncertainty of future congressional actions and the stock market also will tend to move incentive packages in the direction of the short-term incentives. Of course, the young executive still may feel that there is glory in stock options and there is a certain amount of status in being included in such a plan.

In the small organization or one with very few owners, the owner manager has no problem in identifying his position in the hierarchy. The stock option fills this need in the acquired organization since only certain key employees are eligible. Stock options not only are a motivational incentive from the point of possible monetary gain, but also a status incentive. Several executives bragged about options they had received from the corporate office, even though the stock was now selling below the option price. In companies where ownership and management have separated, the key executive can still find his position in the hierarchy and the status of the option is not needed. Only when a new hierarchy is imposed from above does the need for additional status come into play and a stock option is one method by which this can be achieved.

The stock option is not available and, therefore, not of any real interest to the company executives in a company having only one or two owners. Either one owns stock or one does not. However, as the number of owners increases, such options become possible and interest in them rises. The owner manager identifies with his company and wants to be more a part of it. At some point, ownership and management start to separate and the interest starts to wane. The manager no longer identifies with the organization to the extent the closely held organization owner does; it is no longer his child.

In acquired organizations, the executive of a company is expected to show his interest in stock options regardless of how much money or stock he may have obtained as a result of the merger. In fact, some conglomerates keep track of which executives have exercised stock options or purchased stock through purchase plans so that their loyalty may be measured. Such interest in stock options would be expected to be relatively uniform over wide ranges of corporate size.

Salary as a Basic Incentive

Base salary for many years has been losing its importance as a part of the executive's incentive package because of the tax and motivational advantages of other items. However, with shifting tax laws, salary again is gaining in importance as advantages of the other items diminish. Even the uncertainty of future taxes on the long-term portions of the package puts more emphasis on the certainty of salary and its immediate payment and taxation. The bonus and stock options are being questioned more and more as to the actual motivational value that they have. The recent recession has emphasized the variability of some of the items in the incentive package which were more or less assumed to be fixed.

The strong desire to motivate executives through the use of stock options, contingent payouts, bonuses, etc., often causes the power of straight income to be overlooked. Yet, salary is by far the most visible portion of the incentive package and is the yardstick by which the package is usually judged. Other than motivation, companies want to reduce the risk to themselves by use of incentive plans tied to some measure of company or division performance.

The salary can be basically divided into two segments, one portion provides for the bare necessities and the remainder for ego satisfying needs. Maslow (52, pp. 80-106) developed a theory of human motivation which assumes that needs are arranged along a hierarchy of priority or potency. When the needs that have the greatest potency and priority are satisfied, another step up the ladder of motives occurs. The hierarchical order from most potent to least potent is physiological needs, safety needs, needs of love, esteem needs, needs for self-actualization, cognitive needs, and aesthetic needs. A rough breakdown of these needs would put the first two in the bare necessity portion of the salary and the remainder in the acquired need or ego satisfying portion of it. The acquiring company management also tends to break salary down this way and to emphasize its use to relieve the first two wants and to overlook its use to satisfy ego needs. Lohmann (47, p. 249) points out:

> In most industrial organizations, the major portion of all incentives offered are ego satisfying. Only a small portion of the material incentives or a minor portion of the wage or salary is required, in most cases, to maintain health and life. Thus, wages, which have received so much attention, must be considered and studied from the standpoint of how they allow one to differentiate himself from those considered inferior and to equate himself with those considered equal or superior. Money is not a strong incentive for most industrial employees as a means to live, but it is strong as a means to attain a desired status and standard of living.

Salary is usually far and away the largest portion of the executive's income. Since it is of such magnitude, it is tempting for those companies wishing to tie total compensation to company performance to reduce salaries after a merger. The theory being that bonus, stock options, etc., will offset the loss; however, the executive sees his salary every two to four weeks and in only rare cases does he see the bonus or stock option more than once a year. Incentives should never be reduced or swapped in this manner.

The acquiring company must be flexible in its desire to provide motivational incentives such as stock options, bonus, etc. The salary is of extreme importance and should receive consideration, especially in those situations where there are very few stockholders or that they have only a few years left until retirement.

> What really serves to motivate a president? This is an intriguing question. In one operating company, the president, a self-made millionaire, was recently given a 12% salary boost. Soon afterwards his top aide remarked, 'The boss is pleased as punch. You should hear him crowing about that raise.'

> Is the money the motivation? We doubt it. We believe, rather, that the president lives in a lonely world. He is expected to be continuously cognizant of his duty to appreciate the good work of his people, but personal recognition for himself is not easy to come by. Money often means little to the millionaire--far more important to him is the fact that the parent company thought enough about the job he was doing to give him a raise (42, p. 98).

Of course, some executives desire the chance to "hit it big" and want incentives which do not carry the heavy tax burden.

The fact that young executives are still interested in incentives other than salary alone was noted by Patton (58, p. 26) in his study of stock options as an incentive.

> Not all executives, however, have become disillusioned with stock options. The younger executive, particularly one who has not had an option, still finds them attractive. But his interest primarily reflects his lack of experience with the knowledge of the changes which have resulted from the 1964 and 1969 tax laws.

The idea of the young entrepreneur and his small company comes to mind; however, the empirical research indicates that the average executive had been with his company for a considerable length of time. Also, that the companies surveyed had been in existence considerably longer than expected. Lewellen (44, pp. 215-219) indicates that in 1963 the average age of the top executives in the sample he studied was 60, where in 1940 it was 56.

The few (approximately 12) respondents that were surveyed and ages checked were found to range from 50 to 58. There appeared to be no correlation with the age of the executive and his desire for long-range versus short-range incentives. It should be pointed out that executives in very small companies already control most of the stock and are not as interested in stock as an incentive. Additionally, bonuses are not paid and the money plowed back into the company for additional growth. At the upper end, the more organization-oriented individual may be more sophisticated in motivational techniques and are less interested in the problems of bonuses and stock-options, but still not true organization men.

Since executives in small companies with few stockholders are not interested in many of the other incentives available, it is only natural that salary should be their main desire. As the number of stockholders rise, the interest in the various incentives such as status, stock, and bonus rise until the break-over when such interest starts to decline as discussed in other sections of the thesis. These changing desires for other incentives shape the salary model in the opposite direction based on percentages.

The uniform desire for the various incentives in the acquired company executive group also keeps their desire for salary relatively uniform. The desired income in salary for this group is approximately seventy-five per cent; whereas, the executives in acquiring companies showed an average desire of approximately sixty-five per cent to be paid to acquired executives. The desired salary incentive of seventy-five per cent is close to that desired by the group of independent company executives in the 20 to 200 owner company range. Above and below this group, salary is of greater concern. Since this group's desired mix is close to that desired by executives after a merger, little change or selling of an incentive package needs to be done. However, the desired salary incentive never drops to as low a percentage as the acquiring companies' desire to pay, so over emphasis on the other incentives must be avoided if the key executive is not to initiate search behavior.

Status and Pride of Ownership

Status

In discussing status and the problems involved in mergers by change of status, the definition of status by Barnard (6, p. 208) shall be used.

> ... that condition of the individual that is defined by a statment of his rights, privileges, immunities, duties, and obligations in the organization and, obversely, by a statement of the restrictions, limitations, and prohibitions governing his behavior, both determining the expectations of others in reference thereto. Status becomes systematic in an organization when appropriate recognition of assigned status becomes the duty and the practice of all participating, and when the conditions of the status of all individuals are published by means of differentiating designations, titles, appellations, insignia, or overt patterns of behavior.

There are two kinds of status, functional and scalar; however, only scalar is of interest when dealing with industrial executives. Scalar status is determined by jurisdiction and by the relationship of superiority in the hiearchy of the organization.

Although Barnard (6, p. 211) breaks the apparatus by which status is established and maintained into five categories, only two are of major interest in discussing the use of status in the corporation. The two are "emoluments and prerequisite of position and office" and "titles and appellations of office and calling". The other three are "insignia and other public indicia of status", "ceremonies of induction and appointment", and "limitations and restrictions of calling and office".

Titles often are only a description of the function performed; however, because of other conditions such as differences in salary, bonus plans, etc., the title also becomes a designation of status. In the organization with few owners, such identification is not of as great importance as it is in larger ones; everyone knows who the owners are.

Quite often, the title is changed as a result of merger; the president becomes general manager, the vice-president becomes plant manager. The justification for such title changes is usually based on rationality. The organization would appear top-heavy and inefficient to potential investors if there were too many executive titles.

This same reduction of status and for the same reasons occurs in the second category. Barnard (6, p. 212) states that:

> Emoluments, prerequisites, and privileges are highly important evidences of status and are often highly valued. Care should be taken, however, to distinguish between the valuation of them as material rewards and as evidences and elements of status. They are almost universally employed in

> organizations of all kinds. In business and in some other organizations they are even more important than titles in fixing status. The use or nonuse of restricted quarters, automobiles, chauffeurs, private offices, private secretaries, and other prerequisites in various combinations, time clocks, etc., provide a complex code that describes the system of status in effect, thoroughly understood by the initiated and fairly easily sensed by the outside observer.

One reason companies change the status of acquired executives is the desire for power on the part of the acquiring company's executives. The company that is acquisition oriented quite often is the creation of one executive or a small group of executives. The executives in the acquiring company can gain relative status by reducing that of the executives in the acquired companies.

The manager-founders of an acquisition minded company are motivated by growth or they would not have started the company in the first place. The desire for something larger to control or a desire for greater power is a strong motivation and provides the esteem and self-actualization for them; i.e., additional size equals additional status. However, additional quantities of a given item does not always guarantee additional status, the relationship is subjective and not linear.

The management of an acquired company cannot readily accept their new roles for, although they have received compensation in the form of stock or money, they have lost self-esteem and the rewards of self-accomplishment or self-actualization. Most conglomerates change the titles of the management. Other symbols of their authority and position are removed such as company cars and elaborate offices. This loss of titles and authority lowers the esteem of others in addition to a feeling that the executives were losers or could not be successful on their own; in other words, a loss of self-esteem. The rewards of self-accomplishment are removed since the firm is no longer theirs to guide and they can no longer identify their contributions as having any significance to the over-all organization.

> Teledyne's growth diminished the importance of Microwave. From 10 percent, it dropped to supplying about 1 percent of Teledyne's revenues, and no matter what Kaisel did, it could have no significant impact on Teledyne stock, which put a further crimp in his incentive (3, p. 164).

As indicated, the loss of status is a serious loss and the acquiring firm must maintain it for those in the acquired company even at the expense of some profits. Actually, the loss of efficiency of such key employees and possibly their quitting may result in even larger drops in profit than the savings made by discontinuing the incentives. The executives' prestige must be maintained and it is even more important where small companies are involved. Apparently, the executive will not feedback his dissatisfaction if his company is small for two reasons. First, he cannot admit the need because of his own self-made image, and second, he is probably awed at the size disparity between his company and the acquiring one and feels 'might must make right'.

> A broker told me recently that the best way to strew the acquisition path with rocks and ruts is to diminish the prestige of the acquired company's top management.... When one company is absorbed by another, I do not think that the importance of maintaining individual status and prestige can be overplayed. In my experience it is easier to knock $20,000 off the purchase price of a company than it is to get a man to give up his car (66, p. 132).

The separation of "pride of ownership" from "status" is not clear cut as both involve loss of control or erosion of authority. It should be pointed out that removal of status is one way companies have of getting rid of executives without really firing them.

> Although nominally retained as president, Dimick found himself in a cubbyhole office with no secretary and scarcely any entree to Varian's president. A chemist and introvert, Dimick had never had the stomach for the 'people problems' of management and somehow had convinced himself that a merger would free him of running controversies with his general manager and other problems. Instead, Varian put the more able general manager in charge of Wilkens and hoped Dimick would leave (3, p. 164).

This approach to removing an executive can cause problems for both the executive and the company.

> Loss of status is more than loss of its emoluments; it is more than loss of prestige. It is a serious injury to the personality. Thus, while improvement of status is important, especially to the more able, and desirable to many, loss of status is much more generally resisted. It is difficult to accept, or to be accepted in, a reduced status. Indeed, the fear of losing status is what leads some to refuse advancement of status. The desire for improvement of status and especially the desire to protect status appear to be the basis of the sense of general responsibility (6, pp. 229-230).

Pride-of-Ownership

Dr. Harry Levinson has stated "for the founder, the business is an instrument, an extension of himself. He has great difficulty giving up his instrument, his source of power" (50, p. 8).

The building of a company gives the owners and managers a feeling of self-accomplishment known as pride-of-ownership. The fifth of Maslow's (52) hierarchy of needs is self-actualization. The loss of self-actualization also results in a shift in the feelings of self-esteem. It is of worth to note that the people having this feeling do not have to actually be owners to be deeply committed to the companies' success. The fact that ownership and the feeling of it do not necessarily go together helps justify the approach many acquisition-minded companies use in providing challenge alone as an incentive and hoping that even though ownership is lost, the executive will continue to identify with the divisions' accomplishments. However, the acquired company must be kept separate and distinct in order to accomplish this. The acquiring company is at cross purposes, the attempt to integrate and make "one big happy family" and let the top management take credit is the opposite of the small, hard working, successful groups where the individual managements get credit and the feeling of independence continues. Worthy (81, p. 173) and others have shown that small groups have higher morale than larger ones. The desire to tie all of the acquisitions together through common names, house newspapers, etc., indicates the desire to diminish individual group feelings.

> The conglomerate-wide house organ, published to build employee interest in the parent company and its products, was rarely read by the local employees or their families. Its contents were too far removed from the local interests of the local employees, and its writing was a flaccid artificiality. As a result, few employees had any interest in the company as a whole, or its welfare (37, p. 36).

Such loss of group identification allows easier unionization of multi-divisional companies.

A loss of interest on the part of the lower level employees often reflects the acquired company's executives' attitudes. Managements of acquiring companies often deny that the loss of pride-of-ownership occurs. Ownership of stock in the parent company has been a common approach to solving the problem. The following selections from an advertisement placed in the Wall Street Journal by a conglomerate indicates the use of pride in the parent company and ownership of its stock as a substitute for the pride-of-ownership in the original company.

> How can anyone possibly not know about a company as big as xyz? Maybe it's because we've been too busy building the company to spend much time blowing our own horn.
>
> Int. That sounds like a hint. One last question. Are you a millionaire?
>
> Mr. Jones: Well ... even when I was a kid I wanted to be one. And I haven't been disappointed. But I'm a lot prouder of other things. Like starting with nothing and building a company that made jobs for several hundred people. That's worth more to me than a big bank account.... Like with stock, for instance. Practically my entire net worth is

> in xyz stock. That's a pretty good incentive to keep xyz growing (78, p. 18).

Other incentive approaches such as bonuses, contingent payouts, and others have been used as a substitute to keep the key executive working for growth. The attempt to substitute the satisfaction of one need with another is risky at best as Lohmann (47) has pointed out. Incentives are viewed subjectively and the view of the participant is different than that of the manager or controller of the incentives.

Some of the acquisition-oriented executive respondents felt that good management should be able to get over the feeling of loss. "The loss of pride-of-ownership or being-my-own-boss may have such a strong impact that the executive collapses in his capacity to perform. Generally, these were always weaker managers."

Research

During the first study for this thesis, executives were asked to record what their attitude would be if their company was acquired by merger. The question was then asked "Would ownership of stock in the acquiring company affect your outlook in the questions above?" Two-thirds responded "yes". The executives having "yes" answers were primarily top management and those replying "no" were of middle management.

Although stock in the acquiring company is a help in cutting down dissatisfaction it is not a substitute that can overcome the loss of pride-of-ownership. Feelings are involved that are hard to overcome. Lohmann (47, p. 133) points out:

> Because messages about non-material incentives or about one's "feelings" have seemingly more information loss due to the difference of personal referents of the words, it is usually necessary for managers to communicate more about them than about material incentives. The source of the incentives, their relationship to the activities contributed, and their evaluation in subjective terms are not easily or quickly explained.
>
> Managers select contributors who will evaluate highly the benefits that the resultant will provide and who will minimize the burdens the activity will impose. The manager also by persuasive communication attempts to alter the value of the incentives to the contributor, thus inducing cooperation.

Only by understanding the acquired executives' feelings and by continuing to work with them and change the values can pride-of-ownership become a pleasant memory and not a mental block.

CHAPTER VI

METHODS OF OBTAINING AND REDUCING EMPIRICAL DATA

Ideally, the best approach to obtaining information on any changes in the desires of executives for a certain incentive would be to measure their desires before and after a merger. Unfortunately, this is impossible as the study would cover several years. A base line before the executive knew of the merger would need to be established and then the desires measured again well after the merger took place. Additionally, it is impossible to know in advance just where a merger will take place.

The measurement of incentive desires of independent company executives is complicated by the lack of knowledge as to the number of stockholders in a given small company. The simplest approach to solving this problem also solves the problem of measuring change of incentive desires before and after merger. By taking a random sample of small companies that appeared to be independent, a sampling of executives in companies that had a varying number of stockholders was obtained as well as a sampling of company executives whose companies had been acquired. Since no questions were asked directly concerning mergers, the acquired executives responded with little fear that their feelings about incentive changes and dissatisfaction would be exposed.

The first attempts to obtain information on executive attitude toward mergers and incentives were from the headquarters of various conglomerates. Permission was requested to interview or send questionnaires to the key executives in companies they had acquired. In all cases, either no reply was received or excuses were given as to why they could not participate in the study. At the same time, one of these companies was running half-page advertisements in the *Wall Street Journal* showing how happy the executives in their acquired companies were. From the layout and the media used, it is obvious they were not trying to contact the general public, or investors, but were trying to sell the idea of merging with their company to other independent company executives. The following is a portion of that advertisement:

> Int.
> How did you feel about selling and turning your company over to someone else?
>
> Mr. Smith:
> You should ask my wife that; she knows what I went through. It was traumatic. Suddenly the company isn't yours anymore. You don't really know what will happen to you. You wait for the man from XYZ to come and change things and tell you how to run the company.
>
> Int.
> What happened?
>
> Mr. Smith:
> XYZ has a system that works beautifully. That's where it's different. The weeks went by. Months went by. I waited for

> someone from XYZ to start giving orders. It never happened. Suddenly you realize that they were telling the truth. They really do want you to keep running your company. To a man like me, that's important. I kept my independence and my self-respect.
>
> Int.
> Why does XYZ insist that the head of an acquired company stay on to run it?
>
> Mr. Smith:
> That's the only way. We aren't talking about gigantic companies that have professional management. We're talking about the entrepreneur who built a highly successful small company. XYZ makes you want to stay with the company (78, p. 18).

It is apparent that things must not be quite as rosy as the corporate office would like you to believe. An acquiring firm, in fact, does not want the public to receive any hint of internal dissent. Memos are often sent to the divisions instructing them as to what questionnaires to fill out, as well as requesting that the senders of such requests for data be identified for action by the corporate office.

Two alternatives suggested themselves as ways around these roadblocks: First, get subjective opionions of those who are involved with the organization, but not under its regulation, i.e., those that buy from the organization or sell to it. Second, measure differences in opinion as to the desire for various incentives available to key executives, i.e., between the key executives in small companies of various sizes and those in companies that have been acquired. There are both strong and weak points in either approach; hence, both were tried.

Purchasing and Sales Survey

An initial attempt to study changes in an organization as a result of merger was undertaken during the month of August, 1970. The study consisted of a survey of outsiders' views of various types of mergers. Sales and purchasing personnel were asked to complete a two-page questionnaire concerning companies that they had had contact with which had gone through one of three kinds of mergers.

Dun and Bradstreet's Million Dollar Directory, 1970 edition, was used to obtain names and addresses of individuals in companies which appeared to be in a position of either selling to or supplying manufacturing firms with goods or services. Approximately 200 firms were selected for contact and sent questionnaires. The geographical area of the United States that the company was located was not considered to be a factor in the way in which the questions would be answered. Because of the distribution of manufacturing firms, more questionnaires were sent to the East and to California than other areas. In the companies selected, only one questionnaire was sent to a specific individual.

The original thrust was a comparison of three kinds of mergers in their effect on the personnel and performance of an acquired company. The three kinds of mergers investigated were: (1) the conglomerate that acquired a company and left the original management in charge, (2) the conglomerate that acquired a company and changed the management, and (3) the company that purchased a firm and dissolved it into an already existing division. The use of three different kinds of mergers greatly complicated the questionnaire.

Since the questions were of a highly subjective nature, the backgrounds of the persons filling out the questionnaires were also studied for possible correlation with their opinions of mergers. A sample questionnaire is in Appendix A.

The results were highly subjective and indicate only general trends. The respondents indicated that acquisitions in which the key executives were removed or the company dissolved were not desirable from the standpoint of satisfaction, efficiency, or competitive ability. The results of this initial study are used to support points brought out by the second study.

Comparison Study

A two-part survey was undertaken in April of 1971. The first part involved only key executives in companies employing from 50-2,500 people. The second part involved those executives in companies which had been involved in acquiring other companies and who were perceived to have some control over the incentives given to the key personnel in acquired companies.

The main objective of this study was (1) to look at variation in desire for different components in the incentive package of key executives as the number of stockholders varied and (2) to examine the possibility of alienation of acquired company executives by changes in their desires for certain incentives after a merger.

The importance of various elements in executive incentive packages were studied for three groups: small independent company executives, small acquired company executives, and those controlling incentive packages of acquired company executives. The relative sizes of various items in the incentive package as desired by the three groups were also examined.

The number of owners was picked as a measure of company size for this work because of wide variations in sales, profits, or number of employees a company may have during a business cycle. The size of incentive package components was measured in percentage of total package in order to get around the reluctance of executives to deal in absolute numbers and to get around company and industry variations. A sample questionnaire is in Appendix A.

The Dun and Bradstree Million Dollar Directory, 1971 edition (55) was used to obtain names and addresses of key executives in 170 companies. The survey was limited to manufacturing concerns having approximately 50-2500 employees.

The magazine, Mergers and Acquisitions (53) was used to identify those companies that had been the acquiring company in at least one merger from 1968 through 1970. The Dun and Bradstreet Directory was then used to identify the individual in the acquiring company that appeared to have the best perception of what incentives are normally used in their acquisitions. Usually, a vice president in charge of acquisitions or treasurer was selected. Fifty-one companies were used in this second part of the study. Because of the poor response to the first study, simplified single-page questionnaires were used in both halves of the second study. The response was much better than in the first study with nearly 40% of the questionnaires being returned in both parts of the study, however, many were only partially completed.

A third survey was undertaken in December of 1971 to obtain additional information on the independent and acquired company executive. Approximately 40 replies were received, but only about one-half of these were complete.

Method of Testing and Reducing Data

The data for independent companies shows a sharp break in incentive desire in the 10-50 owner region. Although other approaches to fitting the data are possible, linear regression (least squares) appears to be the most appropriate for each side of the break. The data for acquired companies also seemed to lend itself to linear regression. The data in all three groups was broken into ten cells per group and regression performed by use of the "A" regression program. This program additionally provides a "t" value for testing the hypothesis that the regression coefficient is other than zero. An "F" test of the residual sum of squares allows the lack of fit to be evaluated for each of the regression models.

The data presented is a combination of both the April and December surveys. Additionally, the April data is tested against the December data in Chapter VII to allow proof of the techniques' predictive ability.

CHAPTER VII

MODELS OF INCENTIVES

Stock and Stock Options

Stock as an incentive is little desired by executives in companies with very few stockholders. There is little reason to desire more stock since the executive holds a substantial portion of it, and has achieved a high level of self-actualization or pride-of-ownership. The data indicates that in companies with only three or four stockholders the interest in stock as an incentive is nearly zero. However, the desire for stock as part of the executive's incentive package mix rises to 13 per cent of their total desired incentive package in companies with 17 to 18 owners. In companies with more than 20 stockholders, the regression coefficient changes significantly, indicating ownership and management are beginning to separate; the regression line models have been created for the data either side of this breakover point. Executives in companies with 30 to 129 owners indicate a lower desire for stock as an incentive of about four per cent. The interest in stock eventually reaches zero for executives in companies with more than 800 stockholders.

The executives in acquired companies exhibit a desire for the stock incentive to be at a level of about six per cent of their total incentive package. This level does not change with variation in the number of stockholders in the parent company. Acquiring companies would prefer to have executives in their acquired companies take about 17 per cent of their income in stock, indicating a need for awareness on the part of the acquiring companies management as to the differences in desire (see Appendix B):

Models of Stock as a Desired Incentive

Independent Companies. 1-20 stockholders (see Figure 3a)
Regression coefficient = 1.7461
Intercept = 2.0200
Evaluation of adequacy of linear regression model:
Significance of regression "t" value 17° of freedom = 2.8936
Lack of fit "F" value = .1751
5° of freedom numerator
13° of freedom denominator
Confidence regression coefficient is other than 0 > .95
Confidence regression line fits means of cells >.95

Independent Companies. 30-1000 stockholders (see Figure 3b)
Regression coefficient = -.2791
Intercept = 2.9383
Evaluation of adequacy of linear regression model:
Significance of regression "t" value 20° of freedom = -.7089
Lack of fit "F" value = .8863
6° of freedom numerator
15° of freedom denominator
Confidence regression coefficient is other than 0 > .50 (model not consistent with hypothesis)
Confidence regression line fits means of cells >.60 (model fails because of lack of fit)

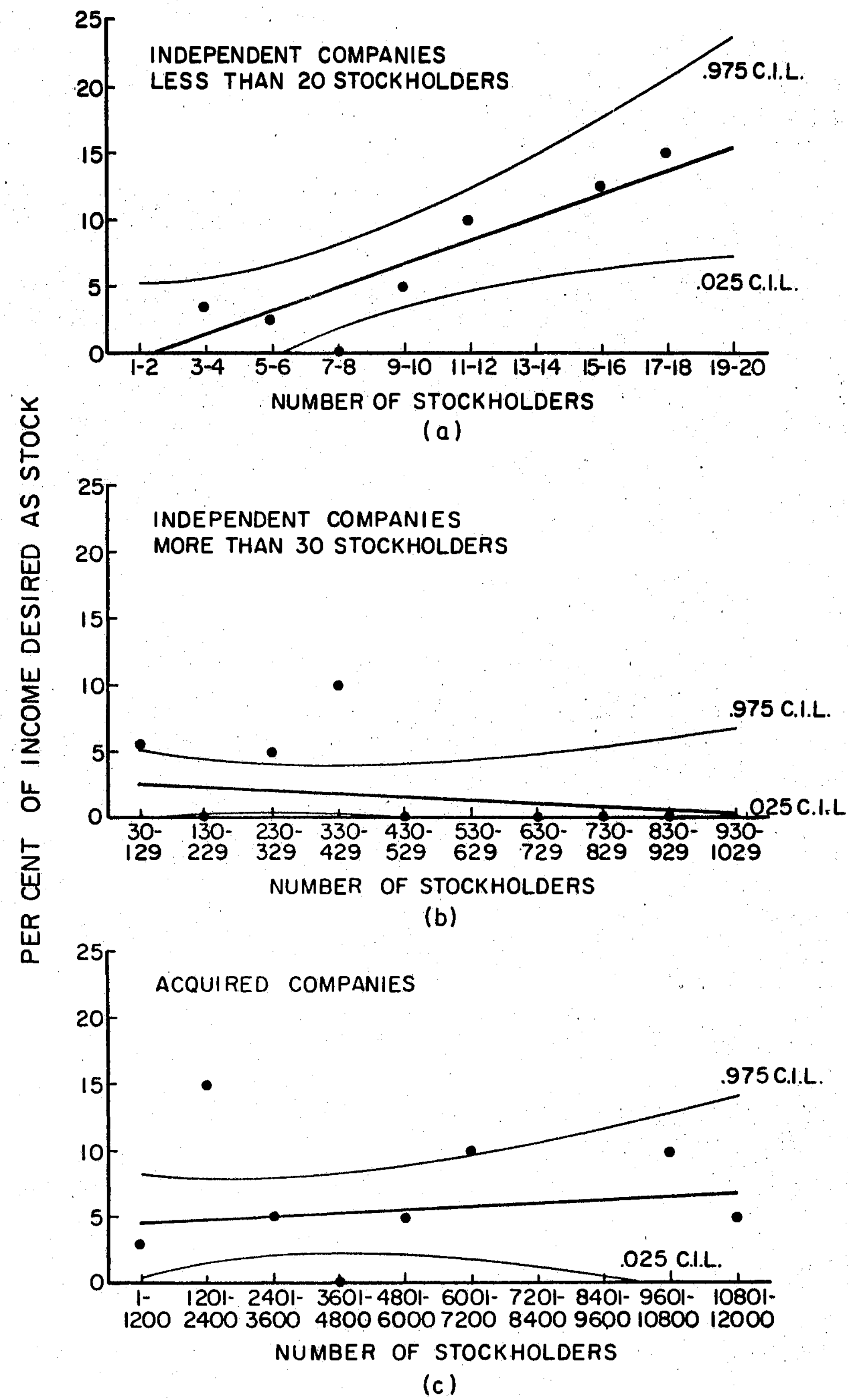

Figure 3. Regression Models of Per Cent of Income Desired as Stock With .95 Confidence Intervals and Means of Cells

<u>Acquired Companies</u>. (See Figure 3c)

Regression coefficient = .2388

Intercept = 4.3833

Evaluation of adequacy of linear regression model:

Significance of regression "t" value 17° of freedom = .5244

Lack of fit "F" value = 1.7251

7° of freedom numerator

11° of freedom denominator

Confidence regression coefficient is other than 0 < .50

Confidence regression line fits means of cells >.50 (model fails because of lack of fit)

The models created through the use of linear regression have regression coefficients which support the hypothesis. However, the lack of fit to the data is significant in the models for independent companies with 30-1000 stockholders and the model for acquired companies. Additionally, the data for independent companies with 30-1000 stockholders does not allow a high confidence that the regression coefficient for the model is other than 0. The model for independent companies with 1-20 stockholders is accepted.

Salary

The desire for salary as an incentive is predominant; however, there are wide variations in the percentage of income desired as salary by executives in independent companies. For executives in companies with only three or four stockholders, the interest in salary as an incentive approaches 90 per cent of their desired incentive packages. The desire drops to approximately 60 per cent on the part of executives in companies having 17-18 stockholders. This decline of interest in salary as an incentive is reversed in companies with 30 or more stockholders and rises eventually to 100 per cent.

The executives in acquired companies exhibit a very slight change in desire for the salary incentive as a part of their incentive package as the number of parent company stockholders vary. The acquired company executives desire that salary make up approximately 75 per cent of their incentive packages; however, acquiring companies indicate a desire to pay only 65 per cent as salary to acquired executives (see Appendix B):

Models of Salary as a Desired Incentive

Independent Companies. With 1-20 stockholders (see Figure 4a)
Regression coefficient = -4.3021
Intercept = 97.6441
Evaluation of adequacy of linear regression model:
Significance of regression "t" value 17° of freedom = -4.2207
Lack of fit "F" value = .0001
5° of freedom numerator
13° of freedom denominator
Confidence regression coefficient is other than 0 > .95
Confidence regression line fits the means of cells > .95

Independent Companies. With 30-1000 stockholders (see Figure 4b)
Regression coefficient = 3.9705
Intercept = 65.4286
Evaluation of adequacy of linear regression model:
Significance of regression "t" value 20° of freedom = 4.6599
Lack of fit "F" value = .1718
6° of freedom numerator
15° of freedom denominator
Confidence regression coefficient is other than 0 > .95
Confidence regression line fits the means of cells > .95

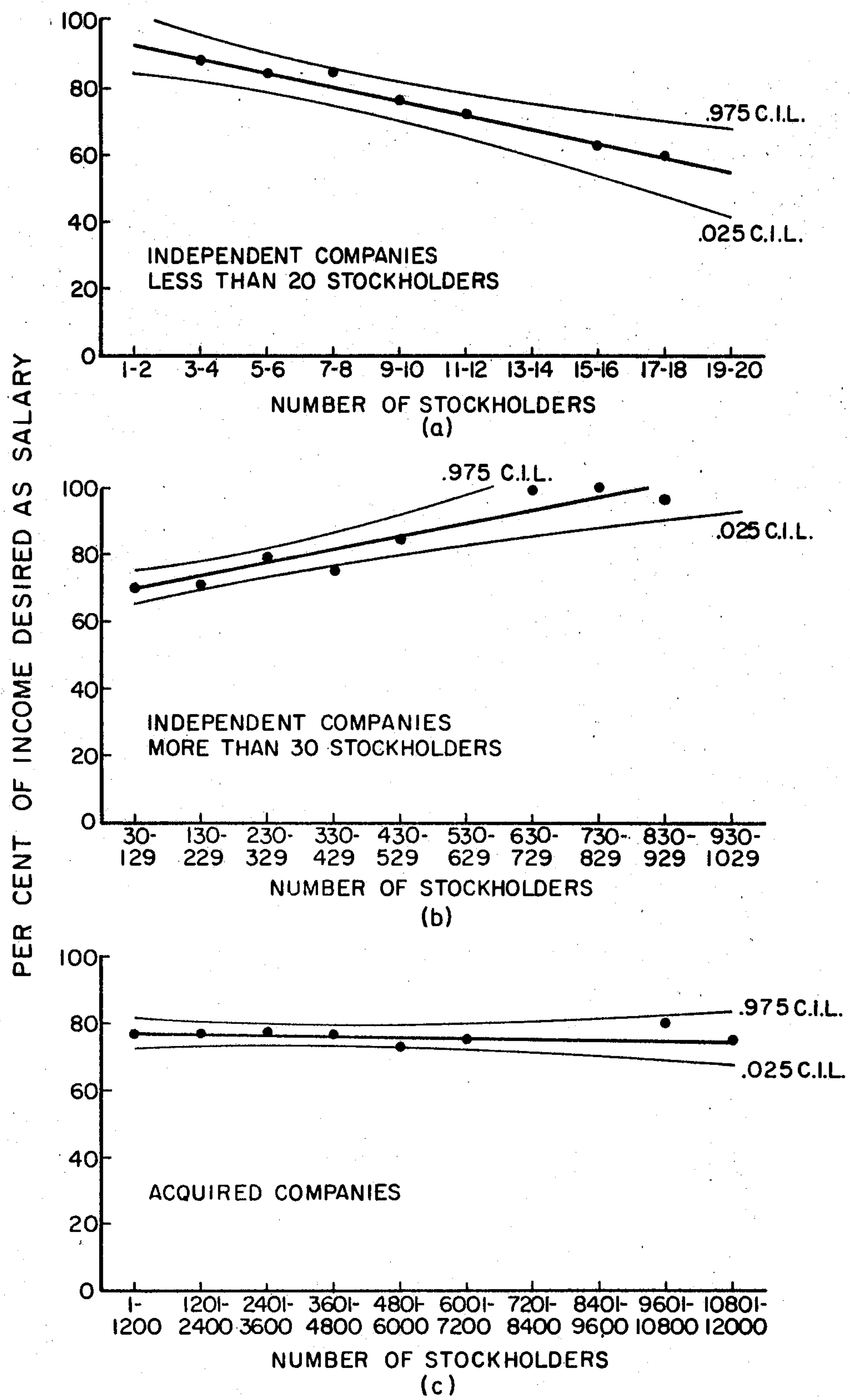

Figure 4. Regression Models of Per Cent of Income Desired as Salary With .95 Confidence Intervals and Means of Cells

<u>Acquired Companies</u>. (See Figure 4c)

Regression coefficient = -.17533

Intercept = 77.2249

Evaluation of adequacy of linear regression model:

Significance of regression "t" value 17° of freedom = -.3489

Lack of fit "F" value = .1230

7° of freedom numerator

11° of freedom denominator

Confidence regression coefficient is other than 0 < .50

Confidence regression line fits the means of cells > .95

The models created through the use of linear regression have regression coefficients that support the hypothesis for both the independent companies and the acquired companies. The lack of fit is not significant in any of the models, therefore, all are accepted.

Bonuses

The data indicate executives in companies with few stockholders have a greater interest in bonus as an incentive rather than stock. Executives in the three to four owner company group desire to have bonuses make up about seven per cent of their incentive mix. The desire for the bonus incentive increases to a level of 15 per cent of the executive's incentive mix in the 17-18 stockholder company; however, the interest then declines as the stockholder pool increases in size. The regression model for the 30-1000 stockholder side of the breakover point approaches 0 desire for the bonus incentive in the 800 stockholder region.

Executives in acquired companies should have a relatively uniform interest in the bonus as a portion of their incentive package regardless of the size of the stockholder group. The data does indicate some decline in the executive's desire for a bonus as size of the stockholder group increases. The desire for the bonus incentive by acquired executives starts at 12 per cent for those executives in parent companies with few stockholders and declines to 10 per cent for those in companies with over 1000 stockholders. The managements of acquiring companies indicated they desire to pay acquired company executives about 12 per cent of their income as bonuses (see Appendix B).

Models of Bonus as a Desired Incentive

Independent Companies. 1-20 stockholders (see Figure 5a)
Intercept = 5.42830
Regression coefficient = 1.7342
Evaluation of adequacy of linear regression model:
Significance of regression "t" value 17° of freedom = 1.80764
Lack of fit "F" value = .3782
5° of freedom numerator
13° of freedom denominator
Confidence regression coefficient is other than 0 > .90
Confidence regression line fits means of cells >.85

Independent Companies. 30-1000 stockholders (see Figure 5b)
Regression coefficient = 3.2252
Intercept = 28.3152
Evaluation of adequacy of linear regression model:
Significance of regression "t" value 20° of freedom = -3.9802
Lack of fit "F" value = .2213
6° of freedom numerator
15° of freedom denominator
Confidence regression coefficient is other than 0 > .95
Confidence regression line fits means of cells >.95

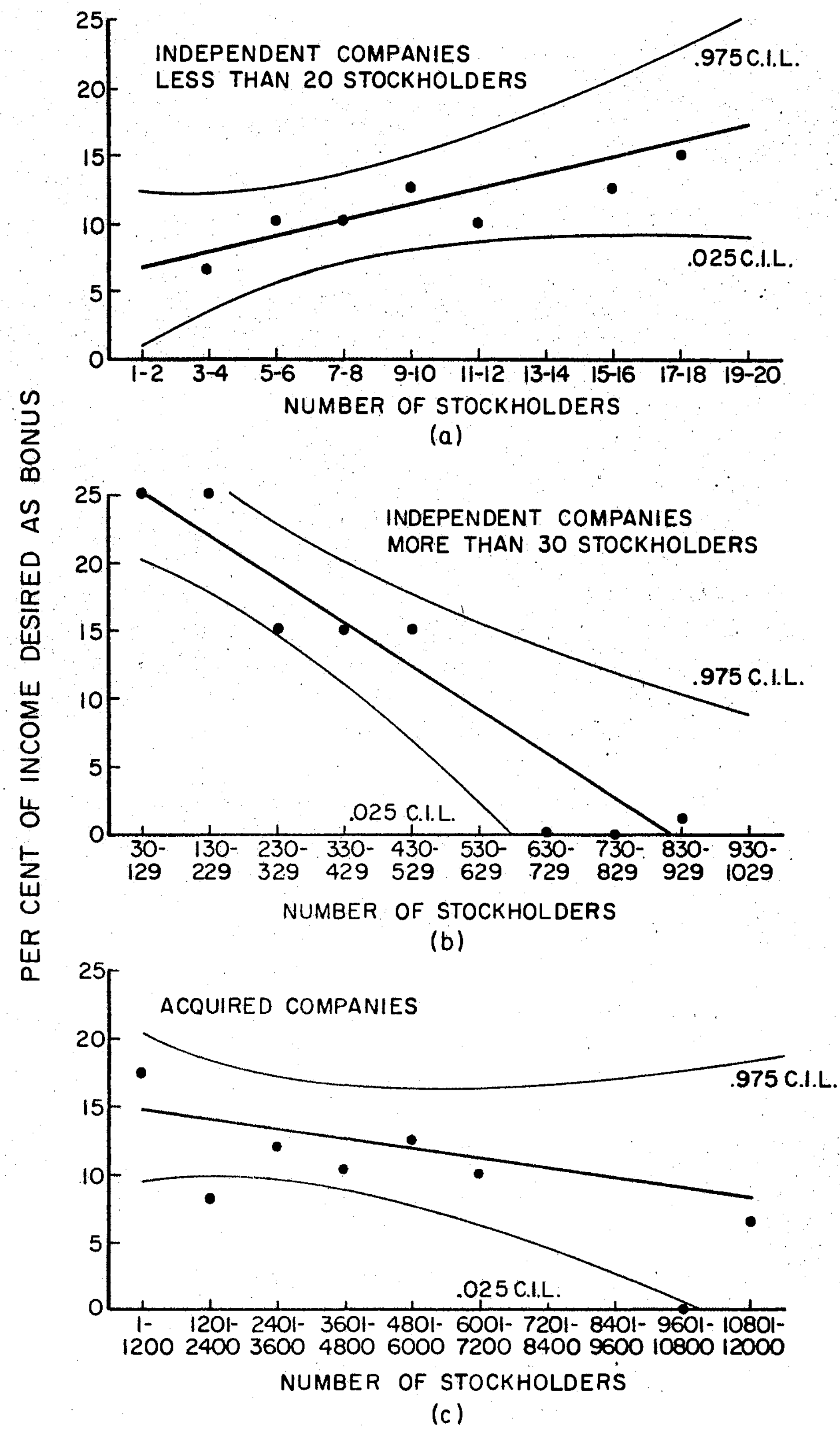

Figure 5. Regression Models of Per Cent of Income Desired as Bonus With .95 Confidence Intervals and Means of Cells

Acquired Companies. (See Figure 5c)
Regression coefficient = −.7368
Intercept = 15.6167
Evaluation of adequacy of linear regression model:
Significance of regression "t" value 17° of freedom = −1.2238
Lack of fit "F" = .4823
7° of freedom numerator
11° of freedom denominator
Confidence regression coefficient is other than 0 > .85 (model not consistent with hypothesis)
Confidence regression line fits means of cells >.85

The three models all fit the data adequately for the type of study undertaken. The significance of regression of all three models also is adequate, hence, all models are accepted.

Status

The data for the small independent company executives (1-20 stockholders) indicate that the desire for status incentives as part of their incentive packages is small in the companies with only 3-4 owners. However, the interest in status rises as the number of owners increases reaching a level of 12 per cent of desired income for executives in companies with 17-18 stockholders. The data for the 30-1000 stockholder independent company executives indicate very little interest by the executive in companies with over 800 stockholders. The reversal of sign for the regression coefficients of the 1-20 stockholders and 30-1000 stockholders models indicate a breakover point where personal involvement begins to decrease.

The acquired company executive was expected to have a desire for status that is relatively uniform with differences in size of the stockholder pool of the parent company; however, the data indicate a variation in level of the desire for the status incentive from four per cent in the 1-1200 stockholder group to 19 per cent in the 10,000-12,000 stockholder group.

Models of Salary as a Desired Incentive

Independent Companies. 1-20 stockholders (see Figure 6a)

Regression coefficient = 1.4086

Intercept = -.9190

Evaluation of the adequacy of linear regression model:

Significance of regression "t" value 17° of freedom = 3.2811

Lack of fit "F" value = .1078

5° of freedom numerator

13° of freedom denominator

Confidence regression coefficient is other than 0 > .95

Confidence regression line fits means of cells >.95

Independent Companies. 30-1000 stockholders (see Figure 6b)

Regression coefficient = -.4662

Intercept = 3.3204

Evaluation of adequacy of linear regression

Significance of regression "t" value 20° of freedom = -1.0971

Lack of fit "F" value = .0666

6° of freedom numerator

15° of freedom denominator

Confidence regression coefficient is other than 0 > .85

Confidence regression line fits means of cells >.95

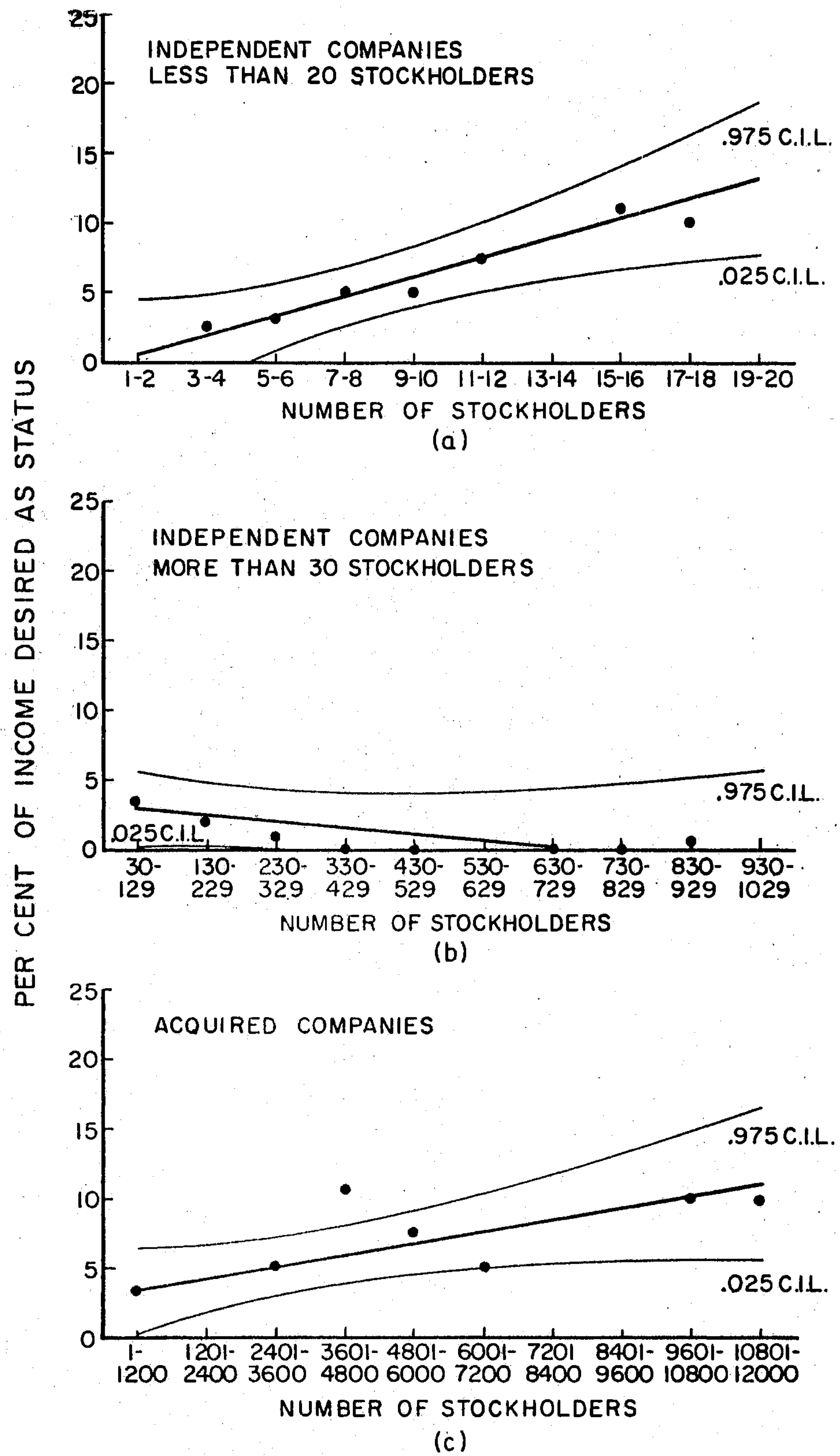

Figure 6. Regression Models of Per Cent of Income Desired as Status With .95 Confidence Intervals and Means of Cells

Acquired Companies. (See Figure 6c)
Regression coefficient = .8567
Intercept = 2.3700
Evaluation of adequacy of linear regression model:
Significance of regression "t" value 17° of freedom = 2.6263
Lack of fit "F" value = .7115
6° of freedom numerator
11° of freedom denominator
Confidence regression coefficient is other than 0 > .95 (model not consistent with hypothesis)
Confidence regression line passes through means of cells >.75 (model fails because of lack of fit)

The models created through the use of linear regression for independent companies have regression coefficients which support the hypothesis and adequately fit the data. The model for acquired companies has a slope other than zero and does not fit the data well, hence, it cannot be accepted.

Stock and Bonus

The data for desired stock and bonus incentives was combined into an additional series of models in which the level of incentive was tied, in some measure, to over-all company performance. Combining the two also combines desire for long and short term incentive desires and removes some of the scattering caused by other variations.

The data indicate that the executive in a company with 3-4 stockholders desires that 10 per cent of his incentive package be made up of bonus and stock incentives. In the 17-18 stockholder group of companies, the executive desires that nearly 30 per cent of his income be in some form of these two incentives, however, the interest then declines reaching zero interest for executives in the 800 stockholder company region.

Acquired company executives have a uniform desire for stock and bonus incentives, which is about 20 per cent of their total incentive package. It is of interest to note that acquiring company managements feel that 30 per cent of the total incentive package for acquired executives should be made up of these two incentives (see Appendix B).

Models of Stock and Bonus as a Desired Incentive

Independent Companies. 1-20 stockholders (see Figure 7a)
Regression coefficient = 2.6860
Intercept = 4.9472
Evaluation of adequacy of linear regression model:
Significance of regression "t" value 17° of freedom = 2.7558
Lack of fit "F" value = .0844
5° of freedom numerator
13° of freedom denominator
Confidence regression coefficient is other than 0 > .95
Confidence regression line fits means of cells >.95

Independent Companies. 30-1000 stockholders (see Figure 7b)
Regression coefficient = -3.5043
Intercept = 31.2508
Evaluation of adequacy of linear regression model:
Significance of regression "t" value 20° of freedom = -3.8780
Lack of fit "F" value = .1624
6° of freedom numerator
13° of freedom denominator
Confidence regression coefficient is other than 0 > .95
Confidence regression line fits means of cells >.95

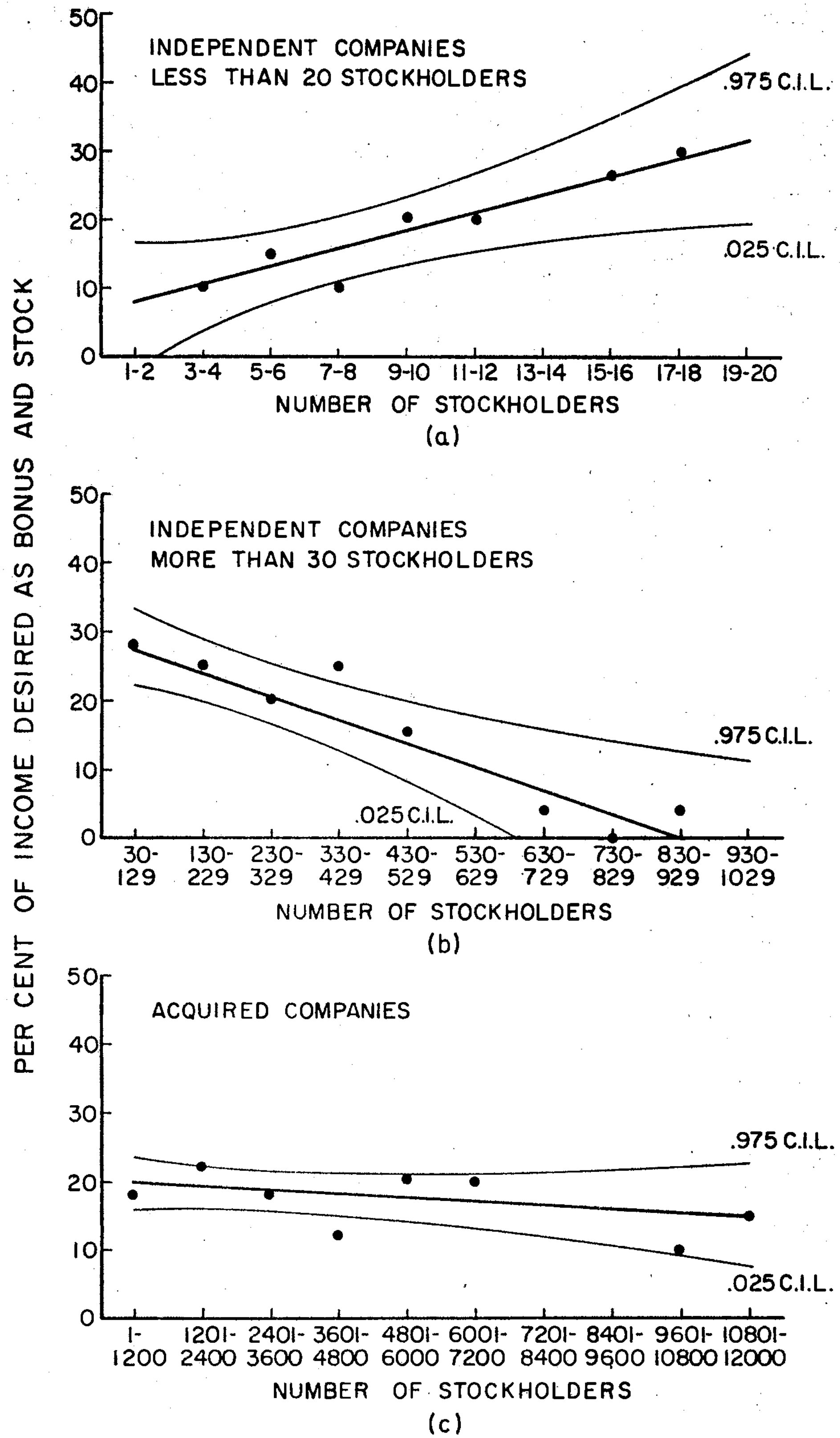

Figure 7. Regression Models of Per Cent of Income Desired as Bonus and Stock With .95 Confidence Intervals and Means of Cells

<u>Acquired Companies</u>. (See Figure 7c)
Regression coefficient = -.5000
Intercept = 20.0000
Evaluation of adequacy of linear regression model:
Significance of regression "t" value 17° of freedom = 1.0470
Lack of fit "F" value = 1.82
7° of freedom numerator
11° of freedom denominator
Confidence regression coefficient is other than 0 > .70
Confidence regression line fits means of cells >.80

The models created through the use of linear regression adequately fit the data with the exception of the acquired company model. Since there were no sections of the hypothesis relating to the combined incentives of bonus and stock, the models' primary purpose is to back up the individual models for these two incentives.

Reliability of Data

The data from the April and December studies have been combined to form a series of composite models for use in determining the level of desire for the various incentives. The reliability of the data was examined by using the data from the April survey to create a series of models as a standard against which the December data was tested. A regression line with .95 confidence limits was calculated for each of the models using the April data. The December data was then superimposed on the April models. If the April confidence intervals contain the December regression lines, the hypothesis that the two sets of data came from the same universe cannot be rejected. (See Figures 8, 9, 10, 11, and 12).

The status and salary models indicated a high degree of reliability, but the bonus and stock models did not. A composite model of bonus and stock combined was created to check the change in desire for incentives tied to company performance, the model also worked well. The recent changes in economic conditions apparently affected the executives' views of stock and bonus as incentives. The models show that the desire for status, salary, and incentives based on performance to be consistent between the two studies. But, the mix of performance-based incentives, such as stock and bonus, also varied with other influences. Such influences as price controls, market conditions, etc., should be taken into account when preparing the models.

Example 1

An acquisition oriented company with 5000 stockholders is interested in purchasing a small manufacturing company that has only four stockholders. The acquiring company intends to run this new subsidiary as a separate division retaining its key executives. The acquiring company would like to know what incentive mix will be needed to keep the executives and the additional costs: the models assist in answering these questions.

The "c" series of models shows what the acquired company's executives desired incentive-mix will be after

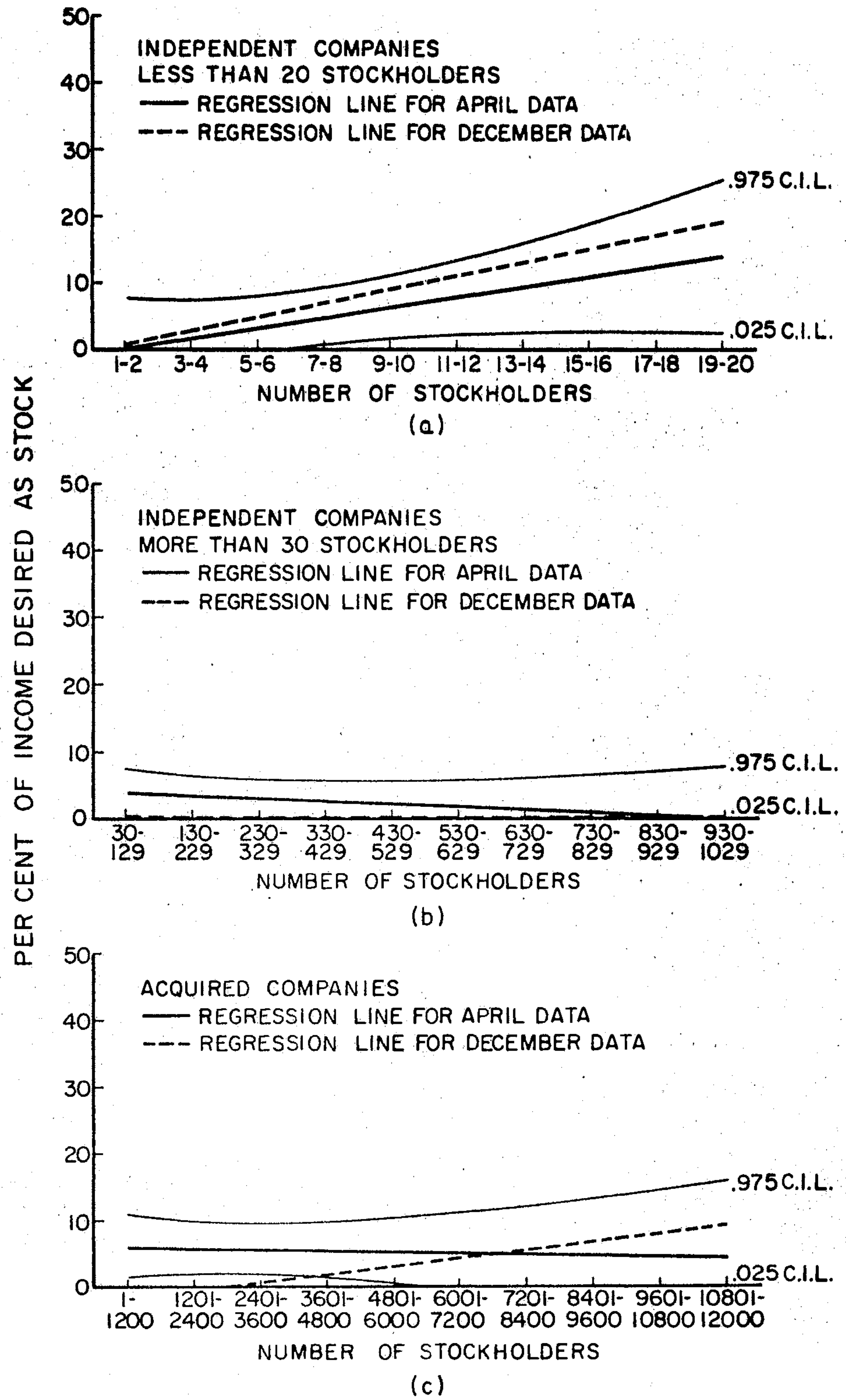

Figure 8. Relationships Between Regression Models of Per Cent of Income Desired as Stock for December Data and April Data With .95 Confidence Intervals for the April Data

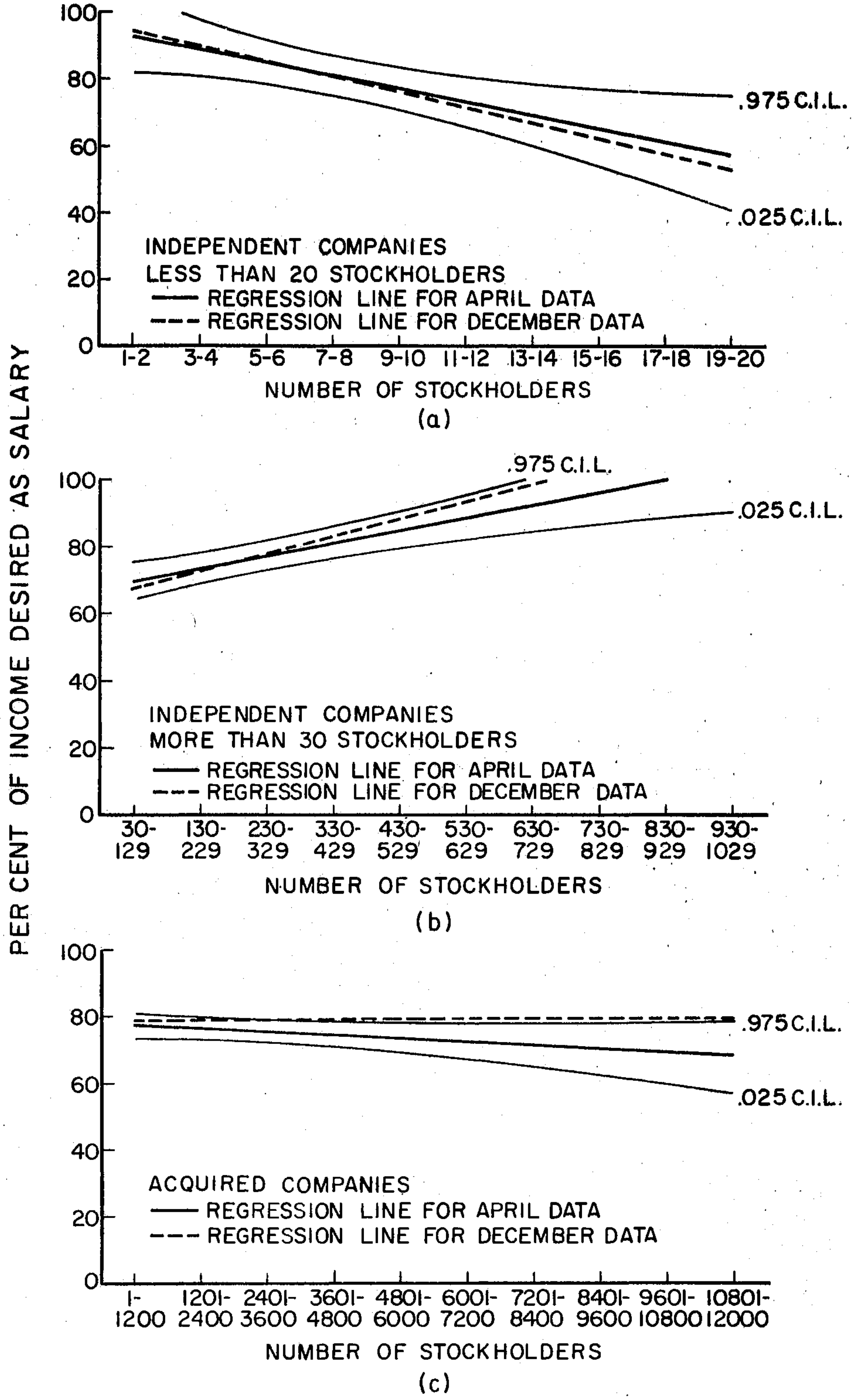

Figure 9. Relationships Between Regression Models of Per Cent of Income Desired as Salary for December Data and April Data With .95 Confidence Intervals for the April Data

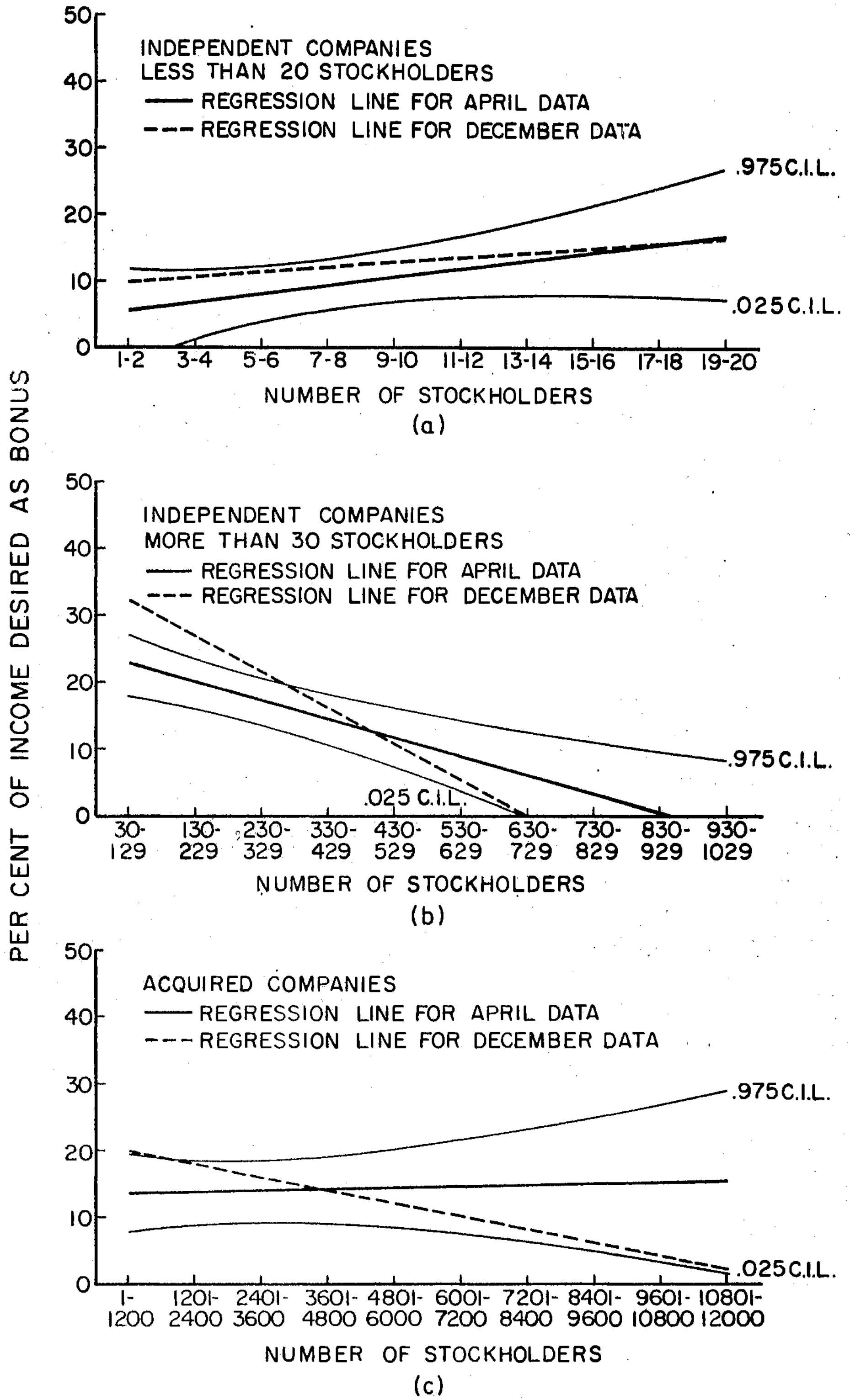

Figure 10. Relationships Between Regression Models of Per Cent of Income Desired as Bonus for December Data and April Data With .95 Confidence Intervals for the April Data

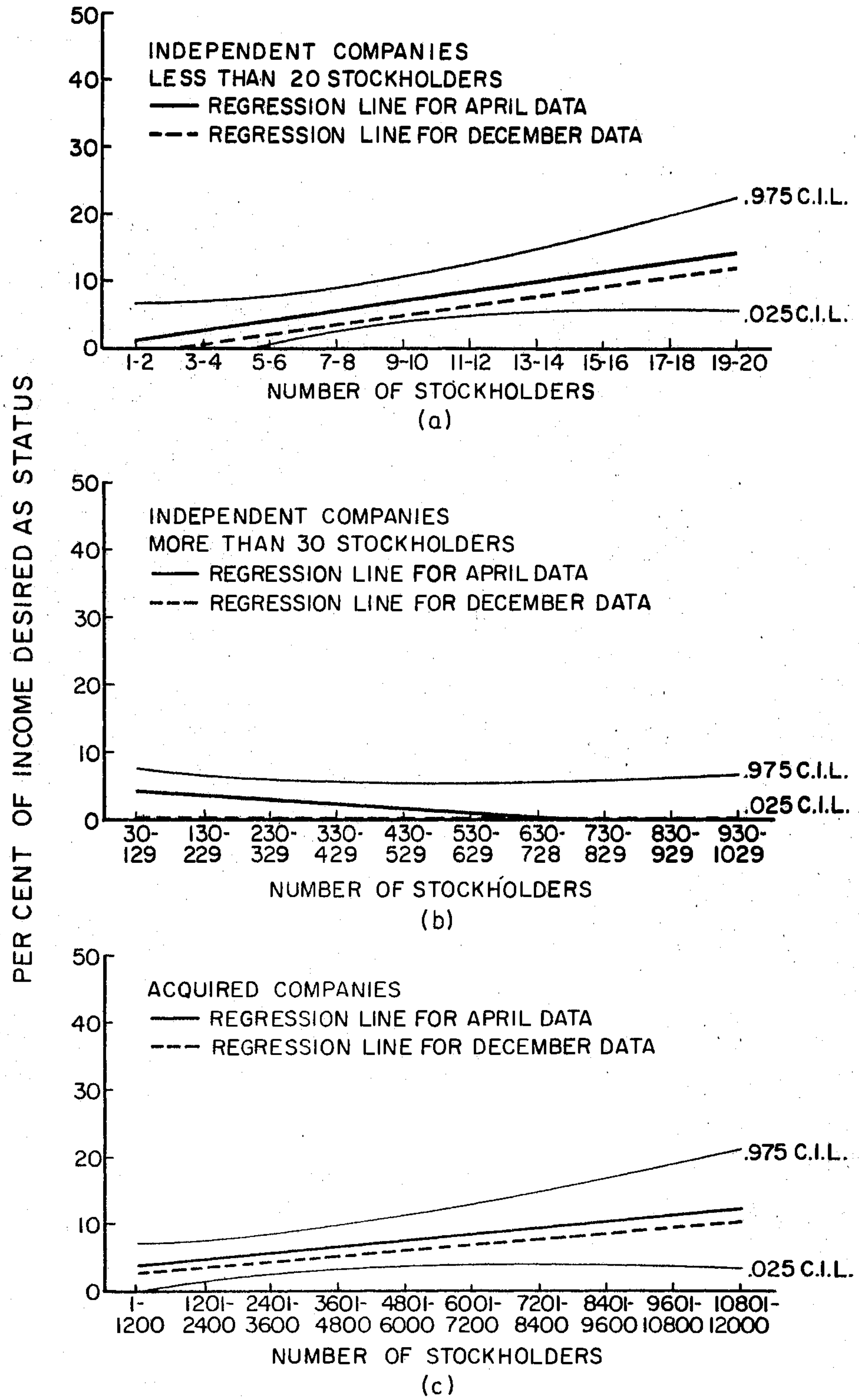

Figure 11. Relationships Between Regression Models of Per Cent of Income Desired as Status for December Data and April Data With .95 Confidence Intervals for the April Data

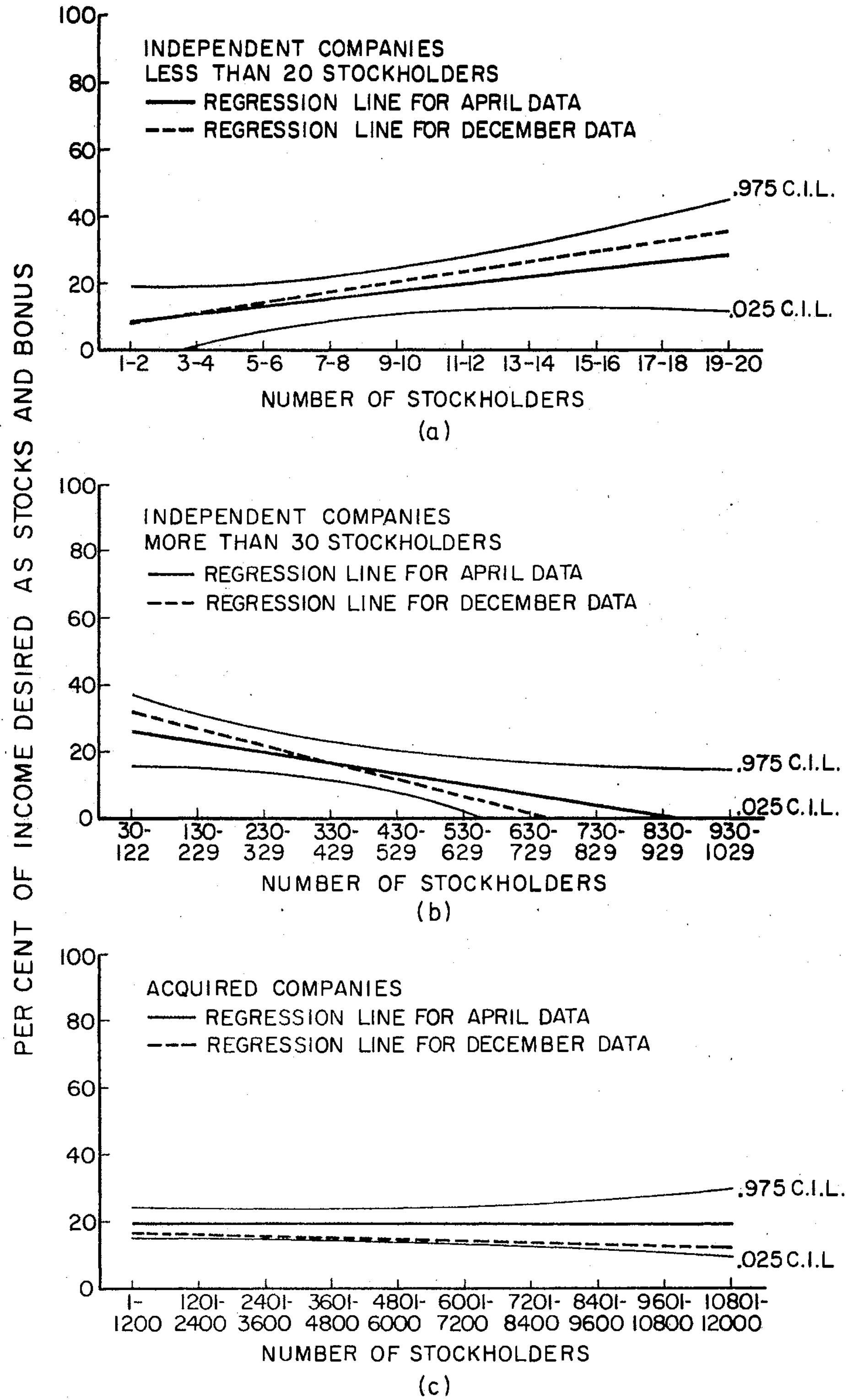

Figure 12. Relationships Between Regression Models of Per Cent of Income Desired as Stock and Bonus for December Data and April Data With .95 Confidence Intervals for the April Data

the merger occurs and time has allowed stabilization of the new relationships.

Salary	77%	from Figure 4c for 5000 stockholders
Bonus	11%	from Figure 5c for 5000 stockholders
Stock	6%	from Figure 3c for 5000 stockholders
Status	7%	from Figure 6c for 5000 stockholders.

The executives in the independent company currently have a different desired mix of incentives as shown in the "a" models.

Salary	88%	from Figure 4a for four stockholders
Bonus	8%	from Figure 5a for four stockholders
Stock	2%	from Figure 3a for four stockholders
Status	2%	from Figure 6a for four stockholders.

Obviously, the desired mix of incentives must change. Salary will decrease in importance and the desire for other incentives will be increased. Simply adjusting salary to a new level will not be adequate; other incentives will eventually have to be adjusted to the desired post-merger mix. Since the salary incentive should not be reduced, the extra cost of increasing the other incentives must be considered in deciding the acceptability of keeping the key executives.

If a key executive currently has a salary of $25,000 (88% of his desired incentive mix), his desired incentive package is:

Salary	88%	=	$25,000
Bonus	8%	=	2,270
Stock	2%	=	570
Status	2%	=	570
			$28,410

In an acquired organization, the executive's salary of $25,000 is 77% of his desired incentive mix. Hence, his desired mix is:

Salary	77%	=	$25,000
Bonus	11%	=	3,600
Stock	6%	=	1,950
Status	7%		2,280
			$32,830

The executive's desire for the bonus incentive will be increased by $1,330; his desire for the status incentive will be increased by $1,710, and his desire for the stock incentive by $1,380. The bonus and stock must be made available as the executive's desire changes. The status incentive must also be increased by adding additional components, not removing existing ones, and by helping the executive to revalue his desires for status incentives. Approximately $4,400 of additional incentives are needed along with empathy for the executive's changing role.

Example 2

An acquisition-oriented company is undecided as to which company to pick in a choice between the acquisition of a company with four stockholders and another with 250 stockholders. The models may be used to determine which company's executives would best fit the desired incentive mix after merger and, therefore, require less selling and less risk of loss.

Four stockholder company

Salary	88%	from Figure 4a for four stockholders
Bonus	8%	from Figure 5a for four stockholders
Stock	2%	from Figure 3a for four stockholders
Status	2%	from Figure 6a for four stockholders

250 Stockholder company

Salary	76%	from Figure 4b for 250 stockholders
Bonus	17%	from Figure 5b for 250 stockholders
Stock	3%	from Figure 3b for 250 stockholders
Status	4%	from Figure 6b for 250 stockholders

Acquired company

Salary	77%	from Figure 4c for 5000 stockholders
Bonus	11%	from Figure 5c for 5000 stockholders
Stock	6%	from Figure 3c for 5000 stockholders
Status	7%	from Figure 6c for 5000 stockholders

As can be seen, the executives in the company with 250 stockholders have desired incentive mixes which more closely match the mix that has been found acceptable to executives which have been involved in mergers. The executives will, therefore, adapt more readily to the new incentive mix with less effort on the part of the acquiring company. The 250 stockholder company should be picked rather than the four stockholder company.

CHAPTER VIII

SUMMARY

Problem and Hypothesis

The purpose of this thesis has been to develop a series of models relating the desired incentive packages of independent manufacturing company executives to the number of company stockholders. The same desired incentive package components are also modeled for acquired company executives. By using the two groups of models, the changes in attitude on the part of company executives going through a merger can be anticipated and the minimizing of the friction resulting from changes in desired incentives can be aided. The executives in an independent company have desired incentive mixes based on personal involvement with the organization and their places at the top of the hiearchy in addition to other drives for various incentives. Apparently, the executive is not always able to verbalize these incentive desires during a merger because of the unfamiliarity of the merger ritual, the overshadowing of the new hierarchy, the reasons behind his desire to sell the company, and the trauma of selling "his" company. The desired incentive mix of acquired company executives is different than that of the independent company executive and varies little with the size of the group of owners. The acquired company executive's incentive mix is based on what he perceives the parent company desired to give, what he thinks he should have, and what has been found necessary to identify his position in the hierarchy of the organization. Although literature gives some indication of the problem of keeping key executives after a merger, there is little written on the need to change incentive mix of the acquired company executives. The use of stock options and bonuses after a merger is usually suggested only as a method of tying division performance to executive pay.

The hypothesized models cover four major incentives: salary, bonus, stocks, and status, and the changes in desire as the number of owners vary and as the ownership varies. It was hypothesized that:

(1) Status is of little interest to executives in independent companies having few stockholders and also to those executives in companies having larger numbers of stockholders. However, there is a middle group to which status does assume importance; therefore, a convex upward curve of desired status results. Acquired company executives have a desire for status that is independent from the number of stockholders.

(2) Bonuses follow the same general pattern as

status; that is, the independent company executives in companies having few stockholders and those having many stockholders have little desire for the bonus incentive. The middle group has a greater desire for the bonus incentive than the two extremes again giving a convex upward curve of incentive desire. The acquired company executives have a desire for bonuses that is independent of the number of stockholders.

(3) Stock options follow the same pattern as bonus and status for both independent company executives and acquired company executives.

(4) Salary, being the remaining incentive, has a downward convex curve. The salary incentive is of greatest importance to the executives in the companies having few stockholders and those having many stockholders. The salary incentive is not as important to the middle group as it is to the extremes. The acquired company executive has a rather uniform expectation that varies little with the number of stockholders.

Conclusions

Linear regression has been used to create models from the data used in this thesis. In most cases, the linear model has provided an adequate fit of the data. Although there is a large amount of pure error, the significance of the regressions and the fits of the data to the means of the cells shows the hypothesized trends to be valid. Testing of April versus December data showed that the major segments of the models were stable over time and, therefore, are of predictive value as well as verifying the validity of the data.

By identifying the size of the acquired and acquiring organization in terms of the numbers of stockholders in each, the presently desired incentive package before a merger for an executive may be determined and his desired package after a merger may also be determined. Such information allows the acquiring company to determine what it will take to keep such an executive in the organization. The total incentive package will eventually approach the acquired executive models; therefore, selling of the new mix in the early stages of the merger anticipated. The total cost of an executive's package may be anticipated as incentives must be added to and not substituted. Such additional costs may cause the acquiring company to take a second look at the proposed merger. The executive in an independent company controls his incentive mix closely to his desired mix. Only 28 per cent wanted to change their incentive mix, but 50 per cent of the acquired executives wished to change theirs.

Limitations of This Study

The amount of pure error needs to be reduced by being more selective in picking companies and studying them in depth. Although looking primarily at the effect of a varying number of peers, other factors should be considered or eliminated. No proof is presented that the age of an executive is a factor in his desired incentive mix. A few executives' ages were determined with a range from 52 years to 58 years, inclusive. There is some evidence that this trend will be changing in the future toward an older executive, and, therefore, special attention should be given to this area. The few acquired companies which were examined for "time since the merger took place" indicate a wide variation, but also a minimum time of three years which indicated the executives contacted had been in the new hierarchy long enough for their desires to stabilize. The executive's company is a factor, in that different types of manufacturing tend to have different compensation plans, tighter control of selection of companies for the models should be made.

Recommendations for Additional Study

The greatest problems occurred in getting the respondents to evaluate their true feelings. And then, getting them to reveal these feelings. When the situation involves change of incentives, executives seem to inherently become defensive. Any attempts to obtain data on alienation and motivational techniques from an acquiring company is impossible.

Initially, face-to-face interviews produce the broadest and most comprehensive viewpoints. These can later be broken down for statistical evaluation. But not until companies and executives understand and communicate their individual goals can progress be made in developing successful merger techniques with satisfied executives remaining in the company.

Response was good with a reasonable return of all questionnaires. Personal interviews should be the foundation for further statistical work. Actual companies need to be identified and case studies made. However, the primary difficulty is the reluctance of executives to discuss their own and their company's policies and goals, particularly if they should differ.

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APPENDIX A

QUESTIONNAIRES

August 3, 1970

Dear Sir:

A survey is being conducted on the effect of management change on company efficiency. Since it is difficult to obtain information from those directly affected, views of persons on the outside of such changes can be very useful.

The study is concerned with three types of merger conditions.

(A) Acquisition by a conglomerate (a company that has acquired many diverse businesses, such as LTV, Litton, Gulf and Western, and Textron) with the acquired company's original management team remaining intact.

(B) Acquisition by a conglomerate with the management team changed either by its own desires or by pressure from the conglomerate.

(C) Acquisition by a multidivisional company (diversified but with major growth being internal, such as TI, Collins, and GM) with the acquired company absorbed into one of the already existing divisions.

We realize these divisions are not always clear cut. Only your general impressions are needed so do not feel you must verify answers. Also do not identify yourself or your company.

Please fill out the applicable portion of each question if you know a company that fits one of the catagories. Your help is needed and greately appreciated. Please return the completed questionnaire in the self-addressed envelope.

Yours truly,

H. L. Mitchell
Research Engineer

Please check the appropriate boxes for each question if you are familiar with a firm which has gone through that particular type of merger.

1 **General satisfaction of the people you contact in a firm acquired by:**

	much greater	greater	no change	worse	much worse
(a) a conglomerate that did not change the management.					
(b) a conglomerate that did change the management.					
(c) a multidivisional firm that disolved the company.					

2 The effectiveness after the merger of those you contact as compared to their effectiveness before the merger in a firm acquired by:

	much greater	greater	no change	worse	much worse
(a) a conglomerate that did not change the management.					
(b) a conglomerate that did change the management.					
(c) a multidivisional firm that disolved the company.					

3 Competitive ability and efficiency of the acquired firm or its reminants as compared to itself before the merger in a firm absorbed by:

	much greater	greater	no change	worse	much worse
(a) a conglomerate that did not change the management.					
(b) a conglomerate that did change the management.					
(c) a multidivisional firm that disolved the company.					

4 Ability of the absorbed firm or its reminants to get cooperation and guidance from the parent company since it was taken over by:

	much greater	greater	no change	worse	much worse
(a) a conglomerate that did not change the management.					
(b) a conglomerate that did change the management.					
(c) a multidivisional firm that disolved the company.					

5 Ability of the absorbed firm or its reminants to obtain good employees or in keeping them since it was taken over by:

	much greater	greater	no change	worse	much worse
(a) a conglomerate that did not change the management.					
(b) a conglomerate that did change the management.					
(c) a multidivisional firm that disolved the company.					

6 Length of time since the acquisition of the firm by:

	under 6 mo	6 mo - 1 year	1 - 2 years	2 - 5 years	over 5 years
(a) a conglomerate that did not change the management.					
(b) a conglomerate that did change the management.					
(c) a multidivisional firm that disolved the company.					

7 Number of employees in the acquired firm at the time of acquisition by:

	under 100	100 - 500	500 - 1000	1000-2500	2500 - up
(a) a conglomerate that did not change the management.					
(b) a conglomerate that did change the management.					
(c) a multidivisional firm that disolved the company.					

8 The management level of the persons you contact within the firm acquired by:

	top	middle	lower
(a) a conglomerate that did not change the management.			
(b) a conglomerate that did change the management.			
(c) a multidivisional firm that disolved the company.			

9 In a company acquired by a conglomerate and whose management changed, how long after the acquisition did the change occur?

under 6 mo. ☐ 6 mo. - 1 year ☐ 1 - 2 years ☐ 2 - 5 years ☐ over 5 years ☐

Please go on to page 2.

10 In a firm that has been disolved how long after the conglomerate or the multidivisional took over did the disolution occur?

under 6 mo. ☐ 6 mo. - 1 year ☐ 1 - 2 years ☐ 2 - 5 years ☐ over 5 years ☐

The following information about your opinions, your job and your company would be appreciated. Please check the appropriate boxes.

11 What is the number of employees in your company or division?

0-100 ☐ 100-500 ☐ 500-1000 ☐ 1000-2500 ☐ 2500-up ☐

12 What is your position?

V President ☐ VP Sales ☐ Sales Manager ☐ Chief of purchasing ☐ Purchasing Agent ☐

Other ☐

13 What is the title of your immediate superior?

President ☐ V President ☐ Chief of Purchasing ☐ VP Sales ☐ Sales Manager ☐

Other ☐

14 What is your company type?

Single Organization ☐ Multidivisional ☐ Conglomerate ☐

15 Have you ever worked for a company when it was absorbed or about to be absorbed by another company?

Yes ☐ No ☐

16 How would the absorption of your company by a conglomerate affect your efficiency if the original management of your company were retained?

Greatly improved ☐ Some improvement ☐ No change ☐ Slightly hurt ☐ Greatly hurt ☐

17 Would the absorption by a conglomerate of your company affect your job satisfaction if the original management were retained?

Greatly improved ☐ Some improvement ☐ No change ☐ Slightly hurt ☐ Greatly hurt ☐

18 How would your efficiency be affected if your company was absorbed by a conglomerate and a new management team brought in?

Greatly improved ☐ Some improvement ☐ No change ☐ Slightly hurt ☐ Greatly hurt ☐

19 How would your job satisfaction be affected if your company was absorbed by a conglomerate and a new management team brought in?

Greatly improved ☐ Some improvement ☐ No change ☐ Slightly hurt ☐ Greatly hurt ☐

20 Would ownership of stock in the acquiring company affect your outlook in questions number 16, 17, 18 and 19?

Yes ☐ No ☐ Do not know ☐

21 Any remarks you may wish to make on the subject in general.

____

____

____

Thank you for your time and your help. Please return both pages of the questionnaire in the self-addressed envelope.

Oklahoma State University

INDUSTRIAL ENGINEERING AND MANAGEMENT

STILLWATER, OKLAHOMA 74074
ENGINEERING NORTH, ROOM 322
(405) 372-6211, EXT. 7561

April 16, 1971

A survey of executives' views on various incentives is being conducted as part of a study on the relationship between company size and compensation techniques. This survey is limited in size; hence, maximum response is needed. We would deeply appreciate it if you would take a few moments to fill out the enclosed questionnaire. All information is confidential and neither your name nor your company's name is desired. Even if you do not wish to fill out the entire questionnaire, please return it in the enclosed envelope.

Sincerely yours,

Herbert L. Mitchell

1. A bonus plan based on company profits is a powerful incentive.
Strongly agree [ ] Agree [ ] No opinion [ ] Disagree [ ] Strongly disagree [ ]

2. A stock option plan is a powerful incentive.
Strongly agree [ ] Agree [ ] No opinion [ ] Disagree [ ] Strongly disagree [ ]

3. Status incentives (office location, company car, title) provide strong motivation for executives and affect their status in the community.
Strongly agree [ ] Agree [ ] No opinion [ ] Disagree [ ] Strongly disagree [ ]

4. Pride-of-ownership is a powerful incentive for owner-managers of a company.
Strongly agree [ ] Agree [ ] No opinion [ ] Disagree [ ] Strongly disagree [ ]

5. After a merger the ownership of stock in the parent company provides sufficient feeling of "pride of ownership" for the acquired company's executives.
Strongly agree [ ] Agree [ ] No opinion [ ] Disagree [ ] Strongly disagree [ ]

6. After a merger, bonus plans or contingent payout plans may be sufficient to off set any change of status incentives (company car, title, etc.).
Strongly agree [ ] Agree [ ] No opinion [ ] Disagree [ ] Strongly disagree [ ]

7. Please indicate the percentage of "income" that each of these incentives contribute to your overall compensation package. Stock ___, Salary ___, Bonus ___, Status ___

8. If the present percentages shown in number seven are not to your liking please indicate the percentage mix you would prefer. Stock ___, Salary ___, Bonus ___, Status ___

9. After a merger, continuation of the acquired company as a separate organization with some of its stock held by its key employees is a better way to continue their motivation than ownership of stock only in the acquiring company.
Strongly agree [ ] Agree [ ] No opinion [ ] Disagree [ ] Strongly disagree [ ]

10. If you agree with question nine what percentage of the stock should remain in the employees hands to make them feel that the company is still theirs. ____________

11. What is your corporate or company position? ____________________________

12. Do you own stock in the company? Yes [ ] No [ ]

13. Number of shareholders in your company? ____________

14. Number of employees in your company? ____________

15. Have you or your company ever been involved in a merger? Yes [ ] No [ ]

16. Length of time in present company? ____________

17. Length of time company has been in business ? ____________

18. Personal comments ____________________________

____

____

____

____

THANK YOU - PLEASE FOLD AND RETURN IN ENCLOSED ENVELOPE.

Oklahoma State University

INDUSTRIAL ENGINEERING AND MANAGEMENT

STILLWATER, OKLAHOMA 74074
ENGINEERING NORTH, ROOM 322
(405) 372-6211, EXT. 7361

April 23, 1971

A survey of compensation techniques is being conducted as part of a study on the change of executive attitudes as a result of corporate merger. Since your firm has faced this situation, your thoughts and ideas would be of great value to our study.

We wish to know what types of incentives and compensations work, and also those that do not work and may cause problems. Although a form questionnaire is enclosed, we feel your "off the cuff" comments would be of great importance.

All information is confidential and neither your name nor your company's name is desired. A return envelope is enclosed for your convenience. If you do not wish to comment, please return the completed form. Only a few companies are being contacted so any help you can give would be appreciated.

Sincerely yours,

Herbert L. Mitchell

1. A bonus plan based on company profits is a powerful incentive for executives.
Strongly agree [ ] Agree [ ] No opinion [ ] Disagree [ ] Strongly disagree [ ]

2. A stock option plan is a powerful incentive for executives.
Strongly agree [ ] Agree [ ] No opinion [ ] Disagree [ ] Strongly disagree [ ]

3. Status incentives (office location, company car, title) provide a strong motivation for executives.
Strongly agree [ ] Agree [ ] No opinion [ ] Disagree [ ] Strongly disagree [ ]

4. Pride of ownership is a powerful incentive for owner managers of a company.
Strongly agree [ ] Agree [ ] No opinion [ ] Disagree [ ] Strongly disagree [ ]

5. After a merger, ownership of stock in the parent company provides sufficient feeling of pride of ownership for the acquired company's executives.
Strongly agree [ ] Agree [ ] No opinion [ ] Disagree [ ] Strongly disagree [ ]

6. After a merger, bonus plans, contingent payouts, stock options, or stock in parent company are sufficient to offset any change of status incentives.
Strongly agree [ ] Agree [ ] No opinion [ ] Disagree [ ] Strongly disagree [ ]

7. What percentage of income should each of these incentives contribute to the overall compensation package of an acquired company executive.
Stock [ ] Salary [ ] Bonus [ ] Status [ ]

8. After a merger, continuation of the acquired company as a separate organization with some of its stock held by its key employees is a better way to continue their motivation than ownership of stock only in the acquiring company.
Strongly agree [ ] Agree [ ] No opinion [ ] Disagree [ ] Strongly disagree [ ]

9. If you agree with question eight, what percentage of the stock should remain in the employee's hands to make them feel the company is still theirs. ____________

10. Does your company leave the incentive package for executives in an acquired company unchanged from the original package they had before the merger.
Yes [ ] No [ ]

11. If your answer to question ten is no, please identify what portions of the package are most often changed.
Salary [ ] Bonus [ ] Status [ ] Fringe [ ]

12. Does your company ever use contingent payouts as a form of motivating top management in an acquired company.
Yes [ ] No [ ]

13. Executives in small companies are more difficult to motivate after a merger than those from larger companies.
Strongly agree [ ] Agree [ ] No opinion [ ] Disagree [ ] Strongly disagree [ ]

14. The key executives remaining after a merger is an important factor in the acquisition of small companies.
Strongly agree [ ] Agree [ ] No opinion [ ] Disagree [ ] Strongly disagree [ ]

15. Approximate number of acquisitions in the last 5 years by your company ____________

16. What is your corporate or company position? ____________

____

17. Comments

APPENDIX B

RAW DATA

1*			2			3			4			5			6			7			8			9	10	11	12	13	14	15	16	17	18	19	20
A	B	C	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C												
4	1	2	1	4	1	1	4	3	4	5	3	4	5	3	3	4	2	3	4	5	3	3	2	4	5	3	Chief of Pur	V.P.	Cong	Yes	4	3	3	4	Yes
4	4	4	3	4	4	3	4	3	4	4	-	5	5	5	2	1	2	5	4	4	3	2	3	2	2	1	Chief of Pur	V.P.	Multi	No	3	3	3	-	Unknown
4	2	2	4	4	4	3	4	4	4	5	3	5	4	3	4	3	2	5	1	4	3	2	2	4	3	4	Unknown	V.P.	Multi	No	4	4	2	1	No
4	1	-	4	1	-	4	1	-	3	3	-	4	2	-	2	-	-	-	4	-	-	-	-	5	-	4	Pur Agent	Chief of Pur	Cong	Yes	4	4	3	3	Yes
3	2	1	3	1	1	4	1	1	5	5	1	3	3	1	2	3	3	1	1	1	3	3	3	4	3	1	Chief of Pur	Unknown	Cong	Yes	3	4	2	2	No
3	2	1	3	4	2	2	4	3	2	4	3	4	4	4	2	3	4	1	2	5	3	3	2	3	4	2	V.P.	Pres.	Cong	Yes	3	3	4	3	Yes
-	4	-	-	5	-	-	5	-	-	5	-	-	5	-	-	3	-	-	2	-	-	3	-	-	-	4	Chief of Pur	V.P.	Single	No	4	4	5	4	No
5	1	1	3	2	1	2	1	1	2	1	1	3	3	2	2	2	2	1	2	2	3	3	3	5	4	2	V.P.	Pres.	Single	Yes	2	2	1	1	No
2	1	-	2	1	-	1	1	-	1	1	-	2	2	-	4	4	-	2	1	-	2	2	-	5	4	4	Chief of Pur	V.P.	Single	No	2	3	3	3	Yes
4	2	1	3	2	2	3	4	2	-	-	-	-	-	-	3	2	3	3	4	4	3	3	2	4	3	4	V.P. Sales	V.P.	Single	No	3	2	4	4	Yes
2	1	1	3	2	2	3	2	2	3	4	2	3	3	3	3	3	3	3	4	4	2	2	2	5	4	4	V.P. Sales	Pres.	Single	No	4	4	3	2	Yes
1	2	-	2	2	-	2	3	-	2	3	-	2	3	1	2	1	-	4	2	-	2	2	-	5	-	2	Chief of Pur	V.P.	Multi	Yes	4	4	2	2	No
2	1	2	2	2	2	3	3	3	3	3	3	3	3	3	3	1	1	2	1	4	3	3	3	4	5	4	V.P. Sales	Pres.	Multi	No	3	3	3	3	Unknown
3	1	-	3	2	-	3	2	-	3	2	-	2	2	-	4	3	-	5	4	-	3	3	3	4	-	4	V.P.	Pres.	Multi	No	-	3	-	3	Yes
-	1	-	-	2	-	-	1	-	-	3	-	-	3	-	-	1	-	-	-	-	-	3	-	2	-	3	Sales Mgr.	V.P.	Multi	Yes	3	3	1	1	Unknown
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3	Chief of Pur	Unknown	Multi	No	2	2	2	2	Yes
4	-	-	4	-	-	4	-	-	4	-	-	4	-	-	3	-	-	3	-	-	3	-	-	-	-	4	Chief of Pur	Pres.	Multi	No	4	4	2	4	Unknown
4	3	2	5	3	-	4	3	-	3	3	-	-	-	2	-	-	4	-	-	5	-	3	3	5	4	4	Chief of Pur	Pres.	Multi	No	4	-	-	5	Yes
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	4	Sales Mgr.	Unknown	Cong	No	3	3	-	-	Unknown
2	-	-	2	-	-	2	-	-	2	-	-	3	-	-	2	-	-	5	-	-	3	-	-	-	-	5	V.P.	Pres.	Cong	Yes	2	2	1	1	Yes
-	2	-	-	2	-	-	2	-	-	-	-	-	2	-	-	3	-	-	5	-	-	2	-	5	-	4	Sales Mgr.	V.P.	Single	No	4	4	4	4	Yes
4	-	-	3	-	-	4	-	-	-	-	-	3	-	-	3	-	-	3	-	-	2	-	-	-	-	3	Chief of Pur	Unknown	Cong	No	4	3	4	4	No
-	1	-	-	2	-	-	1	-	-	2	-	-	2	-	-	3	-	-	3	-	-	3	-	4	5	4	Sales Mgr.	Pres.	Single	No	5	3	4	5	Unknown
-	4	-	-	4	-	-	5	-	-	5	-	-	3	-	-	2	-	-	3	-	-	3	-	3	-	4	V.P. Sales	Pres.	Single	Yes	4	3	3	3	Yes
4	2	2	3	2	2	3	2	2	3	4	4	3	2	2	3	2	3	3	4	4	2	2	2	3	4	3	Sales Mgr.	V.P.	Multi	Yes	4	4	3	2	No
3	2	-	3	-	-	3	2	-	3	-	-	3	-	-	1	-	-	1	-	-	3	-	-	-	-	2	Sales Mgr.	Pres.	Multi	Yes	3	3	2	2	Unknown
-	2	-	-	2	-	-	2	-	-	2	-	-	2	-	-	2	-	-	2	-	-	3	-	5	-	3	Pres.	-	Single	Yes	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3	Unknown	Pres.	Single	No	4	4	-	-	Yes
3	1	-	3	1	-	3	2	-	3	5	-	3	1	-	2	3	-	3	4	-	2	2	-	5	-	5	Sales Mgr.	Unknown	Multi	Yes	3	3	1	1	No
4	2	-	3	2	-	4	3	-	-	-	-	-	-	-	2	1	-	4	4	-	3	2	-	5	-	5	V.P. Sales	Pres.	Multi	Yes	3	2	3	-	Yes
4	-	-	4	-	-	4	-	-	3	-	-	3	-	-	4	-	-	4	-	-	3	-	-	-	-	4	V.P. Sales	Pres.	Single	Yes	4	4	1	1	Yes
-	2	-	-	2	-	-	4	-	-	-	-	-	3	-	-	2	-	-	2	-	-	2	-	4	-	4	Pur Agent	V.P.	Single	Yes	2	2	1	1	Yes

*Numbers refer to question number; answers are coded in questions 1, 2, 3, 4, 5 as follows: (5) much greater; (4) greater; (3) no change; (2) worse; (1) much worse

answers are coded in questions 16, 17, 18, 19 as follows: (5) greatly improved; (4) some improvement; (3) no change; (2) slightly hurt; (1) greatly hurt

Code for question 6 is:

under 6 mo.	5
6 mo-1 year	4
1-2 years	3
2-5 years	2
over 5 years	1

Code for questions 7, 11 is:

under 100	5
100-500	4
500-1000	3
1000-2500	2
2500-up	1

Code for question 8 is:

top	3
middle	2
lower	1

Code for questions 9,10:

under 6 mo.	5
6 mo-1 year	4
1-2 years	3
2-5 years	2
over 5 years	1

Survey of Independent and Acquired Companies - April 1971 Data

1*	2	3	4	5	6	7	8	9	10	11	12	13	14	15	15B	16	17
5	5	4	5	2	2	.10 .75 .10 .05	No Change	3		Pres	Yes	6635	1650	Yes	Unspec	13	13
4	4	2	5	2	2	.25 .50 .20 .05	No Change	2		Pres	Yes	15	95	Yes	Unspec	15	15
5	5	2	5	2	4	.10 .75 .15 .00	No Change	4		V.P.	Yes	2500	1700	Yes	Amalgamation	4	88
4	3	4	4	3	2			4		V.P.	Yes	8	400	No	NA	20	20
4	4	3	4	2	4	.00 1.00 .00 .00	.10 .80 .10 .00	4	.10	V.P.	No		700	Yes	Unspec	3	25
4	2	4	4								Yes	6	700	No	NA		
5	4		4	4	4	.00 .70 .20 .10	.10 .70 .10 .10	1		Exec V.P.	Yes	5000	600	Yes	Unspec	NA	30
4	3	5	5	2	2	.00 .90 .10 .00	.00 .80 .10 .10	4	.49	Pres	Yes	5	250	No	NA	20	50
5	5	4	5	3	3	.05 .75 .10 .10	No Change	3		Chairman	Yes	35	180	Yes	Acquisition	25	47
	4	4	4	4	4			3			Yes			No	NA	20	55
5	4	4	5	4	4			2		Corp Sec	Yes			No	NA	40	95
5	5	2	4	2	3			1		Pres	Yes	4000	300	Yes	Unspec	12	12
4	2	5	3	1	4	.00 .97 .02 .01	No Change	4	.33	V.P.	Yes	850	1000	No	NA	40	112
1	1	1	1	4	5	.10 .75 .10 .05	No Change	5		Pres	Yes	6	325	No	NA	25	25
5	5	4	4			.00 .90 .10 .00	No Change	3			Yes	4	150	No	NA	20	20
2	3	4	5	3	3	.00 .70 .10 .20	.10 .60 .10 .20	3		V.P.	No	15	2000	No	NA	33	62
4	4	3	4	4	2	.05 .95 .00 .05	No Change	2		V.P.	Yes	1250	1500	Yes	Unspec	4	30
4	4	4	5	4	3	.00 .80 .10 .10	.00 .70 .20 .10	2		Pres	Yes	140	400	Yes	Unspec	20	20
4	4									V.P.	Yes		300	No	NA	30	30
5	4	3	4	2	4	.00 1.00 .00 .00	.20 .80 .00 .00	1		V.P.	Yes	1400	475	Yes	Unspec	12	12
3	3	5	4	2	2	.00 1.00 .00 .00	No Change	4	.49	Pres	Yes	3	140	No	NA	25	25
4	2	4	5	2	3	.00 1.00 .00 .00	.00 .70 .20 .10	5	.30	V.P.	Yes	12000	600	Yes	Unspec	18	40
5	4	4	4	2	2			4	.50	V.P.	Yes	20	900	No	NA	5	42
5	4	4	4	3	3	.00 ..85 .10 .15	No Change	3		Exec V.P.	No	12	104	No	NA	10	52
4	4	4	4	2	3	.00 .80 .20 .00	No Change	3		Pres	Yes	35	60	No	NA	25	40
5	5	4	5	4	5	.00 .80 .20 .00	No Change	2		Pres	Yes	400	170	Yes	Unspec	20	45
4	3	4	4	3	3	.00 .90 .10 .00	.00 .80 .20 .00	4		Pres	Yes	4	250	No	NA	10	25
4	4	4	5	4	4	.10 .75 .15 .00	No Change	4	.40	V.P.	Yes	350	2500	No	NA	28	40
4	3	3	5	2	3			3		Chairman	Yes	3	200	No	NA	34	34
1	2	4	4	2	2	.10 .80 .00 .10	No Change	3		Pres	Yes	3	90	No	NA	46	46
5	3	2	5	3	4	.00 .65 .35 .00	.00 .80 .20 .00	4	.50	Pres	Yes	100	300	No	NA	20	50
4	4	4	5	2	4			2		Pres	Yes	250	400	No	NA	36	45
4	1	4	2	2	3			2		Pres	Yes	7	210	No	NA	25	62
3	3	4	4	3	3	.00 1.00 .00 .00	No Change	3		Exec V.P.	No	6	250	No	NA	12	38
4	4	3	4	3	3	.00 .90 .10 .01	.10 .75 .15 .00	5	.15	Exec V.P.	Yes	2000	200	Yes	Unspec	15	18
2	5	4	4	3	3	.00 1.00 .00 .00	No Change	3		Pres	Yes	750	300	No	NA	30	45
5	5	5	5	3	3	.10 .70 .10 .10	No Change	3		Corp Sec	Yes	10	200	No	NA	14	16
4	2	4	5	2	4	.00 .70 .20 .10	No Change	4	.20	V.P.	Yes	150	500	No	NA	20	25
4	4	4	4	4	2	.00 1.00 .00 .00	.10 .70 .20 .00	1		Pres	Yes	40	50	No	NA	10	46
4	1	5	5	3	3			3		G Mgr	Yes		320	No	NA	20	20

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	15B	16	17
4	4	4	5	4	4	.00 .99 .01 .00	No Change	2		Pres	Yes		300	Yes	Unspec	19	24
4	4	4	4	2	2	.00 .75 .20 .05	No Change	4		V.P.	Yes	40	450	No	NA	11	11
2	3	4	4	3	3			3		Chairman	Yes	20	200	No	NA	20	20
5	4	4	4	4	4	.00 .95 .05 .00	.10 .80 .10 .00	4	.20	Pres	Yes	425	500	Yes	NA	17	25
5	5	4	5	3	3	.15 .55 .30 .00	No Change	3		V.P.	Yes	40	1200	No	NA	31	68
5	5	2	5	3	4	.00 1.00 .00 .00	No Change	3		Pres	Yes	670	850	No	NA	10	26
5		4	5	4	2	.00 .75 .25 .00	.00 .90 .10 .00	4	.20	Exec V.P.	Yes	6	600	Yes	Unspec	27	31
5	4	4	3	2	3	.00 .60 .20 .20	No Change	3		Exec V.P.	Yes	50	450	No	NA	36	48
4	3	4	5	3	3	.00 .75 .15 .10	No Change	4	.49	V.P.	Yes	15	450	No	NA	25	55
3	3	4	4	3	3					Treasurer	Yes	65	105	No	NA	25	61
5	5	4	5	3	3	.00 .70 .30 .00	No Change	4	.33	V.P.	Yes	200	1000	No	NA	16	32
4	4	4	4	4	4	.00 .75 .25 .00	No Change	2		V.P.	Yes	850	1100	Yes	Amalgamation	24	50
4	5	4	4	4	4	.00 .65 .18 .17	No Change	2		V.P.	Yes	4000	1300	Yes	Acquirer	6	25
4	4	2	4	2	4	.00 .80 .20 .00	No Change	4	.20	Exec V.P.	Yes	500	2000	No	NA	10	70
5	4	2	5	4	3	.03 .80 .17 .00	.05 .70 .25 .00	4		V.P.	Yes		2500	Yes	Unspec	29	29
4	3	4	4								Yes	3	200	No	NA	47	47
4	3	3	3	3	3			3		Pres	Yes	3000	300	No	NA	18	18
2	2	2	4	2	2			2		Pres	Yes	2000	400	Yes	Unspec	2	20
5	4	4	5	3	3	.00 .80 .10 .10	No Change	2		V.P.	Yes	3500	700	Yes	Unspec	15	25
4	4	3	4	2	4			5	.27	Exec V.P.	Yes	30	500	No	NA	34	75
3	3	4	4	4	2			1		Pres	Yes	3	50	No	NA	20	20
3	3	4	3	3	3			3		Pres	No		270	No	NA	33	51
4	4	2	5	2	4	.00 .94 .05 .01	No Change	4	.35	V.P.	Yes	300	400	No	NA	25	25
4	3	5	5.	3	2	.00 .94 .05 .01	No Change	4	.51		Yes	3	100	No	NA	38	38
4	3	4	5	3	3	.00 .80 .70 .00	No Change	3			Yes		400	No	NA	21	62
5	5	4	4	3	3	.05 .70 .20 .05	No Change	2		V.P.	Yes	850	350	Yes	Unspec	6	15
2	2	4	5	3	2			2		V.P.	Yes	1	80	No	NA	21	21
			5	4	2			2		Pres		8	30	Yes	Unspec	50	53
4	3	2	4	3	3	.00 .70 .30 .00	No Change	4		Chairman	Yes	100	700	No	NA	33	33

*The numbers refer to the question number. Questions 1, 2, 3, 4, 5, 6, 9 are coded: (5) strongly agree; (4) agree; (3) no opinion; (2) disagree; (1) strongly disagree; % in question 7, 8 refer to stock option, slary, bonus, status in order.

Survey of Independent and Acquired Companies - December 1971 Data

1*	2	3	4	5	6	7	8	9	10	11	12	13	14	15A	15B	16	17
						.00 .95 .03 .02	.05 .90 .03 .02	4	.10	Pres	Yes	3	100	No	NA	28	65
						.00 .90 .10 .00	No Change	2		Unspec	No	1	3000	No	NA	36	100
						.00 1.00 .00 .00	No Change	2		V.P.	No	1	2500	No	NA	21	59
								1		Unspec	Yes	6000	3000	Yes	Unspec	22	69
						.00 .75 .25 .00	No Change	3		Sec	Yes	225	750	No	NA	20	60
						.00 .85 .15 .00	No Change	3		Exec V.P.	Yes	200	450	No	NA	17	20
						.00 .50 .50 .00	No Change	5	.15	Pres	Yes	30	2200	Yes	Acquisition	50	68
						.00 .80 .20 .00	No Change	2		Pres	Yes	5	165	No	NA	21	21
						.00 1.00 .00 .00	.00 .80 .20 .00	2		Pres	Yes	70	250	No	NA	15	15
						.00 .90 .10 .00	.00 .60 .40 .00	4		Pres	Yes	150	450	No	NA	12	50
						.00 .95 .05 .00	No Change	4		V.P.	Yes		100	Yes	Unspec	30	36
						.00 .75 .22 .03	.10 .70 .10 .10	4	.40	Pres	No	Trusts	225	No	NA	40	68
						.00 .95 .00 .05	.00 .75 .20 .05	5	.20	Exec V.P.	Yes	6000	2500	Yes	Unspec	8	75
						.00 .75 .25 .00	.10 .65 .25 .00	1		Exec V.P.	Yes	300	2700	No	NA	26	65
						.00 .95 .05 .00	No Change	3		Pres	No	9	125	No	NA	31	46
										Pres	Yes		350	No	NA	37	37
						.00 .90 .05 .05	No Change	3		Pres	Yes	4000	400	Yes	Merger	16	40
						.00 .85 .10 .05	No Change	4	.25	Pres	Yes	8	215	Yes	Merger	15	25
						.00 .75 .25 .00	No Change	3		Pres	Yes	75	1000	No	NA	19	53
						.00 .90 .00 .10	.10 .80 .10 .00	5	.20		Yes	10000	3000	Yes	Merger	20	25
						.10 .60 .25 .05	No Change	4	.25	Chairman	Yes	10	270	No	NA	22	26
						.10 .75 .15 .00	No Change	3		V.P.	Yes		5000	Yes	Unspec	27	43
						.00 .85 .12 .03	.00 .75 .22 .03	4	.12	Exec V.P.	Yes	150	1200	Yes	Unspec	16	70
						.00 .80 .20 .00	.25 .50 .20 .05	3		Pres	Yes	12	150	No	NA	15	15
						.00 .70 .20 .10	.20 .60 .10 .10	4		Pres	Yes	12	30	No	NA	20	20
						.05 .80 .10 .05	.15 .60 .15 .10	1		Exec V.P.	Yes	18 inc. Trusts	1500	Yes	Acquisition	25	70
						.00 .80 .20 .00	.05 .75 .15 .05	4	.51	Gen Mgr	Yes	11000	200	Yes	Merger	13	37
						.00 .90 .10 .00	No Change	3		V.P.	Yes	450	600	No	NA	15	600

*The numbers refer to the question number. Questions 1-6 were omitted in this second study; question 9 is coded: (5) strongly agree; (4) agree; (3) no opinion; (2) disagree; (1) strongly disagree.

Survey of Acquiring Companies

1*	2	3	4	5	6	7				8	9	10	11	12	13	14	15	16
4	4	4	5	2	2	.05	.75	.05	.15	4	.20	Yes		Yes	4	4	6	V.P.
4	4	4	4	2	2	.05	.80	.10	.05	2		No	Fringe	Yes	3	4	4	V.P.
4	4	4	4	3	2	.10	.90	.00	.00	3		No	Fringe	No	4	2		Asst. Tres.
5	4	4	4	2	3	.50	.30	.10	.10	1		No	Bonus	Yes	5	5	3	V.P.
5	4	2	4	2	4	.15	.60	.20	.05	2		No	Salary	No	4	4	2	Exec. V.P.
4	4	4	5	4	2	.15	.50	.25	.10	4	.08	Yes		Yes	4	5	7	V.P.
4	3	4	2	2	3	.05	.75	.15	.05	1		No	Bonus	No	5	4	22	Treas.
5	4	2	4	3	5	.10	.75	.15	.00	1		No	Bonus	Yes	3	4	10	Treas.
4	2	4	4	4	2	.05	.75	.18	.02	1		No	Salary	Yes	4	4	10	V.P.
4	4	4	2	2	3	.20	.60	.15	.05	2				No	3	4	8	V.P.
4	4	5	3	4	4	.05	.70	.20	.05	2		No	Bonus	No	2	4	4	Employee Rel.
4	4	5	4	3	4	.10	.40	.40	.10	1		No	Bonus	Yes	1	4	40	Treas.
5	5	5	4	2	4					2				No	2	5	3	Pres.
4	4	2	4	2	2	.00	.90	.10	.00	3		No	Bonus	Yes	3	5	2	Indus. Rel.
5	4	4	5	4	2	.15	.50	.25	.10	2		No		Yes	4	5	28	V.P.
4	4	4	3	2	2	.05	.80	.15	.00	2		No	Salary	No	1	5	7	Corp. Dev.
5	5	4	5	2		.10	.65	.25	.05	3		No	Status		4	5	5	
5	4	2	5	4						2		No		Yes	3		3	Treas.
4	4	2		4	3	.15	.60	.20	.05	4	.20	Yes		Yes	4	4	15	V.P.
4	5	5	5	3	4					4		Yes	Fringe	Yes	5	2	82	V.P.
4	5	4	4	2	4					2		No		Yes	2	5	25	V.P.
5	4	4	4	4	4	.20	.50	.20	.10	2		No	Bonus	Yes	2	5		Exec. V.P.
4	4	4	5	2	2					2		No	Bonus	Yes	4	5	8	Pres.

*The numbers refer to the question number on the questionnaire; questions 1, 2, 3, 4, 5, 6, 9, 13, 14 have coded answers: (5) strongly agree; (4) agree; (3) no opinion; (2) disagree; (1) strongly disagree; % in question 7 refers to stock plan, salary, bonus, status in that order.

VITA

Herbert Leckie Mitchell

Candidate for the Degree of

Doctor of Philosophy

Thesis: DESIRED EXECUTIVE INCENTIVE MIX AS A FUNCTION OF THE SIZE OF THE COMPANY OWNERSHIP GROUP

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Biographical:

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Professional Memberships: American Institute of Industrial Engineers, Institute of Electrical and Electronic Engineers, Registered Professional Engineer State of Texas, Alpha Pi Mu, Sigma Tau, and Eta Kappa Nu.