Death of a securities sales firm: Miscalculations fatal to Becker Becker
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Death of a securities sales firm

Miscalculations fatal to Becker

By Sally Saville Hodge
and Laurie Cohen

WHEN ABRAHAM G. Becker started A.G. Becker & Co. in Chicago in 1893 from the wreckage of a failed commercial bank owned by his brother-in-law, his first priority was to repay depositors who had lost money. By 1904, he had completed the task of paying back depositors—with interest.

This early part of the firm's 91-year history goes a long way in explaining why the Becker organization was able to engender pride and loyalty internally and a healthy respect from outsiders.

It also helps explain why Becker's pending liquidation is being viewed with dismay and disbelief by the financial community, particularly in the city where it had its roots.

ON AUG. 6, the French banking parent of the brokerage firm that became Becker Paribas Inc. announced that it was bailing out after a 10-year involvement. That Monday, Cie. Financiere de Paribas said it would sell most of Becker's institutional businesses to Merrill Lynch, Pierce, Fenner & Smith Inc. for $100 million in Merrill Lynch shares—at least $125 million less than Paribas had invested in Becker in recent years.

Within two weeks, hopes of keeping Becker's retail stock brokerage business intact under the Becker name faded as its Los Angeles and Chicago offices were sold to Drexel Burnham Lambert Inc. for an undisclosed sum.

Only six weeks earlier, Paribas had seemed to make a lasting commitment to Becker by upping its ownership to 100 percent from 51, injecting $100 million of new capital into the firm.

WHY BECKER failed will be debated for some time. Interviews with present and past executives and others in the industry, however, tell a story of how a series of management miscalculations contributed to its downfall.

One chief executive failed to designate an heir. His successor's hands-on management tactics alienated key managers and finally weakened the firm's foundations as they, and ultimately clients, defected. And a strategy of becoming a premier national investment banker, pushed by European partners, proved beyond Becker's capabilities.

"Senior management was unable to work effectively for the good of

Continued on page 3

Abraham G. Becker

A chronology

- **1893:** Abraham G. Becker takes control of failed Chicago commercial bank started by his brother-in-law that specialized in commercial paper.
- **1904:** Creditors paid off.
- **1911:** Becker makes first public offering of securities, a $5 million issue of 7 percent preferred stock and common stock for Hart Schaffner & Marx.
- **1919:** Becker forms bond department, predecessor of corporate finance division; one of first offerings is $50 million issue of 1- to 3-year notes of Sears, Roebuck and Co.
- **May, 1925:** Abraham Becker dies. His nephew, Robert Schaffner, becomes president until 1936, when another nephew, David B. Stern, is named to head the firm.
- **January, 1947:** James Becker, son of the founder, named president.
- **July, 1961:** William Mabie becomes first president from outside Becker family. James Becker named chairman, retains chief executive title.
- **January, 1968:** Paul Judy named president and chief executive officer.
- **December, 1974:** Cie. Financiere de Paribas and S.G. Warburg & Co. Ltd. each buy 20 percent stake in Becker.
- **April, 1977:** Judy announces plans to step down as president, triggering year-long search for replacement. He resigns in October, 1981.
- **February, 1978:** Ira Wender named chief executive officer and chairman of holding company, Becker Warburg Paribas Group Inc.
- **September, 1979:** Jack Wing, president of A.G. Becker & Co., quits, followed over a period by other top executives: John Donahue, deputy chairman; Frederick Moss, vice chairman and Raymond Holland, managing director in charge of equity business [who returned in 1982 but left again two years later].
- **February, 1982:** Paribas nationalized by French government.
- **June, 1982:** Rumors spread that Becker incurred heavy losses trading government bonds and stock options.
- **July, 1982:** Paribas and Warburg take majority control of Becker. Wender resigns; Daniel Good and John Heimann named co-chairmen of the management committee.
- **April, 1983:** Warburg sells Becker stake to Paribas. Herve Pinet installed by Paribas as chief executive. Daniel Good later named president and chief operating officer, and John Heimann named chairman of policy committee.
- **May, 1983:** Speer Leeds & Kellogg buys Becker's marketmaker clearing units.
- **November, 1983:** SEI Corp. buys Becker's pension funds evaluation unit for $11.7 million.
- **December, 1983:** Becker pays $300,000 to settle charges by New York Stock Exchange and Securities and Exchange Commission that firm violated net-capital rules.
- **January, 1984:** Daniel Good returns to Chicago as managing director and head of Chicago office.
- **May, 1984:** Donaldson, Lufkin & Jenrette Inc. buys Becker's stock, option and commodity clearing businesses.
- **June, 1984:** Paribas buys out employee shareholders. Good resigns.
- **August, 1984:** Paribas announces agreement to sell most of Becker's institutional businesses to Merrill Lynch & Co. for $100 million in stock. Paribas later agrees to sell second- and third-largest retail brokerage offices—in Los Angeles and Chicago—to Drexel Burnham Lambert Inc.

Becker

Continued from 1st Business page

Becker Paribas," says Perrin Long of Lipper Analytical Services Inc. "As a consequence, Becker is going out of business completely."

OVER THE YEARS, the firm had changed substantially from the days when Abraham Becker had walked through Chicago's Lake-Street financial district, selling corporate IOUs to banks.

Playing off relationships developed through its commercial-paper business, the firm had established additional offices from Los Angeles to New York City. It boasted a corporate-finance department and a municipal-bond department. It acquired seats on the major stock exchanges and thus moved into investment research and sales. It branched out with trade-clearing operations and a unit to evaluate pension funds.

Much of its growth occurred in the mid- to late 1960s and early '70s, thanks, sources say, to the leadership of Paul Judy.

The head of the firm from 1968 to 1978, he was the hand-picked successor of James Becker, son of the founder. Judy was the first non-family chief executive, chosen because Becker wanted a younger management team to move the firm to greater national prominence, particularly in investment banking.

By 1974, Judy and his management team believed Becker should solicit institutional investors such as S.G. Warburg & Co. and Paribas. Thus, it would get the capital infusion necessary to fill gaps in its strategy and substantially expand its investment banking functions—specifically on an international basis.

THE FORMIDABLE European banking firms of Warburg and Paribas, already partners by virtue of financial stakes each held in the other, were Becker management's first choice. The idea appealed to the Europeans. Both already had a small investment banking office in New York City and wanted to be as formidable a power in the United States as in Europe.

Each acquired a 20 percent stake in Becker. After six years, the deal could be renegotiated so the Europeans might together hold as much as a 50 percent stake in Becker.

Said Judy: "Their ownership could only go to more than 50 percent at a substantial premium. We thought they might eventually control Becker, but

Daniel Good:

"Maybe one of the fundamental problems ... was the series of compromises over the years."

they would pay a high price to do it."

THE PARTNERSHIP joined organizations and individuals with vastly different styles.

Recalled James Mabie, a former managing partner: "You would go to a meeting and the Europeans would all have on these dark blue, vested suits, white shirts and dark blue ties. They were always very urbane: 'How nice to see you. How is your wife? Where have you returned from holiday? Did you hear about the latest convertible subordinated bond debenture financing from General Motors?'

"Compare that to Paul Judy, sort of an aggressive workaholic, who wore his pants about two inches short in the cuff because that's the way they were worn at Harvard when he graduated there. He didn't know anybody's wife's name, hadn't the foggiest notion if you'd taken a vacation in five years, and, in fact, wished you hadn't."

IN HIS EARLY 40s at the time of the European deal, Judy was once described by a journalist as an example of the "Protestant work ethic run wild." He arrived and left each day with two, if not three, briefcases. His staff meetings often would begin at 2 p.m. and run until 2 a.m., and he would expect his executives—as he would himself—to be back in the office by 7 a.m.

Eventually, the groups' stylistic differences would extend beyond dress and manners to clashes over how the business should be run.

For example, one former executive said the Europeans pursued corporate finance deals that gave them nice play on the international pages of the Wall

Paul Judy:

An "aggressive workaholic" whose crucial mistake was failing to anoint a successor.

Ira Wender:

Defecting executives "couldn't measure up to the demands of making Becker a major firm."

Street Journal and added a one-time fee to the coffers. They weren't particularly impressed with, say, an agreement to clear another dealer's trades that would gain no publicity but would add consistent, long-term revenues.

Yet, the first few years of the partnership appeared to progress fairly smoothly. But in April, 1977, Judy dropped the bombshell, announcing his intentions to retire as president and chief executive. Committing a serious management mistake, he didn't publicly anoint a successor.

HIS DECISION shouldn't have come as a surprise. Early in his tenure, he had said privately and publicly to insiders and the Europeans that he would retire. But no one believed him. As he puts it now, "You just can't keep steadily turned on to do the job."

Judy said, "I had a successor—two or three of them." The three were Deputy Chairmen John Wing and John Donahue, and Fred Moss, the fourth member of Becker's executive committee. Judy added that it didn't matter who was chief executive, but he envisioned a team, such as the one he had led, running the company.

None was acceptable to the Europeans, primarily because none was an investment banker. The three executives themselves apparently weren't sure they wanted the job.

So a committee launched a search for a successor that dragged on for months. Although several outsiders were interviewed, discussions always unraveled. Finally, the committee came up with a candidate: Ira Wender.

WENDER WAS AN international tax attorney and partner with the New York City law firm of Wender, Murase & White. He had set up Sir Sigmund Warburg's first U.S. venture in 1965 and represented him in the Becker combination in 1974.

The Europeans happily agreed to the choice. Both they and the American members of Becker's board of directors overruled Paul Judy's strenuous objections. Wender took over in February, 1978.

"Maybe one of the fundamental problems of Becker was the series of compromises over the years," starting with the equity sale of part of the company to the Europeans, suggested Daniel Good, a longtime Becker executive who would later advance to the post of co-chief executive before leaving in June.

"The selection of Ira Wender was another compromise. Even my selection later on was a compromise," he said. "After a while, Becker was in the position of having too many vested interests and making compromise after compromise. And the result is mediocrity."

THE FIRST 18 months of Wender's four-year reign advanced easily. But undercurrents immediately began developing that would contribute to the long-term and ultimately devastating decline in morale. Specifically, operations quietly shifted to New York away from Chicago.

The trend had started under Judy in the belief that Becker must have a major presence in the nation's financial center if it was to be more than a regional brokerage firm. It escalated under Wender until 1982, when the headquarters was officially moved to New York.

Mabie, the former managing partner, said the shift had subtle effects: "It was tough for people to deal with when they had been in Chicago forever as headquarters people and now they were branch people. It made a huge difference to [lower-level] people who had been here a long time and now were no longer at the center of power."

In 1979, friction began developing between Wender and his management team, especially Jack Wing, then president of A.G. Becker Inc. Some who observed the clashes indicate that Wender just didn't know how to deal with the feisty Wing. In staff meetings, for example, the two would get into shouting matches and a frustrated Wender would walk out.

IN SEPTEMBER, Wing quit. Donahue, then deputy chairman, and Vice Chairman Frederick Moss soon followed. In 1980 and 1981, at least 10 of Becker's top people left.

Even today, Wender's detractors acknowledge that he was sharp and articulate, and both financially and legally creative. He viewed himself as an administrator. His management philosophies might have worked for an industrial firm, but, as it turned out, not for a securities business.

His task was to make Becker a leading investment banker—a strategy that never really jelled. The department's revenues were believed to be about $7 million when he took over. He tripled its staff to 130 professionals by 1980; it began showing modest gains. That year, Wender got credit for excellent markets and after-tax profits of least $20 million.

BUT HIS management approach was weakening Becker's foundation. For example, by early 1982, just before his ouster, said a former executive, Becker had 21 committees. Wender sat on seven. Two had no chairmen. The top committee, or operating committee, boasted 25 members.

Wender also brought in about 25 outsiders with little, if any, brokerage experience. He put them over people who had been with Becker for years. Resentments flared.

"You'd go to them with a hot deal, but something you had to act on in five minutes. They'd tell you to write a memo about it and they'd get back to you a week later," said a former insider.

Wender couldn't be reached for comment. But in a 1983 magazine interview, he expressed no regrets over the management losses.

"They couldn't measure up to the demands of making Becker a major firm . . . I was trying to modernize," he said.

BY OCTOBER, 1980, Judy was more concerned with recent and pending management losses than with the firm's profits. He was still a professional with the firm, and as Becker's largest individual stockholder, was concerned that his investment would deteriorate.

He sent a memo to Becker directors: As top management left, he said, those in the next levels would follow. If it continued, Becker would lose producers, money and reputation. His concerns were brushed off. As his alarm mounted, he visited the Europeans personally in mid-1981 to no avail. He resigned in October.

Meanwhile, Wender became more involved, taking over management of the fixed-income department. The decline accelerated. In 1981, profits fell dramatically as markets slid. Becker's profits were pegged at $4 million on revenues of $251.3 million.

BY MARCH, 1982, at least seven more managers and top revenue producers had jumped ship. By June, Wender's departure was in sight. He was losing control, and the Europeans finally realized it.

Wall Street was experiencing a trading slump. Drysdale Government Securities and Lombard-Wall had collapsed. Rumors swept the investment community that Becker had incurred heavy losses trading government bonds and stock options.

Moreover, a $300,000 fine levied against Becker in December, 1983, by the New York Stock Exchange and the Securities and Exchange Commission indicated capital difficulties in the first nine months of 1982. Becker neither admitted nor denied charges that it failed to meet net-capital requirements; its deficiencies reportedly reached as high as $32 million.

Wender decided to counter the negative rumors. He told the press that Becker had lost $2 million in the eight months ended June 30. But insiders gleefully leaked a different story: Wender hadn't pointed out that the loss would have been $7 million if he had not added gains from the firm's overfunded pension fund. Specific numbers aren't available, but sources say the firm's total losses for the year were high.

THE EUROPEANS reacted by taking majority control of Becker in July. Wender "resigned." In came co-chairmen Good, an 18-year Becker veteran, and John Heimann, former comptroller of the currency whom Wender had brought in a year earlier.

No one inside or outside the firm believed the new team would work out. Good was highly respected as a corporate-finance pro, but he wasn't particularly well liked. Heimann was a virtual unknown, but he had a big strike against him as a Wender hire.

The team didn't shore up morale. July brought more personnel losses as at least five high-level individuals left. The defections continued on all levels.

GOOD, WHO quickly gained the upper hand over Heimann, set in motion a strategy aimed at staunching the departures. He fired Wender's proteges. He tried to lure back old hands whom Wender had driven away. He succeeded in recruiting back about four or five respected managers.

"We had to stabilize the situation and get people back to work," said Good, who soon launched the strategy of divesting operations unrelated to the investment banking business.

He says all the units were marginally profitable at the time. But, he added, "Because of the damage to the organization—in attrition and its external image—we had to concentrate on one aspect of the business. We didn't have the managers in place or the time or money to replace them and be good in every segment."

He said he recommended that the strategy be augmented by other steps: The firm should have one owner and it would need a new infusion of capital.

His tack was followed. In April, 1983, Warburg sold its stake to Paribas. In May, Speer Leeds & Kellogg bought Becker's marketmaker clearing units for an undisclosed price. In November, SEI Corp. acquired Becker's then-unprofitable pension funds evaluation operation for $11.7 million.

MEANWHILE, Becker was giving no hints of its intentions, ultimately contributing to already damaged market credibility. On March 1, for example, shortly before the clearing units were sold, Becker launched an ad campaign that boasted: "Becker Paribas Futures. Our futures—and yours—never looked brighter."

In the spring, Herve Pinet, president of the Paribas holding company, moved to New York, assuming the role of Becker chairman. Good was named president and chief operating officer. Heimann became chairman of the policy committee.

Good said that as his plans were implemented, he wanted to be the man in charge. But a major step of his strategy remained: an infusion of capital. And

Herve Pinet:

Paribas had never intended to be other than a minority holder of Becker.

Pinet said that if he was going to ask the parent company for more funds, he was going to also run the show, according to Good.

Thus, last January, Good returned to Chicago as managing director and head of the Chicago office. He left Becker in June, when Paribas bought out the 200 employee shareholders.

TODAY, PINET will not point to any one reason for Becker's liquidation after the investment of untold dollars. He said Paribas had never intended, as far back as 1974, to be anything other than a minority owner of the firm.

And he suggested that the "merger" of Becker's units into other firms came after Paribas recognized that "the first six months of 1984 had accelerated changes in the markets and the securities industry."

Given volatility in prices of fixed-income securities and the slump in trading volume of stocks, Becker recorded a $77 million operating loss in the nine months ended July 31, according to the New York Times. Pinet refused to confirm any numbers.

The end of Becker generates a common reaction in the financial community. As a Chicago bank executive put it, "It's just a crying shame that a firm with all the talents and strengths that it had has essentially slid into nothingness."

But remaining is a history of a proud company that crumbled. Hortense Becker, widow of James, pointed out: "Becker had a very proud history and a very fine reputation. I don't think that fades away."