

# A Big Bank Is Not an End in Itself

By William L. Silber  
and Roy C. Smith

**A**lchemy might make a comeback in light of the investor Michael Price's ability to turn Chase Manhattan Bank, once America's most prominent bank but now in serious disrepair, into the darling of Wall Street. But who are the ultimate beneficiaries of this magic?

Wall Street rewards efficiency, and the merger of Chase and Chemical Bank promises to deliver the same services to its customers while eliminating duplication in branch locations and back-office operations.

What Chase's lethargic management avoided was accomplished through pressure by shareholders.

William L. Silber and Roy C. Smith are professors of finance and economics at New York University's Stern School of Business.

Mr. Price bought up 6 percent of Chase's stock, then, with his shareholder allies, deftly put the bank "in play" by publicly criticizing its management and suggesting that it be sold or broken up. He did well for his Mutual Series Funds, for other institutional investors and for all Chase shareholders. Surely this is a victory for activist corporate governance.

But the experts are saying there is a lot more to this merger than cost-cutting. We now have a Very Big Bank capable of taking on the world's other giants. This, the experts claim, will be good for America as well as Chase shareholders.

We'll see. After the cost-cutting, the new bank will have to be different to be better. Other than cutting costs, there are very few benefits to be gained. To be different, it will need strategies for increasing revenues, consolidating and protecting valuable market shares, introducing new market initiatives to expand beyond New York City, and addressing the bank's comparatively minor role in the world's rapidly growing capital markets.

Neither bank will gain something that wasn't there just by becoming larger. There are virtually no economies of scale at this level. Once a bank has reached \$100 million in

## The new Chase has to do more than cut costs to be competitive.

assets (about one-fiftieth the size of Chase or Chemical alone), costs rise proportionately with production. Moreover, there are no economies of scope in banking. A first-rate commercial lender cannot automatically transfer that franchise to the consumer sector.

Finally, size also brings with it major problems of managerial and organizational efficiency, especially

in the tricky area of monitoring risk exposure — from third world loans to investments in derivatives.

Many of the world's biggest banks, principally the Japanese, are also among the most impotent and inefficient. And some of the most profitable and valuable banking businesses, like Merrill Lynch, J. P. Morgan and Morgan Stanley, do not concern themselves very much with size of assets.

The real gains from this point on depend on what the managers of the new Chase will do. They have to redeploy resources well, retain top talent and rethink their strategies to deal efficiently with both domestic and international competition.

They cannot allow the bank to sink back into the businesses that both Chase and Chemical had come to consider usual, in which all emphasis is on cutting costs, then finding another bank to acquire to cut more costs. There has to be more, or the new Chase may end up looking much like the old one a few years from now, and sharing the same fate. □

## Liberties

MAUREEN DOWD

# What Calvin Means

Statement from Calvin Klein, Inc.  
(With subtext by Calvin)

The message of the CK Calvin Klein Jeans current advertising campaign is that young people today, the most media savvy generation yet, have a real strength of character and independence.

(The message of my jeans campaign is that young people today should have sex, lots of sex, straight-up sex, twisted sex, denim sex, multi-cultural sex. That's the same message I've always had. Wet shots sell dry goods. Why show clothes when you can show a body? I look at the body as being something beautiful. Anyway, these pictures are supposed to make people stop. Stop and shop. But everyone is so blasted media-savvy, it gets harder and harder to push back the edge of the envelope. How do I stay on the border of bad taste when my rivals are doing magazine ads of rape fantasies and black and white men handcuffed together? In the old days it was easy. You got Brooke Shields to vamp in tight jeans, even if she was 15. You got Marky Mark to clutch himself in boxer briefs. But the edge keeps slipping away. So of course I was thrilled when Steven Meisel came up with a campaign that had a bunch of hot, half-naked boys and girls being questioned by an old creep in a rec room. So what if it looks like a low-budget porn flick? The idea was so Calvin.)

They have very strongly defined lines of what they will and will not do — and have a great ability to know who they are and who they want to be. (We know exactly what kids will and will not do. Infantile sexuality is older than Cheryl Tiegs. So if Steven can give me that 8-millimeter chick-enhawk feel, big deal. Girls exposing their breasts and flashing white cotton panties. Shock, horror! O.K., so the boy with bulging briefs, dirty hair, shark tattoo and black nail polish isn't Beaver Cleaver. But this is the 90's. And the dialogue is beyond brilliant. The off-camera creep has this great leering Winstons-and-Wild-Turkey voice. When he asks this stacked Ginalolita, "Do you like to take direction?" and she answers with a Mediterranean accent, "Yes, it's my preferred," I mean, that's truth in advertising. My favorite is when the guy tells the River Phoenix lookalike, "Ya think you can rip that shirt off ya? That's a nice body. You work out? Yeah, I can tell.")

We also are conveying the idea that glamour is an inner quality that

can be found in regular people in the most ordinary setting; it is not something exclusive to models and movie stars.

(Some of the kids and their parents did get upset during the shoots for the TV ads. I kept telling the kids that glamour is an inner quality, so they should go ahead and take their clothes off. Anyway, I hate regular people. We called the agencies and got the coolest models we could find. Parents should stay out of their kids' careers.)

However, some people are taking away a different perception of the ads. We have been taken aback by that perception, in part because it differs sharply from our intended message.

(I'd have more of a problem if no one cared.)

Because of the role the fashion industry plays in shaping the culture in which they grow and form impressions, we have a special responsibility to young people — in fact, we share the concerns some have raised about the challenges children face growing up today.

(O.K., I get it. This year, family values moves the goods. Doesn't any one in my operation know which way the wind is blowing? I want to ex-

## Truth in advertising.

plot, not mis-exploit. And I don't want my picture flashed on the news with the phrase "Kiddie Porn." Memo to myself: Send a check to the Children's Defense Fund.)

We continue to believe in the positive message of these ads.

(Controversy is good for business. Kids will want whatever outrages their parents.)

But since the ads' message about the spirit, independence and inner worth of today's young people has been misunderstood by some, and because we take our responsibility to those young people so seriously, we will cease running the remainder of this campaign as soon as possible.

(That inner worth line is so hot. My shrink's trainer thought of it. What's next? Steven thinks that, with the outtakes, we've got a video. O.K., we'll put a warning label on it.) □

# Black Students Live Down to Expectations

By Claude M. Steele

**T**he debate over affirmative action on college campuses has become dangerously distanced from facts.

The issue has taken on such an ideological fervor that votes, Presidential and otherwise, are hanging in the balance. In the fray, the image of African-American college students has taken a beating.

Opponents of affirmative action claim that it pushes African-American students into schools where they can't compete and where, with the stigma they bear as "special admits," they get lower grades and drop out more than other students.

It is true that these students have their troubles, suffering a college dropout rate hovering near 70 percent (against 40 percent for other students), with lower grades to match. Given such statistics, even supporters of affirmative action have faltered, too unsure themselves about the students' abilities to rise quickly or publicly to their defense.

In fact, most black college students are in school on the same terms as anyone else, not as a result of any racial preference. Still, as their fate goes, so goes our faith in affirmative action and in the ability of public policy to address racial and social problems. So a few facts and some new evidence can help in addressing some central questions.

Do the academic troubles of black students stem from their being underprepared for the competition?

This is a common complaint that has turned into conventional wisdom. But in fact there isn't much evidence of it. Very few minority students are admitted to any college beneath that school's cut-off for other students.

It is true that blacks have lower S.A.T. scores than other entering students. But the deficit in test scores —

which are certainly flawed as predictors anyway — doesn't begin to explain why black students are more likely to drop out and get bad grades once they begin college. Besides, this "underperformance" is just as common among black students entering with very high test scores and grades as it is among those with weaker credentials.

One thing is clear: If affirmative action is failing by not producing more successful black college students, it is not because they have been placed where they can't compete.

• If it isn't a lack of preparation, then what is depressing their performance?

## Colleges must deal frankly with perceptions of inferiority.

Recent research by my colleagues and me points to a disruptive pressure tied to racial stereotypes that affects these students. The pressure begins simply enough, with a student's knowledge that negative stereotypes about his group could apply to him — that he could be judged by this perception, treated in terms of it, even that he could fulfill it.

Black students know that the stereotypes about them raise questions about their intellectual ability. Quite beside any actual discriminatory treatment, they can feel that their intelligence is constantly and everywhere on trial — and all this at a tender age and on difficult proving ground.

They may not believe the stereotype. But it becomes a threatening hypothesis that they can grow weary of fending off — much as a white student, for example, can grow weary of fending off the stereotype that his group is racist.

Everyone is subject to some form of what I call "stereotype vulnerability." The form that black students suffer from can hurt them where it matters, in academic performance. My research with Joshua Aronson shows that "stereotype vulnerabil-

ity" can cost these students many points on exams like the S.A.T.

Over time, the pressure can push the students to stop identifying with achievement in school. They may even band together in doing this, making "disidentification" the pattern. For my money, the syndrome is at the root of black students' troubles in college.

If affirmative action contributes to this problem, it is less from the policy itself than from its implementation, often through a phalanx of "minority support" programs that, however well intended, reinforce negative stereotypes. Almost certainly, there would be persistent, troubling underperformance by minority students even if affirmative action programs were dismantled, just as there was before they existed.

• Is there any reason to believe that affirmative action programs can alleviate this problem?

In the diagnosis may lie the seeds of a cure: Schools need to reduce the burden of suspicion these students are under. Challenging students works better than dumbing down their education. Framing intelligence as expandable rather than as a set, limiting trait makes frustration a signal to try harder, not to give up. Finally, it is crucial that the college convey, especially through relationships with authoritative adults, that it values them for their intellectual promise and not just because of its own openness to minorities.

My colleagues (Steven Spencer, Mary Hummel, David Schoem, Kent Harber and Richard Nisbett) and I incorporated these and other principles into a program at the University of Michigan for the last four years. The students, both white and minority, were selected randomly for the project and as freshmen were housed in the same dorm.

Through workshops and group study, all placing emphasis on the students' intellectual potential, the program eliminated the differential between black and white students' grades in freshman year for the top two-thirds of the black students.

It helped others as well; 92 percent of all the students in the group, white and black, were still in school after four years.

The successes of comparable programs — Urie Treisman's math workshops at the University of Texas, Georgia State's pre-engineering program, John Johnides's faculty mentoring project, also at Michigan — show that this approach can work.

• But what about reverse discrimination? How much does this policy of inclusion cost in exclusion of others?

To know if affirmative action is displacing whites in admissions, you have to know if, among comparably qualified applicants, more minorities get in than whites.

Thomas Kane of Harvard University's Kennedy School of Government found that this seems to happen only in elite colleges, where the average S.A.T. score is above 1,100. These schools make up only 15 percent of our four-year colleges. There was no evidence of preference in admissions among the rest.

Moreover, in the elite schools, blacks don't often use the preference they get, choosing schools closer to home, perhaps, for various reasons. They rarely exceed 7 percent of the student body at the top schools. Overall, affirmative action causes little displacement of other students — less

by far than other forms of preferences, like the one for children of alumni.

In our society, individual initiative is an indisputable source of mobility. But a stream of resources including money, education and contacts is also important. After all this time, even the black middle class has only tentative access to this stream. Affirmative action in college represents a commitment to fixing this, allowing those with initiative a wider aperture of opportunity.

If its opponents prevail and affirmative action is dumped, will the same people, so ostensibly outraged by the racial injustice of it, then step forward to address the more profound racial injustices?

I wouldn't bet on it and, in the meantime, let's talk about this policy frankly and pragmatically: how to improve it, when it should be more inclusive, and how it should be made fairer.

To dump it now would be to hold some people, just beginning to experience a broader fairness in society, to a tougher standard than the rest of us have had to meet. □



# Venezuela

To maintain its lead as one of the world's largest oil exporters, Venezuela is taking steps to attract foreign investment in its energy sector. International oil companies like Mobil are once again renewing old ties and forging new partnerships to participate in the variety of oil and gas opportunities that are being offered.

These developments are good news in a nation where Mobil once conducted exploration and producing activities, operated a major refinery and marketed fuels and lubricants beginning some 60 years ago.

Interest in this nation runs high for several reasons. For one, Venezuela enjoys vast oil and gas resources — not just heavy oil from the Orinoco oil belt, but also huge supplies of medium and lighter crudes along with more than 100 trillion cubic feet of natural gas — making it one of the world's largest oil and gas players. Venezuela remains a strategic supplier, providing nearly 17 percent of U.S. crude oil and product imports.

Venezuela boasts other strengths as well: a highly skilled work force, a developed energy infrastructure (pipelines, refineries and port facilities), decades of experience in the international oil market and a well-managed state oil company, Petróleos de Venezuela, S.A. (PDVSA).

Promising geology, strong economic potential and a history of operating in Venezuela that dates back to 1934 are some of the reasons Mobil looks forward to expanding its business in this nation. Earlier this year, we reentered the lubricant manufacturing and marketing business with the purchase of a 50-percent share of the largest private lubricants blending plant in Venezuela. To develop a larger business presence, Mobil is participating with Lagoven, an affiliate of PDVSA, in a feasibility study of Orinoco heavy oil upgrading and refining. And we've formed a consortium with other international companies to evaluate opportunities being offered in the first exploration round for light and medium crude oils.

Signs are encouraging that Venezuela is once again welcoming foreign investment in the energy sector. And Mobil is forging the partnerships we'll need to do business once more in a country of great potential.

Today, August 31, marks the close of Ray Vaughan's 38-year career with Mobil. As the author of countless Mobil op-ed ads over the years, we will miss his thoughtful pen.



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