Machine-tool maker tells story of American business: [FINAL EDITION, C]

**Abstract (summary)**

For decades, the Chicago area has been home to inventors and entrepreneurs in the machine-tool industry. But Burg took his dream to California, where the budding defense industry offered opportunity for the company he was to found, Burg Tool Manufacturing Co.

Burg's trip to California became more than an adventure for his family; it became an allegory of American manufacturing in the last 45 years. Max Holland, a writer for *The Nation* magazine whose father worked for Burg's company, tells that story with insight and detail rarely found in books about business.

A skilled novelist intent on portraying the transition of American industry from world leader to struggling competitor could not have invented a better story than the rise and fall of Burg's machine-tool company. Along the way, Holland presents a compelling critique of the transformation of American industry from "entrepreneurial capitalism" to "managerial capitalism" to "financial capitalism."

When Fred Burg, 47, sold his Cicero department store in 1943 and moved to California, it may have looked like a typical middle-age crisis—a man trying to recapture the dream of youth.

Burg wanted to manufacture machine tools, the breeder reactors of industry—machines that make machines by cutting, punching and shaping metal.

For decades, the Chicago area has been home to inventors and entrepreneurs in the machine-tool industry. But Burg took his dream to California, where the budding defense industry offered opportunity for the company he was to found, Burg Tool Manufacturing Co.

Burg's trip to California became more than an adventure for his family; it became an allegory of American manufacturing in the last 45 years. Max Holland, a writer for *The Nation* magazine whose father worked for Burg's company, tells that story with insight and detail rarely found in books about business.

A skilled novelist intent on portraying the transition of American industry from world leader to struggling competitor could not have invented a better story than the rise and fall of Burg's machine-tool company. Along the way, Holland presents a compelling critique of the transformation of American industry from "entrepreneurial capitalism" to "managerial capitalism" to "financial capitalism."

He points to the conglomeration era of the 1960s and the leverage buyout era of the 1980s as principal villains. The notion that giant conglomerates of unrelated industrial firms could be managed like a stock portfolio has gone the way of the buggy whip. Investors realized they can manage their own portfolios better than the chief executive of a conglomerate. But Wall Street is still in love with leveraged buyouts, and in this regard Holland's criticisms sting the hardest.

And now that President Bush formally has targeted Japan for possible economic retaliation over unfair trade practices, the story of Burg's company tells how U.S. trade relations with Japan evolved. To Howard, America's problem with the Japanese is largely the result of poor management practices at home.

As the U.S. wrestles with the proper role of government in developing new technology, such as high-definition television, Holland's book is a road map to the pitfalls and opportunities of industry-government cooperation.

In short, Holland has written the best business book in years.

Fred Burg's company, run by himself, his son and his son-in-law, grew on instinct and determination. The critical early achievement was a drill press featuring a rotating turret that enabled an operator to change drill bit sizes rapidly.

This innovation became the hallmark of the company, which changed its name to Burgmaster Corp. when it first offered stock to the public in 1961. Managing that offering was investment banker John Shad, who would later head the Securities and Exchange Commission.

In 1965, the heyday of the conglomeration era, Burgmaster was acquired by Houdaille Industries as part of its diversification into machine tools. The culture shock at Burgmaster was severe, and the founding family was gone by 1969. The entrepreneurs were out and the number-crunchers were in.

Meanwhile, Burgmaster coped with economic cycles, the advent of computer-aided machines, the minor but growing competition from Japan and the handoff style of U.S. business management.

In 1970, Burgmaster signed a licensing agreement with an aggressive Japanese machine-tool maker. That would be recalled when Houdaille became the leading champion of trade sanctions against the Japanese.

Meanwhile, the conglomeration of the '60s ended. In its place arose a piece of financial alchemy, as Holland puts it, called the leveraged buyout. This...
Machine-tool maker tells story of American business: [FINAL EDITION, C]

The $348 million buyout of Houdaille in 1978 was the first $100 million-plus deal by the young investment banking firm Kohlberg Kravis Roberts & Co., whose latest blockbuster was the $25 billion buyout of RJR Nabisco Inc.

To Holland, the leveraged buyout of Houdaille was the death knell for Burgmaster. While the Japanese were invading the U.S. industrial market with high-quality, low-cost machine tools, Burgmaster was being squeezed for cash to pay leveraged buyout debt. In 1985, the company's assets were sold at auction. A year later, Kohlberg Kravis dismantled the rest of Houdaille Industries.

Today, the promoters of leveraged buyouts insist that the financing technique offers the American dream to a host of entrepreneurs stifled by bloated corporate bureaucracies and longing to run their own show. That may be, but the leveraged buyout of Houdaille was a nightmare for those who remembered Fred Burg's dream.

Anyone who wants to understand American business must read "When the Machine Stopped."

CAPTION:

PHOTO: (Max) Holland.

CAPTION:

PHOTO: (Book cover.)

Illustration
PHOTOS 2

Copyright Chicago Tribune Co. May 28, 1989