YOUR CRITICAL ROLE IN OUR FUTURE
Remarks by Robert P. Forrestal, President
Federal Reserve Bank of Atlanta
To the Conference of Assistant Vice Presidents
September 21, 1990

Good afternoon! I am delighted to welcome you to this conference for the Bank's first-line officers. We have used the term assistant vice presidents in the title for this gathering, but our first-line officers have a variety of titles in addition to AVP. We also have examining officers, research officers, a public information officer, an assistant general counsel, general auditor, and product manager at this level. Through this diversity of terminology runs one common thread, however. Each of you is in a pivotal position as the interface between senior management and the Bank's regular staff. Yours is the primary contribution in establishing our goals and objectives, and it then becomes your responsibility to see to their implementation. Equally important, you pass along the Bank's expectations for staff performance and maintain these standards by your day-to-day management as well as by your personal example.

Your participation in carrying through our overall strategies and in directing your staff reflects your understanding of the Bank's corporate philosophy. In recent years, that philosophy has been shaped by a competitive environment inside and outside this organization and has come to place strong emphasis on efficiency. This course has brought us considerable success. However, I envision the 1990s as a very fluid environment in which we might find it appropriate to give additional weight to other qualities like creativity, conceptualization, and long-range thinking. Thus I would like to review briefly the Bank's corporate philosophy as it has evolved to its present form. Then I will look ahead to issues that could affect us in the 1990s and discuss where I think we need to reassess and perhaps redefine our culture. Finally, I will return to your pivotal role in helping ensure the Bank's adaptability in the changing environment of the 1990s and beyond.

The Evolution of Our Current Corporate Philosophy

The video we saw a moment ago encapsulates a decade of dramatic change in the Fed and in the world in which we operate. The decade began with MCA 80, the most profound change in the Federal Reserve System since the banking legislation of the 1930s. MCA 80 revolutionized Fed operations by introducing priced services. It also ushered in an era of regulatory change. Reserve requirements were extended to all depository institutions, and some of the restrictions that kept those institutions from being competitive with nonbank providers of financial services were eliminated. As the decade wore on, though, difficulties mounted in the S&L industry, and the desire to avert a similar fiasco in banking increased the burden on our Supervision and Regulation staff. The 1980s also intensified the job of making monetary policy. The introduction of interest-bearing transactions accounts undermined the effectiveness of the monetary aggregates as policy targets. Meanwhile, technology quickened the pace of market activity and propelled us toward a global economy.

Through all this, the Atlanta Fed ended the decade as it had begun it--as the most efficient performer among the 12 Federal Reserve Banks in providing financial services. And, since we had been highly regarded in Supervision and Regulation for some time as well, we finally achieved a clean sweep when our Research Division gained System-wide respect for its work in the latter years of the 1980s. I believe that this record of excellence in a difficult decade has its roots in the mid-1970s, when we set about to create a state-of-the-art organization. To do this we placed a premium on efficiency, created a competitive culture within our organization, and became early converts to the cause of automation.

I would place the beginning of our current focus on efficiency in 1975. The San Francisco Fed had hired a consulting firm a year earlier to tell them how to cut costs. The leadership of this Bank, who had inherited an organization that was viewed as the least efficient in the System, decided we could do the same thing on our own. Within a year we had trimmed over half a million dollars from our budget. About the same time, the PACS system was instituted. All of a sudden, someone was keeping score within the System, and by 1976, we ranked first in 9 out of 12 categories and first overall. We also kept score among ourselves and brought out the competitive tendencies in our six branches vis-a-vis one another.

System-wide ratings were eventually extended to Sup and Reg and Research as well, and this hastened the spread of our competitive culture into those areas. Even though they are quite different from the work of operations, Supervision and Regulation as well as Research were able to capitalize on one of the chief efficiency-enhancing tools that had been adopted by the Financial Services Division: they automated. This Bank had assumed a leadership position in technology when we pioneered development of the ACH and other electronic payments systems in the early 1970s. Examiners were still using typewriters and calculators in 1980, but they soon switched to word processors and spread sheets, and this brought the processing of applications and other work into the modern age. The Research Division not only automated but also raised the quality and depth of its output through staff moves that led to stronger analysis and forecasting.

Thus the corporate culture formed 15 years ago has served us well in all three of our businesses. However, I want us to be sure that our thinking has not become ossified just because we succeeded in the past. I feel the decade ahead presents changes and challenges that may call on us to respond in new ways. Let me highlight a few of the developments I expect in the financial services industry and in the economy that could affect us in the 1990s.

The Challenges of the 1990s

Beginning with the financial services industry, it is inevitable, I think, that we will see significant restructuring. From the regulatory point of view, I hope this will mean deposit insurance reform, nationwide interstate banking, and broader powers for banks. In any event, nationwide interstate banking will be a fait accompli by 1992, when a majority of states permit the practice, and this will likely hasten the consolidation of the banking industry that is already under way. Banking, along with most other industries will also be affected by the ever-quickening pace of technological change, which continually opens new ways of delivering services.

In terms of economic developments, global dynamics will probably continue to play a greater role in our domestic affairs. I think this international factor will contribute to continued growth here as businesses in the United States increase their export activity, particularly to an economically integrated post-1992 Europe. As the crisis in the Middle East reminds us, though, events abroad can be disruptive as well. Whether or not the recent rise in oil prices constitutes a long-term inflationary threat remains to be seen. We should, however, anticipate greater price pressures arising from the shift in U.S. demographics that has already begun to show its effects. Now that the baby boom has been absorbed into the workforce, a smaller pool of entry-level labor is available than in the past. Scarcer supplies of labor imply higher costs through most of the coming decade. U.S. industries will need to counter these costs by greater investment in labor-saving technology, but as long as government budget deficits persist--and it is difficult to see significant reductions in the offing any time soon--investment funds will be costlier to obtain. These forces could combine to keep growth from being as robust as in the past.

Implications for the System and the Bank

For the Federal Reserve System and for this Bank, I think these regulatory and economic prospects add up to a rather fluid situation. On one hand, the likely restructuring and consolidation in the banking industry could have profound effects on our financial services business. Even in its current incomplete state, interstate banking is making District lines anachronistic. As bank holding companies expand outside their home regions, we are responding to pressures to standardize check-clearing prices System-wide. Interstate banks will also process more of their own checks as "on-us" items, and we have already seen our market share shrink. Geographical issues that arise from present Federal Reserve boundaries also make processing merger and acquisition applications more cumbersome in Supervision and Regulation. Such considerations in concert with technological advances make consolidation of some activities in these areas all but inevitable. Discussions about the efficiencies of scale we can realize from reducing the number of electronic transfer processing centers is but one example. At the same time, staffing and compensation decisions will probably have to be made in the context of labor shortages and persistent inflationary pressures, not to mention voluntary Gramm-Rudmann constraints.

One of the principal uncertainties is how Congress might treat the System as it revisits banking regulation. Chairman Gonzalez of the House Banking Committee has made it clear that he entertains the possibility of sweeping revisions, including a unified regulatory structure for all depository institutions. He does not feel this new agency should be the Fed. Others believe that the Fed should be the super-regulator. The CRA portions of FIRREA could foreshadow a leaning toward further consumer-oriented legislation that may impose vague and complex standards, making examinations more difficult. And, as usual, there are proposals to reduce the Fed's independence in formulating monetary policy.

Will Congress take up any of these reformist suggestions? In the past, legislators have demonstrated renewed interest in the System in times of economic downturn. A recession severe enough to raise fears that the banking industry might somehow follow S&Ls into collapse would almost certainly prompt Congress to take strong action. As I indicated earlier, I don't see either of these scenarios in the offing, but in a world that can still be upset by the likes of Saddam Hussein, we are reminded that unexpected world events can carry far-reaching implications.

Responding to the Challenges of a Fluid Environment

Given this outlook, there is no doubt that we need to remain efficient. It goes without saying that efficiency is basic to the success of any organization. However, at this point in time we have a particular need to be at the top of the System by current standards in order to be in the running for home base in any move to consolidate services. Yet I also think that in the fluid environment I have described it behooves us to devote additional attention to other performance criteria. Two areas stand out. One whose importance we have long acknowledged is quality service. The second is nurturing the creativity that allows us to meet changing customer needs and to anticipate new developments in the economy and the banking industry.

These two criteria can certainly be applied in tandem with efficient execution of day-to-day tasks, but it is possible for an overemphasis on efficiency to work to the detriment of both customer service and creativity. A stripped-down organization tends to look for ways to extract as much productivity as possible from present capacity. In terms of human resources, this often translates into longer hours as well as more intensive work for proven performers. Under such conditions, even the most conscientious workers can feel so pressed that they avoid asking the additional question that will make customers feel someone cares about them. Creativity, too, requires time--time to experiment, make mistakes, go back to the drawing board. It is difficult for employees who are constantly on the run to carve out time for innovative ideas. What's more, the incentive to create new programs is diminished if they ultimately add to the workload of the people who initiate them. This catch-22 is captured in the quip abroad in one part of the Bank that says, "no good deed goes unpunished."

I think we still do a good job of responding to customer needs and innovating, but we could afford to place more emphasis on these qualities. Our need to do more work in this area was brought home when we formulated our core values. As most of you remember, we asked employees to help identify the primary elements to be included in our corporate philosophy. By an overwhelming majority, the Bank agreed that integrity should be given primacy. However, cost-effectiveness came out second, and quality service, third. Management felt this placed a disproportionate focus on the bottom line.

We reversed the order among the latter two core values, reexamined some of our approaches, and hoped we had set the situation more to rights. However, I have remained uncertain as to how firmly that message has taken root. Is a management decree that service is more important than cost-effectiveness enough to change a culture--not to mention a strategic planning, budgeting, and evaluation process--that was built on cutting costs? Beyond this, what exactly do we mean by cost-effectiveness? I think we need to do a better job of communicating that cost-effectiveness does not necessarily lie in minimizing costs, but rather in maximizing value-added. Finally, what must we do to achieve a balance between efficiency and creativity that is appropriate to the challenges ahead?

The Role of the First-line Officer in the 1990s

I have not come to you with answers to these questions this afternoon. Indeed, I feel you first-line officers need to help the Bank find the answers for our present concerns just as you always have in the past. In your pivotal positions, you need to provide the information that will help keep our organization responsive as well as efficient. On one level, this involves your own responsiveness to the people you manage. They are the Bank's most important resource, and your relationship with them is critical not only in getting tasks accomplished but also in evoking the qualities that will maintain our flexibility in the years ahead. I hope you will pay as much attention to leading each of them toward realizing their full potential as to managing the day-to-day flow of work. In this regard, leadership is less a matter of being a tough disciplinarian than of listening to others' ideas and observations.

Leadership also means having your own ideas, and on another level, I urge you to analyze the ways we go about our various businesses and communicate your thoughts to senior management. In particular, we need you to point out the stresses in our present way of doing business. Where are the overloads that might reduce sensitivity to customer needs? What can we do to stimulate the creative energies of our staff?

I know that all of you are intimately familiar with these issues because you live with them every day. You are people whose inboxes are never empty and who always have a line at your doors. Part of our purpose in bringing you here is to give you time away from those demands to reflect on where our organization is going. Another is to reexamine with you the way the different parts of the Bank fit together into a unified whole. Looking ahead to the challenges I have outlined, it is more vital than ever that we accentuate the synergies among our three businesses. The different types of work that you all do provide us a rich diversity of perspectives on the Bank, and we need to draw these viewpoints together into a unified vision of the future. Still another reason we have brought you here is to communicate anew senior management's sense of our strategic direction and put it on the table for open discussion.

I hope that we will in these ways be able to stimulate your creativity in helping us identify those functions and parts of the Bank's structure that need to be redesigned for the 1990s and beyond. We are counting on you to play your pivotal role as you always have: with sound judgment and consistently high standards. The future of the Bank is in your capable hands.

INTRODUCTION OF GOVERNOR LAWARE

It is my honor and a distinct pleasure to introduce our special guest, Governor John La Ware. Governor LaWare is going to elaborate on System issues that will affect us at the Reserve Bank level, and I think we are most fortunate to have someone with breadth of experience both in the private sector and the Fed to do this. As you know, he came to the Board in 1988 after a distinguished career in banking. He was previously chairman and CEO of Shawmut Bank of Boston and its holding company and also served at one point as chairman of the Association of Bank Holding Companies. His affiliation with the System began with a directorship at the Boston Fed, and his interest in Reserve Bank matters continues through his membership on the Board's Committees on Banking, Supervision, and Regulation, which he chairs, Federal Reserve Bank Activities, Research and Statistics, and Consumer and Community Affairs. The governor is always an articulate spokesperson on regulatory matters in his appearances at Congressional hearings and at other public forums, and we are fortunate that he agreed to provide us his insights at this conference. Please join me in welcoming Governor John LaWare.