

YOUNG EXECUTIVES CLUB

Chicago, Illinois
October 21, 1999



I. Introduction

- A. Great pleasure to be here.
 - 1. Discuss topic of leadership.
 - 2. Make some informal remarks—very interested in your thoughts and ideas.
 - 3. To understand my perspectives on leadership, like to provide some background on the institution I lead.

II. Background on Fed

- A. As nation’s central bank, Fed’s mission is to foster a safe and sound financial system and a healthy, growing economy through price stability.
- B. Three main responsibilities:
 - 1. providing financial services such as check processing and electronic payments to depository institutions and the U.S. government;
 - 2. supervising and regulating state member banks and bank holding companies; and
 - 3. formulating national monetary policy.

- C. One of my responsibilities as CEO of the Chicago Fed is to serve on the Federal Open Market Committee, the Fed's most important policymaking body.
 - 1. I'm a voting member this year.
 - 2. However, I take part in all FOMC meetings every year as all 12 Reserve Bank presidents attend all the meetings and participate in the discussions, regardless of voting status.

- D. Chicago Fed is one of 12 regional Reserve Banks
 - 1. Serves a five-state area consisting of most of Indiana, Illinois, Michigan, and Wisconsin, and all of Iowa.
 - 2. Head office in Chicago as well as offices in Detroit, Des Moines, Indianapolis, Milwaukee, and Peoria.

- E. Interesting leadership challenge because of diverse responsibilities and unique structure.
 - 1. Fed set up with mix of private/public; central/decentralized features
 - 2. Board of Governors in Washington, D.C., oversees System.
 - 3. 2 regional Banks located throughout country.
 - 4. Fed a public institution with a public purpose.
 - 5. Members of Board of Governors appointed by president and approved by Senate.
 - 6. But Reserve Banks have number of features similar to private sector
 - a. board of directors consists of leading private citizens in region.
 - b. compete with private sector to recover costs of providing services.
 - c. member banks own stock
 - 7. Bank employees not civil service—Reserve Bank presidents appointed by board of directors with the approval of the Board of Governors.

- F. Structure is unusual but adds value:
 - 1. Helps insulate the Fed from day-to-day political pressures and narrow influences.
 - 2. Helps us obtain a broad range of information and ideas from all over the country.
 - 3. Fed's structure helps us maintain a delicate balance—focus on policy not politics.

- G. Bank has 3 “cultures”

1. Supervision and Regulation most like government
 2. Financial services like a private business —compete in open market—by law, have to meet a bottom line
 3. Economic Research—support my participation on the FOMC—academic culture.
- H. Good fit with my background as I've worked in academia, government, and the private sector—but certainly a challenging leadership assignment.

III. Leadership

- A. Good timing to discuss this topic.
1. Chicago Fed recently held a leadership development conference for the Fed System's senior executives
 2. Five-day in-depth conference—speakers ranged from Alan Greenspan to Arthur Martinez, CEO of Sears, to Benjamin Zander, conductor of the Boston Philharmonic.
 3. Extremely well-received—will draw on some of the discussion at the conference as well as my own personal experience in my remarks.
 4. Following—informal discussion of six principles for effective leadership
- B. The first principle is the need to embrace and anticipate change. This is the most important role of leaders.
1. Key theme of our conference—leaders must be a steward of change
 2. As we all know—we're in the midst of rapid and dramatic change in our environment—pace of change in technology particularly dramatic.
 3. Consider the market capitalization in 1998 and so far in 1999 for Internet start-ups:
 - a. In '98, 40 Internet-related companies raised \$1.88 billion through initial public offerings—7 percent of the \$26 billion in IPOs.
 - b. So far this year, 191 Internet companies have raised \$15.1 billion—36 percent of the \$41.4 billion in IPOs. (According to CommScan LLC, which tracks IPOs).
 4. Unscientific but interesting way to gauge change in technology—recent issue of Forbes listed 400 richest people—19 of the 52 new names to the list had fortunes based on Internet stocks.
 5. Possible to avoid change for a while—but always long-term consequences.
 6. There's a need to change even when successful.

- C. Of course, anticipating change easier said than done.
 - 1. Especially difficult to predict technology advances.
 - 2. Recently read in *Wall Street Journal* that Yahoo is starting up a bill payment service—potentially significant competition for bankers, one of our key stakeholders.
 - 3. Just think if I had gotten up before a group of bankers five years ago and predicted that they would be facing competition from a complete novice to the financial services industry that had just been founded by two California grad students studying computer science? And further that the name of this new organization would be Yahoo?
 - 4. I suspect they would have gotten up right then and headed for the door.
- D. Often technology is invented but people don't know what to do with it.
 - 1. Consider the problems of Thomas Edison—perhaps the most business-savvy inventor that ever lived.
 - 2. When Edison invented the phonograph he listed 10 potential uses including recording the last words of the dying, announcing the time, and teaching spelling.
 - 3. He refused to believe that something as trivial as musical recordings would be the main use for the phonograph.
 - 4. It took 20 years until Edison reluctantly conceded the point.
- E. As Marvin Zonis, professor at University of Chicago, discussed at our conference—Because it's so difficult to predict change with complete accuracy, leaders need to develop a portfolio of options to deal with change.
- F. The second principle is to listen to customers. In order to respond and anticipate to change, leaders need to be market-focused and listen to customers.
 - 1. Not always easy.
 - 2. At Chicago Fed have many diverse responsibilities.
 - 3. Customers and stakeholders range from bankers who buy Fed financial services to members of general public affected by monetary policy.
 - 4. Can or should a public institution like the Fed be customer-focused?
 - 5. We gave this a lot of thought and our answer was a resounding yes.
 - 6. Difficult to listen and respond to the Fed's sometimes amorphous customers and stakeholders.

7. Sometimes our stakeholders have conflicting needs and goals.
 8. But we're committed to focusing on "those we serve"—part of our vision.
- G. A private sector example discussed at our conference—IBM
1. IBM felt it was focusing on customer needs when it decided to continue to concentrate on mainframes.
 2. Of course that dependence on mainframes came back to haunt IBM and it went through very tough times.
 3. IBM was focusing on too narrow a slice of its customers or potential customers—those who still wanted mainframes.
- H. The third principle is creating a vision. Leaders must have a unifying strategic vision.
1. Anticipating change and listening to customers puts you in a position to create a vision for the organization.
 2. One of first steps when I arrived at Chicago Fed—develop and communicate a vision.
 3. Not necessary—or even desirable—for the vision to emanate from the CEO—instead the CEO should lead the effort.
 4. At Chicago Fed, we gathered ideas and input from employees and then Bank's senior management used that material to draft the vision.
 5. The first hurdle in gaining acceptance of the vision was the perception by some staff that it was the "fad of the week."
 6. But we made it clear that the vision was here to stay and we were going to stick with it.
 7. It's been almost five years since we developed the vision and it has become firmly ingrained in our culture—an integral part of the organization.
 8. Vision is the starting point when we develop our annual and multi-year plans. Even more importantly, it's a point of reference during the more informal planning process when staff discusses ideas for future projects.
- I. The fourth principle is that leaders need to be great communicators. Once you have the vision, you need to communicate it.
1. Some of you may have read Daniel Goleman's article in the Harvard Business Review on successful leadership.
 2. Goleman found that IQ and technical skill are important but that "emotional intelligence" was the key attribute of successful leaders.

3. Ability to successfully manage relationships—communication and people skills—is essential.
 4. An idea that a number of people referenced during our conference.
 5. Strikes some people as too “touchy-feely.”
 6. But stressing the importance of communication can come from surprising sources.
- J. Interested to read an article recently on the trials and tribulations of Bear’s chairman Michael McCaskey.
1. When asked to analyze McCaskey’s downfall, Mike Ditka of all people identified McCaskey’s lack of communication and people skills.
 2. (Optional) Ditka’s recent action after losing last week added new meaning to the term “touchy-feely.”
 3. Still it’s interesting to note that a gruff, no-nonsense coach like Ditka has an appreciation for the importance of people skills, at least in his calmer moments.
 4. Iron Mike said about McCaskey, “Michael was more of the intellectual type....You have to be intellectual to get through life, but I think you have to be a people person. You have to relate to people. You gotta like people. You gotta respect people. If you do those things then you don’t have any problems communicating. If you don’t do those things, it’s very hard to communicate and when the lines of communication break down, then you got problems.”
 5. That doesn’t mean everybody should always work in complete harmony—as Professor Margaret Neale pointed out at our conference there is value in constructive conflict and it should be encouraged.
- K. Communication with staff means two-way communication—face-to-face
1. Arthur Martinez stressed this point at our conference.
 2. Arthur noted it’s especially important to create a culture in which employees are encouraged to deliver bad news.
 3. The obvious problem—in serious cases the CEO will learn there is a problem only after it’s in the papers.
 4. At Sears, one of Arthur’s senior executives formalized this process by requiring his direct reports to provide him with 3 pieces of bad news whenever they meet.
- L. The fifth principle is that leaders need to display energy and passion

- This energy and passion must be a positive force — don't give in to cynicism.
 - That doesn't mean that leaders should avoid hard decisions in cases where performance is clearly lacking.
- M. But leaders should “radiate possibilities”—this positive energy and passion is contagious.
1. Burnham—“Make no little plans; they have no magic to stir men's blood and probably themselves will not be realized.”
- N. Example of positive energy: Benjamin Zander—presentation at Leadership Conference.
1. Zander, conductor of the Boston Philharmonic, discussed his transformation from the stereotypical, autocratic conductor to a more open, positive style.
 2. To demonstrate his coaching style, Zander had a spontaneous, unrehearsed lesson with a student musician—literally called the Civic Orchestra that same day and asked them to send a cellist.
 3. Conference participants gathered on stage in an orchestra hall to watch.
 4. Zander asked the student to play a piece he'd been working on and, after complimenting him on his performance, offered in a positive way some suggestions.
 5. What followed was a truly remarkable coaching session—continual give-and-take between teacher and student with the play of the student providing instant feedback on the effectiveness of the coaching.
 6. Continual interaction of ideas—Zander would make a suggestion; the student would interpret the suggestion through his playing; that would lead to new ideas from each.
 7. Hard to describe in words, but it was a truly invigorating experience as all the participants—Zander, the student, and those of us in the audience—were energized by the flow of ideas and positive energy in the room.
 8. As Burnham might have put it, the experience had the magic to stir men's blood.
- O. The last principle is that leaders should pay attention to what Zander called Rule #6—“Don't take yourself too seriously.” Zander added there is no rule 1 through 5.

IV. Conclusion

- A. In conclusion, I'd like to encourage you to look at yourself and your leadership style.
1. Goal is not a homogenous leadership style.
 2. I've worked for a lot of people.

- B. 2 quick examples—very successful people—learned a lot from them.
 - 1. Kelly — business instincts—delegator.
 - 2. Hills—more hands-on style
 - 3. Styles reflect personality and experience
 - 4. Not one perfect leadership model—No easy answers—requires judgement
 - 5. We all have strengths and weaknesses—areas for improvement
- C. Drucker—look around and figure out where you can add value—what unique contribution you can make.
 - 1. It's a personal decision—each of us as leaders needs to look ourselves in the mirrors.
 - 2. Pat Summitt, whose University of Tennessee women's basketball team has won five championships, put it well at our conference—"Would you follow you?"