

KELLOGG SCHOOL OF MANAGEMENT GRADUATION CEREMONY
EXECUTIVE MASTER'S PROGRAM
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Seven Lessons from Real Life

I'm truly honored to have been asked to speak at commencement today. The time I spent teaching at Kellogg has been one of the highlights of my career, and I have the greatest respect for the faculty and students. Their caliber is reflected in Kellogg's well-deserved reputation as top-of-the-list of the best business schools in the nation.

We have two Federal Reserve Bank of Chicago employees in this graduating class — Paulette Myrie-Hodge and Kathy Williams — and I know from them the level of commitment it takes to successfully complete the executive master's program. So, I salute all of you, and your families, for persevering. Through dedication and hard work you have earned a degree that will help you unleash your full potential within your organizations and professions.

As Dipak mentioned, I'm a both an economist and a CEO. Given the current economy and business climate, that may be two strikes against me...

Not that long ago, CEOs were up there with movie stars in terms of glamour and influence. How opinions have changed, with the exposure of wrongdoing at once well-respected companies such as Arthur Andersen, Enron, Tyco and WorldCom. I saw a cartoon recently that had a mother trying to break up a fight between her two children. "Mommy!" one of them said, in tears. "Billy just called me a CEO."

Well, long before I was a CEO I was a Ph.D. economist, and I have to say that economist jokes have been around a lot longer than CEO jokes. As they say, economists predicted nine out of the last five recessions...

Well, I'm not here today to predict the future, or to say which way interest rates are heading. I'm here to share with you some practical insights that I've gleaned from my 30 years experience in business, government and academia. But especially from my eight years at the Chicago Fed, where we initiated sweeping cultural changes that continue to transform the organization.

We all know that every institution has its own unique culture. Some have fostered enduring enterprises that contribute enormously to the public good. But it's become painfully clear that others — especially those that stress winning at all costs — can cause irreparable damage to organizations and individuals.

The issue is: How do we create viable cultures that foster and reward high performance while maintaining the right values?

I'd like to share seven lessons that I believe can be helpful in managing a complex organization in these challenging times — whether in the public or the private sector. People joke that an economist “sees something working in practice, and asks whether it will work in theory.” I offer my observations not as an economist, but as someone who has gained these lessons from real-life business experience.

Lesson Number 1: Follow your moral compass

It's been said that “Leadership is doing what is right when no one is watching.” The failures of our business leaders cannot be explained simply as poor controls or inadequate oversight. Each of us has to ask himself or herself: “What would I do when no one is watching?”

Why is this important? Because the behavior of each person — for better or worse — has far-reaching consequences. Particularly if those people hold positions of authority and have been given responsibility for the public's trust.

But stricter rules, severer penalties and more transparent organizations cannot wholly control greed or dishonesty. What is needed is old-fashioned conscience in business transactions — the simple discernment between right and wrong...ethics...values... We need leaders we can trust to follow their moral compass.

What does this mean? It means trusting your best instincts in decision-making. After evaluating the evidence, hearing from all sides, weighing the pros and cons...listen to your heart, not just your head. Then make the decision that seems most nearly right to you at the time, even if it's unpopular.

If circumstances later show that you misjudged or made a mistake, don't be afraid to admit it. When a wrong turn helps reveal the right direction to take, everyone will benefit from the lesson learned.

In short, follow your moral compass wherever it leads. Be the kind of leader who finds and follows the right path...even if no one is watching.

Lesson Number 2: Think big

You're graduating from Kellogg, one of the top-ranked business schools in the country. You've been

working successfully in commerce, industry, government, and have a track record of achievement...or you wouldn't be here today.

But now, armed with an M.B.A. degree, you're positioned to do even greater things. That is, if you first...think bigger. Expand the boundaries of what you and your organization can conceive to be possible — within the law, of course — and you will inspire yourself and others to accomplish it.

I'm reminded of Daniel Burnham, the great Chicago architect. Burnham designed some of Chicago's finest 19th Century buildings and planned the city's beautiful lakefront park system that we still enjoy today. He said: "Make no little plans; they have no magic to stir men's blood and probably themselves will not be realized. Make big plans; aim high in hope and work, remembering that a noble, logical diagram once recorded will never die."

To help your organization improve itself, no matter what its size, be forthright in analyzing what needs to be done. Then, as Burnham intimates, clearly articulate a new vision that inspires people to do their best to accomplish it.

At the Chicago Fed we developed a very ambitious vision that included setting the standard of excellence among the 12 banks in the Federal Reserve System. We communicated the new vision extensively through publications, briefings and our internal website. In addition to these efforts, I personally took part in face-to-face meetings with our employees in six locations to drive home the importance of our sharpened focus.

We knew our transformation would eventually fail unless the staff understood that the vision was here to stay and was not just a "flavor of the month." Only after we had established employee buy-in at all levels, were we in a position to effectively mobilize our workforce for implementation.

Lesson Number 3: Think small

Having said this, keep in mind that there is no silver bullet, no one-time solution to dealing with the complex issues faced by an organization, or an individual for that matter. It's not just a matter of getting one big thing right. It's getting a thousand smaller things right, that makes for sustainable, long-term success.

For example, we track every single safety incident that occurs within the Chicago Fed, and take immediate corrective action. We carefully monitor our data and compare it with industry standards to make sure we're doing everything we can to reduce job-related injuries. Employees are our most valuable asset, and nothing is too small to be of concern when it comes to their protection and safety. Needless to say, we have only intensified our bank-wide efforts since the events of 9-11.

What I'm saying is this: That in any complex enterprise, it's essential to get each one of many disparate elements right — including the finest points of sales, marketing, production, distribution, personnel, strategy and communications — in order to be a top-tier performer. But sometimes it's one of the seemingly smaller things that becomes the most powerful motivator of all — especially if it shows employees and others that you genuinely care.

Lesson Number 4: Worship no sacred cows

As we seek to transform our businesses to be more responsive, we soon learn that every organization enshrines something that's sacred, almost untouchable. It could be a sacrosanct procedure, product or perk. It could be a way of doing things — the “we've always done it this way” syndrome. It could be the culture.

At the Chicago Fed, our sacred cow was a sense that the services we provided were largely immune to change...that Americans would always primarily use cash and write checks to pay for things. Well, as you know, the use of smart cards and other electronic payment vehicles has absolutely exploded — particularly with the growth of electronic retailing — and the number of paper checks written has been declining since the mid-1990s.

We encouraged the development of electronic payments in order to improve the efficiency and effectiveness of the payments system. But the impact on one of our core businesses — check processing — has become significant. Consequently, we are in the process of right sizing the entire check operation to parallel the accelerating evolution of the payments system. This directly affects a significant portion of our work force and revenues.

Moving beyond the sacrosanct — toppling this sacred cow of the status quo — has refocused people's efforts and signaled to all employees that change will be on-going.

Ask yourself in your own life, “What am I bowing down to that could keep me from realizing my full potential?” Is it a sacred hierarchy, process or structure? Whatever it is, use the skills you've learned at Kellogg to take a fresh, uncompromising look at the issues that confront you and make the hard choices. Remember, a sacred cow is no longer sacred once you lose your fear of making the changes required if you push it over.

Lesson Number 5: Remember that you don't have all the answers

Commitment to change has to start with an organization's leadership. If it doesn't, no one will take it seriously. Leaders cast long shadows...the eyes of an organization are on its leaders to see if they are truly changing.

At the same time, input must come from all levels throughout an organization — not just on cultural transformation but on all work—related issues. Not all the ideas will be good ones. But the more an organization taps the ideas of all staff members, the stronger it will be.

In particular, use new staff to help advance any change process. Each year, the average organization has turnover of about 10 percent. In other words,

30 percent of a typical organization's workforce has three years or less experience with that firm. So every organization needs to hire new staff who reflect attributes needed in the desired culture and who can serve as ambassadors of change.

Just remember, wherever you are in your career — that all knowledge doesn't reside in the corner office. Indeed, you never know where the right ideas will come from to solve a particular issue. So

don't be rank-conscious in evaluating them. The Chicago Symphony Orchestra conducts all its auditions with the applicant hidden behind a curtain, to ensure unbiased judgement. The same should hold true in evaluating ideas. If you encourage and reward good ideas regardless of their source, you will have an abundance of them.

Lesson Number 6: Don't lose your sense of humor

Being an agent for change in your organization is no easy task, as you no doubt already know. Even with the best intentions, transformation — professional or personal — doesn't happen quickly. You've heard it said, and it's true, "Transformation is a journey, not a destination." So, keep your perspective and don't lose your sense of humor.

When I joined the Chicago Fed, one of the first things I had to do was learn what is called "Fed Speak." This is a language in which it is possible to speak, without ever saying anything. As you might expect, Chairman Greenspan is the master of Fed Speak. Here's how he put it once when testifying to Congress: "Since becoming a central banker, I have learned to mumble with great incoherence. If I seem unduly clear to you, you must have misunderstood what I said."

You see, even central bankers can poke fun at themselves. So let's all of us take time to laugh at ourselves, at our foibles and at the predicaments in which we sometimes find ourselves. It clears the air, raises our spirits and refreshes our efforts to meet the continuous challenge of managing change.

Lesson Number 7: Be yourself

Lastly, it's been my observation over the years that business can be almost as trendy as...well...teenagers. Go into any CEO's office and you are likely to see on the credenza or coffee table the latest book on management by one guru or another. Some people cynically call it "management by best seller."

Now, I'm not saying that outside advice and counsel is not needed. What I'm saying is, don't simply follow the herd. Just because everyone else is doing something doesn't mean it's right for you or your organization.

Be your own person, even if it means cutting across the current or bucking a trend. To be yourself, you need to know yourself. Find out what your particular convictions and strengths are — what attributes make you you — and play to them. Learn to express your own individuality with increasing confidence.

Let me give you an example of someone who was so supremely confident in what he stood for that he didn't back down when faced with incredible opposition and withering scorn. And that's former president Ronald Reagan. Regardless of how you feel about his politics, he can be admired for his commitment to freedom and democracy and for standing up to the Communist countries of the Soviet Union and Eastern Europe. During his time in office, from 1981-89, he allowed nothing to prevent him from pursuing the course that he sincerely believed was right for the country. It remains for historians to fully assess the lasting impact of his unique leadership.

No one can duplicate what you have to offer. Your particular background, experience and training make you unique. And, armed with the knowledge gained from your experience at Kellogg, you're positioned to act, with the courage of your convictions, to transform whatever enterprise you're with.

Conclusion

In concluding, I just want to say what an honor it's been to speak to you today — to the graduates and your families and friends. As I said before, I realize what an achievement it is to complete the executive program given all the other demands on your time at work and at home. So, as a former faculty member who knows how challenging Kellogg is, I commend each and every one of you for your hard work and dedication. You've earned a management degree at what I consider to be the finest business school in the country.

Before we end, I have a charge to put to you. How are you going to use the free time you've regained now that school is finished? Spend quality time with family and friends, by all means. But as you pursue your career, I'd like to urge you to set aside time for giving back to others. There are lots of ways to do this, whether through mentoring...or volunteering for community service...or participating in a charity.

If you're already doing this, you know how valuable your experience and training can be to others, and how much you benefit as well. It's a way of repaying the debt of gratitude you feel for those who've helped guide your own path along the way.

Sometimes you may question whether your efforts can really make any difference in the vast scheme of things. But rest assured that to the degree you can help even one individual, you are helping society as a whole. And the more of you there are who make this contribution into the lives of others — by whatever means — the greater will be the collective positive impact of your good deeds on the general welfare. And I can think of no better way for sharing the Kellogg legacy.

I know that you're better, stronger and wiser for having attended Kellogg. And, as a result, I'm absolutely convinced that your contributions to business and society will expand well beyond even your greatest expectations.