

Our Interview with Charley Ellis

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Charles D. "Charley" Ellis is a consultant to large institutional investors and governments. For thirty years he was managing partner of Greenwich Associates, an international business strategy consulting firm he founded that serves virtually all the leading financial service organizations around the world. Mr. Ellis earned his BA at Yale and his M.B.A. (with distinction) from Harvard and his Ph.D. from New York University. He has taught investment management courses at Harvard and Yale, is the author of 15 books, mostly on investing, and has written nearly 100 articles for business and professional magazines.

*He currently serves on the investment committees of Yale University and the Robert Wood Johnson Foundation, chairs the Whitehead Institute and is a director of Vanguard. His latest book, *The Partnership: The Making of Goldman Sachs*, is available through the link above.*

We interviewed Mr. Ellis on October 20, 2008.

This book is quite an undertaking- a highly detailed history of Goldman Sachs from its inception to today. Can you give us a little background about this project and how long it has taken you?

My original thoughts on this book go back to the beginning of my professional career, in 1956. But most of the work was in the last decade.

Two very different themes made this a compelling project for me.

First, as a consultant, I worked in North America, Europe, and Asia with all the leading investment banking firms and their senior management, advising them on strategy. As I came to understand each firm's strategy, it was obvious that Goldman Sachs was different. This has been true for many years. My Dad, a Boston lawyer, was also very positive on Goldman. He always said they were a different kind of firm. I wanted to understand what values within the organization made them different.

The second theme stemmed from an appreciation for the kind of people that work for Goldman Sachs. When I started Greenwich Associates, I decided to put together a group of top people to work with me. I asked myself what it means to be a truly outstanding professional firm. (I realized that I had never



been at such a firm, although many people claimed to know such firms.) So, every chance I got, I asked lawyers, management consultants, and investment bankers which firms they considered to be the best, and what were the characteristics of the people that worked there.

I was startled by the fact that, across many different professions, there are some characteristics that all top people share. Consider Olympic athletes. They are all highly motivated, roughly 20 years old, possess extraordinary lung capacity, have a screwball attitude about maintaining their strict training regimen, are willing to commit long hours, and above all are highly competitive. That is what it takes to be an Olympic athlete.

And, if you are at the very top in any one profession, you will be remarkably like the people at the top in other professions. Goldman Sachs is a paradigm of a top firm made up of top people.

Sidney Weinberg, who was a Senior Partner from 1930 until his death in 1969, obviously had an enormous impact on Goldman's future, guiding it through the Depression and shaping it into the global powerhouse it would become. Did you have the opportunity to meet him? What leadership qualities enabled Weinberg to achieve so much success for Goldman?

Unfortunately, I never met him. But I talked to those who knew him really well, and I got as close as I believe possible, without actually meeting him.

Internally, he had a tremendous force of personality. He taught everyone to conform and behave in the way he believed would make Goldman a successful firm.

Externally, he was engaging, with a tremendous sense of humor and repartee. He was always looking for business. He crafted extraordinary friendships with very powerful people. In particular, he served on the War Production Board during World War II. In this role, he worked with the CEOs of the nation's top corporations. He was sent by the president with the message that the War Production Board needed outstanding talent to lead the war production effort and to work in Washington. He told these CEOs that, if they didn't offer their best people, he would know, because he would be comparing their performance to that of their peers. He said that such a failure would be something the president would "never ever forget."

What he did in recruiting made a huge difference to the war effort. In the process, he got to know all of the top executives from the major US corporations. Remember that most executives during the war were drafted into the war effort. By the end of the war, many of the executives that were



left at home managing companies were at retirement age. The companies needed new leaders. After the war, he placed them in senior positions and on the Boards of Directors of corporations throughout the US.

Those Weinberg placed knew how they got their jobs. Weinberg, too, knew this and as a result, he got a lot of investment banking business out of them.

One of your goals in writing this book was to identify the qualities that allowed Goldman to achieve a sustainable competition edge over many decades. Can you talk about the important qualities – integrity, loyalty, top people, teamwork – and what Goldman did differently with respect to them to achieve its success?

Let's talk about recruiting the top people. Some companies recruit within the top quartile, quintile, or decile to identify their best candidates. Not Goldman Sachs. They look only at top 5% and they are successful in hiring these candidates. Their recruiting efforts are more intensive and they utilize more senior people at the firm. The word gets out that the top people end up at Goldman Sachs, and it becomes a self-fulfilling prophecy.

It helps that Goldman Sachs has a flat organizational structure. This is a big advantage. It gives rise to a huge amount of drive in the firm's employees. Without drive you do not get far at Goldman Sachs.

Goldman Sachs has a tradition of being very tough on people. This started with Sidney Weinberg, and was carried on by Gus Levy and subsequent leaders. When a Goldman Sachs employee says that something may happen, Levy's standard response is that "may" is just another month between April and June.

There is constant pressure to deliver results. Days start at 7am and employees regularly work through dinner. The work week includes Saturday and Sunday, which is often when the planning and strategy sessions take place.

Goldman Sachs people, by and large, do not come with silver spoons. More often, they come from the wrong side of the tracks. They are upwardly mobile with a drive to succeed.

Teamwork is emphasized. There is a story about a trader who proudly told his boss "I just made a huge trade." The boss corrected him, saying that the proper statement is "We just made a huge trade." The pronoun "I" is reserved for mistakes and apologies.



Did Goldman make the right decision to go public? How would it have fared if it was still private? Would it have been more risk averse without the capital base from a public offering?

If I were a partner at the time, I would have preferred to not go public. But the business logic and self interest were awfully strong at that time. A substantial percentage of partners had a tremendous motivation to go public.

It really was the right decision. It gave Goldman Sachs a secure capital base and access to the capital markets it needed. They were a gigantic organization with large exposure. They had to be large to be global and successful.

Now that Goldman is a commercial bank, will it be able to offer competitive compensation packages that will continue to attract the most talented individuals? What other changes do you foresee for Goldman as a bank?

Perhaps the top couple of executives will have their compensation capped. But most people think \$10 or \$20 million is a lot of money, and that level of compensation will still be possible for top performers. They will be able to attract outstandingly talented people, and they will lose some of these people. Over the next 10-15 years, more people will leave sooner to go to Private Equity or Hedge Funds, partly because of the mind blowing compensation opportunities those fields offer – at least today. But it is also because a small organization is a lot more flexible. Some people don't like working in large organization. Goldman Sachs will surely lose more people in the future than in the past. But remember that Goldman Sachs has lost extraordinary people in the past, sometimes 10 or more a year. It has a deep pool of talented people to draw from, as attrition occurs.

Looking out five to 10 years, they will have a larger problem. But compared to whom? Pay is not the only reason people work for Goldman Sachs. The reason is that talented people want to demonstrate their superior skills – for both self-reinforcement and to impress others.

Goldman Sachs is more likely to change banking than being a bank is likely to change Goldman Sachs.

In 1999, Goldman had the opportunity to acquire JP Morgan, and could have become a leading commercial bank. They decided that they could do better on their own.



You provide an insightful profile of Hank Paulson in *The Partnership*. You describe him as a “solutions provider” with a bias for action, and as someone with a very direct communicative style. How have these qualities worked for him in his current role as Secretary of the Treasury?

These qualities work very well almost all the time, but there are exceptions. When Paulson went to Congress and Speaker Pelosi with a three page memo asking for \$700 billion dollars, he was asking for trouble. It may have been rational to choose that path. But what seemed so rational was ultimately irrational. You cannot go to Congress and say “Give me the power and I will take charge.” Government is a very complicated place. It is a world where the measurement stick is getting yourself reelected. This was a month shy of a very important election. Politicians were looking at what will and will not cost votes.

Paulson would have done very well in a different situation. He is extremely adept at analyzing problems and deciding the right answer. In a business setting, colleagues would agree “the Hammer” gets it right. But, in politics, nobody is called “the Hammer” favorably.

Paulson is a really good guy – a strategic thinker, honest, patriotic, and serious minded. Both sides of the aisle have a lot respect for him. Someone could have told him to add a few hundred pages to that memo.

You recount a speech in 2002 that Paulson gave at the National Press Club, where he called for tighter corporate governance and stronger regulation in the wake of the Enron and WorldCom debacles. Could he have done more – with respect to regulation – once he took the cabinet position?

Yes, if he had a stronger president. When he considered going to Washington, he was advised by many not to go. They said he would accomplish nothing, and it would be a serious negative mark on his career. He would be working for a failed administration, with too little time to accomplish anything.

If he had worked for a stronger, more highly regarded president, he might have done a lot more with respect to regulation and a number of other initiatives.

I am amazed by what he actually accomplished.



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