

Joseph Grano, Chairman & CEO of UBS Paine Webber
CEO Speaker Series
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VG: I am extremely happy to have Joe Grano, Chairman & CEO of UBS Paine Webber with us today. In some sense the reason I am particularly happy is Joe Grano really fits the profile of why we created the CEO Speaker Series. He really fits the objective behind the series. Just to refresh our memories, we started the CEO Series two years ago. We wanted to bring a group of special people through the Tuck School with basically three objectives in mind.

The first objective is really to provide a role model, not only for the students but also for the staff, the faculty, for everybody in the Tuck community. We need to be inspired. We need to be motivated and the people we have brought here, they not only speak about business issues, they not only talk about organizational issues, but they also talk about their personal philosophies.

The second objective behind the series of leadership is about solving problems. Large complex problems. The reason why the problems tend to be large and complex partly given the global environment and the changes that are taking place in our environment, but also the need to balance multiple stakeholders. We wanted to bring some people through the Tuck School who have actually been working and solving complex problems.

The third and final reason is all of you in these two years are going to be asking questions such as, what do leaders do? What is leadership all about? How is the nature of leadership changing? What better way to explore these questions than to have a dialog with folks who have been pursuing this leadership journey.

Sometimes if I look back at Joe Grano's background, it is so rich and so varied. It really speaks to all the three objectives with which we started the series. Then I analyze his biography; at least I can see Joe can talk with five different voices. Voice number 1. He left college at the age of 19 1/2 and enrolled in Vietnam War. He joined as an officer with the US Special Forces Green Beret. At the age of 21 he was the youngest captain of US Special Forces. How does military experience inform leadership? How does fighting for a country in a combat situation, what

does it do and how does it prepare you as a business leader? Joe Grano can certainly talk about that. Look at another part of his biography.

Look at another part of his biography. He has worked for Merrill Lynch and subsequently for Paine Webber, two large global corporations. Paine Webber was recently acquired by UBS, a company headquartered in Zurich, Switzerland. Talk about a global enterprise. What is the nature of a global corporation? What do global leaders do? How do you compete in the global playing field? Important questions. Joe Grano can certainly talk about that.

Another part of his biography is he is very deeply committed to being a corporate citizen, an excellent corporate citizen. He is committed to so many philanthropy causes—educational causes. He would be modest, but he has raised millions of dollars for charity. What is the role of leaders in society? How do you shape the social agenda? What does social responsibility really mean? As a leader how do you promote social responsiveness inside your corporation? Certainly Joe Grano can talk about that.

And finally he is Chairman and CEO of a large global corporation. What is the nature of a leader? What do leaders do? How do they solve problems? What are the basic principles of leadership? Again terribly important questions. Joe Grano can talk about that as well. At least I can identify 5 different voices he can bring to today's conversation. He is going to take a few minutes and frame some issues, provide us a context within which we can begin to engage in a dialog with him. Please join me in giving Joe Grano our usual warm Tuck welcome. Thank you.

JG: Thank you very much. Listening to that introduction and all the things I can talk about I need a change of clothes VG. I mean there is quite a bit on that agenda. I actually chose not to try not to pick some provocative issue for us to dialog today. I think there is too much going on in the world. It is moving like a bullet train. There are paradigm shifts going on. Some of it is unsettling obviously, like the terrorism issues we are dealing with and here you sit, you're going to be entering that world and inheriting that future and what I thought I would do is give you some personal perspectives pretty much from 38,000 feet, and then we get into the Q & A I would like you to peel back the onion and ask me anything you might.

Let me begin by first congratulating the school, the faculty and all of you for being rated number one. What impressed me the most was the insight in terms of describing Dartmouth and Tuck and actually Tuck number one and it said that this is the school where you work hard and play hard. My kind of school. I got to tell you, that is pretty good.

Listen, I am leading a global organization. I made a decision to allow my firm to be bought by a Swiss firm called UBS. If you were in this audience 2 1/2 years ago, I would be telling you how firmly independent Paine Webber is. We don't need anybody. Our momentum was spectacular. I became President in 1994. Our stock was at 14. It was now 46. We had split 3 for 2, which means we brought it up to 75. Leading Wall Street in productivity growth and net new asset growth. Any category you want we were a little bit on the capital market side of too small to be big. Too big to be small and that was a little bit precarious, but we had a lot of momentum.

But as I looked at the world and the way I managed, as you know, I tried to deal with a five year strategic view. I don't think you can go much further than that and underlying that is a three year business plan. That business plan I change week to week based on environment. It takes an act of God to get me off the strategy. In 1990 to 1995 we set the stage and 1995 to 2000 we were achieving all this momentum and all of this wonderful growth for shareholders, employees, clients, it was wonderful.

But in the year 2000, as I looked forward, I had an uneasy feeling in my stomach. It wasn't just the issue of globalization. It was the issue of the evolution of what I will call an economic triad. The world is evolving into three discernable, economic forces. The United States pretty much pointing its axis north to south. You saw the very first indication of this with the NAFTA legislation. I'm sure you are all familiar with what is going on in the European Union. Fifteen countries getting together. Without question the inculcation of the Euro has gone at a much better pace than anyone thought. Then of course, we see the Pacific Rim. China's entry into the WTO and you look back and you say, "Ok that will probably be anchored by the way by Tokyo and Beijing. Not just by Japan." Three major economic forces, and by the way, most of financial assets in the world domicile in those three locations. When you think of Europe, for instance, 5 countries constitute 83% of

all financial assets—Germany, United Kingdom, Italy, Spain, France. The rest doesn't really count in terms of economic prowess. The dragon is evolving.

The key point here is that I saw forward a world inner-connected, no question, but also becoming more competitive. The first shot across the bow from the EU was the turndown of Honeywell when GE wanted to buy Honeywell. That is despite the fact that our justice department, which is the most anti-monopolistic organization in the world approved it. It was the first shot. Now our response to the tariff on steel was probably not that well advised, but the facts are you are going to see more of that. More importantly, because of the inner-connectivity in the competition our client base, as you view yourself from the point of view of a value proposition, we are going to need more global content in order to satisfy the needs of our clients prospectively.

Today on the New York Stock Exchange there are 350 securities traded issued from Europe and Japan.. The view going forth five years from now there will be a thousand. You will be able to trade in any one of three currencies, Euro, Yen, and Dollar. Possibly four Remnant B. All choice and today where Americans have been very homogeneous relative to their investment profile, they will take what is now 5% of their assets outside the United States and possibly go to 15% or 20%. The key point there is that the world will go global. You will see a lot of transformation in the United States, particularly in the financial services industry. You will need global content and you will have to have more capital to compete. Now, that is just the global picture.

Again we have so much to talk about. I am going to move quite quickly. Moving to the United States. We had a market. We have a market that in the last eight years have gone from 3,000 to 11,700. Now back down to approximately 8,200. A lot of event risk. A lot of issues out there. A lot of negativity out there. Obviously, everything from terrorism to Palestine, Israel, corporate governance and the like. First let me suggest to you why we went from 3,500 to 11,700. The reason really is the consumer. The demography of our nation has 10,000 Americans turning 50 years old every single day. This phenomenon is going to last until the year 2010. Please listen carefully because I could be off a year. The world will change relative to that demographic push in 2010, but I may be off a

year so get liquid in 2009. Between now and then what I am about to tell you should hold true.

Now the reason why that drove the market up is because the propensities of Americans change with age. An American buys the biggest, badest house when they are 42 years old. An American owes the most money in their lives when they are 46. Why? Because they just bought the biggest, badest house and they have one of you left in college. Americans make the most money at 52 and they invest and save the most between 54 and 65. They have the most positive cash flow at that point in time and they have the requisite determination to provide retirement for themselves. We are a society that has gone from defined benefit to defined contribution and engaged our populist in a fashion that says you must be involved in the outcome of your own retirement. Add to that the issue of mass longevity. Those of you in the audience who are female and get to the age of 65, you will live 20.1 years today more. Males 17.1 years. Frankly, before it is over we will have a tube inserted into a palpable orifice and go to 101. Huge sociological issues, but an influence as to the flows of money.

With so many people in the United States at that point in their life cycle where they have the most, invest the most, and save the most, the money has to seek a home. Where is it going to go? It is not all going to go into a safe passbook savings at 1%. It is all not going to go into a treasury bond. It is not going to Indonesia in my view. It is going into the US market. That more than any other point drove our markets from 3,500 to 11,700. Couple that with low inflation, declining interest rates and at the time, a surplus in our deficit or in government all of the conditions were there. Now things have changed, no question.

Now everything you look at, can't trust my research analyst, can't trust the CEO, can't trust my priest. Some would say you can't trust Martha Stewart and of course the horrific event of 9/11 happens. We are faced with all this negativity. The facts of the matter are, it is more likely than not the appropriate protocols will be constructed to deal with the speculative excesses and deal with those who lost their moral compass. We can talk about that later. But it is a few. It is not the many. All of the rhetoric, all of the talking heads, all of the sound bytes on TV today are really about 10 or so firms. Maybe it gets to 20, but there are thousands of firms who are doing the right thing and conducting themselves in an appropriate fashion.

I'm going to talk with you a little bit about the anti-terrorism efforts in the nation. No question we have a problem and a wake up call that isn't going to go away. I will tell you that America is safer today than it was on September 10. However, I will also tell you that America is now finally cognizant that we never really were safe. Our civil liberties make us a very porous society and a vulnerable society and we will have to deal with that.

So I think you will be seeing in the next 60 days a series of events where people will move to global solutions on governance and new protocols relative to research et al and hopefully they will put those who operate under the auspice of greed in jail. As that gets over with you will get stability in our markets to a degree and the very demographics that we talked about are still in existence all the way to 2010. The serious issue you would have to worry about if there is an Iraqi war, if the price of oil were to skyrocket, every \$5 jump in oil price is about half a point in global GDP deterioration. That could be problematic. I don't see inflation coming back, because inflation has a direct correlation with labor force growth. It is in a secular decline, not concerned. But it is interesting that the only two anomalies to the corollary are war and a commodity crisis. So the duration of conflict in Iraq will have an influence.

Ok, another macro point. Social responsibility. There is no question that the democratization of the east block, the stabilization that's been occurring within Latin America and the failure of the communist regimes around the world have created an immense opportunity for American capital and American know-how. Immense, because we obviously have the largest and best proven model.

Along with this great opportunity what you are going to be facing is the immense social fiduciary if not moral responsibility you are going to pick up with it. As the freeing world looks to the free world. As the borders dissipate, the passports go away. First of all, the flow of humanity is going to come into our country the likes of which you cannot imagine. Second of all, the freeing world will look to the free world for not only guidance and capital but in some cases, even protection. If you look what transpired with the fall of the Berlin Wall which is a great event exemplifying the point, however, the panacea that there is going to be this immense consumer block coming into West Germany and mean so much buying power.

Just the opposite happened. Those people were looking for fruit, not a radio. And in effect, the cost of the inculcation is probably five times more than the Germans ever thought. The democratization of the Balkans, along with it, came a return to ethnic and racial genocide. So it is going to mean that the free world and particularly the most powerful component of the free world the United States will take on more responsibility, perhaps as not the leader but the police force in dealing with some of the issues out there in social responsibility.

I want to share with you a study that was done about three years ago by the Dilenschneider Group. They took the world's population of 5.7 billion people and they shrunk it into a microcosm of exactly 100 people and maintained the same human ratios that exist with the 5.7 billion. The findings are very interesting. So we have this 100 person worldwide village. The microcosm of the real world and here is what you see: 57 people in our village are Asians, 21 Europeans, 14 for North and South America, 8 people from Africa. 51 are female and 49 male. 70 are non-white and 30 are white. 66 non-christian and 34 christian. 80 live in sub-standard housing out of the 100. 70 cannot read. Half suffer from malnutrition. 75 have never used a telephone. Less than 1 is on the Internet. Only 1 has a college degree. Here is the most important stat. Half of the entire village's wealth would be in the hand of 6 people. All 6 would be citizens of the U.S.

I can assure you that infers responsibility. I can assure you because as the future leaders of our country and corporations, you are going to take on a moral responsibility that your predecessors didn't have to do. The world is evolving. The model has been proven and the transition is in play. And there will be pockets of radicalism and bigotry attacking it. I would suggest to you the message is probably a couple fold. You live in the best country in the world. I hope that you make it better. I hope that you criticize it but in a constructive fashion and I hope that as you succeed when you leave these hallowed halls you give something back. Not only locally but to the world community because it needs you.

Now I can assure you that if this study was done in the last months or post 9/11 it would have a focus a lot more on the Middle East than it does. My view there is that we have to be very careful not to label all Muslims as evil. Because they are not. But I think you also have to be cognizant that we have a bad habit as Americans. We expect people in other cultures to have our logic train. To think the

way we think. Well how can they conclude that? Why don't they see the pragmatism or the reality of the way we think? Well, frankly in the Middle East where you have 22 countries in the Arab League, they don't think like we think. If you look at history in other parts of the world ask yourself why there has been 80 revolutions in the country of Columbia in the last 100 years. Because when you have an oppressed populace they have what Adlai Stevenson called rising expectations. They have a radio. They know how we live. They want to go from a to d but they don't want to walk through b and c and they want it now. So they have nothing to lose and they revolt. Here, however, you have the added dimension of religion. We are a nation divided by religious groups. Islam is a religion divided by nations. Hugely different in their perspective et all.

If you look back in history when the Ottoman Empire was literally finally and conclusively destroyed in 1918 by the British and the French and Constantinople was literally occupied and you hear of Bin Laden talk about the suffrage over the last 80 years. He is pointing you right back to that event. Now you and I don't walk around saying remember the Alamo. He remembers this and he divides the world literally into the House of Islam and the House of War. To those radicals, and it is not all the Arab people obviously, we are the infidels. They are here to destroy worldwide the infidel. We exemplify the infidel due to our success, our democracies, and our civil liberties more than anyone else in the world. We were a target on September 11 and we will be prospectively. Again, superimpose the oppression.

We think that Saudi Arabia and all these countries are so rich because of oil. The truth be known the cumulative GDP of those 22 countries is \$531 billion. This is less than Spain, which is \$596billion. There are 282 million people living in those 22 countries. One out of five cannot read or write. Half of all women cannot read or write. They are illiterate. Just an immense oppression. 25% of the populist living on \$2 a day and most interesting, adolescence that are older and younger asked what they would do if they could, 51% want to move and emigrate and 45% of the youth does. Talk about a problem. So there is no middle class. And point to Latin America and other parts of the world, nothing to lose but a rising expectation and what I would call religious or radical fanaticism. You cannot debate or rationalize or compromise with a zealot or radical because they do not think our way. Impossible.

Next observation, I would like to share with you is this issue of leadership. As I suggested to you, the way I manage is with a five year strategic plan and an underlying three year business plan. When you think about it, there is really four functions of management. If you remember the word, PLOC “Planning, Leading, Organizing, Controlling.” You can delegate three of the four to some degree—planning, organizing, controlling. If you delegate too much, you may be Kenneth Lay with a CFO that is possibly going to put you in jail. There is only so far you can do that. But I have found in my career, what you cannot do is delegate leadership.

And one other basic tenet I want to leave you with, when and if you become a leader, once you set your strategy, make very sure that all your compensation practices are in direct support. Because ultimately, people always do what they are paid to do. It institutionalizes half of your mission by making sure compensation practices are in the right line. Ok, I would like to share with you some personal perspectives because we can discuss the tenets of leadership that deal with planning and developmental reviews and all of the things that good management do for hours.

I wanted to leave you with an understanding of the emotional side of leadership where I really believe have contributed to my success. . Actually, VG, I should have told you, I left college at 17 and so I never had the advantage of what you have today. But I have learned and grown in my career. I have held many positions over the years. I have identified 7 differentiators. I call them the Magnificent Seven. I am sure many of you don’t remember that movie with Yul Brenner.

Number 1: I am absolutely a proverbial optimist. No matter what the assignment, I welcome the challenge. As a young boy at 14 years old in Connecticut, I picked tobacco for 50 cents an hour. Everyone around me quit. It was awful; however, I forced myself to like it. I knew I wasn’t going to do it for the rest of my life, but the point here, attitude counts. You literally have to have a positive attitude when you accept a challenge. attitude counts, even on the telephone. You will translate on your telephone your negativity. I believe it is very important to have a positive attitude.

Perhaps the most important tenet is that, I care about people. Leadership is best defined as having the ability to gain the willing loyalties of your subordinates. Willing is the key operative word. It can't happen if you don't put their interests on a level playing field with your own. Now I know there are a lot of personnel books that will say stay out of the personal lives of your employees. Drucker will say on page 101, blow up human resources. Wrong, wrong, wrong. If your employee has a problem, you have a problem. If you don't care, why should they care. In the conduct of how you approach management from a CEO's perspective, it has to be the spirit of partnership. You have three partners: you obviously have the shareholders who subsidize the partnership, you have the clients who provide the revenues, and you have the employees that deliver the value proposition. Every major decision has to be in fair and equitable to all three. If you make too good of a decision for any one of those partners, you have to be stiffing one of the other two. Not the way to manage. Fair, equitable, because they are inter-related.

Now my acid test. If you came to my offices, all kinds of guards are in the reception area and I am in the great big corner office like the big bad CEO. Literally, this is the truth. Occasionally the guard will come to my office, cup of coffee in his hand, no fear in his eyes, and says, "Mr. G, thought you would like a cup of coffee." Now that tells me that I am the same person I was when I was picking tobacco for 50 cents an hour. I will tell you that is the defining difference in my view in the success of my company. Some of these CEOs believe they have gone through a coronation and the autocratic view that they can have the status because of money, it is because of their education. I have seen intellectual leaders. I have seen the power corrupt and the point I am making to you, don't forget where you come from. We all put our pants on the same way and you should care about the guard as much as you do the chairman. It will come back and pay you back in spades. When I do need to ask them to go 24 x 7 they fall all over themselves to do it. That is the point, a level playing field Creates a quid pro quo and mutual respect.

Number 3: A maturing recognition that all ambitious successful people to some degree are selfish. You can't work the hours that success demands. You can't pursue the ambition without setting individualistic priorities and you shouldn't expect those who support you to always share in the glory and victory. They may not even want it. You cannot do any of those things without stealing somewhat

from your loved ones. I didn't understand that too well climbing the ladder and I do and see that your generation has a bit of a better balance between life work. The more important point is don't lose the recognition of it.

Those of us who are ambitious, those of us who will work the 80 hours ultimately do it because we love it. That is the truth. We love it. That is what makes us tick. I have had to tell my wife many a time you should have married a plumber. He probably makes more money today and is home by 4:00. Not going to happen. Now one of the ways you deal with this, the way I deal with it is I crush everything Monday-Friday. It took me a lot of years to get smart about it. So my 80 hours are Monday-Friday. I don't even bring home a briefcase home on the weekends anymore. So I make sure the time at home is quality.

Next tenant. Crisis equals opportunity. No matter how severe the situation I have always found by maintaining my cool, seeking a solution rather than a post-mortem, the crisis abates, a better situation evolves. Too many managers, when something goes wrong the very first words out of their mouth is, who did it? Who did it? Rather than I don't care who did it, lets get this fixed. Often the person who did it is the only person who can fix it. So focusing on the crisis in a way that seeks a solution, not who is at fault. The value of a post-mortem as far as I am concerned when dealing with people with high levels of integrity that just made honest mistakes, is what are we going to learn from it. That is all post-mortems are good for. Nothing else.

This kind of coincides with my next lesson. Half of good management is asking good questions. From risk management to balance sheet deployment. Asking good common sense questions gives you the power to decide. I can assure you and I am not sure whether Kenneth Lay is guilty or not guilty at Enron. But when that smart CFO came in and talked about the SPV's and talked about the fact the accountants signed off and he went uh-huh and signed off, may of all happened because he did not ask good questions. He didn't ask good common sense questions. The one I love the most is when something comes in like that and tells me I am going to be able to reduce my tax level or we are going to be able to create a receivable, the first question is, "Why am I so lucky?" That is the first question I ask and if they can't answer it we are not doing it.

Most important in a managerial position is communication. Communication skills are paramount. I just had the luxury and privilege of having a lunch with some of your faculty and I said to them, "This is the most lacking piece of education that has to get done." MBAs and undergraduates that succeed versus those who fail generally have the requisite communication skills. The trick here is when you are speaking to people never talk at them, always talk to them. That is very, very important. You want everyone, one or a thousand to feel you are talking to them. I should tell you that listening skills is just as important.

My staff criticizes me all the time. "Joe how could you sit there for 1/2 hour and listen to that dribble." I say to them, "Look, you don't understand, when time permits you have to listen. How are you going to believe that I respect your point of view if I don't listen? Even if it is dead wrong. My lot in life is to listen, kind of redirect you in the right direction, and have you walk out of the office going the right way thinking it is your idea." That is management. That is what a leader does.

Last but not least the cliché I picked up along the way. It is "no passengers, no prisoners". For most of my career, the optimist in me felt he could change the hearts and minds of anybody. I was wrong. If you have a winning organization, you'll know it. There always seem to be a few who focus on the negatives and those that don't want to be there. My suggestion is let them go. Everyone must be value added, no passengers. If someone doesn't want to be part of the team, let them go, no prisoners. Your organization will be better off for it and you will have a mutually supportive group.

Last thing I want to say to you is a piece of advice. Do not let all this negativity that you are seeing with the talking heads on TV and on the magazine covers and in the newspapers, don't let it create any lack of confidence in your ability to leave this institution and go into the American workforce and make a contribution and make a heck of living for yourselves. This is the best country in the world for that. I am the best example of that. You can be and do anything you want in this country. The predicate is a meritocracy. It is true. This will pass. You will go out there and make a difference. Hopefully, smarter than some of the fools we are reading about, but there is no better place. Don't let them get to you. Do not start questioning whether you are going to have the same opportunity as your predecessors. I would

guarantee you we are short talent and we need all the help we can get and secondarily, I hope you take a balanced view of what is going on and don't fall into the trap of foolish bigotry. You are going to be dealing with a very diverse culture and we are going to be more responsible for the world and it is going to be a lot of work and it is worth it because we can help that little village. When you look in the mirror, remember that. Your work is just beginning. God bless. Thank you.