

**INTERVIEW #2 WITH
JOHN REED
Sloan Oral History Project
September 3, 2013**

J: John Reed
B: Bob McKersie
A: Alan White
G: George Roth

B: And continue our interviewing, John. We have until 2pm, is that the time?

J: That's correct. We could push 2 a little bit.

B: Last time we heard some vivid memories about how you went to Goodyear and how you went into the Army in Korea, and that helped shape your skills and your understanding of leadership. We also talked about how you moved to the top at Citi. One port of call, to use a Navy term, which we didn't touch on, was the NY Stock Exchange. Do you want to put that on the record for us?

J: Sure. I retired from Citi in April 2000. My retirement took the form of not running for re-election at the annual meeting. Sometime in 2001, my wife and I bought a house on a little island in France, just for no reason whatsoever. I viewed retirement as a time to experiment, to do things, and if they didn't work change, do something else. So we bought a house and I had to learn French – a language I spoke not a word of – ~~etc.~~ etc. We split our time between Princeton and this island on the Ile de Ré. We were in France about 5 months and back here maybe 6 or so, typically in 5-week blocks.

One day I was on the island, we had played golf the day before, and we had all taken our boats and gone to the mainland with our golf clubs and played golf, in the way the French play golf. Then we came back. I was washing my boat because it had gotten dirty with all the golfers shoes, etc. I got a call from then-chairman of Goldman, Hank Paulson. My wife called me on my cellphone and said, "You've gotten a call from New York." It was about 8 am NY time, 2pm French time. I called back. He said, "John, I'm calling because Mr. Grasso is

Int. #2 w/J. Reed
9/3/13

2

stepping down from the NY Stock Exchange, and we need to put somebody in that job sooner rather than later. This was a Friday. I'm calling to see if you would be willing to do this." He said "We need somebody who understands finance, who has a good reputation, is thought to be honest because we've had a scandal associated with bonus payments."

I said, "Well, let me check with my wife and I'll call you back." So I rode my bike home, 14 km, and said, "Cindy, what would you think if I went back to work?"

I felt this was one of those little crises, and people like me could be useful. You can't get an active executive, you have to get a retired somebody, and it wasn't going to be for long. I said, "My instinct is, if you're OK, we should do this." And she was fine.

So I called back and said that if I was asked, I would accept. And the next thing you know, I was talking to the chairman of their search committee. And by Sunday I was elected, so they could announce Monday.

I did ask the chairman of the search committee if they had done an investigation as to what had happened, because I was sufficiently experienced to know that if the SEC and the NY Attorney General are after you, and you don't know what the facts are, then you're almost compelled to believe anything that is said because you don't know. And that puts you in an impossible position. The answer was No, they had not done anything about it.

I said, "Well, you should know, before electing me, that if elected the first thing I'm going to do is hire a law firm and see if we can find out what in fact happened."

They said, "Fine, no problem."

So I was elected, and it was announced, I can't remember how, but I had telephone interviews. I had been on the board of Philip Morris. Philip Morris makes great cigarettes; they also know a lot about lawsuits. So I called the general counsel of Philip Morris and said, "I need a lawyer who is not conflicted," because remember the members of the board of directors of the NY Stock Exchange were the chairmen of all the big broker/dealers. So inevitably, any NY law firm was going to be conflicted. I got a name.

I actually called a litigator – Dan Webb – but in a law firm in Chicago, who is well-known. He'd represented Jack Welch and General Electric in a number of things, a very capable lawyer. I said, "Look, I've just been asked to take this job. I need somebody to do an investigation. Would you be willing to do it?" He said yes.

Int. #2 w/J. Reed
9/3/13

3

That afternoon, I also got a call from the chairman of the SEC, who said, “John, if you could do this, it would help the industry.” Bill Donaldson, whom I’d known for years. So, I became chairman of the NY Stock Exchange. I told him, “Look, this is a governance failure, and my job is to find out what the facts are, and see if we can correct them, then find somebody to take my job going forward, and move on.”

When I got to the Stock Exchange, maybe three days later, I had to fly back to the States, I had a meeting of the membership, because as you know, the Stock Exchange at the time was a not-for-profit. There were 1440 members of the Exchange, and the Exchange simply hosts them. They buy and sell securities on a floor that we keep clean and provide computers for them. The Stock Exchange per se doesn’t either buy or sell securities. We simply host those who do. So I met with these people, and I said, “Look, I’m here to correct this governance problem, and I don’t know how long it will take. But I’m not here to solve any problems you may have, or to find a strategy,” because the Stock Exchange was under a lot of pressure from electronic trading venues. That’s a very complicated business problem, and it wasn’t one that I knew anything about nor did I intend to get engaged with. So that was it.

I spent three or four months. It was intriguing because of the cast of characters involved. We did eventually get a report as to what had happened. We had to be very careful with that report. I ended up testifying in both the House and the Senate about what had gone on.

The SEC basically controls the Stock Exchange, and I spent a lot of time with the SEC, but of course they had very much asked me to do this, so I had a leg up. The first thing I did was say, “Would you be willing to let MY investigation go forward, and not have you do an investigation?” They talked to Dan Webb and they were satisfied that he would do a good job. So I didn’t have the problem of having a bunch of regulators stepping all over the same ground that we had.

It went well. I asked all the directors to give me their resignation. I promised that I would not take any one resignation; I’d either take all or nothing, so I wouldn’t be pointing fingers. There was an awful lot of this going on. People were pointing at other people, blaming other people: “Oh, it was this guy’s fault, or that guy’s fault.” There was a lot of protection – these are very powerful people and big jobs. They were willing to be honest with me, but they weren’t willing to be honest publicly. There was a lot of finger-pointing going on. It was an important set of people. Mr. Paulson went on to become Secretary of the Treasury. Mr. Panetta,

Int. #2 w/J. Reed
9/3/13

4

he was on the board, and he later became Chief of Staff for the President. So these were powerful people.

B: So this lasted how long?

J: It took me about five months, as I recall, and then I brought John Thain in as CEO. That was one of my better moves. John asked that I stay on for 12 months as a non-executive chairman, which I did. But I only spent 3 days a month at the Exchange in that capacity. I had been full-time as I was getting my hands around what had gone on.

I did ask everybody to resign, and I reconstituted a board of independent people, people who had nothing to do with buying/selling securities on the floor, because those people were horribly conflicted. In my opinion, Mr. Grasso was severely over-paid. He collected in cash \$200 million for 9 years of work. There are 900 people in the Stock Exchange. It is what I call "line of sight" management as everyone is right there. You host a very complicated activity, but you just host it, you don't participate in it. So you don't have to be a risk expert, you have to be a hotel manager. Basically, Mr. Grasso fell in love with the people who were staying in his hotel. And he sort of said, "Hey, if they can make \$10 or \$20 million a year, why can't I?" He was a very able person, nice, likeable guy. I saw him when he appeared in various court cases, and he's a perfectly charming guy who came up from the bottom, didn't go to any good schools, or anything. He loved the Stock Exchange. But he also fell in love with living the kind of life that the people on the floor of the Exchange lived. So, in my opinion, he was overpaid, and the people responsible for that were in fact those on the Board.

The only guy who said, "He earned what I thought he should earn, and this is it," was Ken Langone, who was on the board. Of course, Ken is a self-made guy, and he doesn't have much respect for all the bureaucrats who were running Goldman Sachs or JPMorgan. He just said, "That's what he should be paid," and that's what he was paid. Everyone else acted surprised to learn what they had authorized.

B: That's a great case study.

G: Weren't you paid one dollar in salary?

Int. #2 w/J. Reed
9/3/13

5

J: Yes. When they offered me the job, they offered to pay me what in Wall Street would have been a reasonable salary, and I said, “Guys, I’m here to correct a problem that has to do with compensation. You’re not going to be able to explain to anybody that you’re paying me a large sum of money. So why don’t we just agree that one dollar – not a dollar per year, but one dollar. I have that dollar framed!

B: That’s a great case. Maybe we should use that as a segue back to the Sloan School. Here you are in the financial markets, and as you know, we have a trading room, we have Andy Low. How do you see that? Is that something that is a plus for Sloan, the financial engineering?

J: I don’t think it fits within MIT all that well. We’re training scientists and engineers. Clearly the mathematics of finance—and it’s all related to markets—is a legitimate field of study. You would expect this kind of course to be at Wharton rather than here. But it’s perfectly legitimate, and there are kids who want to study this kind of thing. If you’re going to do it.... It’s a strange business. I’m not a great believer in some of these activities. These are activities aimed at investors. They’re not aimed at people who need money; they are aimed at people who want to invest money. It’s a different world. You’re buying and selling probabilities, so you have to be mathematically adept.

B: You’ll probably be invited. Next month we’re celebrating the 50th anniversary of Black-Scholes. We’re going to have a two-day colloquium.

J: I don’t think I’ll be there. If you teach two people to speak the same language, they can communicate with each other. Whether the language has anything to do with the real world or not, doesn’t make any difference, as long as they both speak it. And a lot of this stuff is of that sort. And as you well know, it can be manipulated and made very complex.

A: And it’s getting a little dangerous. People don’t understand it.

Int. #2 w/J. Reed
9/3/13

6

J: Yes. As I say, as a personal matter, it's not something I would encourage people to study, and it's not something that I think has turned out to be all that socially useful. I'm an old-timer, so maybe it's just my age.

This isn't management, this is finance. What's happened is that we're creating products for investors. In the old days, if you were an investor, you either bought a stock or a bond. And people who had money to invest – and one of the characteristics of the wealthy countries is we have these great pools of capital that are very important. MIT depends very importantly on our pool of capital. So we care a lot about how that money is invested. So investors keep looking for products that could be tailored to their needs and fit into their portfolio. That makes total sense from an investor point of view. The markets have, by creating derivatives, and slicing and dicing, they have created a bunch of investment products. They are wildly complicated, and they don't unwind easily because they tend to have been sliced and diced. Humpty Dumpty told us that not everything that breaks can be put back together again. And the trouble is, you have asymmetric understanding.

Look at the case that is currently in the courts, where an investor, working with a manufacturer, created a product that he could bet against, i.e., a product that would appear attractive to those who might own it, but was put together in such a way that he would be able to bet against it. I'm not saying the math was wrong or anything, but he helped put together a product that he knew much better than anybody else, and then a reputable firm goes out and sells it to a bunch of investors, and then he shorts it. That's not something I would try to teach MIT students!

G: In fact, I would say we would want to be teaching the opposite of that, of what we saw with some of the underlying behaviors that people fell into with what's going on.

J: Yes, it's a different world. My interest in Sloan—which is just mine, not anybody else's—I would like to see the management of technically intense businesses improved. They are looking for a head of Microsoft; it would be wonderful if a Sloan graduate was on the short list. I doubt seriously that one will be. But if we could train people who would be legitimate candidates for that kind of job... They are looking at a new head of research at Merck, people who combine

Int. #2 w/J. Reed
9/3/13

7

a deep understanding of the biology and medicine with managerial skills commensurate with the task. That would be more interest in that than the next pension fund manager.

B: In this vein of supporting engineering and science education, and helping them be successful in organizations, what do you see at Sloan now that IS right on track? What is there, and what needs to be nurtured? What are some of the frontiers?

J: I think the executive education programs are good because they're dealing with people who ARE in managerial jobs, and who have a real need for what they're going to learn. That's what my brother learned. He was in a manufacturing job and didn't have the tools to think about it, and he came for a year and acquired those tools and has been able to use them effectively.

I think the executive education is really good. I think some of the stuff in Logistics, which is like half-Sloan and half Engineering Systems, and the LFM program, which I think has been given up as a thing – these are all places where I think MIT has something to add. You're combining a deep understanding of the technology, or operations research, with managerial skills. It wouldn't hurt any if some of our biologists who are going to end up running big research labs or hospitals – improving the management of hospitals would be well worth doing. The payoff for society....

A: In our executive MBA program, the part-time MBA program with the older students? One in five this year are from the health sector.

J: Yes, I can believe it.

A: That's a total change from the past.

J: But if MIT wanted to really make a contribution to society, come up with a cost-effective medical system that would meet demand with supply, management would be crucial for that. Nothing would be more valuable to the world, because people are living longer, medical issues are much more expensive for society. Regardless who pays for them. We can argue, does

Int. #2 w/J. Reed
9/3/13

8

the government pay for them? Does the company pay for them? Does the individual pay for them? But that's just an issue of pricing. What counts is how effective is the system in meeting demand. And it's a logistical problem, really.

So I think the undergraduate program is good because of the quality of the students. Not that we're teaching them anything they couldn't have learned elsewhere, but the students who come to MIT are so special. The first two years gives them a real grounding in math and physics and chemistry. To have those people go out into the business world, it's just well worth it, because they are unusually able and well-trained people.

The place where I'm less comfortable is the MBA in the middle. Originally, you couldn't go to Sloan if you didn't have an undergraduate engineering degree. That was the beginning, how it started. And now the MBA doesn't have that quality at all. So my view is, MIT could have a bipolar distribution of really strong executive education, including the one you mentioned, and a great undergraduate program and minimize that center—if you need to have it at all.

G: But that's really what the School is built around, that program.

J: Yes, it is. The finances, and the faculty, is by and large hired to teach to that group.

A: The idea in the past couple of years has been to hold it constant, not to increase that number.

J: I think the administration has put pressure on Sloan to keep the growth of faculty down. If you look at the growth rates of the five schools here, Sloan is by far the most rapidly growing.

G: I'm curious about how your view of management education has changed, from the time you were a Sloan undergraduate, then graduate, then practicing manager, and now with your role as Chairman of the Corporation. I think what's a little unusual for us in the interviews is to see so much of an MIT-centric view. Most people we talk to have a long period of time

Int. #2 w/J. Reed
9/3/13

9

within Sloan and see MIT as the larger entity which we need to match. Versus coming from your view, that MIT is clearly the larger entity and Sloan needs to fit into that in a better way. So it's seeing it from the other perspective that we haven't....

J: I definitely believe that business schools have had a tremendous impact on the practice of management within the US. I think I was in one of the early graduating classes from business schools, people who were getting out in the 1960s. When we went into the labor force, we changed the practice of management dramatically. Most importantly, quantitative skills; all the OR didn't exist until the late 1950 or early 1960s, and it all came from schools. Carnegie Tech was an important piece of it, MIT, Stanford got into the game, etc.

I do think that the practice of management in the US stands out compared to the rest of the world. I think it shows in our economic performance. I gave a talk once at the American Philosophical Society, which was fun, on the practice of management. It was fun because the audience, who were primarily academics, basically don't like management and don't like managers. After my talk, a number of people said, "Gee, I never thought about the practice of management as a sort of social skill that makes a difference." So I think business schools have made an immense difference.

I don't think they've kept up, i.e., with some exceptions – the math and finances is probably one. The practitioners out in industry know an awful lot compared to somebody who just graduated. That wasn't true of my generation. In my generation, if you graduated from HBS or from MIT, you knew an awful lot, which the practitioners in the company you were going to go work for didn't. They simply hadn't learned it. For example, they didn't know microeconomics.

One of the big things I got involved in when I first got to Citi was the concept of the marginal cost of money. It was a totally foreign concept. No one had the slightest idea what the marginal cost of something meant. I used to talk to the people who were 20 years older than me, and I'd have to explain. Of course, in banking, where you're moving money from Place A to Place B, you have to know the value of what's being moved. And that's just microeconomics. Marginal revenue, marginal expense. But it was new to old timers.

Today, the practice of management is pretty good, and you could take most managers and if you put them in an MBA class, they'd do very well right away. That simply says

Int. #2 w/J. Reed
9/3/13

10

that the MBAs haven't gotten out ahead. That's where I made the comment that it would be useful if we could identify frontiers that are frustrating to current managers and then use the intellectual capabilities of a faculty to see if we could gain some insight as to how to move those frontiers out. Somebody like Bob Gibbons, with whom I spent this morning, is in fact doing that. He's working with hospitals and trying to understand the performance of various units within hospitals and why some of the units can be made to perform better than others that do similar things. That's a frontier issue for hospitals. They have operating rooms that are two floors apart, with wildly different outcomes while doing similar things. They don't understand why and how. So there are frontier issues that are important.

I do believe that academics, if they put their minds around some of these issues, can develop some insights that turn out to be very useful, and are worth teaching. I think that is worthwhile.

When it comes to Sloan, I look at Sloan from MIT's point of view, because – first of all, everything we do at MIT, including Sloan, is cash-negative. If you talk to the dean, he wouldn't believe that. But that's because we have various pricing deals that have been agreed to by various deans over periods of time, such that he doesn't have a realistic understanding of the revenues and expenses associated with Sloan. Sloan loses money. It doesn't lose a LOT of money, but it loses some. I haven't see numbers since their new building, but that will simply increase the losses because they don't pay for the building – heat, light, electricity. That's kept by the center.

Everything we do at MIT is cash-negative. And I have data by school, over time, going back at least eight years. So if you're looking at the whole, you say – and by the way, we don't exist to make money. But you have to be aware that you're cash-negative. And then you have to say, "OK, let's concentrate in those areas where we have a distinctive competence." We clearly have a distinctive competence in science and engineering. You could argue that we have interesting, if not distinctive, competence in architecture. Our School of Humanities and Social Studies is by-and-large a service organization. It was created to enhance the education of the scientists and engineers with some graduate programs that just happened. We happen to have a great Economics Department because Samuelson came over from Harvard and created one. We're number one in philosophy – don't ask me why. But all the ratings, when you go to visiting

Int. #2 w/J. Reed
9/3/13

11

committees, we have a bunch of very competent philosophers. And Linguistics, at least you could say maybe ties to Brain/Cognitive Science, although I'm not quite sure.

But the graduate programs over in Liberal Arts, which by the way all lose substantial money, they are just happenstances. Some of them are ranked #1 in the world so you are proud of them, but they have very little to do with the core of MIT. They have nothing to do with engineering or science.

Management, which was created here because it was felt that engineers would become managers, has lost that tie. When I look at Sloan from MIT's point of view, it's very different from looking at business schools broadly from society's point of view. I say it's wandering; it isn't tightly coupled, and I can't find any reason for it to be here. It doesn't hurt, but it doesn't benefit at all from the excellence in engineering and the excellence in science that exists here. The fact that they are physically off at the other end of the campus doesn't help any either.

B: Now, the undergraduate minor was an effort, right?

J: Yes, and it didn't work.

B: That's what I understand, why it hasn't lived up to its promise....

J: I was talking to Bob Gibbons about that just today. I think it didn't work because it came from the top down. It was an idea that the dean verbalized, and then Bob Brown and Chuck Vest got hold of it. But it didn't have a faculty champion.

B: Can it be fixed?

J: Only if a faculty champion were to emerge. And, by the way, that person could well be in the SOE. There are more people in the SOE who come in to talk to me about management than from the SOM. They are worried about giving their engineers some managerial training and some leadership training. For example, there's the Gordon Leadership initiative.

Int. #2 w/J. Reed
9/3/13

12

G: Yes, Joel Schindall is the head of that.

J: The need for a champion, I shouldn't be surprised, it would have been true at Citibank as well. The only way things get done is if you have some faculty member who has the time and the intellectual capability to put something together and to convince some colleagues to work with him, a little bit of money, and that person is off and running.

Unfortunately, I think the problem with the minor was: it was something that sounded good at the dean and provost level, but wasn't attached to any faculty members who really wanted to spend their time on undergraduate minors. The faculty are much more engaged with the Masters programs. You need a real champion who says, "I think there's a real opportunity to put something together here for the engineers and scientists, etc." To the best of my knowledge, there is no such person around.

A: I think what was needed also was to look at the question of what did scientists and engineers need to know about management....

J: I would have started by going to talk to a bunch of graduates ten years out and say what did you miss while at school? By the way, I just got in the last two weeks some surveys of some of our graduates. We ask in very broad way, "What do you wish you had learned?" And all the answers are "Leadership and social skills." That surprised me.

A: I think what the minor came to be was just a collection of courses without integration.

J: Yes, and it didn't have the leadership. If you give money without the leadership, that money isn't going have an impact. One thing I may do is redirect that money. I have no influence on how the money is used, but the letter I wrote when I gave them the money limits how it can be used. I could write a new letter saying, "In view of that, let's not limit it only to undergraduate, but let's use the money more broadly for better purposes."

Int. #2 w/J. Reed
9/3/13

13

A: I'd be interested in your perspective on what you see as the opportunities with the on-line education.

J: I think risks and opportunities. First of all, we have to understand that we don't know what we're talking about. None of us really knows who learns effectively in this way, and who doesn't. How do people learn? I think increasingly, people believe that individuals each learn in their own way. Anybody my age is used to being set in a classroom with 20 other kids, and we all were presumed to learn exactly the same way. But in Argentina, where I started in first grade and graduated from high school, we had a government sponsored public education where every class in Argentina was on the same page, in the same book, on the same day. Our exams were given not by the teacher who had taught us, but by visiting teachers who came from the Ministry of Education and gave you your exam questions. It was this idea that everybody learned exactly the same way. I didn't learn very well at all in that environment.

Now I think we understand that different people learn differently. How they are going to learn in an on-line environment isn't clear yet. Clearly, it allows for great flexibility. It allows for self-defined learning groups. You get these chat rooms where people find it useful to talk about their learning, etc. It seems to me that this could be a very powerful way of teaching. The idea of a semester goes away, because right now, if you go to somebody and say "Hey, teach a class in accounting," the guys says, "OK, 14 weeks, 3 lectures a week, how do I divide the subject of accounting into blocks that can fit into that structure?" If you say let's teach accounting online, you just put together what you think conceptually is needed to teach accounting, and what kind of exercises, etc., and whether the students take it in 3 weeks or 50 weeks, it's out there. So there is tons of flexibility, tons of hosting alternatives.

I do think it's a little bit like separating operating systems from hardware – the residence and the learning are now going to be separated. You will have entrepreneurs who will create appropriate residential environments and pipe in their learning from elsewhere. So how tightly coupled is residence and learning – because these chat rooms, you don't have to all be in the same dorm. You could have chat rooms with people across the world around a common topic.

My wife took a course here at MIT in French Culture, when I was doing some teaching at Sloan when I first retired. They had an interactive session with a French technical

Int. #2 w/J. Reed
9/3/13

14

school that was VERY rich. It just consisted of the kids talking about words, like *liberty*, *profit*, *management*. The students became engaged in a tremendous interaction, all online, as they debated the meaning of these words. This was, I think, between the Polytechnique in Paris and MIT. My wife was blown out of her chair! Yet, this is the kind of chat room that would be difficult absent the Internet. So we're talking about something that could be very powerful.

But I think we also have to say, none of us have experienced this. We don't know what the failures will be, what turns out to be very difficult to teach or is totally missing in this environment.

I think it is going to be wonderfully important for society. It may be a breakthrough for our K-12 education, which is so crummy. It may allow individuals who have an appetite to learn to be able to learn, where today they simply can't get into an environment where they feel comfortable learning. But you could create some kids who sit in their room 24/7 and god knows what they'll be doing. But I think it's great. The interactions you get in classroom discussions can be hosted on the Internet quite well.

G: I wanted to follow up on our last discussion. One of the things you mentioned was coming back and making connections to MIT to bring in people to help you at Citi. I think you talked about that without identifying people.

J: Yes, and I'm not going to give the names. When I was running the operating group at Citi, we were introducing computers into a processing environment, and it was very important for us to understand what computers could/could not do. So at the time, there was a course being taught here at Sloan—I probably have the textbook someplace—which allowed you to understand the structure of computers and how the machines actually operate. I brought somebody from MIT to Citi, who basically gave us tutorials on the architecture and structure of computation.

I did that with somebody from Harvard when I got to the Latin American debt crisis. I was up to my eyeballs, and I didn't understand the history of debt crises.

I once asked Paul Volcker, "Do you think all this IMF conditionality is going to work?" He said, "Oh yeah."

Int. #2 w/J. Reed
9/3/13

15

I wasn't 100% convinced. We were forcing countries into these programs, and it only made sense if they were going to work, because they had to produce credit-worthy customers at the other end of the process, because we wanted to get our money paid back.

That same question applies to Europe right now. It's not 100% clear that there's going to be light at the end of the tunnel. My own guess is people are going to write off 30% or 40% of the debt that's been extended to these countries, because I don't think they are going to get into a condition where they are going to be able to pay it back.

I knew nothing about sovereign debt, yet I discovered – you know, Mexico quit paying their loans in October 1982. I became chairman of Citi in 1984. So they already had stopped paying interest on their loans, and there were various committees being formed to figure out how to get the countries back on track. When I became chairman, I didn't even know the problem existed. Victor Menezes came to my office; we didn't know each other very well, but he was running Hong Kong. We had the habit that whenever somebody came in from a country, they would have coffee with the chairman, so Victor appeared to have coffee with me. I said, "Tell me what's going on?"

He said, "Well, your biggest problem is this cross-border debt problem."

I said, "Keep talking!"

That changed Victor's career, and it changed mine. I brought him back to help me with it. So I went and got help.

I had this in all parts of my career. When I ran into problems that I didn't necessarily understand, or didn't feel comfortable that I understood, I felt very comfortable going into an academic environment and trying to find somebody to help.

We ran tutorials. I had a woman working for me, we called her a "reader." Her only job was to stay up on certain topics, and she had time to read. The rest of us were too busy. Then on Friday afternoons, she'd give us a lecture on what she had read. And it worked. Her name was Debbie Peniston, and I've run across her recently. She's now living in Florida. But for two years, she just read, and then on Friday afternoons she would get us all up the curve as to what was going on.

G: Sometimes it's not that we need new knowledge, it's that we need to know the existing knowledge.

Int. #2 w/J. Reed
9/3/13

16

J: Yes, you need to know people who have knowledge and can put it into action. Well, the new knowledge is talk to enough practitioners to identify problems that kept them from accomplishing what they wanted to. If you're developing a program for MIT students, go talk to a bunch of students 10 years out and say, "What do you wish you had learned and is currently blocking you?" But if you want to know what bothers company executives, go talk to a bunch of company executives who just retired and say, "Hey, what really killed you when you were working?"

But then I do believe that economists, mathematicians, sociologists, psychologists who are trained in those disciplines, if they think about those problems, are quite likely to develop some insights that are worthwhile. I think consultants just pass common information around. I don't see consultants creating new knowledge. They may refine an idea. I did use consultants from time to time. But it almost always was how to implement something, not what to implement.

G: It's Just In Time, they bring you what you need when you ask for it, which is a valuable function.

J: Yes. And by the way, I think business is very unusual in having consultants, i.e., this is the way that best practices are passed around, it's almost like repairing the DNA. Company A discovers a way to manage their inventories, and somebody comes and sells that way to somebody else. Pretty soon both Company A and Company B are managing their inventories well. That's good for society. But if I were running a consulting company, I probably would hire some academics to take some problems that consultants could see that many of their customers are dealing with, to try to get some breakthrough.

A: To follow through on your career, this orientation to continue to learn, which has to go way, way back?

J: I've always known what I don't know. I'm willing to admit what I don't know. It doesn't embarrass me to make a mistake. Some people find it very difficult to acknowledge that they've made mistakes. My parents taught me that I could be a decent human being and still

Int. #2 w/J. Reed
9/3/13

17

make mistakes. It wasn't "You're a bad person because you did something bad." It's "You're a great person, but you did something bad." So it's helped me immensely. I'm always willing to think that the person talking to me knows more than I do. It doesn't bother me. I am always reaching out.

We were going through this crisis in the 1990s over real estate. We had a bunch of bad real estate, and we didn't have enough capital. We came up with a plan that was going to take 8 quarter or 2 years to correct the problem. It was a well-defined plan, we knew exactly what we had to do over those 8 quarters. And at the end of the third quarter – the first two quarters went well – at the end of the third quarter, the president of the company came and said, "John, we're just not going to be able to make in the third quarter what we have to do." I met with him and the people who reported to him. I left about 10:00pm saying, "I don't see that we're going to be able to get this done," and I had a restless night. The next morning, I came in, picked up the phone and called Jack Welch and said, "Jack, who is your best cost guy?"

He said, "A guy by the name of Trainer, who is running my medical systems business." I said, "Tell him I'm coming to see him." I got in the company plane, I was there, and I said, "Trainer, Jack thinks you're the best cost-cutter in the company." Needless to say, after that he told me everything he knew, because he was pumped up. I learned a hell of a lot.

I called the CEO of Cummins Engine, I don't know if you remember him??

B: Tim Henderson?

J: No, after that. If you recall, the Japanese were going to kill Cummins. So they lowered their price below their cost, and then they had to get the costs to catch up to the price. It helps if you have a big stockholder. Anyway, I said, "Tell me what's going on." He was on the board at Chase, but he came and told me anyway. No one was saying, "Hey, this is competitive." We got back on track, and we made the eight quarters. But we never would have done it if I had just gone home and said, "You know what...." I had to reach out and get some ideas from outside and then implement them.

The interesting thing – and this always fascinated me – the people who delivered, who made this transition happen, were exactly the same people who were stuck at the end of the third quarter. In other words, I didn't change the people. I changed the organization; I changed

Int. #2 w/J. Reed
9/3/13

18

how we approached things. But they were the same human beings. It just said to me, if you get the same human beings in a different psychological framework, a different organizational framework, a different managerial process. One of the things Trainer told me, "Have your management meetings over weekends. That tells everybody that things aren't normal." All of a sudden, our management meetings were Saturdays and Sundays. I changed the organizational structure, made it much simpler. We had a clear idea of what we had to get done. We started every management meeting with the head of real estate telling us what the losses would be for the past month and the next month. Then we went around the table on revenue and expense. If we couldn't cover the losses, then we'd go back around again, until we got done. It took eight quarters, but that all came from a willingness to go outside. There was no one within Citi who could have....

And by the way, the idea to change the structure was Victor Menezes' because he was running the Consumer Group in Europe at the time, and I always have respected Victor's ability to see things that others don't see. I called him up and said, "Victor, meet me over the weekend in a hotel room. I just want to talk to you." I flew to Brussels, we met, and I flew back to New York. He said, "John, why don't you organize them this way?" I did, and it worked perfectly.

B: Well, we are out of time, in fact we've run out of time...

J: Well, you could push me a little bit.

B: Okay. There is this organization, the Academy of Management. They have big meetings. I didn't get to the one this year, it was down in Florida. But they pull 5,000 or 6,000 people. They had several sessions this time. I have a memo from Tom Kochan who went. One session was called "The Decline of Capitalism." People are starting to ask: Is capitalism delivering what it used to deliver? And you know the usual suspects for that kind of discussion: profits are okay, stock prices are okay, salaries for CEOs are okay. But so much of the workforce is stagnating. Is that a topic that you think has legs right now, to talk about the challenges of our capitalist system?

Int. #2 w/J. Reed
9/3/13

19

J: Well, I think there is a challenge in wage rates for people who are *educated*, in an average sense of the word. The opening up of the global economy has tripled the number of people capable of doing that kind of work. And not surprisingly, you're going to get a lag between supply and demand. Right now, there is a tremendous supply, and we don't yet have a middle class that has generated enough demand to keep the supply fully occupied. So wages have been stagnant. If you happen to live in southern Europe, they've been going down. Unfortunately, my generation was in a golden period of time when the US was the only country alive. Europe was rebuilding; Japan was rebuilding, and we were it. So my generation just rode an upward, sloping curve. When I went to work for Goodyear, I was joining a group of people who did very well.

Nowadays, tires is a very competitive industry, it's globalized, and the Japanese are into it. The Europeans/Michelin has always been very good. But the point is, I'm sure wage rates have stagnated for people who are doing routine things. It's a supply/demand thing. I wouldn't blame it on capitalism. It's just a labor economics problem. And by the way, it would exist in socialism or capitalism, i.e., a socialist regime wouldn't be able to pay those workers any more than a capitalist regime would. So we do have that problem.

By the way, wages are the wrong thing to look at. Everybody always says wages have gotten smaller as a percentage of national income. That's true. Wages plus fringe benefits have risen. People are obviously being paid the fringe benefits as well as wages. I think if you took a look at wages plus fringe benefits, you'll have a somewhat different story.

B: Let me go to a different topic. Last time, you mentioned the challenge of having academics take on administrative positions without It goes back again to how do we help people develop managerial talents. I dropped you an email about the concept of coaching, because you're familiar with executive coaching. Would that work here? Could we get a Bill Pounds or Dick Schmalensee, who are good managers, to help and be coaches?

J: If I were trying to architect it, I'd try to get some sort of classroom work to start and then have some coaching. Because these people are illiterate. I mean, it would be like asking me to teach physical chemistry. It is not something I know. You should probably start when people aspire to be department heads, or whatever. Coaching would help once you got to the

Int. #2 w/J. Reed
9/3/13

20

point where people knew that they needed some help and they wanted to learn. But I think you have to start with some fundamentals before that.

The notion of getting things done, for an academic, is not compelling. What amazes me is watching some very confident academics who are in administrative positions, and a problem will be there and there is absolutely no instinct to resolve it, even though it's resolvable.

A: Well, the circular – these things go round and round and round.

J: But the point is, I'll go to a Visiting Committee, and the VC will report that there's a very simple problem that needs to be resolved associated with space for grad students, or something trivial. Most businessmen – a Visiting Committee report comes out around 2:00 or 3:00, and by 5:30 it would be resolved. We sit there – the chairman, the president, the provost, the dean of the school, etc. – we hear this problem. Two weeks later I'll say to the provost, "Did anyone ever look into that?"

"No." And I'm not talking about things that are difficult. There's just no instinct. Businesspeople who are given an easy problem try to solve it pretty quickly so it doesn't come back on their desk the next day. Maybe a coach could help? Saying, "Hey, let's get these 6 things done today."

We're capital-short. We could argue a billion here, a billion there, but we're not going to be very far off in terms of what we need to be appropriately capitalized here. I mentioned it to Susan when I first started working with her. I don't think she disagreed with me, but it didn't mean anything to her. She just filed it in the back of her mind and said, "Gee, John thinks this." But a businessman who knows he's capital-short says, "Gee, let's look into this, and if we are, then what are we going to do to correct the problem?" It would be like your doctor saying, "Oh by the way, I think you have cancer." You go home and don't do anything about it.

Being capital-short, if you're president of a university, you should either say "Hey, I don't believe it, and let's talk about it," and we are. Or I do believe it. But there is zero instinct. I don't know whether a coach can help that.

B: You're right. It only works when the person is ready for it, wants it.

Int. #2 w/J. Reed
9/3/13

21

A: A lot of it has to do with the culture of a place.

J: But it doesn't MEAN anything. I don't think – if we took the president, the provost, chancellor, etc. and asked them to define “capital”, I'm not sure they could. They don't have the language, they have not thought about it. I don't think they can read a balance sheet or a P&L. They have some idea of endowments and stuff and return on the endowment. But they're just not trained in these areas.

There are exceptions. The Dean of Science, Marc Kastner, has an instinct for numbers, and he knows what his buildings cost, even though they aren't allocated to him, and he constantly is asking about that.

And the other thing is dealing with people. It's hard, you know that. Interviewing people to try to figure out if you want to put them in a job. It's tough. I don't know anybody who does it perfectly. And then talking to a person about improving their performance and changing stuff – the communications are very fuzzy and the result is, people who aren't doing well don't know they aren't doing well.

Mind you, MIT is a great place.

G: Sometime when we can, like the people who were stuck with the real estate crisis, and change the structure. Is there a similar approach for MIT?

J: Yes, I do think we could make some changes that could help. One of the things I'm doing is I'm changing the conversation between the Trustees and the administration. I changed the structure. I'm now chairman of the Executive Committee; it used to be that the president was chairman. I said, “It's not the right thing for MIT.” We changed it and I think that it will help change the conversation.

B: Well, it's good for MIT to have you here, John.

END OF INTERVIEW

Int. #2 w/J. Reed
9/3/13

22