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Interview with John Whitehead

Goldman Sachs

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JOHN WHITEHEAD

The Early Years

I was born in Evanston, Illinois a little more than eighty years ago. My family moved to New Jersey when I was about two years old, so I don't remember much of my mid-western upbringing. I grew up in Montclair, New Jersey, and went through public schools there. I had one sister two years younger than I was. My parents were a very loving and caring set of people, and they had a very close marriage. So it was a happy family life.

Much of my early life took place at the beginning of the Depression. I would say we were a lower-middle-class income family, although I never thought that we were poor because so were all our neighbors and all the other people in the area. It seemed like a comfortable living. My father was unemployed for two years during the depths of the Depression. That would have been 1932 and 1933, when I was ten and eleven years old. I vividly remember that we were scrimping and saving. We ate a lot of macaroni and cheese and fish cakes and not a lot of meat. We had meat about once a week. We had to operate economically.

If I had to say what it is from that life that made me who I am now, I would say I was always involved in a whole lot of different activities outside of school. School and family were probably the core activities and then I was into a whole lot of different things. I joined the boys' choir in my church when I was eight years old. I was a boy soprano soloist in the choir. When I was twelve years old I joined the Boy Scouts, and the Boy Scouts have been an important part of my life. I became an Eagle Scout when I was about fifteen or sixteen years old and I've always been very proud of that. I've been active in scouting in one way or another all my life.

In the neighborhood, we raised racing pigeons. I had a pigeon coop out in back of our garage. We would race the pigeons in 100- and 200-mile races. The 500-mile race was the big event of the year. We shipped the pigeons by train overnight down to various release points on the Pennsylvania Railroad. The stationmaster would release the pigeons at 5:00 in the morning and these pigeons would fly home. We competed against other people who were racing pigeons all over northern New Jersey to see whose pigeon came back the fastest. Racing pigeons is a remarkable hobby. I also collected stamps and coins, and I was involved in a whole lot of different things. It made life more varied and more interesting.

Undergraduate Years

I went through grade school and high school in Montclair and I graduated from high school back in 1939. Then I went off to Haverford College, a small but very high-quality liberal arts college located outside Philadelphia. I spent four very happy, important years of my life there. I developed a lot of my basic principles and character traits while I was there. I wasn't born with anything special in terms of character or anything that I can remember or recognize. But at Haverford, I learned a lot. It's a Quaker school with a Quaker background, and I was very impressed with the strong Quaker religious views that there's good in everybody, that every single individual counts, and that reaching consensus is more important than having arguments and disagreements. We signed a very strong honor code at Haverford. You were trusted not to cheat or plagiarize, and to be proud of your independence in doing your own work.

I majored in economics, but it didn't matter too much at a liberal arts college what you majored in. You were taking courses in a lot of different fields, and I didn't really specialize in any one thing. Haverford was all male at the time and went co-ed much later. When it did, I was chairman of the board and I had to see the college through a gradual transition to coeducation.

I graduated from college at the beginning of World War II. We actually accelerated our senior year. Instead of having the summer off between junior and senior year, we had classes all during the summer so that the class graduated in January of 1943, not in June. Everybody from the class had to go into service except for a fair number of conscientious objectors, who were Quakers and opposed going to war. For the most part, they were assigned to alternative service in peaceful jobs that did not have combat attached to them. Many of my classmates received that kind of draft classification because they came from Quaker families. I'm an Episcopalian and I was happy to go into the service. No one relished it, but everybody felt then that it was their duty. Almost 100 percent of the class was in the service, in one way or another, before the war was over.

The Navy Years

I signed up for the Navy program. On the day I enlisted, I became an instant ensign, without training. I got my training afterwards. One of the places I went for training was to the Harvard Business School, where they were teaching Navy accounting. I learned how to fill out Navy forms, which was mostly what the accounting involved, so that I could be a supply and disbursing officer on the ship. When I got through with that course, I was assigned to the U.S.S. Thomas Jefferson. It was an amphibious landing ship, the kind of big ship that carried lots of small boats on its deck and lowered them down into the water filled with troops from the mother ship so that they could go off to the beaches for invasions. My ship and I participated in the invasions of Normandy and Southern France. Then we went to the Pacific and Iwo Jima and Okinawa.

The first day I arrived on the ship, I was told that I was in charge of a division of fifty four men. I was a young ensign, very green, just out of a three-month training course at Harvard Business School. I was younger than any of the men in the division. I had less time on the ship than any of them and I had been in the Navy a shorter period than any of them. It was a daunting task to be made their commanding officer and to be put in charge. I had to learn quickly how to deal with that kind of situation, which I faced again many times in the future. It was very good training. I was barely twenty-one years old when I was assigned the job and I made mistakes early.

I found that a leader couldn't be too buddy-buddy with the people in his command, even in the military. A certain amount of distance is what the people in your command expect. I made the mistake of going on liberty with a group of my men one time, and found that it was very uncomfortable for us all. The troops expected a certain amount of separation, and I think that's an important lesson to learn in leadership. You can't be too close to those you are supervising or it becomes an awkward and difficult relationship. They expect out of their leader a certain amount of distance, a certain amount of respect, a level above them. You have to act that way if you're going to be successful. That doesn't mean you have to be tough, cruel, and authoritative. You can still be kind and thoughtful, but you have to keep a little aloof from those that you lead to maintain their proper respect.

Those two years on the boat were an interesting part of my life. The invasions, of course, added a little excitement to the day. I was assigned as a boat officer in the Normandy invasion, and I landed a group of LCDPs, which are the little twenty-four-foot landing craft with the ramp in the front that goes down when you hit the beach. I was assigned to a group of five LCDPs and we went in and landed in the first wave at Normandy. We got through that all right. There was heavy fire on the beach and I was very lucky to escape. Of the troops that we landed, the Navy people were not the real heroes. The real heroes were the people who landed and stayed on the beach. We in the Navy landed and withdrew our boats as rapidly as we could, because there was another wave coming in behind us.

We were in the first wave, and there was heavy mortar fire from one gun emplacement up at the top of a high rise at the end of the beach. We were being strafed by the gun as the troops landed. Of the troops that landed out of my little boat, at least half of them were wounded or killed just getting on the landing craft—before they got to the beach. It was rather heavy fire. We came back later in the day and the beach was beginning to get a little organized. It was still pretty chaotic, but we landed a second group of people from the ship on the afternoon of D-Day. Then our ship went on to Southern France for an invasion that everybody forgets took place. It really wasn't terribly necessary. It took place on August 15, after the June invasion. Then the ship went out to the Pacific, and we were at the Iwo Jima and Okinawa invasions. None of my division people were killed. We had people killed on the ship but, fortunately, none of my division was killed.

As the months went by, there was a rotating crew. Some of the crew that had been on the ship before me got off and new people came on. As a result, I became more used to the job, more comfortable with the work, and I better understood what had to be done. Two years seemed like a very long time back in those days. For a young person, two years seems like forever. While we were sad that this experience was part of our life now and we were eager to have the war over and get back to normal lives and begin our careers, we understood that there was no alternative for us but to continue to fight this war and to win it, as we did in the end.

I think most Americans don't realize how close the United States came to being defeated in that war, with the Japanese controlling the Pacific Ocean after Pearl Harbor and German submarines sighted off the New Jersey coast, where I used to go on seashore vacations during the summer.

We would see submarines out off shore and other people would report sightings. It would be reported in the papers that there were German submarines right off the coast. It was very scary, but eventually we prevailed.

The HBS Experience

I didn't have enough points to go back to a civilian service when I came back from the war, so I had to have a year of shore duty. I got my first choice and was assigned to teach what I had been doing in the Navy at Harvard Business School. I was on the faculty of the Business School for a year. I resigned from the faculty when I got through with the Navy and then I became a student at the Business School. Most people do it in reverse, but I was on the faculty first.

My experience at HBS was a very good one. I certainly learned a great deal. With a liberal arts education, I knew absolutely nothing about business. It was all new to me. I had no background in accounting or any of the tools of business, which I learned at HBS. I would say one of my strongest memories is of my classmates and the people we got to know so well. In the Business School, which uses the case method and study groups, you got to know your classmates very well. We were performing with each other. We got to hear what our classmates thought and found out what they were really like from their discussions in the classroom. The sessions we had with small study groups and working on problems together was also an important part of our learning experience. We learned as much from our classmates as we did from the instructors.

I still have close relationships with classmates. We just celebrated our fifty-fifth reunion since graduation from the Business School. I still know and see and remember a number of classmates. I don't remember exactly how many of us are still here, but I have quite a few friends from my class. Some of my Business School classmates became friends and clients during my Goldman Sachs years. For a dozen years, I was on the board of Household Finance Company, which was a company whose CEO had been a classmate.

Early Career

I started at Goldman Sachs in 1947, when I graduated from Harvard Business School. My starting salary was $3600 a year—not $3600 a month. And it wasn't $3600 a day, as they now earn. It was $3600 a year, and for my class, that was an above-average salary.

I was the only person Goldman Sachs hired that year. As far as I can remember, not one of the other investment banking firms recruited at the Business School. Goldman Sachs had hired one person from the Business School the year before, hired me in my year, and hired one person from the Business School in the year after me. It was very small.

Goldman Sachs had fewer than 300 people when I started. I believe Morgan Stanley had only about 150 people at the time. Merrill Lynch was larger because it had a lot of offices, but in those days they were really known as a retail brokerage firm, not at all as an investment banker. When I first joined Goldman Sachs, we were known as a commercial paper house. The only real service Goldman Sachs provided to corporations was to give them a means of borrowing money at lower rates than they were being charged by the banks. So Goldman Sachs looked for clients we could persuade to let us purchase their commercial paper, which we would market for a little profit by charging a lower rate than the banks were charging first-class customers.

John Weinberg joined the firm about three years after I had, because he was three years younger. He also graduated from the Harvard Business School. I was assigned by John's father, who was then the senior partner and my boss, to take John under my wing and teach him the ropes. So, being a three-year veteran, I did that, and we had desks that faced each other starting in 1950 when he joined. We became partners eight or nine years later and we rose up the ladder together, every step of the way. Each of us had the same percentage of interest in the firm. Eventually, we decided to be joint co-managing partners when our predecessor, Gus Levy, suddenly passed away and we had to take over the management of the firm.

Building the Company

John and I were both very concerned that all the investment banking business the firm did was the result of his father's new-business skills. John's father knew all the businessmen in the country. He was better known than Goldman Sachs. His name was Sidney Weinberg and he was probably the best-known investment banker in the country, although the investment banking industry was not as important in those days as it is today. Many companies were privately and family owned then, and there were fewer public companies. Goldman Sachs had always been in the investment banking business and most of the clients were clients that Sidney brought in. He was the big rainmaker at Goldman Sachs and he was getting old. John and I worried about what was going to happen to Goldman Sachs after he was gone, because there was no one else who had any contacts with top corporate officers making investment banking decisions.

By then, it began to appear that investment banking was going to be my career, instead of just a temporary job for two or three years while I learned a little bit more about finance and moved on to a regular, normal job like assistant treasurer of some company. The longer I was there, the more I realized that this was the place I really wanted to be for all my life. Sidney saw no need for a new-business department as long as he was bringing in plenty of business to keep us alive. But I finally persuaded Sidney Weinberg to let me head up a new-business department.

So I became the head of this department, which sought business in a way that Wall Street had never done before, by calling on companies and seeing what we could do for them. Usually companies came to Wall Street and visited an investment banker, but we had an aggressive approach to selling investment banking services. We started with four new- business people. We split the country into four regions, each new-business person in charge of a region, and then we assigned the Fortune 500 companies, giving 125 companies to each of the four people. They began to call on these companies and it took a long time to develop relationships. We added to the four and pretty soon there were ten, then twenty, and the new-business department continued to grow. People had a certain number of assignments and they spent their time with the companies in their territory that they thought represented the best prospects for us.

Spotting New Opportunities

We began, as I said, with just commercial paper services. That was really the only service until we began to find that when companies merged, they sometimes needed the services of an investment banker. I remember assigning one young fellow, who later became an important partner, to keep records about companies that might want to merge with a larger company or might be interested in acquisitions. And then we tried to match them up. We were doing this before anybody thought that there might be business for investment bankers in the merger field. So we were among the first to get into making mergers a service.

I believe we pioneered two innovations in the structure of investment banking. The first was the idea of soliciting business. In our new-business department we had a team of people who aggressively solicited investment banking business from companies. These were younger people who probably couldn't get in to see the CEO, but they could get in to see an assistant treasurer or something and work on that relationship so that they could move up their level of contact until they finally got to know the top decision makers. They moved up their contact level by giving clients good ideas and by impressing them with their knowledge. It proved to be a successful technique and it was very pioneering in Wall Street. Nobody else did that for quite a long time.

The second innovative thing we did was when a new-business person landed a project and the company said, "Yes, we want Goldman Sachs to handle the public offering for our family-owned company," the responsibility for carrying out the business switched at Goldman Sachs from the new-business department to another department that was expert in handling public offerings and all the technical aspects of things that had to be done to manage a public offering. The new-business man, instead of handling the business that he had brought in, which was the traditional way of doing it, was on to get the next client. He was soliciting other companies and trying to develop business elsewhere while the responsibility for carrying out the business passed to others in the firm.

I likened this process to Procter & Gamble's, which has a sales force, but the salesmen don't manufacture the soap. When the salesman made a soap sale, the order went to a manufacturing plant. What Goldman Sachs did was to set up manufacturing plants for public offerings. We had a manufacturing plant for commercial paper already. We set up a manufacturing plant for mergers and acquisitions as that business grew, and manufacturing plants for private placements, and real estate financing. We created all kinds of specialty manufacturing plants, each turning out a different product. I believe we gave better service to the client than we would have if one individual had followed through and tried to do everything. Our technical level of expertise was very high doing it the way we were doing it. It worked. We rapidly gained a share of market in many of these areas.

As far as the products are concerned, I think we were pioneering in a number of areas, but other people also pioneered new ideas and new kinds of stocks and bonds. I believe Goldman Sachs gets credit, back in the years before my time, for creating the first preferred stocks that were sold for companies. Often, preferred stocks were sold in the company before the common stocks had a market. Sometimes, though, there would be convertible preferred stocks, and there would be an added value that came from the stock interest that a preferred shareholder would get if he converted it to preferred shares.

But as far as new products were concerned, I never felt that we had to be first when we did something. We had a reputation for being absolutely first-class in everything we did, but we didn't have to be first with every idea. In fact, I enjoyed it when our competitors had the new idea and tried it out first. If the new idea worked, I was proud of the fact that we had the marketing organization that could sell their idea in the market. After all, nothing was patented in the way of financial ideas. Everybody knew that once the idea had been tried on one company and it was successful, we would quickly spread the news about this new product. Our competitors often didn't have the marketing organization they needed to do that. So we could end up with the lion's share of business in a new product, even though someone else had the idea first. If a new idea was a failure, we did not have egg on our face like they did. They were embarrassed and their reputations would suffer from having a bright idea that was not successful in the marketplace.

We played to our strengths, which were our marketing skills. The products we provided weren't particularly new. There was nothing too particularly distinctive about any of our services. Everybody did the same thing. But if you marketed them better, you would have a better share of the market. That's what we did at Goldman Sachs.

Leading the Company

In December 1975, Gus Levy, who succeeded Sidney Weinberg for eight years after Sidney retired, had a stroke and, within a week, died. After the stroke, he was incapacitated and we realized that he was very unlikely to come back. John Weinberg and I met. He and I had the next-highest percentages in the firm's partnership arrangements, none of which was known to the public. We asked ourselves, "Well, what are we going to do? It's up to us to take over." We had no board of directors to make a decision on succession. We decided to appoint ourselves. I was three years older than John, I had been at Goldman Sachs three years longer than he had, and I was probably better known in the outside world because I had been chairman of the Securities Industry Association and an industry spokesman in Washington and all those things. I was probably better known than John was. So my natural instinct was to say, "John, I'm probably going to have to take over as chairman." But I realized that that would denigrate John and make him the number two man instead of one of the two next people in line. I was perfectly happy with being a co-chairman with John. We were close friends. We had the same vision about what the firm could be and we knew what roads we were eager to go down. So we decided to do it together. That was a rather unique thing to do. People didn't think of co-CEOs as being a good idea at all and the few examples of people who had tried it had usually not been successful because egos got in the way. Neither of us had big egos. We were both happy to share the responsibilities.

Being co-CEOs worked out very well. Our talents fit well with each other. John could do things I couldn't do as well, and I could do things that John couldn't do as well, and so together we were an excellent team. And we both had the same prestige as chairman. John was a great business getter. He had many very large and important clients. I was more the planner and the strategic person and the leader of budgeting and forecasting and so on. So we worked very well together. We didn't say, "Well, OK. Let's do it together. I'll run this part of the firm and you run that part of the firm and together we'll have a fine firm." That would have been a normal thing to say, but we didn't do it that way, because we both realized that if we did, we'd end up competing with each other for the use of the firm's capital and for people within the firm. Divvying up the leadership would make things more competitive than we wanted it to be. Instead, we both said, "We will run it together. The decision of one of us is the same as the decision of both of us. If either of us is in doubt as to how the other one would feel, we will talk with each other, settle it, and then decide." That's what we did and it worked very well.

What made it work was that we were both in charge, together, of everything. If you try to split it up, it's hard to prevent a competitive atmosphere from developing. We rarely had an argument. We had differences, but if John felt really strongly about something, I would defer to him. If I felt really strongly about something, he would defer to me. Mostly, we agreed more or less automatically with each other, but occasionally, when there were differences, the strength of how strongly we felt about it would determine which way we would go. I think he prevailed on some things and was right, and I prevailed on other things and was right, but those differences were very rare.

We had a management committee to whom we reported. We met every Monday morning. We had an agenda, we went down the agenda, we made decisions as a group, and John and I tried not to dominate the committee because we wanted their input. It was very important to have the input of everybody on the management committee. There were seven of us, then nine of us and then eleven. It got bigger as the firm's diversity grew.

Growing the Company

During the eight years of our leadership, the firm continued to develop. We made no major changes in strategy. We made the first important acquisition that Goldman Sachs had ever made. We bought a company called J. Aron, which had been in three different businesses that Goldman Sachs had never been in. Since the acquisition, those businesses have become very important parts of the firm. They were the largest trader in the world of gold and they made markets in buying and selling gold, which is a huge volume of business every day. They also traded in commodities such as cocoa, coffee, and oil. Finally, they traded in foreign exchange, which is dealing in different currencies and exchanging one currency for another. J. Aron was in those three businesses, which Goldman Sachs wasn't in at all, so they gave us a little stake in those businesses.

Goldman Sachs had such a thriving domestic business that we were laggards in doing business internationally. We finally woke up one day and found that Morgan Stanley, our intense competitor, was doing business for one of our clients, selling a Eurobond in Europe, but we weren't involved in it. If I remember correctly, the client was General Electric. General Electric had turned to Morgan Stanley because Goldman Sachs didn't have any international offices for selling a Eurobond issue, which had to be sold entirely outside the United States. In a hurry, we decided that if we were going to satisfy our clients who were going international with their financing, we'd better move. So we opened an office in London and it grew to be several times as large as Goldman Sachs was when I joined it, with over 1,000 people, now several thousand people. Then we opened an office in Tokyo and other offices came along after that. Goldman Sachs now operates internationally all over the world, and its share of markets around the world is about the same as its share of the market in the United States.

In business, so many brilliant ideas are done for defensive reasons instead of offensive reasons. If you look back to the origin of an idea, you do something because you fear that your competitor will get ahead of you if you don't do it. Then, if it turns out well, it looks like a brilliant decision that you made, even if you didn't foresee it. We found that commercial paper, the original backbone of our business from when we started back in the 1860s, was a product that could be done for European issuers as well as for U.S. issuers. Since none of our major competitors dealt in commercial paper, we used that capability as a door opener to do business internationally with companies that might not otherwise have done business with us. We began to issue commercial paper for leading foreign companies and leading government entities of international governments, so that became an important part of our business and a wonderful foot in the door to do more business with these international companies. When we got our new-business organization going in Europe, we had one person assigned to each of the countries, all operating out of London at first. We had a French man assigned to France and a German assigned to Germany and so on. It worked very well.

Any investment banking firm serves two classes of customers. First are the companies or organizations that need money and need to issue securities. Second are the investor clients who invest in securities. An investment banker is a middleman between the issuers of securities, who need money, and the investors, who have money to invest. Investment bankers put the two together. That's the basic function of investment banking. In the United States, we use a very competitive investment banking firm and many different decision makers to control the allocation of capital. In a Communist society, the government would control the allocation of capital and decide which industries should get money and which should not. The investment banking industry performs that same function in the United States, and it functions much better because it allocates capital where the need exists.

Entrepreneurship at Goldman Sachs

I believe Goldman Sachs was very entrepreneurial, even though people don't think of a big institution as being entrepreneurial. We had the advantage of being able to be entrepreneurial because we had a lot of money. We were able to risk the possibility of failure, whereas a new company, starting off, doesn't have the reserves we had. We had a particular way of starting a new enterprise within Goldman Sachs if one of our people— as often happened—came to us and said, “Why don’t we do such and such?” or “It seems to me there’s a little niche to be filled here in the market so why don’t we get started?”

An example is when somebody came to us and said, “Why don’t we offer the British the ability to buy American stocks in sterling so that we could offer them so many shares of General Motors for so many pounds. That way, they don’t have to worry about converting pounds into dollars to buy the shares. We would do that for them and we would have a package fee if we did.” I would say, “Well that sounds like a good idea. Why don’t you, in your spare time, develop a memo that would say how you think we should get started in this.” After we looked at that memo, we would say, “This really looks good. You’ve got a good plan to start in slowly. So go ahead and get three people who would be excited to work on this idea.” We told them they would probably find their people within Goldman Sachs, without having to hire new people. Then that little group would spend the next year or so performing the first steps of the plan. After a year, we’d look to see how it was working. If it was working successfully, as in this particular example, we would expand the venture. We would say, “OK, now you’ve been doing this with sterling with five companies’ stocks. How can you export this for investors in Japan so that they can buy U.S. stocks in yen?”

Gradually, the venture would expand until it wasn’t a little group, but a department. Then we’d coordinate it. Sometimes we’d put the venture in a separate department, sometimes we would incorporate it within another department. The person who had the courage to risk his career getting it started for several years would become the head of that operation, and, if it continued to grow, his success would grow with it. We tried not to be too harsh with them if it didn’t work out, since they were still good people. So they still had jobs but it would be a setback to them. They might have lost a couple of years of potential progress and they might have to go back to doing what they were doing before. People saw that rewards came from having bright ideas and being allowed to pursue them. If they could really build a successful little business within the structure of the firm, they would get to be a partner.

Ethics in Business

I’ve always believed strongly in business ethics. For example, there was an era when there were lots of hostile takeovers. Companies would wake up one morning and find that some other company had made a tender offer for all their shares at a price above the market. The company would oppose the bid and say it was worth much more than what was being offered and it would urge stockholders not to tender their stock. We had observed that unfriendly tender offers never worked out very well. The management of the company being acquired was so alienated towards the acquirer that they would leave. As a result, the acquirer was left with the shell of a business with no management. The acquirer was not so stocked with extra talent that it could just put new management into the company it had acquired, and so the takeover would often run downhill.

We decided that we simply would not represent any company making an unfriendly tender. We adopted that policy. I felt strongly that to do otherwise would be to assist in an undesirable fad in Wall Street and that we would live to regret it. I also thought that we would alienate our clients who didn't like to see their investment banker out making surprise raids on other companies. When we adopted this policy, we lost some business at the beginning. Also, when one of our clients decided to make an unfriendly tender offer, we had to turn them down. That was hard to do, because the client would then go to a competitor who would get a foot in the client's door for future business. But that didn't happen too often.

Of course, because we didn't do unfriendly tenders, we were the preferred firm to defend companies who received an unfriendly tender from somebody else. We ended up getting far more business as a result of being only on the defensive. A company knew that we would never turn around and raid them on behalf of somebody else, because we didn't ever represent a raider. It was a good policy and it led me to adopt the phrase "Good ethics is good business." What we thought was somewhat of an ethical consideration, which is that hostile takeovers don't work, that they are undesirable, and that they make everybody angry, turned out to be a good business decision as well.

Goldman Sachs always seemed to me to have high ethical standards. We were a partnership. We didn't have stockholders to worry about so we always tried to put the client's interests first. What the client was interested in doing was what we were interested in doing. We thought that if our clients did well, we would do well. We believed in treating our people fairly and we believed in sharing profits and decisions. We probably created more millionaires at Goldman Sachs than in any other organization. I suppose that was because we gave talented people opportunities to be financially successful.

There came a time when we were growing quite rapidly and I realized that if we grew at 10 percent a year and had a turnover of say, 5 percent a year, then 15 percent of our people every year would be new and in three years, 45 percent of our people would have been there less than three years. I wondered how our staff would ever be inculcated with the principles that defined Goldman Sachs.

One day I wrote the principles down and called it a code of conduct. I didn't create the principles, my predecessors did. Goldman Sachs always stood for these principles. In the first draft, there were ten principles and somebody told me that it looked too much like the Ten Commandments, so I made it into twelve. I believe it's up to fourteen now because the lawyers got hold of it and they've changed a few words and added to it a little bit. In any case, I'm very proud of that. We got approval from the management committee and we sent it out to all the employees. We actually sent it to their homes, thinking that they might want to share it with their spouses and their children to show that they worked for a fine firm with high standards. So that was a good way to distribute it. At the time, we required all of our department heads to meet with their people to discuss just how that code of conduct fit with their day-to-day business and whether or not they might be doing things that were in violation of the code.

Our industry is one in which the services of the leading investment bankers are all pretty much the same. So I've always believed that one's reputation is extremely important and that decisions are often made according to the general reputation a firm has, not so much by the fact that they will perform a service a little cheaper or a little faster. Reputation is what matters. People want to do business with bankers who have fine reputations. As a result, I was always very conscious of the reputation that Goldman Sachs had and ethical conduct was extremely important to us. We would bend over backwards to be sure that our standards were just as high as they could possibly be.

The recent disclosures of companies like the dot-coms, Enron, WorldCom, Tyco, and the others that have had, what seem to me to be, outrageous failures of ethical conduct, is just completely abhorrent to me. I can't believe that distinguished American people and distinguished American companies were involved in this kind of thing. I feel insulted, basically, by what these people, who are my former colleagues, have been doing. To mislead the public into thinking that they were doing better than they really were is outrageous conduct. Their behavior has damaged the system. It has discouraged many families from investing in stocks at all. We have this marvelous system of people's capitalism, where stock holdings are very widespread and small investors place their life savings in these stocks. To have these disclosures badly damages that system. I believe it will take a long time to restore public confidence. Confidence will be restored. The system is not rotten. The system is good. We shouldn't throw the baby out with the bath water. We should just heavily penalize the miscreants who have done these awful things, and we should also encourage fair conduct.

Having said that, I don't think you can legislate good ethics. A person who wants to operate unethically will get around every kind of regulation that man can devise. You just have to impress upon people that they're going to be in trouble if they do unethical things. Self-regulation is very important. Codes of conduct are very important. I wish that industries like the banking industry would develop their own codes of conduct to set high standards without making them regulations.

I have a theory, as some others do, that a code of conduct should be set forth by the industries themselves, and that when a company doesn't comply with any part of the code of conduct, it would have to disclose in its proxy statement the reason for its noncompliance. For example, if the code of conduct said that a majority of the board should be public and outside directors but the company did not have that, it would have to explain why or at least disclose that fact. There could be exceptions but they should be disclosed and explained.

I was very proud that Hank Paulson, the current Goldman Sachs chairman, took some courage to come out and show his outrage at Enron and the others before everybody else caught on. I was very proud to see him do it. He was a real leader in the industry for addressing these abuses.

Recruiting the Best

We had a wonderful team at Goldman Sachs. We had very talented people. We *always* emphasized people. We spent an inordinate amount of time every year recruiting the best people who were coming out of the best business schools. For many years, we've had teams of people covering each of the business schools. All during the school year, these teams of people would visit the business schools and talk with the professors and ask, “Who’s your best student? Why do you think he’s so good?” The teams would meet with individual students who appeared to be outstanding, get to know them, and maybe persuade them to spend a summer at Goldman Sachs to see how they did. Then during the recruiting season, in the students’ second year at the school, the teams would arrange for the best students we were interested in to come to the firm and visit with a dozen different people so that we could make our final selections about how many people we would hire and in which departments they would be hired. Hiring was a key decision. I always used to say that if we have the best people, we’ll be the best investment banking firm. If we don’t have the best people, there’s no way we can be the best investment banking firm.

But we always emphasized teams as well. I’m reminded of a story about one of our employees. She had been a friend of my daughter’s so I knew her quite well when she came to Goldman Sachs. She was doing well as a commercial paper salesman. One day she called me up and—she calls me John, because we’re friends—she said, “John, I just did something that’s a real achievement for me. I just sold my first million dollar piece of commercial paper.” I said, “Janet, congratulations, but at Goldman Sachs, we say ‘we.’ We sold this.” We were a team everywhere, not a big “I.” That perspective helped. It was good business because it meant that a client wasn’t saying, “I want so-and-so to work on my merger because I hear he’s very good.” Instead, the client knew that having a Goldman Sachs team working on his merger was what he wanted, and he left it up to us to determine who should be on the team. Our team culture made it easier to operate the business successfully since we could pick the team instead of letting the client decide.

In terms of my role as co-chair, decisions at Goldman Sachs don’t come to the top unless they’re difficult decisions or unless there are people who disagree. You have to spend a lot of time listening to people’s views and to why they think their view is better than the other fellow’s. The decisions that came to us usually involved situations in which one department wanted to do something and another department didn’t want them to do it. Each department had good reasons so somebody had to decide which way to go in that particular case. John and I would do a lot of listening. Sometimes, if the decision seemed to be an important policy decision, the whole management committee was involved. To make a decision, we had to keep in mind, “Put your client’s interests first. What’s in the client’s best interest?” Sometimes there were two clients and they were interested in the same transaction, so we would have to find a way of getting out of that little pickle. We always tried to act carefully and in the right way, the proper way.

I always say, “Listen more and talk less.” You never learn anything when you’re talking. You’re just saying what you already know or think you already know. But if you listen, that’s when you learn. If you want to make a good decision, solve a problem, then do a lot of listening to the people involved. Eventually, if you do that, a solution will come to you. You can make this person happy and you can also make that person happy and still do the right thing.

“Near-Death” Business Experiences

We had a number of near-death business experiences and one real death while I was at Goldman Sachs. Penn Central went bankrupt and Goldman Sachs had millions of dollars outstanding in Penn Central commercial paper. The investors in that paper looked to us, because we'd sold them the Penn Central commercial paper. At the time, there was more commercial paper outstanding than Goldman Sachs had capital. This was a big problem. I can't remember how many different owners of commercial paper we had to deal with, but I think we paid off some of the smaller ones. That seemed like the right thing to do. To reduce the number of damaged people, we then paid off individuals who owned the paper first, at 100 cents on the dollar. A market began to spring up outside of Goldman Sachs that was paying something like thirty cents on the dollar, so we tried to offer prices that were a little better for the defaulted commercial paper we had issued.

Eventually, some of the owners whose papers were still outstanding sued us. We had a court case, which we lost. In a very pioneering decision, the judge agreed that Goldman Sachs had not known that Penn Central was going to go bankrupt, which was the charge, but he said that we should have known that Penn Central was going to go bankrupt if we were continuing to sell their commercial paper. That's a rather scary principle in the whole banking world. The idea that if you buy a stock for a customer and it goes down because of bad news, then the customer can come back and say, "You, Goldman Sachs, should have known. You shouldn't have handled that brokerage transaction for us." The court's decision would mean a calamity in a down market, so the principle has not prevailed in the law. That case was not overturned, but other cases have basically eliminated the risk it posed to investment banks.

If we had been more careful, we probably would have found that Penn Central was in serious financial trouble. I think we knew Penn Central had a cash crisis, but we thought there were sufficient assets behind them to more than meet their debts. It turned out that those assets weren't as valuable as they thought and the assets couldn't be sold off for cash as quickly as they had hoped, so they had to go bankrupt. They didn't have enough cash to meet their payroll. As a result of the case, we insisted on more information from companies than we had been getting and we hired new people to handle the research. To this day, Goldman Sachs is still an important commercial paper dealer, although as a percentage of the firm, the business has declined. We now get all the information we want from a company or we won't buy their paper. We also stopped selling the paper of a marginal company or a company where we think there might be a credit risk.

Managing Leadership Transition

In 1984, I had been with Goldman Sachs for thirty-seven years. I felt that I'd been there long enough. John Weinberg and I were the co-chairmen and there was another pair of people that were very competent—Bob Rubin and Steve Friedman. They were emerging as the people that should succeed us, Bob Rubin on the trading side and Steve Friedman on the investment banking side. They worked well with each other. I was three years older than John, and so we both didn't want to retire at the same time. Since I was older, it was up to me to make the first move. I don't think anybody thought I would leave as early as I did. I was sixty-two in 1984. It came as a surprise to everybody. But I had begun to feel that I'd done it long enough.

I remember in early 1984 we had our annual planning sessions. It was a long weekend. At 5:00 on Sunday afternoon, we were reviewing the budget of our Albany office. I thought, “God, this is the last time I’m going to go through this.” I had done these branch office reviews for years. They started at 9:00 on Saturday morning and went all through the weekend. One branch office after another made presentations of their plans and their budget and we would approve or modify them. We started with the big branches, while we were wide awake, and we ended up with the other small ones.

That weekend is when I really made up my mind to retire. I might or might not have pursued it, but as the year went on, I thought to myself that it really was time to do it. I had no plans but I was thinking thirty-seven years was a long time with one company. Also, we had been very successful. I believe our revenues and profits had grown every year during the eight years that John and I were co-chairmen and we had really become one of the top firms in the world. I thought it was time to leave. I think I began to feel that maybe I was a little too cautious and a little too conservative. Things were very good. The outlook seemed fine and we had a wonderful group of people. I was saying “no” quite a lot and “yes” not as often as I used to. I was beginning to feel that I might be too cautious rather than properly balanced.

I decided that it was time for me to retire. There’s no way to do the job half time. If you’ve been the chairman, you’re either in or out. I talked with John and told him my plan and he tried to dissuade me from doing it. But I was going to leave and John was going to be the single chairman and Bob Rubin and Steve Friedman would become vice-chairmen. This would all happen more or less at the same time so that people would see that when John, in due course, retired, the other two would take over.

I think the other partners in the firm accepted this as being a rational, gradual way of transition that would not be disruptive in any way. Our fiscal year always ended in November. I didn’t want to announce my retirement prematurely because you become a fifth wheel when you announce your retirement. Nobody consults you anymore. So I waited until about August of that year and then I announced it. That gave people warning about the selection of new partners that would take place in November. Everybody knew that I would be leaving and that the firm would have another chunk of partnership interest to hand out to others. They also knew that I wouldn’t be involved in the process. So that’s how I handled my retirement.

Later Career

In retirement, I had thought that my life would phase down. I was tired from a lot of work. I had been very busy. I still was on a lot of boards and I would be gradually getting off those. I decided I was going to write a book on the social responsibilities of business, and it was going to talk about responsibilities to your employees and to your customers, not just to your stockholders. I showed the first chapter to McGraw-Hill and they gave me an advance to complete it. I returned the advance a few months later. That first chapter still sits in the bottom drawer of my desk. It’s too late to write the book now because other people have written it, and social responsibilities of business have advanced quite a lot in the years since 1984.

Government Service

Four months after I retired, I was sitting in my office. It was about 6:00 p.m. and I was about to pack up and go home. The phone rang and it was George Schultz, who was the secretary of state. I had known George Schultz, but not well. He had been secretary of the treasury for four years and it's incumbent on the head of an investment banking firm to know the secretary of the treasury. I had also met him once or twice when he was secretary of labor. I was not a close friend but we knew each other. So, George is on the phone and he asks me, "Can you be in my office tomorrow morning at 8:00?" I thought quickly and realized there was no way I could get there by shuttle in the morning so I'd have to go down that night. But this was the secretary of state so I said, "Sure," and he said, "Good. I'll see you then." He's a man of few words. I could sense that he was about to hang up and I said, "But George, if you could tell me what it's about, I could be thinking about it before I get there." He said, "It's not something I can talk about on the phone." So I said, "OK, I'll see you tomorrow morning," and we both hung up.

I sat there for a minute and I thought, "What could this be?" I decided that it must be that either Argentina or Brazil was going bankrupt and the secretary of state was consulting me as a just-retired, distinguished investment banker on what to do when a country announces that it's bankrupt. I thought he'd ask questions like, "What happens? What should the United States of America do about it?" I was quite sure that that's why he had called, so I picked up the phone, called the library, and asked them to get me all the stuff they had on the current economic situations of Brazil and Argentina. In fifteen minutes, the assistant librarian showed up at my desk with two big manila folders full of material. I called my wife and I told her I wouldn't be home that night, which was something she had gotten used to, and I took a taxi out to LaGuardia and caught the shuttle down to Washington. I checked into my hotel, all the time studying these folders full of material about Argentina and Brazil.

I got up the next morning, took a taxi over to the State Department, went upstairs to George Schultz's very fancy secretary-of-state office, and as I walked in, he got up, shook my hand, and said he was glad to see me. Then he said, "Come on, we're going over to see the president." I had these two manila folders under my arm. I said, "See the president?" and he said, "Yes," and he didn't say anything more. So we went down in his private elevator to the garage, got in his car, and set off, followed by the Secret Service car behind us. We pulled into the White House driveway, went in the front door, walked right into the Oval Office, and there was the president. Just the three of us together in the Oval Office: Reagan, Schultz, and me. I still had the manila folders and Reagan said to Schultz, "Have you told him yet?" Schultz said, "No."

I felt a little embarrassed about the manila folders so I put them down and President Reagan said, "We want you to come down here to Washington, join our team, and be the deputy secretary of state, number two job in the State Department." He said, "It's very important to us. There's a vacancy in that job now and we need a person like you with experience." Schultz talked about how we would do it together as partners, I would have half the responsibility and, whenever he was out of Washington, I would be the active secretary of state. He dressed it up to sound like a really good job. I said, “But Mr. President, foreign policy is not my background. If you had asked me to do something in the Treasury Department or at the Federal Reserve Bank or at the World Bank…those are banks. I know how to run a bank. But for this job I’m really a fish out of water.” I could see out of the corner of my eye that Schultz is now scowling at me for demeaning myself like this, and Reagan replied very charmingly, “Well, there aren’t any openings there.” So that put me back in my place.

I had only one option, so I said, “Well, I will certainly think seriously about it, but I need to talk to my family. Actually, I’m going off on a ten-day trip, three days in Hong Kong and seven days in Japan. It’s sort of my farewell swing to offices in those countries to say goodbye to all my friends.” The president said, “Well, ten days is an awful long time. There’s a vacancy now and we really need you. Why don’t you go to Hong Kong and come back after three days in Hong Kong?” Meanwhile, announcements had already gone out for a big dinner in Japan and I was expected at a whole bunch of meetings there, but what can you say? I said, “Well, OK. I’ll think about it for three days and I’ll have my answer then.” Reagan says, “All right. Fine. I have a hole in my calendar on Friday at 3:15.” I told him I’d meet him then.

So off I go to Hong Kong and I spend three days thinking about it and quizzing the Foreign Service officer in charge of our Hong Kong State Department base on what it is like to be in the Foreign Service. I came back and decided I would do it. I talked to my family by long distance about it and appeared in Schultz’s office at 3:00 ready to go over to the White House. He said, “All right, come on.” Same thing happens: we get into the car, Secret Service follows us, we drive up to the White House, go into the Oval Office again. I told Schultz on the way over that I had decided to accept and he was happy. At the Oval Office, Reagan comes in and Schultz doesn’t say a word to him. Reagan doesn’t know my decision so he says, “Well, it’s nice to see you again. It’s 3:15 and I told my secretary that if we’re not out of here at 3:30, she should cancel my 3:30 appointment. I’ve told her that until we come out she should cancel all the rest of my appointments through dinner and into the evening and up until 10:00. At 10:00 I go to bed, so you have to be out of here by 10:00. We’ve got nearly seven hours, so where do we start?”

Apparently, the president thought he still had to sell me on the job. I said, “Well, I told George on the way over that I have decided to accept.” The president said, “Terrific, terrific. That’s just wonderful and I’m so glad to hear it.” The president looked at his watch and said, “Well, we’ve got twelve more minutes,” because the whole discussion took only three minutes. So he said, “Let’s go out in the rose garden.” It was April and it was a beautiful spring day in Washington. All the flowers were out in the rose garden, and the president opened up the French doors and we walked out into the garden. He put his arm around my shoulder and he said, “You know, you’ve made the same kind of decision that I had to make. When I finished being governor, I was looking forward to going back to my ranch. Then these guys came and told me that I had to run for president. I didn’t really want to, but they convinced me that I had to. So I did, and here I am. Now you’ve made the same kind of decision and I welcome you to the team.” If I hadn’t been a Reagan fan before that, I certainly was from that moment on.

We had a wonderful four years in D.C. It was a very, very happy time for me. I loved every day of it, and Schultz treated me with great respect and kindness. He is a wonderful man to work with and to work for. When he was out of Washington, I was the acting secretary and he wanted me to handle everything that came up. We like to think that we ended the Cold War during those four years. Gorbachev deserves more credit than any American does because he basically threw in the towel and recognized, wisely, that he was never going to prevail in this Cold War. There was no way that he could successfully compete against the United States and win. There has been some chaos in the years since he did that, but it's turning out to be pretty democratic now. I never imagined that the Cold War would end during my lifetime. When I got to Washington, it had been going on for nearly fifty years. It looked like it was endless. The situation was better cold than hot, and the effort was to just keep it cold and not let it boil over. To end it was a surprise. It was certainly the major accomplishment in those four years, and I was lucky enough to play a small part.

One rough spot came during the Iran-Contra hearings. The State Department was called to testify before the House Foreign Relations Committee. Schultz was planning to go on a trip and so was the number three person, Mike Armacost. So I was going to testify. The testimony was about our objective with Iran, which was basically to find potential moderate leaders who would be less extreme than Mr. Khomeini. We added some more details about what our policy was, which had nothing to do with Iran-Contra. It took me about fifteen minutes to read the testimony into the record and I'd thought there would be another fifteen minutes of Q & A. Well, three hours later I was still on the stand. When they ask questions in the committee, they alternate Republican, Democrat. Every member of the committee was there. There was as big an array of television cameras as I've ever seen at a hearing. The committee asked me a lot of questions. Then, finally, Congressman Torricelli said, "The president said at his press conference last week that he had seen some moderation of the extreme anti-American policy towards the United States. Is that your impression?" When I answered, I did not choose my words carefully. "Well, I hate to disagree with my president," I said, "but from what I've seen, there has not been any moderation of Iranian attitudes. They're still as strongly anti-American as always."

I said what I knew the facts to be but I immediately knew that I could have better worded my response. Three hours of testimony were all forgotten. I went home that night and this little phrase, "I hate to disagree with my president...," led off the evening news on every television channel, and in the papers the next morning. The statement proved that there were, indeed, differences between the White House and the State Department. So my statement was a triumph for the press, who look for conflict even when very little exists. Mine was the first Iran-Contra testimony and it was a painful thing. I thought the publicity was so harsh and so extensive that I hand wrote a note to the president and said, "I apologize for putting what I said the way I did. I just want you to know that I fully agree with your policies on Iran." I had the note delivered to his secretary so I was sure he would get it. Anyhow, the president did not fire me. He was understanding about it.

Nonprofit Focus

After my term in office was over, I spent the next ten or twelve years involved in a lot of different organizations. I was chairman for a lot of different organizations, mostly in the nonprofit world. I had already done business and I didn't want to go back on corporate boards. I had already done federal government service and I didn't want to do that anymore. So, I was chairman for the Federal Reserve Bank in New York, the Mellon Foundation, the United Nations Association, the Asia Society, the Harvard Board of Overseers, the Haverford Board of Managers, and several other organizations—not all at the same time, but at various times during the next twelve years. I learned a lot about what it takes to manage a nonprofit well and started my social enterprise program at HBS to train young people for careers in nonprofit management as well as for-profit management. Nonprofits are run by people who are dedicated to the cause but who almost always don't know very much about how to manage things. The skills, the nuts and bolts of good management, will improve the performance of nonprofit organizations immeasurably. I'm convinced that many things that are now done by the government can better be done by nonprofit organizations. I hope that's what happens in years ahead.

Rebuilding Lower Manhattan

My new job started on December 1 last year. I had a phone call from the governor of New York and he said, "John, congratulations." I said, "Governor, thank you very much, but what for?" And he said, "You've been selected to head this new board to redevelop lower Manhattan after the 9/11 disaster." I said, "Oh, thanks very much, Governor, but I'm about to be eighty years old and I'm tapering off. I've just retired as chairman of all my boards and, one by one, I've found good people to take my place. I'm drifting into a nice retirement career after not retiring several times earlier when I should have."

The governor said, "Well, there's one more thing you've got to do, and that's this." I reminded him, "You said this is a ten-year job. Do you really want me down there at the end of ten years in my wheelchair, pointing my cane and saying, 'Golly, I should have built this building here and not over there.' I'll just be a nuisance to you." He said, "No, no. You can't push it off because of your age." I asked him how long I had to think about it. "Well," he said, "I've called the press conference for Friday." It was Wednesday. He said, "I've told the press we're going to make an announcement about who's going to be on the board of the Lower Manhattan Development Corporation. I had planned to make the announcement that you would be the chairman. I certainly hope I don't have to go out there and say, 'Our principal candidate just turned us down.'"

I could feel the pressure building. Then after his call, a half dozen other people called me up within the next hour. The governor had sent around a memo asking people to call me. The memo assigned people times to call so that one person would call me at 4:10, and somebody else would call at 4:20, and the memo gave them talking points to use to convince me. After the third or fourth call, I sensed a pattern. And I accepted the job. We had no office, no staff, no money, nothing. It was a business start-up. We now have an office at One Liberty Plaza, which overlooks the site. We have a staff and we're up to twenty-eight people after seven months in business. That's about where we're going to stop. We have money because Congress in its wisdom put $2 billion in our treasury and we have found that, in the political world, if you have $2 billion it results in some respect being paid to you. We're off to a good start.

Just as I've done when managing other things, we had a period at the beginning when we listened to the various constituencies we have. We have families of victims, who are one constituency. We have residents, who are a second constituency. We have commuters who come into the city in the morning and leave at night and they're handicapped by transportation problems. We have the restaurant and small-business owners who operate shops all over the area. Many of them had to close down temporarily and they're now reopening. I've listened to what all these groups need urgently and what they would like to see in the long run that will make their lives better than they were before 9/11.

We did a lot of listening and no decision making. Then, starting several months ago, we began to make some decisions. We're in a long decision-making process now. We have a big announcement coming up about six alternatives for what will be built on the site and we'll take a lot of flak because there will be something in each of those plans that people won't like. We'll narrow down to three plans, which will probably be different from the six that we present originally. By December 31, 2002, we'll have one final plan that we will publish, hold hearings on, and then proceed with.

Summary Reflections

I think entrepreneurial spirit is an important thing, but you don't have to start your own company to be an entrepreneur. You can be an entrepreneur in a big company as well as in a small company. Being an entrepreneur, being willing to take entrepreneurial risks and not just be the caretaker of a big company, is very important. And it's very important to think of new products and new ways of doing things that would be beneficial to your customers, your employees, your shareholders, and your industry.