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Interview with Charles Ellis

Greenwich Associates

October 2001

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CHARLES ELLIS

The Early Years

I was born in 1937, so naturally I was one of those kids whose father fought in the Second World War. Mother is from Greenwood, Mississippi, and Father is from Charles City, Iowa. I had a sister who was three years older, a brother who is two years younger, and another brother who was born after the war and is ten years younger. Dad was in the Navy during the war and went to the Pacific for four years. He was in the combat zone. He would come home for one month of leave and then go right back again. We moved to new homes eleven times in four years. We lived in Mississippi, Iowa, California, and in the Boston area. As happens when you move around a lot as kids, my siblings and I developed a different sense of the world than we otherwise would have. I think moving around probably helped me to become self-reliant.

My mother had a very clear view about what people should do with their lives, which is to do as your father did and do 120 percent of what's expected, or more. She would talk with us about the parable of talents. I thought talents were what we think of as skills or capabilities but I learned from her that a talent is a coin. According to the parable, three sons have their talents. One spends his and another buries his and the father is terribly upset with both of them. The third son uses his talent to make things work out better for the community. Mom said that if you have talents, you must use them. I think what she taught me has made a difference in my life.

I had two wonderful parents. Having them as models and knowing how they felt about me and the expectations they had for me was uplifting and inspiring. From them, I came to believe in a set of values and an ordering of those values.

I also had a wonderful experience in the Boy Scouts. For the first time, I found myself being a leader and I really loved it. We developed our scout troop to be the best in the town and in the region. We were all over the place trying to be the best at what we were doing. That drive to be the best at whatever we were taking on resonated with me, and it was kind of fun.

Making a Career Choice

Dad was a lawyer. He met my mother through a friend of his from Yale; my mother is my father's friend's sister. My father's mother said, "If you're going to marry a fine girl like that, you really have to be a professional man. You should go to law school." So, having graduated from Yale College, he decided to go to Harvard Law School, thinking, "Everybody else does it this way, why shouldn't I?" His friend from Yale was a pretty close friend. They were in Skull and Bones together, which forms a very tight bonding experience. After law school, they went to practice law in Boston at the same law firm.

Dad represented a quality of professionalism and reverence for law that became a very important part of my value set and helped shape what I wanted to do and how I would like to do it. First, I decided I wanted to be a professional because it means you are self- reliant and you must be very good or else you won't be able to make your way. If you're not quite good within a profession, you will lead a boring life since you will not have all the fun that might be available. Second, I decided that working in a partnership has a spiritual value and is conceptually the right way to be organized. There are no super ordinates and subordinates; there is no hierarchical and pyramid structure, just a flat organization. With that kind of structure, you get good people working together with a high commitment to doing a first-rate job for clients, and putting clients first is terribly important. Also, in a partnership the firm comes ahead of the individual, which I think is terribly important.

At one time, like every other boy I wanted to do just what Dad did. He took me aside when I was in seventh grade and said, "You know, being a lawyer is not what you want to do." I asked him why and he said, "You have to understand that what you think of as the law and what law really is are different things. You think of the law in terms of doing really good work. I've learned that in law other people choose what you will do. You do work that other people have come to you for help with. All you do is work on problems and never on opportunities. I don't think you would be very happy working on problems all the time, and I don't think you'd be happy being confined to doing what other people set as an agenda." Then he said something that was also true. He said, "I don't think of you as a scholar. I think someday you might like to run a business." Running a business had never occurred to me before, but when he said it, the light bulb came on. I knew that my father would never have said what he said to me unless he really believed it. In fact, he counseled my brother to be a lawyer. My father loved the law and when he gave us advice about what to do with our lives, he was being very objective and realistic about who we are. Thank goodness.

The HBS Experience

I decided to go Harvard Business School because the girl I was dating said, "Gee, all the guys I know go to the B-school." I asked her what that was and she explained that it is like a law school but for business. Then I met a guy who had gone to HBS and I thought he was pretty good but not necessarily much better than I. Gradually, I started to think, "I'm not going to go to law school so maybe I ought to go to business school." I took the aptitude test and did well so I thought, OK, I'll go." Being at Harvard Business School was *the* transforming experience for me. It was the most liberating experience I've ever had. Yale College is a wonderful place to study and liberal arts at Yale College is a super privilege to experience, but at HBS I had the ceiling lifted and the walls removed. I learned more in two years at Harvard Business School than in four years at Yale. It was just a stunning experience for me. I went from thinking, "Gee, I don't know if I can really do much and I'm not sure where to go," to having a pretty clear idea that I could do something. I still didn't know where to go but I did know that I could do something that would be exciting and fun, and that business leadership was a creative discipline of the first rank, so I should give it a try. At HBS, I achieved a sense of business being the right place for me.

I had a wonderful time with a terrific group of classmates. The professors were just so talented and so full of knowledge and understanding; they were also so sharing and giving. I still reach out to the people who were faculty then because they touched me in a way that was profound.

I think that at HBS you learn a tremendous amount about yourself, what your responsibilities could be, and how much fun it would be to take on difficult challenges and work through them. You also learn something about how small groups really work and what relationships are all about. You learn something about integrity and what real commitments are. You learn something about conceptualization—having vision and being able to form a horizon model of what you might do and how you can do it and then going forward to make sure it happens. There's a discipline that goes with that visioning: sometimes it's quantitative; sometimes it's conceptual; sometimes it's verbal. You gain the basic attitude that you can do whatever it is that you envision. You realize that the world was made by human beings, it didn't come full grown, and that you could be a part of the process of change. You learn a new way of thinking, of reframing statements into questions and wondering, "What should the question really be?"

I had fun in classes. If you've ever watched Charlie Williams teach, you know that there is never a class where there isn't laughter. That you could be thrilled by work and truly enjoy it was something that had never occurred to me before. I always thought fun is over here; work is over there. In fact, now I work all the time. I don't do anything except what I want to do because I am having fun all the time.

NYU

I did well at Harvard Business School and graduated with distinction. I went to work for the Rockefeller family and, candidly, I did not start off very well. The guy I was working with asked, "Charlie, you don't know anything about investing, do you?" I said, "No, I've never studied it so I'm a beginner." He told me I needed to learn about investing. He said, "The Rockefeller family has a lot of money, but they don't have *that* much." He suggested that I go to night school at New York University.

So I went to NYU and when I arrived there was a big crowd milling around. I got in line and when it was my turn at the head of the line, I was facing a girl sitting behind a card table with a typewriter. She asked, "Are you a regular student or a special student?" I told her I didn't know the difference and she explained, "Well, regular students are in a degree program; special students are just taking courses." I asked for her advice and she asked about my last degree. When I told her Harvard Business School she said, "Oh, my goodness, you should be in our Ph.D. program." That sparked an idea in me. She said it cost the same to enroll either way and that I wasn't committed to anything, so I became a Ph.D. student. I had no intention of taking more than three or four courses before I called it quits, but school was fascinating and the teachers were good; I loved it. After I had taken a lot of courses, I wondered what I had to do to earn my Ph.D. and it turned out that I was halfway through the program. So, I decided to keep going and I did for thirteen years before I finally finished.

Early Career Rockefeller Foundation

I went into the financial services industry. I had decided that since I was married I needed to get paid $5,000 a year. I was interested in Goldman Sachs because my dad had been quite positive about them, but they were offering $4,800 a year. It never occurred to me to ask if the firm gave bonuses or raises at the end of the year, so I made a terrible, boneheaded decision when I didn't accept their offer. I then talked to a couple of banking organizations. I really wasn't very interested in what they were doing. A friend of mine said his father's friend was looking for somebody to work for him at the Rockefeller Foundation. Since I had worked for WGBH—Boston's local Public Broadcasting station—in educational broadcasting, I thought, "Gee, maybe working in the nonprofit sector is my calling." I was half an hour into the interview before I realized that they wanted somebody to help them make money through investing. I liked the man interviewing me so much that I decided right then and there, "If he offers me a job, I'm taking it." At the end of another fifteen minutes he said I could have the job. He told me to take the summer off and join in September.

I obviously learned a lot at this job. It was a small working group and I had all the privileges of someone serving in the Rockefeller family investment office. We had lots of information flowing in and lots of brokers going out of their way to be helpful.
Companies would open up and talk more seriously with us than they might with others.
In addition, I reported directly to an absolutely marvelous human being, Dick Dillworth. He set an outstanding example. He was very good looking, he was very bright, and he had a wonderful sense of humor. He was one of the most capable young members of the establishment. He would have been the managing partner of Kuhn-Loeb and probably would have made Kuhn-Loeb a successful firm, except that David Rockefeller asked him to run the Rockefeller family office, which included a substantial amount of money since all the family fortune and all the charitable activities of the family were run out of the office. Dick was also a director for a dozen different big corporations such as Chase and Chrysler. He was very deeply involved in the Arts and deeply committed to being a great citizen. Candidly, I would have worked for him for nothing. I would have paid for the privilege of working for him because he changed me forever by showing me what I could be.

DLJ

I was married and my wife was teaching. She decided she would like to have children so we weren't going to have her income any longer. The income I contributed was pretty modest and I realized that I was going to have to get paid more than $7,000 or $8,000 a year. I was talking to one of my friends from business school and he said, "Well, why don't you come join our firm?" After many conversations, I decided to join Donaldson, Lufkin & Jenrette.

I had several really terrific and not terrific experiences at DLJ. It was all very lucky. On the positive side, I learned five things:

> First, I worked with superbly talented people and I saw that, together, superbly talented people can turn ordinary work into something very valuable. What happened at DLJ was the institutionalization of small brokerage firms. The big brokerage firms were retail oriented and really couldn't revolutionize themselves from within. So I realized that you can get very good people to do something that isn't really great and they will make it great.
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> Second, I learned the tremendous value of long-term relationships that can develop at a fairly senior working level. If you really care about working with people and you treat them with great care and are on their side, they will understand and appreciate your efforts. In those days, something so obvious was not very obvious at all.
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> Third, I saw that investing a lot to create a valuable service or product pays off because you will arrive at something really good, which will generate great demand from lots of people, which will in turn help you afford the cost. The total revenue of what you create, if it's valuable, will justify the investment.
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> Fourth, I learned about a sort of growth attitude, one that says, "Let's go conquer the world! Let's climb mountains! Let's do more! Let's do better!"
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> Finally, I learned to pay attention to the way an organization is understood by and positioned to people outside, including people who might join the firm, people who might use the services of the firm, and people who might be clients. It's important to pay attention to that sort of thing.

Those were all really good lessons. I learned some bad lessons, too. For example, in those days, DLJ never advanced anybody on merit. Advancement in the organization was a matter of personal obedience or loyalty to the chief executive; it was not a meritocracy. This is the wrong way to run a firm. Also, the firm was profit minded rather than value minded. The first concern was how the firm was working out for us in the bottom line, not what it was doing for clients. Finally, the firm was political and I don't feel comfortable in political environments because I'm terrible at that kind of work. Besides, I don't think it brings out the best in people. Finally, I left when I had been mistreated twice within a year. After the first time, I thought I must have misread it, but after it happened again, I decided to leave.

Finding the Opportunity

When Jack Kennedy was asked how he became a war hero, he said, "It was involuntary. They sank my boat."   The story is the same for me when it comes to launching Greenwich Associates. I had always wanted to work with other people in a great firm and be a contributor to making a place become even greater. The last thing in the world I wanted to do was go out by myself, but when I left Donaldson, Lufkin & Jenrette I didn't know who I could call to ask if they knew of any openings.

Before I left DLJ, I had a lucky break. When the firm decided to go public, the SEC was being very careful in its examinations because whatever precedent they set for DLJ, which was a Boy Scout firm, would have to apply to all the rough and tough firms that would follow suit. SEC approval took a long time, during which DLJ's earnings looked like they were peaking and might come down. DLJ decided, "OK, to keep lively interest and excitement about this offering, let's make some acquisitions." So we acquired Moody's Investor Services, which became Alliance Capital, and Louis Harrison Associates, which was doing public opinion surveys for the political arena and for consumer products. I was asked by DLJ if I would mind taking over the Louis Harrison Associates operation and instilling DLJ's management and operations practices there. I was delighted about the opportunity. I had always thought of myself as capable of being a business builder because of my experiences, from leading the Boy Scouts to working for the student-run college radio station to running WGBH's radio station. I knew I was made for managing business and I was really thrilled with the chance. It turned out to be a perfect opportunity for me because the business was not very well run and it didn't offer a very high-value product. It was struggling. It would break even but it struggled, so I tried to figure out how to turn it around.

During that time, two different people gave me very wonderful ideas. One guy said, "You know, if you're going to do research on these things, you really ought to do research on subjects that all your customers would care about so that they can share the research costs. Another guy said to me, "You know, you've done all this research, which is great, but what am I going to do with it? I'm busy. I don't have time to convert what you teach into action. Why don't you help me do it?" So, based on putting together the two suggestions I came up with the basic elements of a business model that we have used at Greenwich Associates for thirty years. In other words, if you do a combination of first rate research and implementation consulting that is tailored for each of your client firms and provides value, then you'll have repeat business with the clients. You'll have a continuing working relationship with your clients and they'll eventually gain confidence in the value of your research and the value of your judgments as a consultant.

That's the story of how I started Greenwich Associates. That's really the basic model of everything that we have done. We've modified the business a whole bunch of different ways but the basic model is the same: provide first-rate information and commitment to really helping each individual client do what's good for them, and establish the context of a long-term, continuous working relationship.

Expanding the Business

When we started, if you had asked whether or not I planned to do any work outside the United States, I would have said that I didn't think so. I might have considered Canada but I never would have considered going to Europe. It never would have occurred to me to go to Asia and Australia. Also, if you said, "Well, you're going to be working in investments and banking and derivatives," I would have told you that I had never heard of derivatives. In fact, most people back then had never heard of derivatives. Today, most of the things that we do are done in parts of the world and in lines of business that I never would have imagined.

Professional financial services is a very narrow little world, but it's our world, and it's the only thing that we do. In professional financial services, we serve worldwide in every single market of any size. Investment management for pension funds in New Zealand?
Oh, yeah, we do that. Commercial banking in Denmark? Yeah, that's what we do. Derivatives in Italy? We do that. In every market, we are the leading firm serving the leading professional financial services organizations, just as we intended. Originally, we thought about our business being the leader in the United States because it just never occurred to us that we could take our ideas and migrate them internationally. It has been a long struggle, but it has all come together.

Our biggest problem when we started was that people couldn't understand how we could do research and consulting. The second biggest problem was that clients didn't think they could use our service. They would say that they had worked with other consulting firms and it was not a good value. We believed that clients would clearly understand and recognize first-rate research. Other firms just weren't doing anything like first-rate work, which actually turned out to be one of the most important advantages we had. We didn't have tough, skillful, client-serving, committed competition. Our competitors were basically social scientists who were doing consulting on the side. The consulting was our main focus and we poured everything into what they were doing least.

Two things have happened to help with our growth. The first is that the volume of professional financial services took off and has been growing at an accelerated rate ever since. The industry took off when legal constraints came down all over the place. If you go back thirty years, commercial banks were limited to doing business in their home state. There was no such thing as multi-state, let alone nationwide, banking. The drop in regulatory constraints has created a huge advantage for us. The second thing that has happened to help us is change in the political sphere. There used to be genuine concern about the Cold War, international relationships, and a fear of real shooting wars. We may have a serious time with the War on Terror, but as a world we no longer think in terms of having to be careful because there will be world wars or other kinds of problems like that.

Technology has made a big difference in our business by bringing everything together. We're all connected, twenty-four hours a day, seven days a week. Technology advances have also made it possible for us to do things we simply couldn't have done thirty years ago. To be honest, we would never have thought of having a computer thirty years ago. Now we've got 200 people in our firm and 250 computers. We're all connected all the time. The technology utilization has simply been spectacular. Even air travel, although recently difficult, has been unbelievably advantageous for us. The internationalization of financial services has helped numerous organizations expand worldwide: Deutsche Bank, Goldman Sachs, Merrill Lynch, Morgan Stanley, Citigroup. One after another, organizations have spread all over the place. It's not unusual for us at Greenwich Associates to work for a very large organization ten, fifteen, twenty, twenty-five, thirty times a year in different markets and in different lines of business in each of those markets.

Competitive Advantage

Some would say that our differentiation is the combination of research and consulting and I think they would be right. Some would say it's our commitment to long-standing relationships with senior management, which no other research firm has ever done. McKinsey in consulting has worked on long-standing relationships with senior management, but not as a systematic thing. They don't think in terms of developing a continuous working relationship with a part of a large organization. They might work with the same organization but with different groups within the organization from year to year to year, but the same group year after year after year—that kind of relationship is really extraordinary.

I think our really great differentiator is an absolute commitment to doing first-rate work for each individual client, performing as though the client were inside our shop watching. That's the way we talk about our work and the way we discipline and encourage one another. We always put the client first and do for each client exactly what we would do if we lived in a goldfish bowl and they were there watching. We care more about clients than anything else. I know of very few organizations with that kind of intensity of commitment, even though it's not hard.

We're now at 130 different intersections between a geographic territory and a line of business all around the world. In every case they're always the same. We have interviewed in person the principal buying executive at all of the large buyers for that service. It might be 100, it might be 500, it might be 2000 organizations that buy that service. We've done a particular survey like that every year for the last umpteen years, and we'll do it every year forever. We've asked all the questions anyone would want to know the answers to about the particular market and how individual characteristics of that market are changing. We've asked questions about each and every competitor, whether or not the competitors are clients of our firm, and we've evaluated the competitors in detail on twenty to thirty different service and product characteristics. We also evaluate our clients' firms in depth and how they're viewed in the market. We provide a specificity and a research rigor.

So in our research we cover the market, the competition, and, finally, our clients' own firms. All of us would rather know for sure what people think about us. Even among our own personal friends we don't know exactly how they feel about every aspect of our relationship. If I said, "Look, I have this ten-page report that will tell you what your friends think about you," would you read it? Would you take it with you? The chances are you would. The same is true if you're running an organization providing a very sophisticated service in a very fast-changing way to large, complicated organizations. You have a substantial need to know exactly what's going on. Management needs the information independent of what they hear from their sales organization or the scuttlebutt at conference lunches and breakfasts. Management needs to know for sure how they're doing because the intensity and quality of their competition is so good.

The advice we provide is relative to your objectives as an organization, relative to what your competitors are able to do, and relative to what your customers really want. We'll structure the reports relative to any group of customers, whether it's customers in a particular industry or a particular country or so on. We take the information from our research—what your competitors are doing with your customers, what your customers want, what your customers think about you—and then we work with our clients individually to help them convert the insider information into a pragmatic operation that works. Of course a year later we're out there measuring our clients' results so they can see for themselves that our advice resulted in a positive difference.

We always structure our advice to help clients focus on what really matters. The principle comes from Peter Drucker, who pointed out that if you're a human being, you're probably too concerned about what you don't do very well and probably not concerned enough about what you already do well and could do even better. As he says, you should find your great strengths and make them even better, then find your weaknesses and find ways to protect yourself from them. Don't try to become good at the things you're not good at since that's a big waste of time.

Creating Repeat Business

We haven't met any organization willing to make as intense a commitment to doing first rate work as we have. I can't tell you whether it's simply because we want to do the very best or because we're running scared—probably a good combination of the two. You can compare our client service to folding your own parachute or eating your own cooking: We do the research and then offer the service. If you are a prospective client, we would have already invested six months in getting organized and a month of doing research before we would have mentioned our annual offering. When we offer the annual service to you, we're capable of delivering it in a matter of weeks because we've already made all the financial commitments we could. As a result, if we're not doing a terrific job, we're going to be the penalty payer.

One of the characteristics we've developed is the ability to consistently deliver on time, always providing more than clients expect in terms of precision, breadth of coverage, and novelty of the research questions or clarity in explaining what the questions are. In addition, we are committed to follow-through consulting, working with each client as long as they have use and value for the working relationship. You see, some clients will get the message we bring to them and all they need to do to implement is hit the light switch and it's all done. On these occasions, which are very rare, the client knows what they have to do. Sometimes, what the client has to do is not very complicated. "Oh, you're right," they'll say. "That's what we should do." Other times, it's pretty damn complicated stuff and it takes some real working through to figure out what it is that's going wrong or isn't working right. It can be a little tougher to figure out what could be done to make things work right. So each of our clients gets whatever they need for full satisfaction. They need to have a very positive experience with us for the obvious reason that it's what we have set out to do and for the other obvious reason that it's what the client wants us to do. Another obvious reason is that if we don't get it right then the client's going to say, "I don't think we need to use your service that often." At Greenwich, we've got a very high fixed cost, so we need to have a very happy clientele who really like the idea of doing what we do over and over and over again.

What we're doing works. We have been steadily growing and the last time we looked, which was a few years ago, more than 98 percent of our work is with continuously repeating clients. I used to say that with one exception, we've never lost a client. Then, a year after I started saying that, the client we lost called back to say, "We've been looking back at our experience with you and we've decided that we failed you. We were asking you to meet objectives that were too quirky and we want to use your service again." So you could now argue that in thirty years we've never lost a client except through mergers and, in a couple of cases, bankruptcies. The fact shouldn't be impressive since that's what we were designed to do from the beginning.

We have had challenges. We did a round of research one year—I think it was the fifth or sixth year we were in business—when our advice was wrong. We had looked at a particular kind of commercial banking service and we asked our research questions in such a way that people didn't really understand what we wanted to get at. Once we learned about our mistake, we figured out a way to ask the questions in the right way. Until we figured out our mistake, the clients who were working with us on our new idea were just as sure as we were that our advice was valuable. When we saw that we got it wrong, we went back to every client, admitted our mistake, and told them we were going to do the research all over again. We said, "You can have your fee back now, if you want, or you can stay with us and we'll credit it against the next round. We're going to do the research again because we have learned how to do it in a way that will work."

Structuring the Organization

I first met Chris Argyris when we were at Yale at the same time. He was the youngest full professor at Yale since 1880. He is a marvelous man and filled with an extraordinary capacity for creative thinking. When I was with the college student radio station, he spent a day giving advice to the station's leadership group. After that, we had another session and he and I worked on some things. I thought he was a wonderful human being with a brilliant mind and so, when Greenwich Associates started, we asked him if he would be willing to serve as a director. He served as both a director and a consultant. As a consultant, he usually met with us for a day four times a year. Our directors meet twice a year for three straight days. Chris would do those two meetings plus his four one-day meetings as a consultant. In both capacities, he has influenced a great deal. He has been very deeply interested in how bright, committed professionals can work successfully together and where they tend to mess up. He has conceptualized a way of understanding how people function in organizations. Part of Chris's consulting was to help us see where we had things wrong and how we could come at things in a very different way. I think we've learned a great deal. Chris probably felt we didn't learn very much since he understands so much and has such a powerful concept. What we've done with his help is very hard, very complicated work.

To structure your business, you need to be able to conceptualize what it is you want to do and then design it on purpose. At Greenwich Associates, we have a series of unusual characteristics. One is that we have no real ownership; we have temporary ownership. All of the ownership that anybody has exists for a defined and explicit time and disappears on a specific date. The result is that if you don't keep earning your ownership, you won't have any. That leads to a pretty rapid run-down, which means that a new guy coming into the firm can say, "Gee, rapid run-down for you, but it's a rapid run-up for me. If I'm really good, I'm going to be one of the real leaders in this firm pretty soon." The possibility of partial ownership is a great way for somebody to come into an organization. They're thinking, "I'm going to be one of the real leaders. I'm going to be a real partner. I'm not going to be a subordinate. That's terrific."

A second unusual characteristic in the firm is related to the first: We wait until after a whole year is over to determine what anybody is going to get paid. We conduct an all-day "Points Day" or "Enterprise Day" meeting, which starts at 7:30 in the morning and usually goes until 9:00 or 9:30 at night, talking about every client relationship and who added how much value to that client's business. We don't ask how hard the work was; we ask, "How much value did you add to that client's business this year?" If your partners don't agree with you about the answer, you have to keep talking until you all agree. There are no compromises. The partners can agree about a 5 percent difference and there's no way of splitting the difference. There are no small fractions, which is one way to be sure that people have been candid with each other. What's great about all this is that we have an open system for determining compensation. Compensation is based on merit as judged by your peers. The compensation process requires everybody to say what they did that really contributed and to hear what everybody else did. There's nothing like a lesson in modesty that comes from hearing other people say what they really did for clients in a particular year. The process also allows everyone to ventilate all the things that might be sore spots or difficulties—stone-in-the-shoe kinds of concerns. Nobody can complain that they weren't fully heard because we'll hear everybody out. If someone wants to wait until later in the day to talk about something, we can go back to it then. If there is a really serious disagreement, people can talk about it with other guys listening until there is a resolution. The whole group will meet until a resolution is reached. Based on the compensation process, we determine an individual's compensation for a three-year moving average and we determine the individual's ownership.

Our people are rewarded based on what is determined to be value added to the client. Everything starts with the client's value. Part of our strategy is to create a worldwide monopoly and then share the benefits of that monopoly with our clients. It's that sharing that makes our goal a good monopoly rather than a bad monopoly. We need to be a monopoly to be able to deliver first-rate values at a reasonable cost and to reward the guys who are good enough to do the work that needs to be done.

Here's a cute but worthwhile story that shows our commitment to client value. Twenty years ago, when the firm was still young, three of us went to Winston-Salem to meet with the Wachovia Bank. We were determined to make that wonderful bank one of our clients and they were determined *not* to be our client. We decided to send in an armada of three guys, which was half the firm back then. We went down and spent a whole day working with the bank. When Points Day came around, the other guys said, "Charlie, we understand you worked really hard on winning Wachovia Bank but you did not help add value to their business." I said, "What do you mean I didn't help? I was in there working all the time." They explained, "Charlie, you were too northern, too commercial, and too transactional. It was not helpful. We developed the relationship after the meeting. The meeting did not advance us very far." Then they said, "Thanks for the try but you'll receive no payment, no reward, no compensation for that client work." There are times when one of our people simply walks through a door into a client meeting, and that's all they do, and they will get paid if their presence added value. What it all comes down to is market value.

Understanding market value helped me a lot when I went to the Soviet Union. Dean LeBaron is another Harvard Business School graduate who is a close personal friend. We've done lots of things together. When the Soviet Union was dissolving, Dean was putting some business together there. He invited me to join him on one trip and I had to decline because of family and work responsibilities, but I was able to join him three months later on another trip. We were touring these rocket factories that had been super top secret up until a month or two before and we were the first western people ever to go inside them. Their accounting system was unbelievable. Under Marxist accounting, if it cost this much in labor to manufacture a product, that's how much the product was worth. It was difficult trying to explain to these guys that it doesn't matter how much it cost in labor, the cost is what the market will pay for it. They would say, "No, no, no. We spent eighty-three man hours; we're going to get eighty-three man hours of pay for it." We would say, "It's not worth that much because somebody else is making things that are better and cheaper, so you won't be able to sell it. They just couldn't understand the market-to-market concept that something is only worth what you can sell it for.

Investment Strategies

We focus on indexing. Other professional investors use different methods. Dean LeBaron, a contrarian investor, has been spectacularly successful in Latin America. His clients were among the first and largest investors in Latin America. They have had tremendous success partly because Latin America went away from military dictatorships to open markets, partly because investors saw opportunities there. The markets in Latin America went up to a new level. Dean had a nice, wonderful run as a creative, innovative entrepreneur. He is one of the most creative people I've ever known and has helped people make substantial successes. John Neff is another person who spent an entire career beating the market. John Neff was extraordinarily successful over a long period of time. Warren Buffett has my undivided admiration. My largest single investment for a long time has been with Berkshire Hathaway because I think Warren Buffett knows how to invest. I don't think you could find anyone else in whom you would have comparable confidence. And I've been looking around a lot for a long time.

The world of investing has changed massively in the last forty years. It's gone from a world in which 90 percent of the activity in the New York Stock Exchange was conducted by amateurs—individuals buying and selling based on what little they knew from stock brokers who didn't know very much, business magazines, the *Wall Street Journal,* and other media sources. That 90 percent was not made up of smart, tough, relentless competitors. Only 10 percent of the stock exchange activity was conducted by professionals. The pros had first-rate, in-depth research, access to management, and lots of information sources. They comparison-shopped hundreds of different stocks. Of course, the pros did well. It was like shooting fish in a barrel. Now, forty years later, everything has been turned upside down. Leaving out the specialists, 90 percent of public trading is done by professional investors. More than half of that is done by the fifty largest professional firms, who are unbelievably powerful competitors. They will have fifteen portfolio managers and thirty analysts. They will spend $100 million a year buying services from Wall Street, which means they get 300 analysts at Merrill Lynch, 300 analysts at Morgan Stanley, 300 analysts at Goldman Sachs, and 200 analysts at every other firm working for them. They get the first calls. They've got Bloomberg systems, comparative databases, and any information they want anytime they want it. Half the time you buy and sell a security today, you're buying or selling it from one of the fifty largest institutional activists in the marketplace. That's dangerous.

If you go to an index fund, however, it's the same as getting all the smartest people, all the most active people, working for you including Warren Buffett, Peter Lynch, George Soros—pick any famous name you want to have as an investor. With an index, it's as if they're all trying to figure out what's the right price for each one of these securities. They don't make big mistakes often and they don't let their mistakes lie for long. The market goes up and down and your portfolio goes up and down, too. The chance is poor that you can outsmart or outmaneuver the full-time, every day, un-relenting competitors.

The cost of being an active investor is high, not just because of the commissions, but also because of the market impact and this difference between passive management and active management. You've got to cover those costs plus you have to pay the taxes. If a typical mutual fund or institutional investor has turnover in excess of 100 percent a year, it means that most of their profits are short-term profits. That's a pretty high tax rate. If you account for leaking a little for transaction costs, leaking for market impact, leaking for market errors, and leaking for taxes, then pretty soon it is hard to keep up with the market. An index fund has the aggregate judgment of all the smartest, toughest, most active investors. The effect of all the dummies and the people who make mistakes is small. As a result, prices are set mostly by the big guys and you can pretty safely assume that the prices are about right.

Toughest Decisions

The hardest decision any entrepreneur has to make is whether or not to stay with it. Greenwich Associates went for eight years before we really broke even. I didn't have very much in the way of financial resources behind me and I didn't have any place I could go if the venture failed. We started with a small capitalization. We scaled things down and I was willing to go unpaid for a year. In the third year, I put up another $50,000 as a loan to the firm, which was then paid back a year or so later. Then I thought we needed another $50,000. There was only one person I knew who thought well enough of me and had enough personal wealth that he might lend us the money. I decided that if O.J. Anderson, who was one of the senior partners at Donaldson, Lufkin & Jenrette, would lend us $50,000, we would make that investment convertible into common stock for half the firm. Without a doubt, giving up half the firm has been the hardest decision I ever made. This is years later and I still tear up about it. In order to survive one more round, however, we had to give up half the firm.

Another really hard decision was in 1989 when, in an effort to build the organization, I turned responsibility for managing the internal operation over to a fellow managing partner. He is a lovely guy and continues to be a dear friend, but his ability to manage did not include the ability to say no. As a result, costs started accumulating. People were brought in; we took over office space and purchased facility equipment. I realized that we were building up a cost structure faster than our revenues, which is dangerous. At the same time, worldwide commercial banking and investment banking were having tough times and so were bond dealers. Our revenues topped out and the cost structure kept going up. The time came when we had to take $5 million of cost structure out of that firm. Doing that was exceptionally difficult. I had made a promise to everybody in the firm that if we ever made a technology change, we would guarantee everybody kept their position. Their job would change but their position would never change. I had also promised everybody that as long as we could, we would profit share a full 15 percent.

Instead, to cut out the cost, we had to give up on the 15 percent profit sharing and people had to lose their jobs. We gave them a year's pay on their way out to help make the point that we were sorry and at least we were protecting them from getting really badly hurt. Going through that period was very hard for me because none of the other guys joined in. They all had important client work to do and were deeply engaged in stuff so that none of them helped work out the process or participated in the difficult discussions with individual employees. The market was suffering and so were we, but the main reason we had to let people go and cut profit sharing was that we had inadequately managed the firm and let the costs grow. I fault myself because I was trying too hard to bring other guys into leadership positions and I wasn't as tightly focused on operations as I should have been.

Critical Success Factors

The most obvious success factor for us was luck, luck, and luck. Absolutely, no doubt about it, luck. We were lucky that nobody was very good at what we wanted to do. We were lucky to come up with the idea of putting consulting and research together. We were lucky to have understood the success that would come from commitment to long-term working relationships on real business decisions with senior-level people in our client organizations.

Another success factor was staying with it, sticking to our principles and not compromising. In many ways, not compromising was hard when our firm was small. It was pretty obvious what factors determined our scale, our growth, and our revenues. We might have been tempted to just say yes to everything our clients demanded. Client demand has always been larger than we are able to fulfill. Clients have always wanted us to do more things for them. At the same time, we have always wanted to be sure that whatever we were doing was done really well. Our challenge was to never leave a client with a feeling of disappointment and, simultaneously, never leave an "air pocket" that some other service provider could come in to fill.

Of course, we really needed first-rate people to succeed. First-rate people are costly. When your business is a small start-up and you're already investing heavily in research, it's very risky to afford to bring in people unless you know they're going to be really good. We brought in people we thought were so good that we felt obliged, if they were successful, to promise them a partnership. For a long time, we called our new employees pre-partners to reinforce our orientation toward rewarding success with a partnership. As a result, a limit to our growth is how rapidly we can bring on, train, develop, and work with someone to help them become partner. It takes a really long time and it keeps us from growing as fast as we or our clients would like. It takes time to build an organization of first-rate talents. People who are very talented have lots of alternatives. When we were new, none of them had ever thought about joining our firm or doing our kind of work. Getting individuals to understand what we were all about and finding people who were good enough was interesting. Among the people we have interviewed there are very few who would have been good at our work that didn't join the firm. We've made a pretty aggressive effort to find people and we've had to find people with an unusual set of talents. Of course, our work involves an unusual set of motivations for it to be fulfilling. The principal constraint for us has been finding the right people to do our work and, frankly, our people have been the principal reason for our success.

Exiting the Business

I'm leaving the firm because the time has come. I'm sad to be leaving for one reason: Greenwich Associates is just the kind of firm I would want to join.

Leadership is a fascinating, multidimensional kind of activity. I'm very much involved in individual client work. In fact, I spend most of my time working with individual clients on what we call programs—the combination of research and consulting. At the same time, I worked on the vision of what we could be, designing and tinkering with the business model, which was really important. I worked on setting the professional standards and raising them, and being sure that everybody stayed up to par, and that was crucial work. The firm is a wonderful group of people, extraordinarily talented, with a great value set and commitment to clients. In their collective effort, they've created the best firm, bar none. They do a terrific job for clients over and over again, day after day, all around the world. A lot of the employees are Americans but not all. We've got operations in Australia, England, Germany, and Canada. We also have non-Americans living and working in our United States offices. It is thrilling to see our group of people together. I'm very proud of them. I'm sad that I won't be working with them for the next thirty years.

I don't have any plans for succession since, essentially, it is built into the partnership model. When I started the firm, I very clearly wanted to create a firm by bringing together a great group of people and passing it on when the partnership was ready. We have all talked time and again with our directors about how to create a firm that can be passed on to others. We discussed finding people, building them up, and bringing them forward so they could take over. Firms need to evolve—you have to be able to replace your clients, replace your products, replace your markets, replace your finances, and replace your leadership. People would say to me, "Oh, come on. You're never going to leave because you're so deeply involved." It's true that I'm so deeply involved it looks like I would never leave. But I am determined to leave in the same way as a good parent, whose only one responsibility to children after they have gone through the early years of growing up is to wish them well and help them leave. If you don't help your kids leave, I think you're missing one of the great joys of parenting. I feel the same way about leaving the firm to continue on its own.

There's one thing I will surely do when I leave. The Harvard Business School class of 1963 is doing a *pro bono* venture now and fifty classmates are already committed, putting up real money and real time. I wouldn't be surprised if we have 100 classmates by the time another year has passed. The basic proposition stems from a conversation I had at lunch with a couple of classmates. One of them asked me what I would be doing after Greenwich and I said, "I don't know, exactly, but I would like to do something to say, 'Thank you, America.'" Not everything about America is perfect. There are a lot of problems that haven't been dealt with and we ought to be able to help. I told him I'd like to do something like that. My classmates at lunch agreed with me and that was the start. If you had said to me then, "Well, I've got some bad news for you. We're going to have terrorism as an important part of our lives forever," I wouldn't have believed it. Nevertheless, I'm always optimistic. I do not think that the world will continue to have virulent dangerous terrorism as a regular part of what's going on without large numbers of people saying let's do things about it. We live in a very complicated, fast-moving, high-technology world. It's very difficult. Life in our world can be horrible. It already is horrible in some ways. Even so, America is a huge country with a very large economy. We have major problems in our economy right now—all the makings of going from a serious recession into a depression—and though conditions may have been accelerated by or may be symbolized by the attacks on the World Trade Center, I don't think our problems were caused by the attacks.

Advice for Entrepreneurs

When people say, "I want to start a firm, what should I do?" the first thing I say is to find out what moves you. Ask yourself what your real objective is. Do you want to make money? If that's your objective, be sure you know that. Do you want to build a great organization? If that's your objective, be sure you know that. Do you want to have power and stature? Fine. If that's your objective, be sure you know that. Know what your single most important objective is because if you don't stay focused on it, sooner or later you will have missed it. My objective was to create a firm and pass it on. Other guys in the firm and clients and friends, even relatives, have never believed that I would pass it on. Then, almost four years ago, I wrote a memorandum to the partners and the directors saying that at the end of the year 2000 I will have finished my work; I will have completed transferring all of my client and management responsibilities, and I will pass the baton to others. I never wanted to leave with people saying, "You should have seen him in the past. He was better than he is." I prefer to leave playing at my best level. Nobody believed what I said in the memo. A year later I sent another copy around and they still didn't believe it. Now they believe it. I've failed in my exit since it has taken an extra year for me to complete all the client-transfer process. It took less than three years to complete the transfer of the leadership, which we did through a vote within the firm: one man/one vote among the partners. The new leader was chosen by a group vote and has been in operation now for the better part of a year.

If you want to know what goes into making a successful entrepreneurial career, I have a tough time defining it. I've thought about it a lot because people are always asking me, "I'm thinking of doing some entrepreneurial work. What do you think I ought to do?" Basically, the answer is to make yourself the best you can possibly make yourself. Learn how to do anything you're good at really, really well. Anything you're not very good at, learn enough about it so you'll know why you're not good at it and so you can get somebody else to fill in for that sort of activity. Find out who you are and what motivates you. Have as many different kinds of experiences as you can and accumulate as much learning as you can from other people. When Sam Walton went around to all those stores borrowing everybody's very best ideas, that was the right thing to do. There's a huge amount of skill and knowledge out there. Entrepreneurs have got to scoop it all up, take in as much as they can and try to master what they can do really well. While they're learning everything—let's say they're taking courses at Harvard Business School—they should also go to the businesses and meet the people they read about. I think that whatever entrepreneurs can learn is highly dependent on understanding the individual who has achieved the accomplishments they admire. Entrepreneurs should do whatever they can to be more sure of themselves, more sure of their strengths and how to maximize them, more sure of their weaknesses and how to deal with them, and more sure that starting a business is really what they want to do.

I say that the single best advice you can give to anybody who thinks about starting a venture on his own is, "Don't do it." If they blink when I say that or if they listen to me, I know that I'm obliged to continue telling them, "Don't even consider it. It's not for you." Unless you have to start your own business for some reason that you can't control, you will get into trouble and you will not have a good experience. You will be one of those failed entrepreneurs. That's a crummy place to be. It's like the guy who jumped out of the plane with his parachute and it didn't open. If you commit to being an entrepreneur and you put everything you've got into it and it turns out not to be enough, that's a crummy place to be. Being an entrepreneur is a very unusual line of work. If it isn't necessary for you to succeed—if you have unlimited resources, for example—and if you don't have an unstoppable thirst for achievement to carry you through those dreadful, dreadful times, then you won't make it. Those of us who have succeeded at building companies, we all sit around and talk about how tough it was. Well, it really was tough. I know there are some people who stepped out of university and walked right into a brilliant success. There are some of those people but that's not how it really works.

I always tell people, "OK, if you're going to be an entrepreneur, let's go through the drill. First, you have to be able to replace your market entirely." After you establish a good market, you have to completely replace that market because you will have introduced enough change to the market to require you to replace it. If you can't replace the market, you don't have a chance. Your whole product line will have to be completely replaced. If you can't, you will end up with an obsolete, dead organization. You have to change every part of the technology and the process with which you get things done. You have to change every person who's working in the organization. You have to change the ownership completely and you have to change the capital as you do. If you're not sure that you are able to manage all of those changes, including changing you, don't try to be an entrepreneur.

Here's another way to think about it. If you can find something that you really want to do, that would allow you to be profoundly fulfilled if you were successful, and that could galvanize all of your energies towards doing something; if you have the privilege of making something that provides more value for people than what was available before— because it's better, faster, whatever—then you should try to stop yourself. If you can't stop yourself, you should go ahead with everything you've got because it just might work. If it does work, it's the greatest self-made dream come true that anybody could imagine. It's got to be the greatest experience for a human being to have tried very hard to do something that's very difficult, that really mattered to others, and that worked. Then if other people happen to join you and it means a great deal to them too, you'll never be able to get over the depth of excitement and fulfillment you feel. It's a wonderful feeling.