

What Happens Next – Sunday June 13, 2021
War on Cops, Risk in Finance, Be Happy, Casablanca
Chris Varelas QA

Larry:

I want to start out with some questions about the fortune cookie story, because I love it. I think there's a lesson here for young people and people who make presentations. With every added year, the professionalization of meetings, and Zoom calls with PowerPoint presentations, takes us away from the heart of the matter, what we're talking about. When I read your story and about Eduardo Mestre, at that Northrop meeting you referenced here on your presentation, was without relying on the statistics, Eduardo was able to focus the board on the critical issues of the day. Where should we take Northrop and Grumman in the future? Can you comment a little bit about the investment banking presentation and how different Eduardo Mestre's meeting was, and the lessons to be learned for all of us from the fortune cookie?

Chris Varelas:

Eduardo really had an impact on me and my career. Hopefully, I've given that gift to others as well. I think the first thing Eduardo said is every time we gave him a presentation, he's like, "How is this meeting going to be memorable to the people we're presenting to? Assume they see 10 banker presentations? Why is ours going to stand out? What's going to be different?" Also, at the end of the day, what is the question? What is the question that needs to be answered?

Knowing that that decision is much more about emotion, and often ego, often many variables, but even if you were to take away the human fallibility's that go along with every decision, it also really was the core focus of what the meeting should be about from his eyes. The beauty of the fortune cookie story is that we were not constrained, in that case, by the need to go through 100-page presentation. To get lost in the weeds. To get lost in the details, and to stray from really whether or not we should be the consolidate or the consolidator, knowing that to be a consolidator was going to require a hostile takeover in an industry that was known for not pursuing that approach.

I did make the change from that to say, for a year in my group, I said, " We're not going to make presentation. I just want you to think about the conversation you want to have and how you want to have it. You can do the work to support it, but don't get lost." Now, I agree with your point. Now, people almost need, hide behind, want to focus on some narrow-

Larry Bernstein:

Like a crutch?

Chris Varelas:

Yes, like a crutch.

Larry Bernstein:

Most of us aren't going to be in the board meeting, making presentations to the board, for their most important transaction of their lives, but we will be in meetings all the time where we have to present our product, or sell something, or articulate a message. How do we prevent getting caught in the weeds? How do we use presentations successfully to make a point? How do we use the strategy of the fortune cookie to help us in our presentations to make it as Eduardo Mestre would say, "Memorable for the people in the audience."

Chris Varelas:

There's so much there. The core of it, for me, having done thousands of board meetings, literally thousands. I know it sounds like, "Congratulations," but having been an advisor for 35 years, involved in continual M&A transactions, and being on boards themselves, the first two are very simple. It's almost going to sound cliché, but everyone goes in with the anxiety of thinking, "My number one objective is I got to be smart and I have to let people know I'm smart." The best way to be smart is to talk about the one thing I know the most and have that be really the core of the meeting. One of the toughest things about managing investment bankers, or private equity people, whatever it may be is to get beyond the ego, and the anxiety, and the need to show that they're the smartest person in the room.

I find as lead director, my number one thing in every meeting is to control that anxiety, fear, or power move to assert themselves so that you can have the conversation that you need, because people are trying to hijack it in every possible way. What amazes me is, because when I get asked to do these lead positions, I always ask them why. I feel like I know the least in the room about the particular technology or product. They say, "Well, no, you're the one skilled at making sure we have the conversation we want to have."

Then, from there, it's about EQ. It's like, "Okay, what matters to the person I'm talking to? What is the advice they're looking for? Not the answer they're looking for, but the advice they're looking for and how do I provide it?" All these things are so simple. It was very frustrating. Wall Street's a great example. I was given all kinds of management jobs, and I really liked it, and I was told I was a good manager and I was asked how I was a good manager? I would give these answers and management would get very frustrated saying, "It's got to be more than that."

I go, "Let me just ask you a simple question. Why did you put me in charge of investment banking? Why did you put me in charge of national investment banking's culture committee?" The answer is, "You did the most deals of anybody." It was never, "You're a good manager." It was never, "You look like someone who could manage people and do a good job." It was, "Okay, you did more of those deals than anybody else. You're the one in charge." Then, you remember the Salomon culture. The last thing you wanted to be was overhead. It was embarrassing if you spent time on management.

Larry Bernstein:

Yeah, for sure. So true. I want to go back and now talk about the change in culture on Wall Street. My God, when I joined Salomon brothers in 1986, it was just the most fantastic institution. There was no wizard behind the curtain. It was a free for all of incredibly

entrepreneurial activity, very bright, enthusiastic, creative people trying to solve problems. It was phenomenal. Then, you described it today. It's a financial supermarket, but it's highly bureaucratized, and not freewheeling, creative, fun, and no one in charge. It's the opposite. Citigroup has killed the fun. The question is, "Why did that happen? Is that natural?" The second question is, "Imagine you've got a college student who wants to go into the world of business. Investment banking used to be the place where you wanted to go to work as an analyst. Would you encourage your child to do that? Would you encourage them to do something else, because of the change in the culture of these institutions?"

Chris Varelas:

The first one has definitely far-reaching consequences to the industry, because if you're not attracting the best and the brightest, how is this industry going to innovate and evolve for the positive? That's very, very concerning. The fact is when you have Salomon Brothers for all its beauty, and it was a beautiful place. It was probably the most meritocratic place, too. It didn't matter. Skin color didn't matter. Nothing mattered. I was surprised that nothing mattered. Now, were there less women than you would like? Of course, because it was such a brutally open place, but the women that were successful were very well-respected as you recall. It was also a very meritocratic place, but the problem is once the balance sheet got separated from accountability, once we got in the global economy, the bad actors, which were only one or 2%, could do so much damage that just the fear of that tail risk of just one or two people required a very compliance driven entity, which then, of course, given so hard to manage, was not a place that people who wanted freedom and liberty to expand and create risks and push the envelope. There was a mismatch, then, of certain types of talent. That's why these entities have had no choice but to become blander, safer entities. My daughters graduating from high school. Going on to college. I get this question from many. It's hard for me to argue for going into investment banking, because I don't view that as where the critical decisions are made anymore. Unfortunately, the Northrup's of the world now have their own internal advisory teams. A lot of the products have become a commodity. Interesting, now, the real juice is in the capital allocation game.

Private equity and venture capital is interesting, but I always ask them when we tell them where, "What are the most interesting challenges that you face right now?" Those are within systemic risks in the financial institutions, but not at the micro level. Now, the big questions are, how does social media get managed to make sure that how they're talked about doesn't come to be where we're focusing really on the wrong. We're not even asking the right questions, let alone trying to come up with the right answers. I always say, "Where's the tension? Where's the interesting tension in the world? Go get the job that is resolving that tension." Unfortunately, investment banking analyst, that's not where the tension is. It was when you and I were there, because we were actually in the room when these big decisions, corporate decisions, were being made.

Larry Bernstein:

Well, I want to go back to your issue about complexity in the financial system for a second. Immediately after Lehman Brothers went bankrupt, I called former CEO of Salomon Brothers,

John Gutfreund, and I asked him to lunch and I asked Mr. Gutfreund why he thought Lehman Brothers went bust. He said, "It was at the point where the institution itself got to be more complex than the ability of management to manage the process." I think you're basically making a similar point as Mr. Gutfreund as to what's going on right now. First, do you agree with Mr. Gutfreund about the complexity versus management ability? If financial institutions are becoming exceedingly more complex with time, I don't believe in the ability of management to get better. What can we do to simplify management problems to allow financial institutions to survive in a more complicated financial system?

Chris Varelas:

Yeah, that's the big question. I believe complexity is rising, accelerating, and the leadership within finance is not, is not commensurate with that. I acknowledge, or I agree with them, but I believe that the gap is actually widening. Then, you combine it with the models of business are all about scale, scope, and efficiency. It's all about mass producing products on a global level, standardizing it, because that's what creates the biggest margin it. It would take me, I guess I don't want to say read the book, but it's all of these forces, all of these guard rails are getting taken away. The removal of character. The removal of accountability. The removal of mission statement. The removal of time. Everything is increasing risk while not increasing our ability to deal with it.

This is to me what's so fascinating in finance, but the answer typically in the world of finance is yes, every bad idea starts as a good idea. We create something. It gets pushed to a limit. It breaks. The system is resilient enough to then take it to basically backtrack, but hopefully the innovation pushed us more forward than back. Hopefully, net, more people were better off than were hurt. It doesn't answer the question of what group. Each group that's hurt is specific to the financial innovation being pushed beyond its limit, but that's the system we live in. We take the freedom, and then we take the pain that comes when that freedom is pushed beyond its limit. What's worrisome, now, is it feels as though we're creating a systemic risk of complexity that when pushed to its limits and does break, which will happen in many different forms that are hard to predict, the fallout will be large. It will be very acute for certain groups of people. We don't have anything set up to basically be a safety net for that.

Larry Bernstein:

Chris, I want you to end on a note of optimism. What are you optimistic about?

Chris Varelas:

When I speak to groups, I'm shocked. I didn't expect this. I'm shocked by the number of women that come to me and say, "The financial system is ruining their lives." They don't feel like they can get good jobs. They don't feel like they're going to be able to get married, because it's hard to find a spouse with a job. They won't be able to afford to have children. They don't think they're going to have the stability to have that retirement, sometime down the road, whatever that means if they get there.

They're very, very negative, but then they come to me and they say, "tell me what to do. What should I do? I want to do something." There is an intuitiveness about humans that I think

appreciate the sensitivity of the system. They see it impacting their daily lives, and they really have a desire to make change. The question is, "How do you develop that plan and the leadership to bring about evolutionary change that's going to matter?" There's clearly the desire to do something. It's the occupy Wall Street 2.0. Like, "Okay, we got angry. Now, what can we do about it?" Their desire for change is very encouraging.

Larry Bernstein:

Chris, thank you.