Leadership,
Change and Progress

Thomas M. Hoenig
President
Federal Reserve Bank of Kansas City

The Gary Dickinson Lecture Series
William Jewell College
Liberty, MO
March 26, 2003

And

College of Business Administration’s Distinguished Lecture Series
Kansas State University
Manhattan, Kansas
March 28, 2003
I have been asked to share with you my perspective on leadership, and I am honored to do so.

In my remarks, I will not attempt to provide you a unique definition of leadership or to describe who I think are great leaders in history. The fact is that leadership comes in too many different packages and under too many varied circumstances for such an exercise to adequately convey what leadership involves. What I will attempt to do is describe what I believe to be the goal of good leadership and what I believe to be the imperative elements of successful leadership, regardless of what one does in life.

Before I begin, however, I want to spend just a minute giving you my sense of why I may have been ask to speak on such an important topic. There are more qualified people than I am to speak on the topic of leadership. Still, as president of the Federal Reserve Bank of Kansas City I do hold a position of leadership, and I most certainly have thoughts on the topic.

The presidents of the Federal Reserve Banks—there are twelve located throughout the United States—are, by their positions, part of the most important central bank in the world. As my biographical information indicated, I am a member of the Federal Open Market Committee (FOMC) responsible for the monetary policy of the United States, and, by extension of our country’s importance in world commerce, the FOMC influences money and financial events worldwide. The Federal Reserve Banks are part of the payments system of the United States, making sure that the process of commerce works every day under nearly every circumstance. The Federal Reserve Banks also share, with a select group of other organizations, the responsibility for
assuring the stability of financial institutions that are our capital markets and banking system, so that commerce flows seamlessly and reliably across this country and the world.

At the Federal Reserve Bank of Kansas City, we have 1,500 people working in four offices located in Kansas City, Denver, Oklahoma City, and Omaha. Our Bank’s role in the larger scheme of things is relatively modest but important. We move hundreds of billion of dollars of transactions through our Bank each day. We oversee the financial activity of nearly 1,000 bank holding companies and 200 banks. And as president of this Federal Reserve Bank, I necessarily play a leadership role in these activities. Also, as president I think a great deal about leadership. No leader can accomplish all that is expected of him or her without the help and support of others. And in this context, leadership and the development of leaders are of paramount importance to me, and it is for that reason that I am not only honored to be asked to speak here this evening, I am pleased to do so.

The historian Will Durant wrote a multi-volume work titled, The Story of Civilization. In a series of essays written near the end of his life, he reflected on the lessons he took away from the events that had occurred during the many centuries that he had studied. One observation he made, and that has stayed with me since I read it many years ago, is that "Change is certain; progress is not.” What a simple but profound observation he made about mankind and about leadership.
In my judgment, the implications of this observation are that the goal of a leader is progress, and the mark of a true leader is progress, no matter the endeavor. To this I would add the caution that charismatic and effective individuals placed in positions of leadership do not necessarily assure progress. Yes, leadership skills are necessary for progress, but, sorry to say, they are not enough. And so it is with this in mind that I focus my comments on the ideas of change, progress, and the imperatives of leadership. In my mind, these imperatives hold fast regardless of one’s position in society, and regardless of whether one is in government, the corporate world, or nonprofits. The imperatives of leadership are, indeed, universal.

But before I speak in more detail about these imperatives, I want to return for a moment to the observation that “change is certain.” Change permeates every element of life. We are witnessing change in global matters at this very moment. College students experience change. Your educational experience is far different than mine was. Businesses, small and large, experience it. Microsoft today is one of the world's largest businesses. It did not exist 30 years ago. And guess what. It is now encountering change and a new challenger: “open operating systems.” More change. Neither you nor I can stop it. It has its own energy. It, like time itself, is an irresistible force.

The issue of leadership, of course, is not that change occurs, but rather how we as individuals and as a culture direct it. If directed well, change becomes progress. Technological change, for example, has enabled companies to provide us incredibly useful tools. But it took leadership to convert the change of “chip technology” into greater access by more people to information, greater computing power, and knowledge,
all of which have enhanced productivity and the quality of life throughout most of the world.

But bear in mind that if change, or the energy of change, is misdirected, the results can be chaotic. We recently have witnessed the unfolding of a series of corporate scandals, driven in part by market change. In reacting to market pressures, corporate leaders misdirected resources, cheated, and took powerful companies into bankruptcy. The failure of WorldCom and Enron affected the lives of literally tens of thousands of employees, investors, suppliers, lenders, and millions of telecommunication and energy users. These failures and the behavior of a relatively few individuals have placed thousands of other CEOs under a cloud of suspicion. It has hurt the prestige of capitalism, an economic system that is the most successful in all of human history at enhancing the quality of life. What a waste and shame not only for corporate America, but for all America.

And on a larger scale, with obvious greater implications for the world, is the existence of Saddam Hussein and Kim Jong Il leading their people to ruin. In these instances, moreover, technological change has placed in their hands the potential for enormous destruction. Yes, “Change is certain; progress is not.”

What, then, is necessary to convert the energy of change into progress? I hope I have convinced you that it is not a certain personality, because it is not. Very boring people give us great outcomes. Very charismatic people give us disastrous outcomes.

Also, it is not one’s profession that defines progress or failure. Corporate and nonprofit organizations achieve outstanding results but sometimes fail. Colleges and governments achieve outstanding results but sometimes fail. No, there is no single
personality, character trait, or type of work that automatically produces leaders who are able and willing to convert change into progress. So, then, what is it that enables an individual or a culture to embrace change and achieve progress?

There are, in my experience, a select set of imperatives necessary to convert change into progress. These imperatives are necessary whether an individual has small or large responsibilities. They are, to some degree, instinctive. Yet, like talent, they can develop only with instruction and practice. And some of the most important imperatives are taught and learned at no better place than an institution like William Jewell College. So, what are they, how do they work?

The first imperative is what I describe as an acute sense of ethics, derived from faith or, if you prefer, rational analysis. Ethical behavior is the foundation to success. It is the essential guiding element in making choices. It directs our actions under stress.

Should I cheat when reporting income earned so the stock price stays up? Should I cheat on an exam so my grade remains an “A”? Answering these kinds of questions appropriately is the foundation of social systems.

Indeed, America’s economic and market system is built on and dependent on the trust that derives from ethical behavior. I say I will deliver a product on a date at such a price and I do it. I say I will pay a commission on a sale and I pay it. I say I will replace a defective piece of equipment and I replace it. Yes, we have contracts and lawyers and courts. But they are for the exceptions. If the majority of businesses in this country failed to abide by a code of ethics, I can tell you with certainty that we would have no meaningful economic system. Also, if you examine cultures that minimize the
importance of ethical behavior in their daily living, they have no working markets or
economy, and they create little of economic or social value.

Is a sound footing in ethics alone sufficient to assure progress? Of course it is
not. There are some other essentials—one of which is knowledge. How can one possibly
hope to understand change without knowledge? World history is full of examples where
actions taken with the best of intentions, but from a position of ignorance, have led to
disasters and incomparable repercussions. It has been noted by others that “what has
always made the state a hell on earth has been precisely that man has tried to make it his
heaven.” Good intentions are not enough. Change must be measured and understood.
Its implications must be thought through and, in doing so, its energy harnessed.

I would also observe that the knowledge I am speaking of is not narrow but broad.
It is what we have traditionally referred to as liberal arts. I am not talking just about what
it takes to be a doctor or lawyer, but what it takes to think. I am talking about knowledge
that encompasses the arts, literature, science, mathematics, and logic. Each topic
informs, but, taken together, they also teach one how to appreciate change and how to
think matters through with care. A broad intellectual exposure strengthens a person’s
analytical and intuitive skills. Breadth of knowledge is essential to enhancing one’s
ability to understand, accept, and to deal with change. Knowledge, succinctly stated, is
power.

A related but, in fact, very different imperative for converting the energy of
change to progress is wisdom. Wisdom is ethics and knowledge combined with
experience. There is the wonderful story of the old country banker who throughout his
life had been immensely successful. A young, fresh, and well-educated, and ambitious
MBA student, hoping to find a shortcut to success went to the banker and asked, “What enabled you to be so successful over your life?” The banker patiently explained that “good judgment’ is what enabled me to be so successful.” The student not being satisfied pressed on, “Yes, but what contributed to your judgment?” The banker again patiently replied, “exceptional experiences’ is what contributed to developing my skills of judgment.” Still not being satisfied, the student then asked, “Yes, but what explains your experience?” The banker was quick to say at this point, “Young man, that’s simple, ‘bad judgment’.”

Wisdom comes from knowledge and experience built upon a foundation in ethics. Decisions are seldom straightforward or simple. But knowing right from wrong, being well-informed, understanding the possible consequences of actions to be taken, relying on experience, are all a part of wisdom, and are so necessary for sustained progress in a world of constant change and often serious turmoil.

A final and especially important imperative to progress is self-discipline and endurance. Calvin Coolidge once noted the following:

Nothing in the world can take the place of persistence. Talent alone will not; nothing is more common than unsuccessful men/women with great talent. Genius alone will not; unrewarded genius is almost a proverb. Education alone will not; the world is full of educated derelicts. Persistence, determination are omnipotent.

I challenge any one of you to tell me that you know of any real success and progress in this world that did not involve people maintaining discipline and being persistent. Who wins marathons? Who captures championships? Who wins Nobel Prizes? They are people who exercise great self-discipline and persistence. Entrepreneurs, for example, often work untold hours, sacrifice immediate comfort, and
often endure repeated failure before experiencing success. They understand change and the challenges of success. No one can expect to achieve much in the way of progress without the courage to accept risk or the will to sustain effort.

And so I end where I started by insisting that “Change is certain, progress, is not.” Leadership is necessary to convert the energy of change into progress but the talent to lead guarantees nothing. Leaders can harm. Leaders can fail. But individuals who hold to a set of principles, who are of high character, who hold and seek knowledge, who combine these attributes into wisdom, and who persist in their goals are the real leaders. They ultimately convert the volatile energy of change into progress. And most importantly, it is progress from which others benefit.