Remarks by
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Not too long ago, a friend of mine returned to college for his twenty-fifth class reunion. He found out that his favorite economics professor was still teaching the freshman course. Stopping by the professor's office to say hello, he glanced at the papers on his desk and found that the professor was giving his students the same final examination that he had given him almost thirty years before.

He teased the professor: "You're not using the same questions on your tests now that you did when I was here, are you?"

And the professor replied: "Yes I am -- but these days, I'm looking for new answers."

Times change and old solutions may no longer be the answers to the problems we face. One of the values of education is that it teaches us to look for new answers.

The people who settled Oklahoma before the turn of the century held a profound belief in education -- a belief they acted upon. In 1890 -- just months after the land run of 1889 -- the first Territorial legislature of Oklahoma established three territorial institutions of higher learning -- a university in Norman, a normal school in Edmond for training teachers, and a land grant university in Stillwater that would become the sponsor of this event today: Oklahoma State University. When the first 45 students assembled for class in Stillwater, the college had no buildings, no books, and no curriculum. For two-and-a-half years, classes were held in a local church. The faculty, however, clearly felt a deep sense of responsibility for the future, and they labored to create a knowledgeable leadership for the new Territory.

About the time that these institutions of higher learning were founded, a new type of learning about business began to appear. This new learning would transform the economy of the United States and, ultimately, the economy of the world. It was only a little more than a century ago when astute observers began to analyze how we do our work -- breaking it down to constituent elements in order to improve efficiency and productivity. From that beginning, the modern concept of "management" developed. By observing and analyzing the activities of managers at various organizations, researchers were able to find the similarities that made some organizations enduring and successful. They found that successful managers were those who coordinated the resources of their organizations to meet clearly defined objectives. Without this coordination, success appeared to be a matter of luck. As all of you in business will know, they also found that successful managers were those who performed four functions. Successful managers first chose their objectives and created formal plans to achieve them. Second, they organized their businesses to achieve these goals. Third, they directed their employees toward those goals. Fourth, they controlled their operations to stay on course.

At the Federal Deposit Insurance Corporation, we take a deep interest in management.

The FDIC was created in the Great Depression to restore and maintain stability in the financial system. We assure that stability in two ways. One, we insure deposits in the nation's approximately 11,500 banks and thrift institutions -- nearly 350 of which are here in Oklahoma. The insured deposits in America's banks and thrifts today total an estimated $2.7 trillion.

Second, we examine and directly regulate about 6,400 commercial and savings banks to promote their safe and sound operation -- including 189 banks here in Oklahoma. One of the factors that our examiners use when assessing the condition of an institution is the quality of management -- the others are capital, asset quality, earnings, liquidity, and the sensitivity to risks the institution faces. Bank examiners view management as the most important of the six factors -- and the most difficult to grade. Inept management can lead to bank failures, and bank failures have often resulted in losses to the FDIC insurance fund.

Moreover, as Chairman of the FDIC, and its chief executive officer, I am of course particularly interested in the quality of management within the agency. There are two primary reasons for this focus.

The first is that I have the responsibility for the operations of a large organization. At the FDIC, we have slightly more than 9,000 employees, more than 100 offices around the country, and two insurance funds. One fund -- the Bank Insurance Fund -- has just over $26 billion in assets and the other -- the Savings Association Insurance Fund -- has nearly $9 billion in assets. We are different from other government agencies, however, in that we are generally funded -- not by tax dollars -- but by premium assessments on the institutions that we insure.

The second reason I as FDIC Chairman am deeply interested in the quality of management in our organization is less obvious than the first, but more important. How well we manage ourselves affects how we at the FDIC monitor the strength of banks and the stability of the banking system. Given the harm that bank failures can cause communities throughout America and the damage that too many failures can do to the economy, how we manage ourselves has the potential to affect every American.

The FDIC's record of service to the nation is unsurpassed. In the 63 years of the FDIC's existence, no taxpayer has ever paid a cent for the FDIC's deposit insurance. Moreover, no one has ever lost even a cent in a deposit insured by the FDIC.

We halted a banking crisis after our creation in the 1930s. In 1933, the year we were established, there were 4,000 bank failures in the United States. In 1934, only nine insured banks failed.

More recently, in the 1980s and early 1990s, we contained a banking crisis involving nine percent of the banks in the United States -- nearly 1-out-of-10 -- or more than 1,600 -- which either failed altogether or received FDIC financial assistance to stay open. These failures severely strained the FDIC insurance fund, but it has been recapitalized. During the same period, nearly 1,300 savings and loan associations failed, which directly cost the taxpayers of America $125 billion. The old savings and loan insurance fund failed. It was not an FDIC fund, but we have since been given responsibility by the Congress for overseeing a new thrift fund, and legislation enacted last year has fully capitalized that fund.

The FDIC was very successful in containing the most recent banking crisis -- and we learned a number of lessons from that difficult experience. In particular, two lessons have shaped many of our internal actions over the past two years. First, we learned that the FDIC should monitor and assess risks in the banking industry -- where change is constantly occurring -- in a way that lets us anticipate future problems in the industry so we can deal with them before they cause larger problems, rather than waiting to react when problems occur. Second, we learned that we needed to take a more systematic approach to managing ourselves in order to assure continued success in the future. That means we needed to adopt modern business management techniques -- the techniques taught at OSU and by business school faculties across the country: planning, organizing, directing and controlling what we do to meet our objectives. In short, we needed to manage ourselves as businesses do by becoming more effective in responding to change.

As Peter Drucker, the mavin of management, spent a career pointing out, businesses (1) produce goods or services and (2) change in response to their customers' demands. Most of the time, these demands are not explicitly stated -- rather, they are telegraphed by marketplace decisions -- by what customers buy and by what they do not buy. This sensitivity to change makes business an instrument of change.

Indeed, Drucker argues that "of all social institutions, it is the only one created for the express purpose of making and managing change." A business that does not change with market conditions is one that is headed toward problems and failure. Profits and losses provide business with a test of performance. Systematic management provides a business with the tools to modify its operations in order to respond to changes in the marketplace.

It was my judgment that if this systematic approach to management can provide business with greater sensitivity to change and the flexibility to adapt to the demands of the marketplace, it could also benefit a government agency and enhance its ability to perform its mission. Unlike a business, the FDIC does not operate in a marketplace where change is telegraphed by every dollar -- or lira or yen -- that changes hands. We do not have the test of performance that profits and losses provide. We can, however, through thoughtful analysis and strong attention to weighing the costs and benefits of everything we do, achieve a responsiveness to change and a discipline that the marketplace provides business.

We began with planning, a function of management that establishes objectives. All other functions of management rest on planning.

For the first time in our history, two years ago the FDIC formulated and adopted a corporate strategic plan. This plan defines -- as our business -- identifying and addressing potential problems within the financial industry that may cause losses to the insurance funds. The strategic plan will guide the agency in developing and evaluating our policies, programs, and budgets for the remainder of the decade.

We have also, for the first time, put into effect a corporate-wide operating plan, which is implementing the general goals of the strategic plan through approximately 150 specific projects, most of which were formulated by our middle management. Every division and office in our organization contributes to, and is guided by, our operating plan. Moreover, every division in our organization now has a business plan. Nothing at the FDIC is budgeted unless it is in one of these plans. That means that nothing is budgeted unless there is a good reason to pay for it.

Our planning process guided us directly into the second function of management: organizing operations to achieve strategic objectives.

We divided all the activities of the FDIC into three areas: operations, policy, and finance. Each area is the responsibility of a deputy to the Chairman, who reports directly to me. The Deputy for Policy is Leslie A. Woolley. Leslie, who is here with me today, is a native of Ada, Oklahoma, and holds B.S. and M.B.A. degrees from Oklahoma State University. In fact, she is a third generation OSU graduate -- her mother, her father, and her maternal grandfather went to college in Stillwater -- where her grandfather graduated in 1914 at the age of 16.

As part of our reorganization at the FDIC, I asked an executive who ran the financial operations of a private financial institution to join the FDIC to help us initiate reforms in our financial management practices and internal controls, a subject I will discuss in greater detail later.

In addition, we have organized our operations to use our resources more effectively to meet our objectives.

In that regard, one of the products of our dual operation as a bank insurer and a bank regulator is a treasury of data on banks and thrift institutions -- current data, as well as historical data. This data gives us a comprehensive perspective on the industry and on the economic and other trends that affect it. In a way, this data is similar to public health statistics, which have been collected over decades. Our examiners assess the financial condition of an individual bank, in much the same way that a doctor examines a patient.

Historically, bank regulators have not been particularly successful at using comprehensive data to help assess the risks to which individual banks are exposed -- or, at the converse, using national or regional economic trends to predict problems for individual institutions. We created a new Division of Insurance to analyze these and other financial and economic data so that we can alert the banking industry to monitor and assess emerging and existing risks more effectively in their day-to-day business.

An example of this prospective approach occurred early last summer, when the FDIC began to highlight problems in consumer credit cards at banks. We pointed out the connections between the rising level of personal bankruptcies and rising credit card losses. We want banks to pay attention to such trends in looking at their own underwriting standards and to adjust them if necessary, to take account of the higher risk of loss. We want banks to give attention to small problems before they become large problems that could cause losses to the deposit insurance fund.

Two years ago, we began to collect and to organize the information on bank and thrift failures during the crisis. Research on this data may assist us in avoiding significant problems for insured financial institutions in the future.

The third function of management is directing people in the organization to work toward its goals. That means accountability throughout the organization.

We at the FDIC are extremely fortunate in having employees who are motivated by their dedication to public service. It was that dedication that inspired the men and women of the FDIC to work long hours, often away from their homes and families, during the banking crisis. It was that dedication that brought many of them to the FDIC in the first place.

Our strategic goal is to assess the risks that institutions pose to the insurance funds in order to keep banks open and serving their customers and their communities. Our examiners, analysts, economists and lawyers all in their different ways contribute to that goal. The men and women of the FDIC have welcomed the innovations in risk assessment that we have instituted over the past two years -- and continue to institute -- as ways to meet our common strategic goal. Indeed, FDIC staff suggested many of those innovations in the process of developing the operating and business plans.

Holding the organization accountable to those plans -- and the budget that grows from the plans -- involves demonstrating why and how we can build an even better agency. The drive for excellence is there in our dedicated employees. Channeling that drive into productive, effective avenues is the job of management.

The fourth, and last, function of management is "controlling" -- the process through which managers compare where they are in performance with where they should be according to their plans and their fiscal responsibilities based on sound internal controls. Because accounting data and statistics are often used to make comparisons, this function is the reason for the managerial axiom: "What cannot be measured, cannot be managed."

Under the direction of the chief financial officer, we did much to enhance our accounting and financial reporting systems and the control function. I want to highlight three organizational changes, however, that institutionalize the focus we have placed on the control function.

First, we have created an Office of Internal Control Management that is designed to assure that we have sound financial management practices at the agency.

Second, we have established a board-level audit committee, which monitors the internal control systems of the Corporation, giving these systems the level of attention they deserve.

Third, we have restructured our budget process to assure stronger financial accountability as an organization. For example, in the budgeting process, each one of our divisions and offices must justify its staffing levels by workload. Our workload has declined significantly in the past five years, as the economy and the condition of the banking industry have improved dramatically. In 1992, 120 FDIC-insured institutions, with assets of more than $44 billion, failed. In all of 1996, six FDIC-insured institutions, with assets of $220 million, failed. At its peak in 1993, the Corporation had over 15,600 employees. As of year-end 1996, we had approximately 9,100. Staffing is down approximately 40 percent from the peak in 1993 -- despite the fact that we took more than 2,000 employees from the Resolution Trust Corporation before it closed at the end of 1995, as required by law. These reductions have been made only after detailed analyses of our continuing responsibilities and of what jobs are necessary to meet them.

No one welcomes these painful reductions, which affect people who have devoted years of service to the FDIC and the nation. Without doubt, the most difficult part of my job as Chairman in the past 27 months has been dealing with the need to reduce significantly the number of employees at the FDIC. We have offered our staff two buyout programs and have created a detailed placement program to assist our people in finding jobs. We have a strong commitment to help them move into other opportunities in life because of the service they have given to the Corporation and to the nation.

As a government agency, however, we have a duty to be financially responsible in everything that we do. Our statutory mission and our workload determine what we can spend in every aspect of our work. Our enhanced reporting and control systems will help assure that we are more efficient and more productive. In increasing our efficiency and productivity, we increase our effectiveness.

The people of Oklahoma know how destructive bank failures can be. From 1980 through 1994, 122 commercial banks in Oklahoma failed. Their combined assets totaled $5.7 billion. During that same period, there were 40 savings and loan failures here with total assets of $9 billion. Both industries have turned around and are healthy and profitable in Oklahoma today.

If -- through the actions we are taking at the FDIC -- we can avoid repeating the banking crisis that swept through Oklahoma -- and large parts of the country -- our success will be measured, not just in dollars and cents, but by the economic security we provide to fellow Americans.

Most government agencies do not go out of business. Those that continue operating without strong management, however, can lose their edge -- reacting to events instead of anticipating them. For more than two years, we have been working to assure that the FDIC will keep its edge and will retain that most valued of all assets: its reputation for excellence. As a government agency, we at the FDIC were given a mission: to maintain the stability of the banking system. In the 1980s and 1990s, we were faced with the prospect of cleaning up bank failures. In the past two years, we have focused on helping banks stay open to serve their communities safely and soundly. We are enhancing the FDIC's ability to do that by using time-tested principles of strong management.

Like the professor I mentioned at the outset, we grapple with enduring questions. Like the professor, we search for new answers, knowing that the financial system changes, and we, too, must change to meet our responsibilities to every American and to this country.
Thank you.

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