

# Five I's for Business Economists

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By Lawrence M. Small\*

*If you as a trained business economist wish to have a significant impact on your organization, you must: (1) focus on your internal constituents; (2) build a relevant information resource; (3) be insightful regarding your analytical work; (4) be an effective interpreter of economic events and trends for your colleagues; and (5) be identified as someone who can contribute to your organization's innovation process.*

**I**N MANY ORGANIZATIONS, the Economics Department is regarded as an ivory tower; a staff function on the periphery of the organization, populated by intelligent, highly educated, articulate people who are often interesting to listen to but fundamentally not a part of the mainstream operation of the enterprise where they work. And while Economics Departments abound in the corporate world, they are rarely regarded as senior-level, critical functions deserving of key spots in the top management structure.

In my view, that is unfortunate, because many trained economists possess extremely useful skills that can provide real value to business organizations. But trained economists rarely have a significant impact on the organizations where they work if they are part of an enterprise's Economics Department. Almost always, the economists who have a real influence on institutional strategy are those who have left the Economics Department and gone on to other jobs. And plenty of economists have done just that. What can be done to change the common perception of Economics Departments,

what can be done to heighten their importance and enhance their abilities to contribute to top level decisionmaking?

## USERS VIEWS OF ECONOMIC INPUT

My views, admittedly strong ones, on this topic, are based on thirty-five years of experience in the corporate world. I have served on the boards of directors of five New York Stock Exchange companies. As a banking and financial services person, I have been appointed to many investment, budget, finance and planning committees, not only of those boards but of the dozen or so nonprofit boards on which I have served as well. All of these committees have been the recipients of hundreds of presentations by economists, and I have been privy to the hundreds of conversations that have been held about those presentations and, naturally, the economists who gave them, after the presenter left the room.

What has always troubled me is that, more often than not, the behind-the-back comments about the very obviously intelligent, thoughtful, higher educated economists making those presentations are generally light-hearted, but mildly sarcastic, somewhat cynical barbs suggesting that what one has just heard should be taken with a grain of salt, is available from any number of suppliers of the same commodity, is "nice to know but not something we can or would act on" and other such obliquely (and sometimes, not so obliquely) critical statements. When you hear that kind of thing over and over for so many years, you have to say to yourself, "If this type of report is treated by its audience in such a cavalier way, why do they bother to continue to request it? Is it just some form of entertainment, an interlude provided to lighten things up or to fill space?"

Unfortunately, I don't believe I have the perfect answer to that question. However, I *think* what's going on is that people believe it's appropriate to seek interpretation of economic events, and they think it's appropriate to try to figure out what influence those events might have on the future. They also respect the fact that, to carry out the task of interpreting economic events and

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trends, you really have to have the appropriate brain power, education and experience. On the other hand, they do not seem, in most cases, willing to attribute enough credibility to economists who do not have hands-on business experience so that they react in a truly serious way to what economists say.

Obviously, that is not always true. There are any number of economists whose words are taken to be very relevant. But the number of meetings I have attended in my life where that was *not* the case has been quite significant. Consequently, I believe that business economists should be very serious about the serious question of whether they are being taken seriously. And if they discover they are not, and they are not doing what they are doing just for the occasional quote they get in the local paper, they should be asking themselves why not and, to the extent they can figure that out, they should then decide what to do about it.

### WHY HAVE AN ECONOMICS DEPARTMENT?

To start that process, the first question that has to be asked is, “Why would any enterprise choose to have an Economics Department?” The answer to that should be, “Because it provides them with something they want that they otherwise wouldn’t be able to get, at least not for what having their own department costs them!”

With that as a basic premise, it would seem sensible for every Economics Department to be so obviously adding value to the enterprise that no one would even consider thinking of it as “overhead” or simply “nice to have.” That, of course, means that the department has to be providing the enterprise with information and analysis that it not only needs to run the business but also is either impossible or too expensive to get elsewhere.

And therein lies what I believe is a principal shortcoming of quite a number of Economics Departments, at least in the world I know best, that of larger corporations. They simply do not add significant business value to their institutions. While they may have an indicator or two that they track that is something no one else tracks, the fact is what most Economics Departments turn out is quite similar to what is easily available in the media.

It is certainly true that information that is readily available, but nonetheless attractively presented, or a well-written newsletter for a given institution’s customers, employees, suppliers and other constituencies has value. The issue is whether it has *sufficient* value. The issue is whether Economics Departments, by focusing so heavily on the “media” aspect of their work, reinforce the impression of economists as people who carry out a PR function.

If, indeed, economists are seen as carrying out a PR function, then it is quite natural for them to be viewed just the way most people in large scale enterprises view their PR people: specialists the modern world forces them to have but not real members of the group of key people

who really have a hand in shaping the key strategies of the enterprise.

There is no question you can make a decent living carrying out a communications function, you can make a decent living as an articulate interpreter of economic events and trends for employees and customers, and you can be a respected contributor to the speechwriting process for the CEO. While there’s no question there’s value in doing all of that, I believe there are ways to make the jobs in the Economics Department much more influential, much more powerful and most importantly, much more personally satisfying than they are.

If you agree with that and are attracted by the prospect of becoming a significant participant in the strategy development and execution activities of your enterprise, then, for sure, *your* Economics Department must demonstrate many times over that it is making a contribution to the corporation that simply is not—and cannot—be made by anyone else.

### THE FIVE “I” STRATEGY

To make that contribution, that unique contribution, my belief is that successful business Economics Departments have what I call a “Five ‘I’ Strategy:”

1. Inside influence
2. Information
3. Insight
4. Interpretation
5. Involvement in Innovation

#### Inside Influence

If economists are going to be real “players” in the institutions where they work, they have to focus on their key internal constituencies to develop *inside influence*. The customer newsletters are great. The dinner speeches are personally gratifying. The conferences are terrific for networking. But none of them puts you in a corporation’s inner circle. To get in the inner circle, you have to hang out with the members of the inner circle, and to do that, you clearly have to be able to be an active participant in that particular world, a participant with relevant ideas and information. If you spend the bulk of your time focused outside of the inner circle, your probability of getting to be a member of it is not going to be very high. Even though your calendar is filled with publication deadlines, speaking engagements and industry conferences, if you want to have more to say about an institution’s trajectory, spend more time on *internal* matters than external ones.

You might respond to that by saying, “I agree with you. I would like to be more of a key player in my institution, but how do I suddenly start spending lots of time with the people who call the shots, particularly if they don’t take the economics function that seriously in the first place?”

That is where the other four “I’s” come in.

## Information

The next one is *information*. Many business economists seem to traffic in information that is widely shared and pretty readily available. And much of what they talk about has a very significant overlap with what other economists talk about. Consequently, one hears the “it’s a commodity” statement quite often. And the way to make a commodity-based business successful is to surround the commodity with enough in the way of non-commodity products and services to make the total offering unique.

For example, I am on the board of the Chubb Corporation, which is a major supplier of homeowner’s insurance. Now, homeowner’s insurance is pretty much of a commodity. But Chubb has an extraordinary market share with affluent families who are more than willing to pay more for Chubb’s homeowner’s insurance protection than that of other companies. Why? Because the service is so good. Because the policy is so clearly written. Because the material for the homeowner is so attractively packaged. Because the responsiveness of the claims management process is so terrific. I could go on and on. The point is the company has turned a commodity into a specialty product, even a sort of status symbol where customers like telling others that “I have all my insurance with Chubb.” And Chubb has achieved that by pinpoint bombing, by precisely targeting their particular product to a very specific market segment, by figuring out just what their particular target market wants and needs and giving it to them.

Successful Economics Departments create that same type of imagery for the information they develop and supply. They convince their constituents that their analysis, their data bases, their indicators, their trend lines, their graphics and their tables constitute the absolutely best window on the world of their particular institution’s activities. They completely sell their internal constituents the idea that no one else, absolutely no one else, anywhere, has a better, more comprehensive set of facts and figures about what is going on in their enterprise’s business arena than they do. No one else is better informed. No one else has better information.

## Insight

After information comes *insight*. It isn’t enough simply to have the best information; you have to be viewed as an individual who is uniquely insightful when it comes to figuring out what the information means for your enterprise. That, of course, makes it mandatory that you not only develop superb analytical skills in order to produce the right answers, but you also work very hard in making sure you get really good at asking the right questions.

I recall, for example, one case when I was a banker working with one of the country’s largest fast food companies. I remember the CEO of the company telling

me how their corporate economist had done a study analyzing the performance of their various restaurant units versus the key, relevant economic indicators for the immediate markets they served. The idea was to see whether their stores were doing as well, better or worse than the economies in which they were located. In one particular case, that of a central city store with tremendous volume, the economist indicated he felt that the restaurant was the “best in the chain” and that the management of that particular region should be congratulated because they were growing the store’s business at a much faster rate than the surrounding economy.

The CEO told the economist that he was really quite surprised to hear the economist’s conclusion, because he had actually been thinking about firing the management of that particular region. It appears that what they, and, it goes without saying, the economist, had missed was that real estate prices in that market had risen much faster than any of the economic trends of the fast food business. Consequently, it was patently obvious that the smart thing to do with the property was sell it (and not keep running it as a fast food restaurant), because the present value of the restaurant’s future fast food earnings was nowhere near what the market value of the land had become.

Suffice it to say the problem here was that the regional management and the economist simply were not insightful enough when looking at the economic indicators of the area in which that restaurant was located to arrive at what was a pretty obvious conclusion, at least for someone with an entrepreneurial mind.

In today’s world, in many large corporations a significant number of executives who are responsible for reasonably sizable business units are simply not that sophisticated when it comes to reading economic trends and grasping what those trends mean for an institution’s future. And even if they do have the intellectual and educational wherewithal to do so, there is always the issue of experience and familiarity with the business they are managing, not to speak of the time needed to wade through all the necessary data.

If you look at the *Fortune* 500, they all have thousands of executives running the various components of their portfolios of products, geographies and markets. At any given moment, you can be sure 10 to 15 percent of those executives have been in their jobs for fewer than twelve months due simply to turnover and corporate reorganizations. Therefore, almost always there’s a sizable percentage of corporate business units being led by people who simply aren’t that knowledgeable about the economic subtleties of the products, customer relationships or regional markets for which they’re responsible. That being the case, people who are really insightful when it comes to analyze the economic drivers of a company’s business should never be viewed as commodities or corporate overhead.

## Interpretation

The fourth “I” stands for *interpretation*, i.e., the communication skills needed to translate the value of unique economic information resources and insight into meaningful conclusions for executives who are running an institution’s affairs.

I was chatting the other day with the retired Vice Chairman of one of the largest businesses in the United States. He told me that, during the course of his forty-year career, his company had only one corporate economist who was deemed to have made a really significant contribution to their company. I asked why that was so and he said, “He was a terrific teacher. He always knew how to get our attention. He was able to take complicated information and make it understandable. He never sounded pedantic. He never spoke in economic jargon. He always talked to us in our language. And over time, he took the entire management team to a whole new level of understanding about the indicators we needed to be watching, how they were interrelated and what the key drivers of our business success really were.”

Now, that is a description of someone who has become really influential in an institution’s top management team! The point is, to become an *internally influential* force in an institution’s management, you not only have to get close to the members of the senior management team, you not only have to develop what is perceived as unique, virtually proprietary, highly specialized *information* resources, you not only must be seen as being particularly *insightful* when it comes to analyzing the events and trends reflected by the information with which you’re dealing, but you also must learn how to become a superb *interpreter* of the conclusions you have drawn so that your colleagues will clearly, unequivocally, understand what you’re trying to communicate.

## Involvement in Innovation

But, that’s *still* not enough. If you really want to be part of your institution’s leadership, you have to show you can play a role in the enterprise’s creative process. You have to demonstrate an *involvement in innovation*, the capacity to make a contribution to the development of business-building ideas. Although it’s not always the case, the correlation between the creation of increased revenue streams and significant career advancement is generally very, very high. Revenue is the lifeblood of all businesses and those individuals who show they are obsessed with building revenue momentum and gifted at creating new approaches to growing the business are inevitably viewed as highly valued corporate assets.

Interestingly, people in sales, marketing and production do not have a lock on playing the principal roles in the drama of innovation. There are numerous cases where accountants, lawyers, information technologists,

public relations people and even internal auditors have emerged from their particular islands of specialization to make vital contributions to efforts that have contributed to substantive institutional growth. While I know their have to be cases where people from Economics Departments have acted in a similar fashion, let’s just say that they are not widely known.

And I think the reason you do not often hear of the Economics Department playing a role in a company’s innovation process is simply that the people in those departments do not think they are supposed to. It certainly is not that they are unable to. The issue is not whether trained economists can have a major impact on the organizations in which they work. They can and do. The issue is whether the Economics Department can become a really influential force in an enterprise’s management.

## EXAMPLES OF SUCCESSFUL ECONOMISTS

Let me demonstrate by citing examples of economists who play a vital role in influencing a company. At Fannie Mae, some of our most influential executives are trained economists.

David Berson, someone well known to all of you, is in frequent contact with our CEO and clearly someone who has had an influence on his thinking. He plays a real role in setting performance targets for the company, not to mention his participation in a wide range of strategy issues covering regional expansion, regulatory policy matters and product development.

Jayne Shontell has bachelor’s and master’s degrees in economics from Georgetown and at one time was the Chief Economist for our principal competitor, Freddie Mac. Jayne has been a major force in the innovation of major developments related to the securitization of mortgages. She has held a wide variety of positions at Fannie Mae and is currently our Senior Vice President for Investor Relations. Given that the market capitalization of Fannie Mae is around \$65 billion, she is in one of our most important jobs.

Tom Lawler has bachelor’s and master’s degrees in economics from the University of Virginia, came to us fourteen years ago as an economist, and since the late 1980s has been one of the truly pivotal figures in building up and running our \$370 billion mortgage portfolio, the part of our business that generates two-thirds of our earnings.

Tom reports to Tim Howard, who has bachelor’s and master’s degrees in economics from UCLA, worked as an economist at Wells Fargo and Chase Econometric Associates, and came to Fannie Mae to become our Chief Economist in 1982. Today, he’s our Executive Vice President and Chief Financial Officer. Tim has been one of the really key contributors to Fannie Mae’s spectacular growth in the latter half of the 1980s and in the 1990s and is today one of the most important figures

in top management. He has been a major force in shaping the huge, truly unique, secondary mortgage market in the United States.

I have no need to be convinced that economic training can be a valuable asset or that economists can carry out a wide variety of corporate roles. And these colleagues of mine prove just that. They have been at the heart of innovation in the housing finance business. They can take credit for generating billions of dollars of revenue. And my experience of more than twenty-seven years at Citicorp was the same. A number of really key executives, truly creative contributors to the building of our business, were trained as economists.

## ROLE OF ECONOMICS

Can economics, a staff function, play a truly influential role in an enterprise's management?

I believe the answer is, it can. I am impressed by the rigorous training economists have to undergo. I am impressed by the intelligence of people who are attracted by the economics profession. I am impressed by the ability of many economists to communicate effectively. And I am impressed by the versatility of many economists, their willingness to deal with a wide variety of issues, and their enthusiasm at taking on new challenges.

The raw material is all there, and there is not a thing wrong with it. What is really required is leadership. What is required is for the corporate economist to say, "I want what I'm doing here to be more influential than it has been—a *lot* more influential—and I recognize I am going to have to make some changes if that's going

to take place. I am simply going to have to reorient what my department is doing and how it does it."

That is where the "Five 'I' Strategy" comes in:

1. Focus on those key *internal* constituents.
2. Build a uniquely relevant *information* resource.
3. Never stop worrying about whether you're being *insightful* enough regarding your analytical work. Make sure you're not only looking at the numbers from just an economics point of view. Ask the questions people who seek to build businesses would ask.
4. Discipline yourself to become an extraordinarily effective *interpreter* of economic events and trends for your colleagues. Become fanatical about avoiding academic jargon and zealously work to speak to business people in their own language.
5. Do everything you can to become identified as someone who can contribute to an institution's process of *innovation*, someone who is identified as being involved in innovation. Go where the money is. Get aggressive about applying your creativity to the task of making money for the company by finding ways to build the business.

I truly believe there is an opportunity out there. There is an opportunity to do more to shape the future. There is an opportunity to really have an influence.

You do not have to grasp it. If you are happy with the way things are, why do anything to disrupt the status quo? But for those of you who want more, who are frustrated by the image I have described, for those of you who like being corporate economists but would like to have more clout, not to speak of more pay, give the "Five 'I' Strategy" a try.