

Feature

The John Allison Interview:

Entrepreneurial
Banking

John Allison is the retired CEO and Chairman of the Branch Banking & Trust Corporation, based in Winston-Salem, North Carolina. Under Mr. Allison's leadership from 1989 to 2009, BB&T grew from \$4.5 billion to over \$152 billion in assets to become the tenth largest financial institution headquartered in the USA. Almost more impressively, while many banks failed or received bailouts during the recent financial crisis, BB&T remained healthy and profitable. Mr. Allison is currently Distinguished Professor of Practice in the Business School at Wake Forest University.

INSIDE:

Letter from the
Executive Director
CEE News
Student Essay
Prize Winners

Kaizen: Where did you grow up?

Allison: I grew up in Charlotte, North Carolina but I moved between the 10th and 11th grades to Chapel Hill, and graduated from high school in Chapel Hill.

Kaizen: When you were young, did you think you'd become a banker?

Allison: Not at all. I was interested in economics in high school but not in banking, *per se*. I thought I would work for a railroad and maybe be a railroad engineer.

Kaizen: You went to college at UNC-Chapel Hill—what did you major in?

Allison: That's a funny story. All through high school I was told by my teachers that I ought to go into engineering because I was good in math. So when I went to sign up at UNC, they asked me, "What you would like to major in?" I said, "Engineering." And they said, "Well, we don't have it." I said, "What do you have?" They started down the list and when they got to Business Administration, I said, "I'll take Business Administration," having no idea what that meant.

Kaizen: Did you grow into it and enjoy it?

Allison: I did. I was very fortunate because I was really interested in the business courses. They were much more

interesting to me—even though I liked things like history and math.

Kaizen: After graduation, you went to work at BB&T. Why that company?

Allison: Partly, I guess, by chance. I knew I wanted to get into banking. I interviewed with several banks. At the same time, I thought I was going to work in banking for a couple of years and go back to law school. I saw a connection between law and banking in the back of my mind. BB&T was to some degree more convenient as the headquarters weren't that far away. It was a small organization where I thought I might make more difference in the short term, with going back to law school in the back of my mind.

Kaizen: How big was BB&T then?

Allison: When I went there it was \$300 million in assets.

Kaizen: While working, you also went to graduate school at Duke for your MBA?

Allison: I really liked banking and I did enough with lawyers to know I wouldn't enjoy being an attorney. I decided to go back to graduate business school. I went to Duke, frankly, mostly because Duke gave me a stipend that helped me pay for it. I went to the full-time daytime program and still worked part-time and commuted from Wilson to

CONTINUED ON PAGE 2

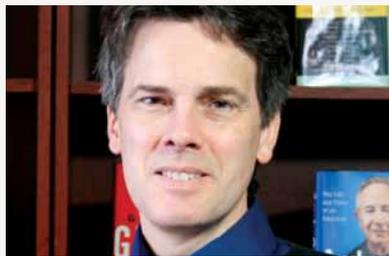
KAIZEN

Continuous
Improvement

改善

BB&T

From the Executive Director



In this issue of *Kaizen*, we report on a guest lecture by economics professor **David R. Henderson**, who visited us from California; the winner of this year's Walhout Prize in Philosophy, **Nathaniel Branch**; and the excellent work of three independent-minded students in the Introduction to Philosophy course—**Jennifer Harrolle**, **Derek Garcia**, and **Alyssa Baggio**.

Our feature interview is with banking CEO **John Allison**. We spoke with Mr. Allison in Winston-Salem, North Carolina about entrepreneurial banking. Banking has been a dynamic sector of our economy over the last generation, and Mr. Allison is well-positioned to speak to the complicated technological, financial, moral, and regulatory challenges involved in building a successful bank. While many banks went under in the recent crisis, Mr. Allison's BB&T weathered the storm comfortably—and he has strong words about why his bank succeeded while many failed.

At the Center, we also continue to build up our collection of resources on entrepreneurship and business ethics. All of our previous issues of *Kaizen* are available there featuring our news and extended interviews with entrepreneurs in a wide variety of exciting fields—from architecture to technology to marketing to venture capital to sports and more. So please feel welcome to visit us on the second floor of Burpee—or online at www.EthicsandEntrepreneurship.org.

A handwritten signature in blue ink that reads "Stephen Hicks".

Stephen Hicks, Ph.D.

Guest Speaker



David Henderson

Dr. David R. Henderson is an associate professor of economics at the Naval Postgraduate School in Monterey, California and a research fellow with Stanford University's Hoover Institution. He was previously a senior economist with the President's Council of Economic Advisers. Dr. Henderson discussed "Seven Myths About Free Markets." A follow-up interview with Dr. Henderson is available at our website.

More information about CEE and Rockford College



Kaizen is published by the Center for Ethics and Entrepreneurship at Rockford College. Founded in 1847, Rockford College is a four-year, independent, coeducational institution offering undergraduate and graduate degrees in traditional liberal arts and professional fields. One of 81 colleges nationwide designated as a "College with a Conscience" by the

Princeton Review, Rockford College is also among 76 U.S. colleges and universities selected by the Carnegie Foundation for the Advancement of Teaching for inclusion in a "Community Engagement" college classification. Rockford College is one of 11 colleges in Illinois and 280 in the country with a Phi Beta Kappa chapter, the oldest and most prestigious academic honors society, and in 2007 was named a "College of Distinction." Please visit us online at www.Rockford.edu.

ALLISON, CONTINUED

Durham. It was about an hour-and-a-half commute. And then after the first year I needed more money. So I went back to work full-time for the bank and finished up in the evening program at Duke. It was tough.

Kaizen: Over the next sixteen years, you performed a variety of jobs at BB&T. Were you following a standard career path at this point?

Allison: When I joined the bank it was so small there was no career path. Even though I went into a "management development" program, they just kind of shuffled you around in jobs. I was a teller and I worked as a bookkeeper, those kinds of things. I would call it both opportunistic and driven by a commitment that I made early in my early career. My objective was to do whatever I did better than anybody had ever done it, to enjoy it while I was doing it, and to see the connection between what I was doing and the rest of the organization.

Kaizen: Then you were appointed president of the bank in 1987. You were relatively young at that time—39.

Allison: Yes, very young. When I joined the bank it was very behind. And it had kind of a vacuum in that there were a number of older people there, there were only a few people in the middle-aged group, and they were finally hiring some young people. In 1980, we had an unintended revolution, for lack of a better word. There was a president, a very nice person, and he had two guys reporting to him, one of which was very incompetent and very hard to get along with. The president wouldn't deal with that issue, so several of us confronted him, but it really wasn't intended to be a confrontation. We told him we could not stay unless he fixed this problem. And to his credit he did something about it. He created an executive management team that included a number of us younger people, in 1981. I was 33. The presidency came out of this informal revolt.

Kaizen: Come 1987, what did the BB&T board see in you that led them to select you as president?

Allison: I think I had the ability to communicate a vision. The banking industry had been very stale for a long period of time. When interstate banking comes along in the early 80s, the industry starts going down a much more rapidly-changing path. We were deregulated in certain aspects; we were more regulated in other aspects. But I think I was able to communicate to the board clearly what we needed to do. I think they appreciated that.

Kaizen: Two years later, at age 41, they appointed you CEO and Chairman. What led to those appointments?

Allison: It was an unfortunate event. My predecessor died suddenly. He had a heart attack and so the Board had to choose a successor. Of course they could have chosen to go outside, but they did choose to give me an opportunity to be CEO.

Kaizen: How big was BB&T at this point?

Allison: It was \$4.5 billion in assets.

Kaizen: BB&T experienced explosive growth under your leadership. What were the major growth areas?

Allison: We grew on a number of fronts. On one front we did lots of mergers and acquisitions. In the late 80s and early 90s there was a huge shakeout in the thrift industry. I think two out of three thrifts in the U.S. failed.

We identified that the thrift industry was a bifurcated industry. There were unhealthy thrifts; they had been poor credit intermediaries. There were a number of healthy thrifts that had stayed in the traditional bread-and-butter home loan business and had a lot of discipline.

The other thing we decided to do was grow rapidly in the insurance agency business. Today we're the sixth largest insurance distributor in the world. We built that from one agency in eastern North Carolina, and that became a real strength of our organization, although we went through a long learning curve on how to master the insurance business.

Kaizen: How did the typical merger come about? BB&T actively researching opportunities? Other banks being put up for sale actively?

Allison: We were very successful in the merger and acquisition business partly because we were very process-oriented, but mostly because we focused on the human systems. We did a very systematic analysis of our potential acquisition candidates. We started looking first at the economics: Would this be a good economic fit?

And secondly we started a careful study of cultures: would this organization fit with our culture? There were companies that were well-off economically but we thought the cultural transition would be too much. We took those companies off of our list.

We developed the best reputation in the industry for mergers and acquisitions because of how we handled the post-acquisition process. We came to a conclusion based on our own culture that you aren't really buying the loans and deposits; it's really the human system that matters.

I made a resolution that I had to help her be more successful in her job if I was going to be successful in my job.



Mr. Allison (back right) with BB&T executives in 1980

So we focus a lot on the human systems.

Kaizen: In 1995 BB&T merged with the roughly equal Southern National Corporation, which means you doubled in size. What was that experience like?

Allison: That was a very interesting merger. It was a merger of equals of two companies that were about \$10 billion each and had about the same number of employees. It was by far the hardest merger to execute but economically it was the best merger in our history. The way it worked economically is we had a lot of overlapping operations so there were huge cost savings. The dilemma was that the cost savings looked like lost jobs, which is a challenge to deal with.

The way that worked is we were going to get the best person for the job. But, in truth, in a large organization there are a lot of ties, i.e., equally qualified job candidates. Where there were ties, we were going to try to create balance. And we would do that partly structurally, by where we geographically located operations. Because, practically speaking, many people aren't going to move. So, we ended up with three operational locations that helped deal with the ties and for people that wouldn't move.

Ten years after the merger, we went back and measured how many employees from Southern National were still working for BB&T, and how many employees from the original BB&T were still working for BB&T. It was almost exactly the same number. So, we had kept our agreement and employees know that.

Kaizen: As BB&T grew, did managing large numbers of people come naturally to you, or was it something you had to work at?

Allison: It's something I worked really hard at. I am naturally mathematical, analytical. I discovered something very early in my career that became very valuable to me. And that is, unless

you just want to be a technician (which is fine if that is what you want), you're going to have to leverage other people to be productive. I had an interesting early work experience. I had been with the bank for three or four months, and I had a secretary I was working with. She was a young lady just out of high school. I was very "productive"—I was dumping a ton of material on her. And one day I walked out to her desk with a big pile of stuff, threw it on her desk, and she looked at me and said, "I'm not doing this." I don't remember exactly what I said to her, but in my own mind I said, "Holy shit! I can't type very well and she won't do this. I'm not going to get the job done."

I made a resolution that I had to help her be more successful in her job if I was going to be successful in my job. And that if I did that, maybe she would take a lot of stuff off of me over a period of time that I didn't want to do. So instead of just dumping stuff on her, if I could help her, train her up, control the work load and also get her more vested in what we were trying to get accomplished here, instead of just being work, give her a sense of purpose out of it, we would have a bigger success.

Kaizen: BB&T has a strong corporate values philosophy. How did you make it a living part of BB&T's culture rather than just nice words on a website?

Allison: That's a great question. This was an evolution process. Some of the philosophy was always there, but there were aspects of it that were very inconsistent. And we were a very paternalistic organization early on in my career. This was dangerous because we would tolerate non-performance.

BB&T chooses to invest very heavily in employee education. We operate our own university. For every job category, like a teller, we have a certification process. In the certification process you get the technical skill. But you

CONTINUED ON PAGE 4

Student Essay Contest Winners

Students in the Introduction to Philosophy class wrote on the topic of independence. Having read Plato's *Apology*, Descartes's *Meditations*, Galileo's *Letter to the Grand Duchess Christina*, Rand's *The Fountainhead*, and Lewis's *Mere Christianity*, they responded to this question: "What is independence, and is it good?"

The essays were judged on their accuracy and depth of interpretation as well as their independence of thought. Cash prizes were awarded for first place and two honorable mentions. Congratulations to our winners!

First Prize



Jennifer Harole

Honorable Mention



Alyssa Baggio

Honorable Mention



Derek Garcia

Walhout Philosophy Award Winner



The Walhout Prize is named for Donald Walhout (Ph.D., Yale), emeritus professor of philosophy at Rockford College. This year's winner, Nathaniel Branch (right), did excellent work in a variety of courses and participated actively in extra-curricular reading groups on influential moral philosophers such as Socrates, Adam Smith, and Friedrich Nietzsche. Mr. Branch has been accepted into the graduate program at Northern Illinois University. NIU's master's program in philosophy is consistently ranked in the top three in the country.

ALLISON, CONTINUED

also understand: how does this apply to our philosophy and how does our philosophy apply to your job? In other words, given BB&T's philosophy, how do you react with clients? It's not just, "Here is how you push the buttons." Obviously, the level of intensity varies with the complexity of the job but it's built into all our training processes.

It is hard and easy. Easy, in the sense that we are a principle-driven organization. You have to be willing to live consistent with your values. For example, we had some high performers in terms of production who violated our philosophy—we fired them. We have fired people who worked for us for 25 years who did something that was against our values. They knew it; they were fully warned. I hated it on a personal level. They weren't bad human beings but we had fundamental principles. I always thought if we tolerated a person violating our values, what's the message it sends?

Kaizen: During your tenure, there were many revolutionary technological changes in banking and finance—computerization, ATMs, credit and debit cards, online banking. Did that factor in BB&T's growth?

Allison: This is an issue that we struggled with a lot. If you look at BB&T, we were a very innovative organization: we figured out how to acquire savings and loans; we figured out how to get into the insurance agency business; we developed learning systems; we developed a unique culture.

However, I did not believe, in our business, that being a technological leader is an advantage. Almost nothing is patentable in finance, you can replicate the competitor's technology, and you can typically replicate it better if you wait a little bit. So we had a conscious strategy to be a close follower in technology. We would let Bank of America spend a ton of money on some new technology, get it up to the point where it's ready to work, and then we would try to pass them. We might introduce it a year later.

Kaizen: In 2004 you put BB&T's growth on hold. Why was that?

Allison: One of the things BB&T had been doing was investing very heavily in leadership development. Each year we hired a top group of people out of good colleges and universities, had a leadership development program, and trained them up.

But we were doing so many mergers and acquisitions that, even though we had invested heavily in leadership development, we out-ran our internal investment in people. Also, we were to some degree outrunning our technology. We called it "indigestion."

Kaizen: After a few years of digesting, so to speak, by 2007 how big was BB&T?

Allison: BB&T was probably about at \$135 billion.

Here is where an interesting thing happened. We got the chance to get back in the merger business in 2007. We did a couple of deals but most of our growth was still driven internally. The reason for that was—this goes to a fundamental discipline issue—we started running our mathematical models, and what had happened in the merger business was that the prices had gone up while the quality of the companies for sale was deteriorating. We would review our models and we chose not to do acquisitions.

We had many banks who wanted to sell come to us. However, we decided we could not even pay the current stock price for the companies much less a premium. A number of the large regional banks that had serious trouble early on in the financial crisis were companies that acquired these banks. They just paid crazy prices. It was hard on us, though, because at the time financial analysts wanted us to do mergers.

In retrospect, that seems easy. At the time it was hard because banks that were doing these acquisitions were actually getting temporarily rewarded in their stock prices. Analysts would indicate that's a great deal in Florida; you can't miss. But we had financial models that we developed. Over time, an operating concept we used was inspect what you expect. When we did mergers we provided a report to the board every year that outlined what we said we were going to do and what we did. So we knew that what our models predictions were right. The way financial models work, you can tweak the assumptions and have any outcome you want. We refused to fudge our assumptions because we knew we would just be misleading ourselves.

Kaizen: From 1989, when you became CEO, to 2008, BB&T went from \$4.5 billion in assets to \$152 billion in assets. That is extraordinary. Did it seem outstanding to you as you lived it?

Allison: Yes and no. This is hard for some people to understand. We never had growth as an end in itself. I think companies get into trouble with too much focus on growth. We decided we were going to do everything we can that makes BB&T better. So we're only going to do acquisitions that we believe will make BB&T a better organization. In a rapidly consolidating industry, however, there were lots of opportunities out there. We were experiencing extraordinary growth on multiple fronts: on the banking front and on the insurance agency front, exponen-

You lend money to people. Yes, the mathematics matters, but character is more important.



Mr. Allison (right) presenting an award to future successor Kelly King in 1983

tially, and some of our smaller businesses were growing very rapidly. So, in some ways it felt extraordinary.

But we had invested very heavily over a long period of time in quality leaders. They understood our culture, they understood our value system, and we evaluated their performance and promoted them very carefully. We were able to allow those people to have a huge amount of relative autonomy.

One reason we had a lot less credit problems in the financial crisis (not that we didn't have problems) is we had much of our authority in our community banks. We had better information, and that's non-trivial. The community bank presidents also were held very responsible; they owned the process. As the company got bigger, I gained the ability to focus on culture and strategies that flow from that culture and reinforce the process, instead of managing the day-to-day operations.

Kaizen: Successful people typically are very good at learning from mistakes. Looking back, did you make any significant mistakes?

Allison: Many, many mistakes. The ones that mattered and hurt the worst were misjudgments of people, where I thought somebody either had better character or was more competent. Early in my career, a man I really had a high regard for and considered a good friend embezzled from the bank.

I tell this story as a concrete example; it's an interesting story. Early in my career I was primarily a farm lender and BB&T was mostly a farm bank. I had made a number of big livestock loans. One of those loans was to a large hog operation.

We had this client who had been successful but, even during his success period, he did some things that I really should have paid attention to—character-related actions. Times got tough in the hog business. One afternoon, he walks into

my office and slams down this big wad of keys and says, "Son, they eat at five," and he leaves. This is at 4:00 in the afternoon.

I got in my car and drove down to this hog operation, as if I knew what the heck I was doing, with nearly 10,000 pigs. I'm driving around and looking at the pigs, thinking, "What am I going to do?" Then it dawned on me that the owner didn't actually feed the hogs; somebody who worked for him fed the hogs. So I ask around and somebody at the filling station said whatever-his-name-was down the road feeds the hogs.

So I drive down to "Tom Brown's" house and knock on the door and say, "Tom, are you the one who feeds the hogs?" He said, "Yeah." I said, "We need to get the hogs fed. Would you do that?" He said, "Hell, no!" And I said, "Why not?" He said, "They didn't pay me." I said, "How much do they owe you?" I can't remember what it was \$100, \$200. So, fine, I wrote him a personal check. "Go feed the hogs."

The learning experience was that character is huge and if character deviations are happening in good times, they're going to be *really* bad in bad times. So if you get any character warnings, don't ignore them.

You lend money to people. Yes, the mathematics matters, but character is more important. The man who embezzled from the bank was the same kind of story in that there were signs that I ignored because he was a friend of mine. You can't do that.

Kaizen: Your career is focused on money and, as you know, our culture has wildly different evaluations of money—from seeing the love of it as the root of all evil to seeing it as a wonderful invention that facilitates production and trade. What do you think about the moral status of money?

Allison: In a broad context, in a free market, money's a good thing, in the sense that it is an identifier of productive economic activity.

CONTINUED ON PAGE 6

On Money

Who Is Correct?



“The love of money is the root of all evil.”

—I Timothy 6:8-10

“The lack of money is the root of all evil.”

—Mark Twain



“The universal regard for money is the one hopeful fact in our civilization, the one sound spot in our social conscience. Money is the most important thing in the world. It represents health, strength, honour, generosity, and beauty as conspicuously and undeniably as the want of it represents illness, weakness, disgrace, meanness and ugliness. Not the least of its virtues is that it destroys base people as certainly as it fortifies and dignifies noble people.”

—George Bernard Shaw



“There is on earth no greater enemy of man, after the Devil, than a gripe-money and usurer, for he wants to be God over all men. Usury is a great, huge monster, like a werewolf. And since we break on the wheel and behead highwaymen, murderers, and housebreakers, how much more ought we to break on the wheel and kill, hunt down, curse, and behead all usurers!”

—Martin Luther

ALLISON, CONTINUED

However, I think there’s a little truth in the criticism of money in this sense: Some people think that money is the end of the game; money is an end in itself. Money is not an end in itself. Money can be a means to an end. And as a feedback mechanism, it’s a very valuable tool in a free society. One of the problems is we aren’t in a free society, so you’ve got some manipulation where people (i.e., crony capitalists) get money that is not earned.

Money is a good thing in a fundamental sense. But it’s a means to an end. The end is happiness in the Aristotelian sense of a life well-lived. Money is a just reward for productive work, but it’s in the context of the pursuit of happiness.

Kaizen: In the wake of the Supreme Court’s 2005 *Kelo* decision, BB&T received a great deal of publicity about its decision not to do mortgages for deals that involved eminent domain. What was the reasoning behind BB&T’s policy?

Allison: In a certain sense this was a hard and an easy decision, which our board unanimously endorsed. It was a hard decision in that we were worried about the economic consequences, in that we do business with a lot of municipalities that use eminent domain, and we knew that some would move their business from BB&T. On the other hand, given our value system, we simply could not in good conscience finance one individual using the government—the power of a gun—to take property from another individual. We couldn’t finance a big box retailer throwing some poor little old lady out who didn’t want to sell her home. If she wanted to sell it, fine. But the government taking your home is inconsistent with a free society, it’s inconsistent with the principles that underlie property rights, and it’s inconsistent with BB&T’s belief system. I couldn’t look my employees in the eye and tell them that we were going to do that.

Now here is an interesting thing about what happened. While we were worried about the economics, it turned out to be a home run for us. We did lose a few municipalities, but we had thousands of people move their business to BB&T. It was an unexpected reward. And a lot of people said, “Look we’re so happy to see a business that operates on principle. Businesses will do anything for a buck and you obviously made a principled decision and I want to deal with an organization that makes decisions based on principles.” It was great. It was uplifting.

Kaizen: Turning to the 2008 crisis that devastated many major financial businesses. BB&T

weathered the crisis well. Was that because you and other BB&T leaders saw trouble coming and prepared for it, or because BB&T was sound and able to adapt quickly or ride out the storm?

Allison: I guess some of all. We knew the market was frothy. We also had always run a sound bank. But primarily it was because of our culture. Our value system enabled us to avoid a lot of the problems that other banks got into. And because of that we weren’t doing a lot of things that some other people were doing.

Kaizen: One of the factors was BB&T’s decision not to underwrite marginal mortgages?

Allison: One of the most important products we avoided was called the negative amortization mortgage or the “pick-a-payment” mortgage. The pick-a-payment mortgage was not a true sub-prime mortgage. It was actually targeted towards young people who had high income potential in the long term. It enabled them to leverage themselves up in the real estate market.

A simple example: if the interest expense on a mortgage was \$1000 a month, in a pick-a-payment mortgage you only had to pay \$500

Money is a good thing in a fundamental sense. But it’s a means to an end. The end is happiness.

dollars a month. So every month you owed more on the mortgage. But the big factor is you could qualify at the minimum payment, at \$500 instead of \$1000. So you could buy a much bigger house. These mortgages were very popular in fast-growth markets where the theory was to buy as big a house as you can, and in five years refinance it. You’ll owe more but the house is going to appreciate. We didn’t foresee the demise of the real estate market near the magnitude that did happen, but we knew home prices after appreciating for many years were not going to appreciate at 15 percent for perpetuity. And we knew that we would be setting up a lot of young people to get in trouble if we made negative amortization mortgages.

One of the fundamental commitments in our mission is to help our clients achieve economic success and financial security. We believe in the trader principle: value for value. We have a moral obligation to help you be successful and I expect to make a profit doing it. I might be wrong, but I’m never going to make a decision that I believe is bad for my clients, even if I can make a profit in the short-term, because it will always come back to haunt me. So, at the time we could originate and sell these mortgages, and they were very profitable on the surface in the short term, and we were criticized for not doing it.

But here’s an interesting thing. I didn’t personally make that decision. The man who runs our mortgage department, Tim Dale, made that

On Money, continued



“The business of a moneylender has nowhere, nor at anytime, been a popular one. Those who have the resolution to sacrifice the present to the future, are natural objects of envy to those who have sacrificed the future to the present. While the money is hoped for, and for a short time after it has been received, he who lends it is a friend and a benefactor: by the time the money is spent, and the evil hour of reckoning is come, the benefactor is found to have changed his nature, and to have put on the tyrant and the oppressor. It is an oppression for a man to reclaim his own money; it is none to keep it from him.”

—Jeremy Bentham



“Money never starts an idea; it is the idea that starts the money.”

—W. J. Cameron

But please do not think that I am not fond of banks,

Because I think they deserve our appreciation and thanks,

Because they perform a valuable public service in eliminating the jackasses who go around saying that health and happiness are everything and money isn't essential,

Because as soon as they have to borrow some unimportant money to maintain their health and happiness they starve to death so they can't go around any more sneering at good old money, which is nothing short of providential.

—Ogden Nash, “Bankers are just like anybody else, except richer”

decision because he understood the culture at BB&T. He believed that pick-a-payment mortgages were not consistent with our values.

We had mortgage originators who left us and went to work for Countrywide. We were glad they left in the sense we do not want people working for BB&T who are not committed to treating our clients fairly.

But you can't absolve the clients of moral responsibility, either. We had plenty of clients who came in and we told them this is a bad product for you. And they said they wanted to buy a bigger house—I'm going over to Countrywide! Now they're broke and they deserve it. I do think Countrywide outsmarted some people, but on the other hand there were a lot of consumers who consciously made this decision and should have the negative consequences.

Kaizen: Even though BB&T was financially healthy, it was required to participate in the federal government's Troubled Assets Relief Program (TARP). Why was that?

Allison: I was personally adamantly opposed to TARP. Particularly—this is a little complex—as it was originally presented. I thought saving unhealthy institutions was bad for the economy in the long-term. I was the only CEO of a large financial institution who wrote Congress, actively lobbied against TARP, met with Congressmen, etc. I failed, obviously.

The day after TARP passes we got a nice call from one of our regulators. They would say they said something different than this, but this is really what they said. In bureaucrat-ese they said: “Look we've had these capital ratios for banks for 20 years, and you guys have way more capital than you need by these ratios. But we have decided, under this current environment, we need new capital ratios. We don't know what these new capital ratios are going to be, but we know that you don't have enough capital under these ratios unless you take the TARP money, and we've got an audit team ready to come in to audit you unless you take the TARP money.” We said, “Please send us the TARP money.”

It was a rip-off, by the way, for healthy banks because we had to pay a high, above-market interest rate, and the government took warrants in our stock, and we didn't need the money. Of course, they came back in and did the “stress test” and decided we were already properly capitalized.

Kaizen: After seeing BB&T through the crisis, you retired at the relatively young age of 60. What led to that decision?

Allison: There are two reasons, one from an organizational perspective and one personal. Organizationally, I have observed a number of very successful, long-tenure CEOs where the or-

ganization did very poorly after they left. I think a CEO ought to be judged five years after they leave. One of their obligations is to have a succession plan so there is reasonable probability the company is still going to be doing good for five years because of the people they put in place. So I felt a moral obligation to help ensure BB&T's success after my retirement.

Five years before I retired we put together a conscious plan and talked with the board about it. We brought in new members to executive management who were younger, yet who had been with BB&T a long time, were proven managers, had largely come out of our management development program, but were the next generation. One of our team wanted to stay, my successor Kelly King, which worked well for everybody. We just executed that plan.

Now on a personal level, this was good for me. I truly loved the job, but being CEO for 20 years you run a risk of becoming arrogant even if you try to fight it. I felt like I would enjoy doing something different that took me out of my comfort zone and, as exciting as the CEO job was, I could visualize being interested in other things and excited about other things. I told people while I was technically retiring, I didn't think of myself as retiring—I thought of myself as changing jobs. In fact, my wife says I flunked retirement, and that's fine. I wanted to do something different.

Kaizen: Looking back, what was the best thing to you personally about being CEO of a top ten bank?

Allison: Well, the process of building a business is great fun. It was enjoyable having a vision and seeing the creation of that vision. On a personal level I really enjoyed seeing people grow and be fulfilled in their work. I saw some people do jobs they never would have expected they could do, and do them extremely well. I felt like maybe I'd helped them do it.

Kaizen: What was the most challenging thing for you about being CEO of a top ten bank?

Allison: For me the regulatory environment was always difficult because, not only was it a problem practically, philosophically it was a deeper problem. I felt like we were constantly being forced to do things that were economically destructive in the name of “politically correct” dysfunctional ideas. There was a huge waste of resources in the economy and a huge waste of resources in our industry, driven by policies that sounded good where people did not understand the consequences. The power-lusting of regulators was very difficult to deal with.

Kaizen: What is next for John Allison? What projects are you working on?

CONTINUED ON PAGE 8

ALLISON, CONTINUED

Allison: My passion is defending individual rights and free markets. I'm trying to do that in a number of ways. I'm trying to do it educationally by teaching students here at Wake Forest University. I speak a lot on other college campuses about Principled Leadership, which is really the values that individuals need, which are also the same values that will lead to organizational and societal success.

I'm writing a book on the financial crisis that tries to both show how it happened and also focuses a lot on philosophy. The economic mistakes were driven by destructive philosophical beliefs.

Kaizen: Going back to your college years, in retrospect what did you learn there that was most helpful to you as leader of a major bank?

Allison: Understanding the technology of business and specifically the technology of finance was absolutely necessary. I don't think it was anywhere near sufficient. But I did learn a lot about business technology and the language of business, which was necessary for my career.

Kaizen: Is there anything your college education could have better prepared you for?

Allison: In business school, they didn't really teach us much about working with human beings, motivating them. They didn't talk about purpose and passion. It was much more technical. We can do a better job on how to motivate human beings to produce better results.

Kaizen: In closing, what advice would you give to young people just starting out in their careers?

Allison: My first advice would be to read *Atlas Shrugged*. This will give them context for their college experience. They'll have some really good professors and they'll have professors who are not very good. Just because they're professors doesn't make them good. The students have to develop their own judgments of whether this person is giving them the right information and taking them in the right direction. Students must think



Mr. Allison in 2009

independently and challenge the professors to prove their positions based on the facts. You must think for yourself.

And the other big thing that they need is to be clear about is developing a sense of purpose as early as they can, and the purpose is not just to get through college. If your end is to get through college, you might just care about your grades instead of learning. If you are in college to do something you consider important, you're going to care a lot less about your grades and a lot more about learning. You're going to approach every course differently. Your good professors will get that and they'll help you. Your bad professors won't care and you'll know who they are. So, it's having a sense of purpose that drives beliefs that drives behaviors that produces superior results.

This interview was conducted for Kaizen by Stephen Hicks. The full-length version will soon be posted on www.EthicsandEntrepreneurship.org. For more information about John Allison, visit <http://bbt.mediaroom.com/index.php?s=18&item=94>.

改善

IN THE NEXT ISSUE:

Francesco Clark on
Entrepreneurship and
Perserverance

