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When Leadership Becomes a Quest

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People who work in a specific industry often don't see, or respond to, the changes taking place around them, according to Richard Fairbank, chairman, president and CEO of Capital One Financial. That's because the industry's conventional wisdom is so embedded in their brains that they don't notice how stale it has become. "There's an old Will Rogers saying that sums it up," said Fairbank, who gave a talk on leadership this fall at Wharton. "It ain't what he don't know that scares me. It's what he knows that just ain't so."

Narrow-minded attitudes within the financial services industry created the opportunity for Fairbank and his then-partner, Nigel Morris, to create Capital One. Fairbank stumbled upon the idea for the company while a management consultant in the late 1980s. Today, Capital One, based in McLean, Va., is one of the nation's biggest credit card issuers, earning $1.1 billion on sales of $4.4 billion in 2003, up from $900 million and $4.2 billion a year earlier. It has 47 million accounts, offers numerous financial products and is always experimenting with new ones. Fairbank said his company does about 64,000 product experiments a year. Over the five years that ended Oct. 27, its stock returned 59.4%, more than twice the return of the Dow Jones Diversified Financial Index.

When Fairbank, in his consulting days, first studied the credit-card division of a major bank, the idea of experimenting with financial products, especially credit cards, was heretical. "The credit card business was very profitable but was run by bankers who had grown up in the traditional banking environment," he recalled. "Everybody in America had the same terms, and half of America couldn't qualify."

Banks were then charging 19.8% annual percentage rate for their cards and justifying the high cost by pointing to the significant number of card borrowers who defaulted on their debt. But as he questioned bankers further, Fairbank learned that they made little effort to explore customers' creditworthiness. They had a standard for extending credit, preferring people who had lived in their homes for four years and had never been delinquent on their loans. For example, they didn't make any effort to identify people who had been delinquent but might still be creditworthy. "I remember saying that what they needed to do - and this is radical theology in a bank - was take a sample and rebuild the credit-predictive system.

"For me, the insight that day - starting with the credit card industry and later rolling into a lot of other financial services industries - was that information technology could change one-size-fits-all marketing into mass-customized solutions for consumers."

The Breakthrough

He then approached Morris, also a consultant, and suggested that they try to start a company. The idea for Capital One was born. Unlike many entrepreneurial ventures, however, a credit card company couldn't be started in a second bedroom. "No one is going to allow you to run credit card payments in your backyard," Fairbank quipped. So he and Morris began pitching their idea to major banks. Every bank but one - Signet Bank in Richmond, Va. - turned them away.

The patience of at least one member of Signet's management team nearly ran out in 1991. Top Signet managers were meeting to hammer out the budget. Fairbank had been called before them to explain why his division still wasn't making money. "The CFO said, 'Rich, you're one of the most eloquent people I know. I have been sitting here for four years listening to your eloquence, and I can't find one dime of that eloquence in our financial statements. So I would like to go through this, line item by line item, and I would like you to show me where that eloquence is.'" Fairbank's response: "Optically, it doesn't look that good right now, but it's all about putting the right people and technology in place. We have built the infrastructure and the test cells are in the incubator incubating."

About a year later, Fairbank's division, on the brink of failure, finally achieved its breakthrough - the credit-card balance transfer. It's a financial product that has become so ubiquitous that it's hard to imagine it was created only a decade ago. Balance transfers allowed consumers to move to a Capital One credit card with the stroke of a pen. "Basically, we figured out a way to cut the price of credit from 19.8% to 9.9% APR," Fairbank said. "More important, we created a product where you would just sign [up for it], and we would do all the work to move the balances. It was an absolute success. Within a week, we had 100 people in the balance-transfer department."

Within two years, Fairbank's division had grown so large that Signet decided to spin it off, creating Capital One. Leading the new company gave Fairbank the opportunity to apply more of the lessons he had learned back when he was a consultant.

Giving, and Taking, Criticism

The first, which even Fairbank concedes is trite, was that people are the most important asset that any business has. And a big part of a chief executive's job must be recruiting and motivating them. "You can't find anybody in corporate America who doesn't agree with this, but their actions are inconsistent with that statement," he says. A typical Capital One executive spends 10 to 20 hours a week on recruiting, he noted.

Fairbank also believes that executives must lay out a compelling vision. "Everybody wants to sign up for something that's going to change the world, whether it's a customer service rep or the person who is going to be your successor," he said. "Everybody wants to be part of a bold dream." At the same time, leaders shouldn't let their desire to be bold overwhelm their humanity. If bosses show themselves as they really are, people are more likely to want to work hard for them and cooperate with them. Fairbank calls this quality "authenticity" and for him, it entails "being vulnerable, being honest and showing your weaknesses as well as your bold dream."

Authenticity requires not only giving honest criticism but also being willing to take it, he said. Executives have a difficult time getting good feedback. Employees tend to be swayed by the power of an executive's vision or position, and may say what they think the boss wants to hear, rather than what he or she *needs* to hear.

To address this problem at Capital One, Fairbank hired an executive coach who was trained as a psychologist and had worked as a corporate executive. The coach talked with Fairbank and company employees, gathering "feedback from everybody and giving it to me straight between the eyes."

Seeking out criticism and accepting it also engenders a humility that Fairbank says leaders must have. Their bold vision can't be all about *them*. "What allowed us to pull off Capital One within a small Southern bank was that we said, 'Without the bank we are nothing.' We had been rejected by every other bank ... And at the end of the day, I think they were rooting for us because we had a reverence for them."

One of Capital One's best employees ever - a man Fairbank would identify only as Chris - had that same sort of reverence for fellow employees and their contributions. One day, Fairbank arrived at his office to find a note from Chris taped to his chair. The tape stretched from arm to arm, preventing him from sitting down. It said that two people in the compliance department had worked most of the night to ensure that a solicitation could go out and Chris was asking Fairbank to call and thank them, which he did. "Chris was one of our most successful people ever, even though he had many weaknesses as a businessperson. What people saw in Chris was that every day he lived this notion of, 'Without you, I'm nothing.'"

Fairbank's final leadership lesson - as much personal as professional - is one that he learned from his father. Bill Fairbank was a scientist at NASA who spent much of his career working on a project to prove Einstein's theory of relativity. He devised an experiment that involved sending a gyroscope into space. In 1980, Congress cut NASA's funding and the project died. But Bill Fairbank gathered letters of endorsement from five Nobel laureates and, with the help of several federal lawmakers from California, got the funding restored.

"My dad taught me a fundamental truth - that success isn't about titles and compensation. It's about having a dream, a quest. He used to say that, 'It doesn't matter how big the quest is. What matters is how pure the quest is. You can own your own success by virtue of defining it as a quest.'"

Without that advice, "There would have been no Capital One," Fairbank said. "There were times when people said, 'I don't know if we're going to make it another day.' And they would add, 'What are you going to do if you fail?' I would say, 'I wouldn't view it as failure. I would view it as feedback. We will learn from it and go on.' That may have been a rationalization, but it came from the power of my dad and his quest."