



AmEx's Ken Chenault Talks about Leadership, Integrity and the Credit Card Business

Published : April 20, 2005 in [Knowledge@Wharton](#)

According to Kenneth I. Chenault, chairman and CEO of American Express, adaptability is one of the keys to company success in the rapidly changing terrain of the global marketplace. Applying Darwinian theory to the business domain, he told a Wharton audience on March 17 that "it's not the strongest or the most intelligent who survive, but those most adaptive to change. Over the past 10 years, the need for, and focus on, adaptability has accelerated."

Chenault himself is busy carrying on AmEx's 154-year tradition of continually reinventing itself. "With the politically tough environment of world affairs, we are in a more chaotic time than perhaps ever before. It's critical for a global company to balance its resources and to have people who understand different cultures" and can act quickly in changing circumstances, he said. Chenault cited a recent survey that asks CEOs what marketplace issues will have the biggest impact on their businesses. "The leaders are more concerned with the external issues of world affairs than they are with the economic environment," he noted. "That's a major change from even three years ago."

A second key element of survival is leadership. "Many companies are struggling, and American Express is by no means perfect," said Chenault. "Any company, no matter how strong, is going to experience some difficulty. The question is, how do you develop leaders to manage in these times, how do you retain them and how do you excite them? That will be a continuing challenge for American Express and others."

Chenault believes that it's a lot easier to be a good leader in good times than in bad, but a reputation for leadership over the long term is established during times of change. "Today, the stakes are incredibly high. The need for leaders to stand for something and act from principle is more important than ever. Things that were acceptable five or ten years ago will today cost you your career. You can make a few mistakes, not a lot ... a few. But if your people believe that you have the right values, they will tolerate a few mistakes. In fact, they will stay with you. They want to see that you are decisive and compassionate, because you are asking people to take risks, to take chances. But don't confuse compassion with a reluctance to act decisively when necessary."

"There has always been a focus on the rational aspects of leadership and the intelligence required of leadership," he said. "I think it's absolutely essential. But what I have seen in companies throughout my career is that if you are not clear on who you are, on what it is you stand for, and if you don't have strong values, you are going to run your career off a cliff."

Mentors, High and Low

Chenault openly professes his own missteps in leadership. "The mistakes I have made in my career have generally been around speed, in not moving fast enough. I have seen leaders get very strong results in the beginning and then be seduced by those results and not understand the corrosive effect they can have. What I have found in myself is that I should have moved faster on some of the difficult decisions I have



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had to make."

Mentoring is a topic about which Chenault is passionate. "Most people seek mentors at a very senior level," he noted. "My experience is that the best mentors are not always high up. One of the things I have been able to do is form some mentor relationships with people who were relatively low in the company structure but whom I admired for how they operated and what they stood for. They gave me incredible advice and said to me, 'Here are the senior people who are phony; stay away from them.'

"I have also had mentors at a high level, like Lou Gerstner. The issue is not forming a strong personal relationship. That's fine if it comes, but the way to form a mentor relationship is to network off your performance. You don't want to be beholden to the mentor and have him control your life -- because if something happens to him, you have problems. Choose mentors whom you admire and want to emulate. Look up and down in an organization for a mentor. Examine who seems to know what they're doing, who shows good judgment. Power is nice and it's useful, but in a mentor relationship, judgment is more important than power."

Chenault sees six character traits as the foundation for becoming a skilled leader. The first attribute is integrity, and he believes it is this core principle upon which true leadership is built. "Many people construe 'integrity' to mean being honest," said Chenault. "That's a piece of it, but it's really about being consistent in words and actions. When you are trying to lead others, they look for consistency. I want people to have a will to win, but I want them to win with integrity."

The second trait is courage. Chenault invites confrontation and debate. "To me, it's not personal. I want you to argue with me. It requires courage to offer a different perspective and challenge current or popular views. It requires courage to speak out, especially when one doesn't personally benefit from it. To build 'followership,' one has to be courageous and orient always from the core value of integrity."

As an example of courage, or the lack thereof, Chenault cited *Conspiracy of Fools: A True Story*, which he read on a return flight from Thailand 28 hours before speaking at Wharton. "*Conspiracy of Fools*, which was about Enron, revealed that Enron had terrific values, but they weren't values in action during a crisis. People saw things happening but didn't have the courage to speak out and say, 'I will not compromise my integrity.' Does a company, do people, have values that they [adhere to] in good times as well as times of crisis?"

The third characteristic is being a team player. "Everybody wants to be a team player," said Chenault, "but there can be nice people who are bad team players -- people who don't engage in confrontation when that's what is really needed, people who don't give feedback. I look at whether the person helps the team improve."

The fourth strength is execution skills. "Today, people are focused on IQ, but executional quotient, EQ, is just as important. If a person has a match of IQ and EQ, he or she has an incredible personal commitment and can be an incredible force. Disparity between IQ and EQ means that person is just focused on himself."

The fifth attribute is development of people -- helping others succeed. "I judge the success of a leader by the success of the people who are the followership. I look at the results. Is this a person who facilitates the achievements of others and who has the capacity to get people to willingly follow? And finally, the sixth leadership trait is being proactive. A leader has to take action and make things happen."

The 'Tyranny of Averages'

Being proactive seems to come easily to Chenault. He joined American Express in 1981 as director of strategic planning and became CEO and chairman in 2001. That's when he stepped back and took a look

at the long view. American Express had been achieving double-digit revenue growth for years. "In any situation, there are always hundreds of drivers, but from a leadership standpoint, you had better understand what the two or three drivers are that will make a difference. In our business, the two drivers are: How is the stock market doing, and what is the cards billing growth rate? From 1980 to 2000, our stock growth rate varied between 12% and 16% and revenue from credit cards was up 14%.

"People tend to look at what I call the 'tyranny of averages,'" Chenault said. "They look over a five- or ten-year period and don't focus on the down periods. You can look at a ten-year average but often there are incredible changes within a 12- to 24-month period, so you can't just look at that smooth line.... When I stepped into the CEO role, I said I didn't want to depend on that level of growth continuing and wanted to pursue a flexible, adaptable business model with a billings growth rate of 6% to 10% and a stock growth rate of 8%. This was not popular, but I felt it was necessary from a competitive standpoint. What I didn't expect was the rapid change that came in 2001."

American Express lost 11 employees in the terrorist attacks of 9/11, which also affected business at the office location across the street from the World Trade Towers. In addition, the company was hit by the severe economic downturn experienced by all businesses nationwide. Chenault instituted a number of changes to adapt to market conditions. One was a shift from an off-line business -- telephone, in-person and mail transaction -- to an on-line, Internet-based business. Another was to reduce the workforce by 15%. "We had to focus on the moderate and long-term," explained Chenault. "In volatile times, leaders are more closely scrutinized. Employees will look for constancy from their leader. If you cannot step up in times of crisis, you will lose credibility and followship."

American Express will be spinning off the less profitable American Express Financial Advisors later this year to stockholders. The move will allow American Express to focus on its core business of cards and payments -- credit cards, corporate travel and entertainment cards and travelers checks. While the performance of American Express Financial Advisors, relative to other areas within the company, has not been strong, it remains a tough competitor within the domain of other financial advising firms and is expected to benefit from stock value increases, as is American Express itself.

Indeed, the company overall is on a roll. Revenues for 2004 were \$29 billion and net income was \$3.4 billion, both up 13% and 15%, respectively. It is poised to capitalize on a new market area of bank-issued credit cards this year, which could yield a significant revenue stream.

That potential new business area is the result of a Supreme Court decision in 2004 to uphold a lower court ruling that Visa and MasterCard violated anti-trust laws. Following a two-year investigation, the U.S. Department of Justice in 1998 had sued Visa and MasterCard for limiting competition in the U.S. credit card market (Visa and MasterCard control 79% of that market). They are both bank-owned and bank-governed associations and have, up until recently, successfully barred the banks that own them from issuing the credit cards of rival companies, like American Express and Discover.

In 2001, a U.S. District Judge ruled that Visa and MasterCard were engaging in unfair business practices and that they could no longer prevent member banks from issuing cards of competitors. For the next three years, a series of appeals by the companies was rejected. Visa and MasterCard's last hope was dashed in October 2004 when the U.S. Supreme Court rejected a petition to hear the case, clearing the way for competition and innovation in the credit card industry.

During this time, American Express was building a bank card business outside of the United States and currently has partnerships with 85 banks in 94 countries. The Supreme Court ruling clears the way for U.S. banks to issue credit cards bearing the American Express logo. American Express will now go head to head with Visa and MasterCard to increase its market share of the \$2.1 trillion bank card business.

American Express is pursuing what it hopes to be a lucrative series of partnerships, including deals with

both CitiBank and MBNA, the world's largest issuer of bank-based credit cards, to offer American Express cards to U.S. customers. American Express is pursuing similar relationships with other banks that are a strategic fit with its brand and can drive high-spending customers to the merchants who accept the American Express card.

Touted by Chenault as being akin to the break-up of Ma Bell, the Supreme Court ruling is expected by some to bring sweeping change to the credit card industry, such as a significant increase in innovative bank card product and service offerings.

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