

From: Umezaki, Kentaro <kumezaki@lehman.com>
Sent: Thursday, April 19, 2007 5:14 PM (GMT)
To: Tonucci, Paolo <ptonucci@lehman.com>
Subject: FW: Feedback

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> From: Umezaki, Kentaro
> Sent: Thursday, April 19, 2007 10:18 AM
> To: Freidheim, Scott J; Lowitt, Ian T; O'Meara, Chris M (NY);
> Reilly, Gerard
> Cc: Archer, Mary Pat; Gelband, Michael; Umezaki, Kentaro
> Subject: RE: Feedback
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> All:
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> Thanks for each your responses. Totally get all your points. Two
> more clarifications from me below. Obviously we should talk at some
> point as a group as opposed to emails. Looking forward to that
> opportunity.
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> A. Process: I have no issues with the process of vetting the content
> on any of the communications recently. We actually do a very good job
> of that today. Mary Pat is unquestionably the right person: she
> speaks for FID absolutely. (In fact in this MD instance, from what I
> understand, we did debate whether we should add something to the
> effect of "growing responsibly" (NPE dilemma etc.). It just didn't
> make the final cut).
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> B. Content: It may not have been clear from my note that the bulk of
> the issues I raised are around the content consistency of the messages
> that come from the various corporate areas to the business decision
> makers, specifically trading managers and traders. The messages come
> in "fragments" from different groups, not as a whole. That's what I
> would like to improve. My detailed views are below if you want to
> read them.
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> Thanks,
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> Ken
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> Communicating the strategy to trading heads/traders: here's the
> logic.
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> 1. Who owns the responsibility of managing to our capital
> constraints?: Executing on our capital strategy largely falls on
> these trading heads/decisionmakers, as opposed to IBD, IMD, sales,
> research, Corporate etc. Capital constraints that we have do impact
> our trader's collective daily behavior, which impacts our revenue
> outcome. This capital management is an "additional element" if you
> will that not every LB person deals with regularly.
>
> 2. Incentives and motivation: the majority of the trading businesses
> focus is on revenues, with balance sheet, risk limit, capital or cost

> implications being a secondary concern. The fact that they haven't
> heard that those items matter public forums from senior management
> recently reinforces this revenue oriented behavior implicitly. In my
> opinion, this group is not behaving "badly": they are just getting
> conflicting messages that go unreconciled ("grow revenues" from FID;
> "manage balance sheet" from Finance, if you will). We also don't
> have a strong enough mechanism to reinforce "better" behavior around
> these non-revenue metrics, as comp is tied to revenues at the
> divisional level. Tough problem to solve given the way we incent
> today. We've been debating this for a good decade now.....
>
> 3. The dilemma of a "unified" message: the capital/risk taking side
> of the business cannot hear a "different" message than the client side
> of the business from senior management. If bankers and salespeople
> don't know that we have capital constraints (if that is the message?)
> then we will never deliver as Scott called it a "One Firm" view.
> Ultimately, this is what I think makes the unified message objective
> for the firm very challenging. Example which we've debated for
> years: was even a topic in FLA: Do we or don't we have a limit on
> how much HY LBO related lending/commitment exposure we can have at any
> given time? There has been no real "one firm" outcome to date in my
> opinion. I'm not the only one who has this view in FID.
>
> 4. Communicate to FID: Given we run a relatively decentralized
> organization in FID, there are probably 40+ key decisionmakers that
> are 1 step "below" Mike's directs that need to hear the more detailed
> consistent message. This is the population that are making capital
> decisions everyday that don't have enough visibility into what is
> going on "upstairs" if you will.
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> From: Freidheim, Scott J
> Sent: Wednesday, April 18, 2007 1:07 PM
> To: Umezaki, Kentaro
> Cc: Gelband, Michael; Archer, Mary Pat; Lowitt, Ian T; Reilly,
> Gerard; O'Meara, Chris M (NY)
> Subject: RE: Feedback
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> Ken:
> Communicating our Firmwide strategy is a priority. We are doing a lot
> about it and have a process to get everyone's input. On what we're
> doing first. This is the basis upon which Dick has revised his year
> end webcast and remarks to senior leaders following the 4th (2006) and
> 1st (2007) quarter earnings releases. Additionally, we have done a
> lot of work to launch a Dear Colleague articulating the Firm's
> strategy followed by a Dear Colleague articulating our acquisition
> strategy shortly thereafter. We also are planning to run four sets of
> strategy posters for the elevators globally starting monday....each of
> the four elements of the strategy will run separately during the
> course of a five week period. Screen savers will run for two months.
> All of the CAOs have reviewed and signed off on the first Dear
> Colleague and are being sent the poster series next for comment. The
> current plan is also to have the Firm's strategy to be featured in the
> next firmwide newsletter....just as the current newsletter being
> desk-dropped next week features Prime Services. In Europe, we have
> launched a strategy webcast with Jeremy that is live q+a - he has done
> one and is set to do the next in June. In Asia, Jesse is doing it via
> town halls. Dick has already done the town hall in Europe and is set

> to do Asia in May. Clearly, we need to be completely together. I
> think we have a good process in place. Anywhere you think we should
> modify how Dick or any Firmwide piece would be welcome input and
> should be funneled through Mary Pat unless you disagree. I assume
> CAOs speak for divisions and regions. Dick's remarks were sent to all
> CAOs and we received comments from many (including FID). I am adamant
> about ensuring that all divisions and regions sign off and that
> everything we do is One Firm. Please comment on any of the materials
> and we can incorporate/revisit anything to clarify. Having the right
> messages is incredibly important. Thank you for the note, as it
> matters.

> Scott

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> From: Umezaki, Kentaro
> Sent: Wednesday, April 18, 2007 10:45 AM
> To: Lowitt, Ian T; Reilly, Gerard; O'Meara, Chris M (NY); Freidheim,
> Scott J
> Cc: Umezaki, Kentaro; Gelband, Michael; Archer, Mary Pat
> Subject: Feedback

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> Ian, Scott, Gerry and Chris:

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> Given our balance sheet belt tightening effort in FID, I thought you
> should get the following feedback post Dick's MD talk last night from
> some of the business people in FID.

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> Basically, they heard we don't have a balance sheet problem: in fact
> we have excess capacity given our growth in equity and so we have to
> work harder at putting capital to work: Goldfarb's group, more
> principal trades, find bigger trades to do etc. etc. Their view is
> that the message we are sending from Corporate/Finance and "FID
> central" around Q2 balance sheet target, ratings upgrade etc. is
> contrary to the basic message from the chairman:

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> 1. Inconsistent Messages: As I have said many times already in the
> past, I continue to be somewhat confused as to what the real
> objectives of the firm are around managing financial and risk
> constraints vs. revenue growth. I found I could not adequately
> respond to the people's questions in a way that I felt was credible.
> As we go thru our process around controlling our balance sheet targets
> more efficiently, I'm pretty sure this will come up repeatedly as
> well. As FID is the largest consumer of the firm's capital
> resources, personally I feel I need to get "re-educated" on this so I
> can represent the views of the firm better. FID can't be given
> unresolved conflicting messages from "CAO vs. Chairman", if you will.
> What's the answer?

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> 2. Balanced Communication: I would very much appreciate it if we
> could get better going forward at sending a more consistent message to
> the organization in these public forums? Of course I totally
> understand the "motivational" aspects of Dick's presentation. But,
> even a simple statement that we are currently on watch for an upgrade
> and it's important to strive for AA for <x> reasons; the importance of
> growing our business in a "fiscally responsible way" etc. would have
> been sufficient to balance the message. (I don't believe "we are
> striving for 22-24% ROE" is sufficient, by the way: too vague).
> Otherwise it's an unfair "fight": revenue growth is what we in FID
> heard from Dick. He didn't say manage our balance sheet.

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> Unfortunate, but one sentence is all that is/was needed, in my

> opinion.
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> 3. Let's articulate the strategy!: I think it is time (again) to draft
> a composite message from the differing objectives amongst the
> constituents in the firm's Corporate and Business areas. Sort of a
> "big picture" strategy piece like what Goldfarb presented in FLA a few
> years back. If there is a composite message from the Firm around how
> to grow responsibly, we MUST be able to articulate it? If we don't
> want to do this for some reason, then I'd like to understand the real
> reasons behind why we don't.
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> In a basic sense, there should be a "living/breathing" document that
> we can continuously recirculate/recalibrate as to what our long term
> goals are and check ourselves as the markets change the rules. A way
> to do this, perhaps, is to articulate our strategic "non-negotiables":
> maybe AA rating is one of them, for instance. Maintaining our culture
> could be another. Cross cycle ROE of 20%+ could be another. Revenue
> growth that exceeds our cost growth could be another. Etc. The
> non-negotiable objectives put no constraints on what we can achieve as
> a firm, but do put reasonable "caps and floors" on how and how quickly
> we can achieve them. There are probably 10 or so of these, and all of
> us know what they are, yet we rarely transform/translate the
> non-negotiables into financial objectives: financial objectives being
> what our people really understand.
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> In my opinion, we all (including me) gotta get our act together better
> around this stuff given how big a set of businesses we are running and
> how many "new" people we are adding into team LEH every day! Thanks
> for e-listening. Would like to hear your views.
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> Regards,
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> Ken