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Corzine's MF Global and the Walter Mitty Syndrome: Would You Make Money in Your Own Company?

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MF Global, a major securities firm recently went bankrupt. The immediate cause was over-exuberant investments in European sovereign bonds.

Not such a big deal in itself except for one thing. That is that Jon Corzine, the CEO, was previously the Chairman of the world's most successful financial services company, Goldman Sachs, as well as having been a recent Governor of New Jersey.

How come a hugely successful and wealthy CEO could be so successful in one company and such a massive failure when he ran his own operation? Are there lessons for those who want to go out our own? What does it mean about leadership generally?

Pity About Mitty

Walter Mitty was a fictional character in a famous book "The Secret Life of Walter Mitty" by James Thurber. On the outside he is a meek and mild character but hidden from others he has a vivid internal life in which he assumes the character of an exciting person he aspires to be, a pilot a surgeon, always some kind of hero.

How many of us also are Walter Mittys who dream of becoming a Warren Buffett, Bill Gates or Steve Jobs? How many people who have worked in large companies for many years dream to have their own businesses in which they are their own bosses? In which they are free to do as they please without a suffocating bureaucracy that stops them from being as creative as they would otherwise be? Who can follow their own strategies not those of a fusty corporation? And of this number, of which I am certain there are more than a couple, how many are Walter Mittys and how many are the real McCoy?

And what would happen if you did indeed achieve that dream of starting your own company? Would you be able to survive on your own? Would you prosper? Would you make money? Or would you instead find yourself bankrupt, and not even able to get back the job you hated? Like Jon Corzine of MF Global. That's the question we are going to examine here.

Dream Weaver

Corzine was an investment banker at Goldman Sachs for almost 25 years rising to Chairman and CEO of the firm. Before that he was also a banker. From 1999 to 2010 he was in politics, first as a Senator for New Jersey and then Governor from 2005-2009.

Corzine joined MF Global in 2010 so he didn't actually go out on his own in the sense of starting his own company. It wasn't doing very well before he came. However in fact he did transform the company in his own image from a brokerage to an investment bank with substantial proprietary trading. In this sense he did go out on his own and remade the company into something he felt it should be.

At Goldman Sachs, Corzine was CEO. However in this situation he was following in the tracks laid down by many other people in the company who went before him. In that position he wasn't an entrepreneur but a steward, albeit a partner, who took over running an existing operation from other stewards, who were also partners.

At MF Global his role changed from steward to entrepreneur, starting off a totally new direction for the company. Instead of following what had been paid down by those who preceded him, he became an initiator. At Goldman, the company's results were the results of a team that had operated there over many years. At MF Global, for the first time, at least in business (as distinct from his role in government), the results were directly attributable to him.

Maybe that was what happened to his political career also. As a Senator he was a follower. Once he moved to Governor he was a leader where results could be attributed directly to him. So maybe his drive to self-actualize played out in both the private and the public sectors in rather the same way.

Highway to Nowhere?

In MF Global the result of his leadership is unequivocal: failure. It is even possible that other issues are involved since some $600 million of client money has yet to be accounted for. ***<u>How is it that a man who could lead one of the most profitable companies on the planet was able to take an admittedly marginal but nonetheless surviving company to a massive bankruptcy within a period of one year?</u>***

<u>There is a long and ignoble history of CEOs who have appeared to be very successful when with a corporate parent but who failed ignominiously when they went out on their own, or taken over as CEO and put their own stamp on the company.</u> These CEOs include John Sculley (PepsiCo to Apple), Carly Fiorina (Lucent to Hewlett Packard) and Al Dunlap (Scott Paper to Sunbeam).

General Electric has often touted as the leadership incubator par excellence for successful CEOs but many of its alumni have also experienced failures (albeit not as spectacular as that of Jon Corzine). These include Bob Nardelli (GE to Home Depot), Lawrence Johnston (GE to Albertsons) John Blystone (GE to SPX), and Gary Wendt (GE to Conseco).

These are some of the more infamous Walter Mittys of the business world. Each had spent many years in large corporate environments where their contribution could be called into question and attributed to the firm's strength and to its other leaders, both current and past. ***These failed leaders aspired to show the world that their apparent success in a corporate environment was not due to luck and the efforts of others. They were driven to show that their success was due purely to their own business acumen and genius.***

PhD in Losses…

We have developed behavioral assessments for business acumen in the Perth Leadership Institute. These assess people, mainly managers and executives of companies, on what we call their "behavioral propensity to create capital"; another way of putting this is to say it predicts who will make money and who will not.

We have tested large numbers of business managers and executives, including CEOs from numerous companies all over the world. ***<u>Our results show that around 12% of those tested will create capital. Of the other 88%, around half will neither create capital nor consume it. The other 44% will consume capital, that is, lose money.</u>***

The everyday meaning of these results is that most people don't naturally have the behavioral traits to make money. That is, unless they figure it out and manage to change, which very few people do.

And these results are not affected by level in the organization. ***CEOs have exactly the same distribution on this assessment as do lowly employees. In other words, most people will consume capital, even if they are very senior.*** Moreover these results are not affected by level of education. ***<u>You are just as likely to lose money if you have an MBA as if you have a high school education.</u>***

Actually it gets worse. Our results show that if you have a postgraduate degree, you will actually do a little worse on these assessments. And, yes, it gets even worse than that. If you have a PhD you are even more likely to consume capital, as measured by our assessments.

Too Senior to Fail?

Looked at in this way, it isn't so surprising that Corzine went bankrupt in his own firm. Despite his exalted position as Chairman and CEO of Goldman Sachs, our results predict he had a 12% chance of making money in his new position and an almost 50% chance of losing it.

The person for whom this would be the biggest surprise would be Jon Corzine. He would no doubt have been convinced that his long experience in the world's most successful investment bank, his top position in it, not to mention his financial education would mean that he would automatically make a lot of money once he went out on his own.

In the trade, that is the discipline of behavioral finance and behavioral economics, this is recognized as the overconfidence bias. ***That is, you may know a lot but you have more confidence than your experience and knowledge entitles you too, and so you go beyond your capabilities***.

In this case the capabilities that Corzine went beyond were his grasp of complex financial markets in Europe. He thought he knew all about them. The record shows with absolute clarity that he didn't.

And he isn't Robinson Crusoe. The CEOs we mentioned above who failed when they, in effect, went out on their own, all had the same experience. They too failed. Our results tell us that most people in such a transition will fail.

Lies, Damned Lies and Profits

It might be objected that boards that hire an executive as CEO who has made money in the past have a very good guarantee that he will make money in the future. But this is wrong.

It is actually very difficult to tell if companies' financial results at any given time are actually due to the CEO or to other individuals on their senior executive team. First the profit structure of a company might have been set years earlier by the founder and founding team and all the CEO and executive team is doing is taking the company along the exact same path that already proved successful.

Second, profitability figures in large (and small) corporations are often very poor indicators of what is actually going on in the company; witness Lehman Brothers and AIG before they went down. So-called "financial engineering" in companies often totally obscures the real underlying picture of what is going on in a company. This is at least partly because managers are rewarded on current results and often have an incentive to burnish the short-term at the expense of the long-term, in totally legal ways of course.

But there's something that makes things even worse. If you are a senior executive in a company that thinks it is making money, you naturally tend to believe that these results are the result of your own smarts, not those of others. Of course, if the company is making losses, you will naturally tend to think it was the fault of the other people on your watch, or the people who came before you.

Human perception is such that we routinely deceive ourselves as to our real capabilities and knowledge and routinely over-estimate the results we will actually gain. This is especially the case if we are particularly well-educated or had great grades at university.

If we are particularly experienced or particularly senior, especially in a very famous financial company, we are going to be even more confident in our own capabilities. Why would the company hire me if I wasn't an over-achiever too? ***This is another way of saying that if you are in any of these positions, your level of self-awareness is likely to have been heavily, if not fatally tainted by over-confidence.***

Get Mogulized

So how would Walter Mitty have fared had he really managed to get a senior business position in real-life or started his own company? Well statistically he would have had a 12% chance of making the money he dreamed about, a 44% chance of not making them, but of not actually losing them either, and a 44% chance of losing the very billions he had imagined he would make.

However there is a caveat. If Walter Mitty in real life was an introspective type, a little quizzical about his own capabilities, then he would have stood a better chance of doing better. ***That is because this very habit of questioning his own capabilities would have reflected a higher level of self-awareness that improves your chances of performing better.***

So we can see that if someone can work on their self-awareness their chances improve. However if you come from General Electric (as an example) and are convinced that you are one of the chosen few– a reflection of over-confidence – then your chances suddenly plummeted, just as happened with luminaries such as Bob Nardelli and Gary Wendt. Not to mention Jon Corzine.

And what about you personally? Can you do better than these people, even if you are only starting up a small company? Well you have the same 12% chance that your behavior is naturally money-making and an 88% chance that it is either neutral or money-losing.

However if you take steps to become self-aware, and to figure out exactly what components of your behavior are reducing your business acumen in practice, then the chances that you will make money will improve. However not to 50/50, maybe more like 20-25%. So it's not a slam-dunk.

If there was any other outcome we would all be billionaires. The fact that we aren't tells us something very important about the natural percentages of people in the general population with money-making behaviors. There's very few of them. Maybe Jon Corzine forgot about that.

Don't Become a Legend

You may have heard about Icarus, the Greek God who tried to escape Crete by flying on wings made of wax and feathers. He flew too close to the sun, the wax melted and he fell to his death.

The Walter Mitty syndrome is as ancient as Greek legends and humans themselves. It's the desire to reach high, so high that you go beyond your own capabilities, and then are destroyed in the process. We have seen many examples in the last few years, Fuld at Lehman, Skilling at Enron. Jon Corzine is just the latest example. If it can happen to them, it can happen to many others too.

What about your company? How many Walter Mittys do you have in it who don't realize it? How many have you hired? How many are already there trying to get out of the Walter Mitty trap but still trying to hide it from others and themselves?

There is an answer. Programs can help. With some training people can make changes. They can be more self-aware and a little less over-confident. It's a behavioral issue. Executive training organizations need to take note. Walter Mitty is a fable. Jon Corzine isn't.

Recommendations

For those of you who have read our previous articles and writings, these recommendations won't be too surprising.

- **Introduce business acumen as a formal subject into leadership and executive training**
- **Integrate business acumen assessments into them in order to help participants increase their level of self-awareness.**
- **Focus particularly on the cognitive biases that lead to business failure**
- **Demonstrate how over-confidence is a common cause of executive and company failure**
- **Develop and teach ways to encourage a higher level of self-awareness in executives about their own true capabilities, or lack thereof.**
- **Teach ways to compensate for behaviors that lead to inappropriate capital-consuming and money-losing situations.**

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