



The Magic In Mistakes

By: Alan Quasha, Quadrant Management 12.21.07

How did so many talented and informed people in the high ranks of savvy financial institutions become active, collective participants in the colossal crisis now roiling the U.S. financial markets? This is the primary question on the minds of business and government leaders at home and abroad. But the more important question: What can be learned from this mess?

To answer that, we first must acknowledge what should be obvious: Mistakes happen. And, in fact, contrary to popular perception, that's a good thing. As the great UCLA baseball coach John Wooden once said, the team that makes the most mistakes wins.

Mistakes only become a problem when very smart people or institutions lack the humility to acknowledge the likelihood of mistakes; fail to adequately plan or measure downside risk; or dismiss information that challenges a decision in favor of data that reinforces initial beliefs.

History consistently shows that success comes not from playing it safe, but by expecting to make mistakes, learning from them quickly and using that knowledge to devise a winning strategy. And the lessons are no different in the current situation. Many of the institutions that have avoided the current mess--like **Goldman Sachs** (nyse: [GS](#) - [news](#) - [people](#)) also happen to be those that have typically taken the most risk.

As a society, however, we are trained from our earliest days to be afraid of mistakes. We learn to react to mistakes with anger--outrage, on one hand, and fear on the other. We operate in a system in which we're rewarded for not making mistakes and punished when we do make them. Rather than make or admit mistakes, we tend to either be risk-averse or try to cover them up.

What's missing from this equation is growth and integrity. To learn from mistakes, we have to admit them early. To avoid big mistakes, we have to acknowledge at the outset that they are a possibility. Appropriately so, risk managers are increasingly becoming top firm managers--and firms with greater risk management controls set themselves apart from those that don't.

Better risk management is certainly part of the answer, but the larger part of the answer lies in the constant search for better solutions and continuous improvement that begins with a constructive attitude toward mistakes, which leads to early recognitions, and in turn, to learning, growth and improvement. This virtuous cycle leads to the most important asset a person or organization can have: integrity.

There can actually be a certain magic to mistakes, because if we consider in advance that we are likely to make them, we are then free to face mistakes early and treat them primarily as information we can share with others as we seek to improve the next decision and set a company--or our lives--upon the path to a sound strategy.

In an increasingly complex world, risks are often not obvious when decisions are initially made, and the consequences are increasingly dependent upon decisions others may make. This issue of "non-obvious mistakes"--and their potentially random and unknown consequences--is a very interesting one, but the answer reinforces the basic paradigm. If we embrace the possibility of making a mistake, when we make any hard or key decision, we will carefully analyze the consequences of being wrong.

Today, obvious mistakes have led to a financial calamity with very devastating effects, and even greater aftershocks are likely coming. As the chasm between Wall Street and Main Street is already too cavernous, there is a real need to recapture integrity. Leaders must begin to acknowledge and measure the downside extent of the debt crisis and explain--soon--how well prepared we are to deal with this potential downside.

A key test will come in early 2008, when institutions such as **Merrill Lynch** (nyse: [MER](#) - [news](#) - [people](#)) and **Citigroup** (nyse: [C](#) - [news](#) - [people](#)), which have already announced major write-downs, are set to release audited figures. If, at that point, it seems clear that these large financial institutions have essentially admitted to all their mistakes, and the investing public believes the value of the banks' assets, the country will begin to regain confidence in the integrity of the financial system, and we will be able to move past this debacle. If their reports appear less than credible, however, fears of a recession could easily come to pass.

Alan Quasha is founder, president and CEO of Quadrant Management, which invests in and advises underperforming, mid-sized companies as well as emerging businesses. He also serves as chairman of Carret Asset Management Group, a money management firm, and chairman of Brean Murray Carret & Company, an investment banking firm.