Jamie Dimon – Active Coper!!

By Leslie Pratch

Reading my newsletters, you'll have seen a lot about active coping. As you know, active coping is one of the three characteristics that executives need in order to lead an organization well (the others are adequate smarts for the job and motivation to lead). Active coping is a subtle concept when described in psychological terms but it easy to see when someone is demonstrating it in action. I thought that it might be helpful to you to see what an active coper in action looks like, and even more helpful if it were someone with whom you were familiar. In this newsletter and the next two, I'll take a look at three noteworthy executives who appear to demonstrate that they are active copers – Jamie Dimon, Lou Gerstner and Reed Hastings.

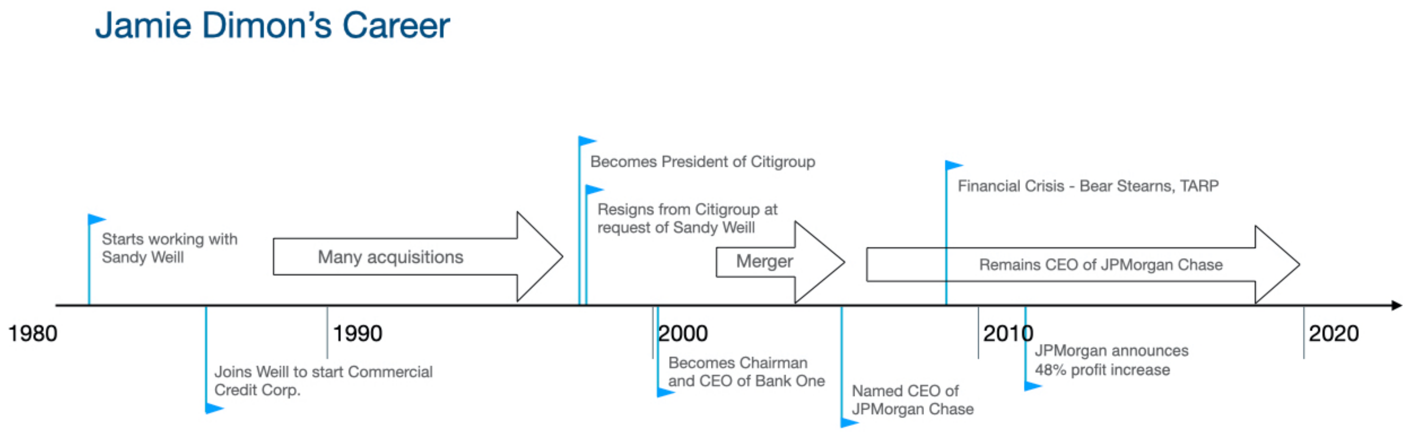
Jamie Dimon is a good example of what active coping looks like. Dimon started working with Sandy Weill at American Express in 1982. He left American Express with Weill and built what became Citigroup. Dimon has led JPMorgan Chase since late 2005 on a steady growth path, transforming it from a troubled firm into one of the largest and most well-respected banks in the world. Dimon also played a key role addressing the financial crisis of 2008. At that time, JPMorgan acquired Bear Stearns as it was collapsing because it was "the right thing to do for the country." JPMorgan also acquired Washington Mutual six months later. Today, Dimon is considered one of the top banking leaders in the world and JPMorgan has consistently outperformed its competitors. Its 2019 profit ($36 billion) was the largest ever for a U.S. bank. Dimon has led JPMorgan through tumultuous times dealing with crises and seizing opportunities, which is what I call active coping.

Active coping is being able—emotionally, intellectually, and behaviorally—to successfully confront unforeseen challenges and successfully capitalize on emergent opportunities. Most people, and even many CEOs, are not active copers. Some CEO's run from problems, some lash out at others, and some passionately wait and hope that problems (or even opportunities) will just go away. Active copers, by contrast, are built to be capable and eager to deal with obstacles and opportunities. The style is baked into who the person is. Active copers adapt resourcefully and effectively to novelty and change, repeatedly. They learn from experience. When they fail, they seek to learn why, and do better the next time. They don't flee constructive criticism but seek it to gain insight. They take into account the interests of others, as well as their own, and the interests of society.

The active coping characteristics are:

- face problems rather than avoiding them,
- overcome obstacles rather than giving up or blaming others,
- take into account the interests of others and of society, as well as their own,
- take advantage of opportunities that others might have failed to capitalize on,
- seek to understand multiple perspectives, so as to avoid own blind spots, and
- learn from experience.

We can see that Jamie Dimon demonstrates these characteristics in examples from his career.



Face problems rather than avoid them

In October 2008 at a meeting of the CEOs of nine of America's largest financial firms at the Treasury, Hank Paulson announced the FDIC would use the power of public credit to provide guarantees that would help revive private credit. The Treasury hoped to inject $125 billion into the nine firms through the Toxic Asset Relief Program ("TARP"). If these nine banks accepted the capital, smaller banks would more likely opt into TARP funding. The CEOs were asked to pledge to use the new capital to do more lending, which would help the economy and to modify more mortgages, which would help homeowners. "Jamie Dimon understood that in a crisis, banks can never have too much capital, and that JPMorgan would benefit from a healthier system." (Geithner, p. 238.) Dick Kovacevich of Wells was openly hostile to TARP, but Dimon told his board, "It's the right thing to do." "The board was unanimous. If this is the right thing to do for the country at this moment of crisis, that's what you do." (Novak, 2018.)

Overcome obstacles rather than giving up or blaming others

In March 2008, JP Morgan acquired the extremely distressed Bear Stearns. The deal benefited JPMorgan Chase and the financial system, but making it happen in a way that worked for all parties (including JPMorgan Chase) required relentless effort over several months, and some courageous steps along the way.

Bear Stearns had $300 billion of assets that had collapsed and it was on the verge of bankruptcy. Dimon knew that if Bear Stearns declared bankruptcy, the U.S. financial system might also fail. Ultimately, JPMorgan agreed to buy Bear Stearns, with some protections from the Federal Reserve. Dimon saw that JPMorgan was uniquely positioned to prevent the looming catastrophe and also that the acquisition of Bear Stearns would provide JP Morgan with value through its investment banking clients and securities business. Dimon knew he was the only bidder for Bear and that if Bear failed, Bank of America, Citi, and Wells Fargo might also fail.

Dimon's team analyzed Bear's books all day on a Saturday. By that evening, Dimon said he would pay $8 to $12 a share – less than current market price but more than the $0 it would be worth if Bear filed bankruptcy. But he was worried about the risk in Bear's mortgage book and told the Fed he would not buy the subprime mortgage assets of

Bear. He suggested that the Fed take some of Bear's risk. The Fed agreed and proposed a creative solution involving the Fed taking some troubled assets from Bear. By Sunday afternoon, a deal was outlined. JPMorgan agreed to stand behind Bear's obligations immediately, even though the deal wouldn't close immediately. "That was a huge risk to take during a panic, a risk someone had to take to prevent Bear's remaining customers and creditors from fleeing." (Geithner, p. 155.)

Eventually, JPMorgan agreed to take the first $1 billion of any losses from Bear's mortgage assets, and JPMorgan pay $10 a share. The deal was nearly done, but the New York Fed and Dimon's JPMorgan team would spend the next three months "locked in brutal behind-the-scenes negotiations, arguing over which Bear Stearns assets the Fed would take and how much they were worth, fighting over every security and every mark." (Geithner, p. 158.)

Take into account the interests of others and of society as well as their own

Dimon wants JPMorgan to contribute to solving problems that adversely affect society and its business. In 2014, the bank allocated $100 million in loans and grants to revitalize Detroit, which had just filed bankruptcy. The funds targeted projects in neighborhoods mostly outside the city's business center, including construction or rehabilitation housing and loans to minority and women entrepreneurs. JPMorgan has since invested an additional $100 million. JPMorgan also provided expertise and analytic capabilities to Detroit to augment its lending and grants. It has since extended its Detroit approach to a few more cities.

In early October 2020, the bank announced it would allocate $30 billion in loans over the next five years to increase Black and Latino homeownership. "Systemic racism is a tragic part of America's history," Dimon recently stated. "We can do more and do better to break down systems that have propagated racism and widespread economic inequality." (Dimon, 2020.) The funding, in response to Black Lives Matter protests' calls for an end to racist socioeconomic redlining, aims to help communities of color.

To Dimon, the role of the bank in society is not just about philanthropy or social investment. He sees the bank itself as serving both its own good and societal good. "Our paramount responsibility to society and to our clients is to be there in good times and bad times. We have a huge obligation to society — not only must we never fail, but we need to be steadfast. Never failing means having the financial strength, liquidity, margins, and strong and diverse earnings where you can weather any storm. It also means having the ability to adapt, survive and even thrive through the cycles. Steadfast means that you will be there no matter what happens, and being there means that you can continue to properly serve your clients even in tough times. In the toughest of times, it is not about making a profit. It is about helping your clients survive." (p. 18, Dimon, 2014.)

Take advantage of opportunities that others might have failed to capitalize on

As mentioned above, Dimon took the lead in accepting TARP funds to save the banking industry. Some of the other bankers, like the Chairman of Wells Fargo, were reluctant because they felt taking capital would cause market participants to view them as "in trouble." Not everyone faced with this opportunity wanted to take it.

The acquisition of Bear Stearns was also a deal that many bank CEOs might have skipped. It was a calculated risk that led to long-term benefits (and some unforeseen costs over time) to JPMorgan. Bear Stearns provided JP Morgan with value through its investment banking clients and securities business.

Learn from Experience

Jamie Dimon's grandfather was a broker who passed on his knowledge of the business to Dimon's father. His father and grandfather worked together for 19 years, and Dimon worked summers in their New York office. At the dinner table at home, they talked banking.

After Harvard Business School, Dimon went to work for Sandy Weill at American Express. Weill mentored him. Weill and Dimon left American Express in 1985 and started acquiring companies, eventually creating Citigroup, the largest financial-services firm in the world at the time. 15 years later, Dimon became CEO of Bank One and then merged Bank One with JPMorgan, putting to work what he had learned with Weill about engineering deals and integrating acquisitions.

In the 2008 financial crisis, Dimon knew his acquisitions were risky. Anticipating $6 billion for severance, litigation, asset write-downs, and other expenses related to Bear Stearns, JPMorgan set aside $23 billion in a litigation reserve fund to hedge against future legal fees and judgment. He wrote to his shareholders… "because of the risk we were taking, we needed a huge margin for error. We were not buying a house — we were buying a house on fire." (Dimon, 2008.) The financial crisis deepened, and legal and regulatory fees grew.

JPMorgan subsequently bought Washington Mutual, and was held legally accountable for the business it inherited, at least $19 billion in fines and settlements. In negotiations with the government, Dimon had to give up some protections he thought he had in place. "I did not, and perhaps could not, have anticipated such a turn of events. These are expensive lessons that I will not forget." (p. 20, Dimon, 2014.) Buying Bear Stearns and WaMu and handling the fallout were a great learning from experience moments for him.

Seek to understand multiple perspectives, so as to avoid own blind spots

After Bank One merged with JPMorgan in 2004, Dimon insisted on carrying a "fortress balance sheet." This balance sheet helped the bank survive the global financial crisis better than almost any other bank. Dimon has a reputation for being vigilant, detailed, and disciplined in seeing any potential downside. "You have to know every asset, every liability, every person. You have to know your facts." (Lee, 2019.) This openness to perceiving risks helps Dimon minimize blind spots. The purchase of Bear Stearns was marked by the same attention to detail on the risks.

Dimon looks outside his industry for ideas about how to grow organically knowing the bank can't get larger through acquisitions alone. He has talked to Jeff Bezos, for example, to figure out how JPMorgan Chase can deliver products and services quicker, better, and faster than anyone else.

He listens to shareholders and employees. During his first months at Bank One, a shareholder complained that it was nearly impossible to get a live person on the phone. In response, Dimon offered his own phone number. (McDonald, p. 154). In a 2018 interview, Dimon said that his secret to great leadership is "humility and heart." "People want to be treated with respect. They have ideas. They want to contribute. So you have to include them..." (Ignatius, 2018).

Why should you care about active coping?

Jamie Dimon is a good example of active coping. CEOs for your portfolio companies should be too. Your candidates might have good track records but not yet the sustained success under trying circumstances that marks the active coper. I can help you identify whether a candidate's previous success is luck or circumstance or if it actually reflects how they are as a person and leader.

If you are currently facing a CEO search or have a problem CEO at one of your companies, or if you'd like to learn more about how to detect active copers or work better with leaders who aren't, please get in touch.

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