



McInroy & Wood

PERSONAL INVESTMENT MANAGERS

*“He apprehends a world of figures here,
But not the form of what he should attend”*

Hen. IV pt. I

Andrew Carnegie, philanthropist and creator of the US steel industry, knew all about the personal touch. As an office boy in Pittsburgh in the 1850's, he made it his business to learn the names of the bosses he met in the street each morning so that he could greet them personally. “A great man stopped upon the street in this way seldom failed to note the boy and compliment him” in Carnegie's own words.

Today we do things differently. Ring Edinburgh airport for flight information and you'll be led into a labyrinth of automaton-like recordings from which you may never emerge. Ask the local authority who's responsible for the potholes in the road never getting repaired, and wait for the answer. Then wait some more. The local authority runs without managers, it seems. But processes, systems, and meretricious efficiency tests are a poor substitute for personal effectiveness.

These reactionary observations are prompted by the January crop of company forecasts from the City. Often running to dozens of pages, the analysts' reports explore every avenue of a company's prospects. Every ratio is calculated, every variable analysed save the one that matters most, namely the calibre of the people running the business. Strange that the City which thrives above all on personal flair and individual talent should neglect the very qualities which make it what it is.

Presumably that's because personal qualities aren't susceptible to number-crunching analysis or measurement in charts and graphs. There is also the fact that securities houses have an interest in keeping company chairmen and executives sweet; they dish out the corporate advisory mandates which attract telephone number fees, and analysts are likely to think twice before biting the hand that feeds their paymasters. Wall Street's financial bloodhound, Eliot Spitzer, was on to this scent some years ago, and having run it to earth is currently lifting a cool \$1.5 billion from a dozen of the world's leading securities firms for being, shall we say, selective about what they told to whom in their comments on companies.

Investors should focus on executive calibre because, from day to day, it is the people who make or break a business. Able people tend to go on coping well and doing the right thing, even in trying circumstances. They find their way round, anticipate the problems, stand back from the whim, the silliness, the bandwagon that's rolling over an abyss. Compare the late Arnold Weinstock at GEC with his successors: the one reflective, disciplined and effective; the others impulsive and crass. The result – riches to rubble in five years. Incidentally, keep clear of companies that change their names: the only people to benefit, usually, are stationery designers.

Able managers do the simple things well. Sir Kenneth Morrison, the creator of Morrisons Supermarkets (currently in the news) disdains gloss and showmanship, and concentrates on what matters to his business: the nitty-gritty of retailing technique. His style comes over immediately and, indeed, doing the basics well seems to be a characteristic of successful Yorkshiremen.

Someone like Sir Kenneth who has built up his own business deserves special attention from investors. That is not just because of a personal commitment to the company, in all probability evidenced by a large shareholding. Success like his virtually guarantees an independent cast of mind that is too careful of the pennies to get carried away by ego trips or empire-building for its own sake. One could hardly conceive of the late Sir Sigmund Warburg, architect of one of Britain's most innovative merchant banks, falling victim to the institutionalised lunacy that has gripped boardrooms in the financial services industry over recent years.

Of course, even able managers can get overwhelmed by circumstance, a national strike say, or a fire in the factory. But that is not the point. Allowance can be made, expectations trimmed to lay off for accident or mischance. The executive duffer, however, poses a potentially lethal threat because there's no way of anticipating the consequences of habitual incompetence.

There are a few danger signals to watch out for. Beware executives prone to use jargon or management-speak as a substitute for clarity. If a company spokesman can't articulate a clear message, there is little hope that work-mates will focus on what matters to the business. View with suspicion the manager who always seems to be a prey to adversity – poor retailing weather, 'exceptional' cost increases, government policy, the strong pound, faulty supplies. Also avoid executives who concentrate on factors outside their control, especially those who hark on about their company share price; it is the product, not the determinant, of corporate effectiveness.

Individual ability matters in itself, but its implications for group success matter even more. Able executives tend to attract and inspire able colleagues and, like healthy cells in a human body, reproduce their own attributes in those who come after them. Conversely feeble ones tend to surround themselves with clones who replicate their own weaknesses and allow problems to spread through the body of the enterprise.

Judging the people may be all very well, but there's a snag, surely, because individual investors can't know all the bosses personally. How in practice are they to measure the ability of someone they've never met?

Well, they can look at what he or she says, by reading the annual reports for example. A lucid coherent chairman's statement is a sign that the writer has thought about what's important and taken the trouble to express it clearly. An executive's record of achievement in meeting targets consistently will provide further hard evidence of his credentials. Some may find a professional investment manager useful. Part of his job is to find reliable analysts with personal knowledge of a company's management and tease the truth out of them. There's nothing wrong with a second-hand account so long as it's accurate.

Business has always been about people even if some analysts ignore them. In other circumstances their neglect might not matter, and when business conditions are accommodating even plodding executives can ride nicely in the slipstream. But in today's climate, many UK companies face a strong head-wind. Disinflation means that raising prices, the easy escape route for failing managers, is not an option. Only businesses with internally generated growth dynamics can hope to survive, and that puts a premium on able managers.

Furthermore, the giant investment institutions, through which most private savings are channelled, have to invest more or less indiscriminately in the biggest, most liquid companies. Their buying has driven up the prices of many leading companies beyond the limits of any rational assessment; precious little effort is put into separating out the executive sheep from the goats.

Thus neglected, many well-managed companies, excluded from the main equity indices in the UK and America, trade at prices which offer value and a fair prospect of reward for investors. But because such companies are inherently more risky, able management is even more critical to their success. Here then is the opportunity. Identify the men and women who can cope with a profoundly changed business world and there could be a rich harvest; ignore or misjudge the people factor and, in today's climate, the baleful consequences will overtake you sooner than you can say Marconi.

Next time a financial article or company report hits the desk, search for evidence that would encourage you to entrust your savings to the people managing the company. If there isn't any, don't part with a penny. But if there is, and it's convincing? Back to Andrew Carnegie.

The Edgar Thomson Steel Company became the corner-stone of his industrial empire. Carnegie had appointed a Mr Jones to manage it, and so well did he do the job, so skilfully pick his assistants, that Carnegie attributed a major part of his entire success to Jones. This from the man who in 1901 sold his American interests to John Pierpont Morgan for US \$480 million – now equivalent to about \$25 billion. If it happened today, nobody would trouble to mention Mr Jones.

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