FT.com
FINANCIAL TIMES
Wealth

Human Qualities in Management Matter for Long-Term Success

Whitney Tilson
Published: July 20, 2007
http://www.ft.com/cms/s/a421d560-36d6-11dc-9f6d-0000779fd2ac.html

Assessing management quality is clearly one of the most important aspects of an investment decision. To a large extent, equity investors put their hard-earned capital into the hands of management and count on it being employed skillfully and honestly. When that doesn't happen, losses typically follow.

We recently compiled for the newsletter I co-edit, Value Investor Insight, a "greatest hits" collection of insights from many of the best investors in the business. Given that the experience of others can be a wonderful teacher, I've assembled some of the best:

"We tend to be more about the jockey than the horse. It's important to understand how people are going to behave under stress. You don't have to predict the future if you know the company has the assets and management to do well in difficult times. That's when the seeds for exceptional performance are planted." *Bruce Berkowitz, Fairholme Capital*

"I'm at a stage in my career where I'd say human behaviour is the most important determinant of a business's long-term success. I don't care how smart an analyst you are; you can't really know what's going on inside a business. We want to invest not only in highly capable managers but also in those with clear records of integrity and acting in shareholders' best interests. I've found that when a manager puts his hands in shareholders' pockets once, he's much more likely to do so again." *Charles Akre, Akre Capital*

"[Hedge-fund legend] Julian Robertson was maniacal on the importance of management: 'Have you done your work on management?' Yes, sir. 'Where did the CFO go to college?' Umm, umm. 'I thought you did your work?' He wanted you to know everything there was to know about the people running the companies you invested in." *Lee Ainslie, Maverick Capital*

"It's fascinating how differently the same business can perform with two different leaders. We look first for intellectual honesty. It drives me crazy when you meet management and there are real issues and they act as if they aren't there. Also important is a contrarian bent, a confidence to go against the prevailing trend. You want people who are spending when others are not, and taking chips off the table when everybody else is putting them on." *Jeffrey Ubben, ValueAct Capital*

"We look for certain behaviour patterns in management that are consistent with an efficient and prudent guardianship of our assets. If we visit a fan manufacturer in Texas and the CEO meets us in his Lexus, spends five hours with us, then takes us to an expensive restaurant and buys $300 bottles of wine, that is suggestive of somebody who isn't as prudent as we would like." *Carlo Cannell, Cannell Capital*

"Character today is best judged in the proxy statement: what do they pay themselves and how? Is their financial self-interest truly aligned with mine as a shareholder? I have no problem with the people running huge, complicated, global businesses making a lot of money. The big problem is that you're seeing a lot of superstar compensation for only minor-league performance." *Thomas Gayner, Markel Gayner*

"[The ideal turnround CEO] is a first-time CEO between the ages of 48 and 52. They have 25 to 30 years of experience, but have never had a #1 spot. They're seeking a challenge, have everything to prove and – while they've surely done well – probably haven't yet had the huge payday that they badly want." *Lloyd Khaner, Khaner Capital*

"Poor management persists because shareholders aren't willing to do anything about it. The private equity business is built around taking over companies and doing what shareholders should have gotten done, while they keep most of the money for themselves. The amazing thing is that the same shareholders who do nothing to affect change at a poorly managed company before a private equity firm comes in to take over, pay a stupid multiple for the company when it comes public again." *Jon Jacobson, Highfields Capital*

"How management communicates about mistakes is very important. About 40 per cent of the stocks we buy end up underperforming the market – and I'd be concerned about any company where shareholder communication doesn't include a candid assessment of mistakes." *Bill Nygren, Oakmark Funds*

"I've seen too many businesses run into the ground by impressive people who start to think they're smarter than everyone else. There are enough ways to screw up in business without bringing it on yourself because of ego." *Barry Rosenstein, JANA Partners*

Whitney Tilson is a money manager who co-edits Value Investor Insight and co-founded the Value Investing Congress. E-mail: feedback@tilsonfunds.com