

Owner Manager Traits

Extract from Holland Advisors Facebook research: Nov 2021 - Owner Manager Inc:

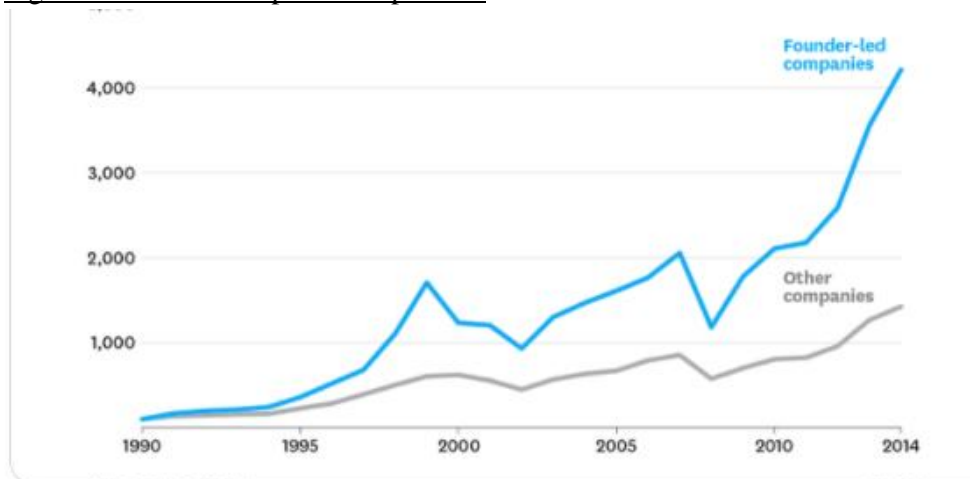
[Owner Manager Inc link](#)

Do you invest in Entrepreneurs – REALLY?

These days we explain how we invest in owner-managed companies. As we do, we see our audience nod a little too easily, seemingly accepting how ‘wise’ it is to invest alongside those who create the wealth in society. Examples of Founder-led companies are of course Apple, Berkshire Hathaway or Next, but these are ‘easy’ companies to invest alongside the Owner Manager that will usually give a smooth, stress-free ride for the investor.

But when the ride gets a little bumpy is when investor conviction is tested. This is why we often qualify the owner manager companies we seek with the pretext of ‘unloved’ for that is how we get great value at the time of purchase.

Fig.1 Founder led companies outperform

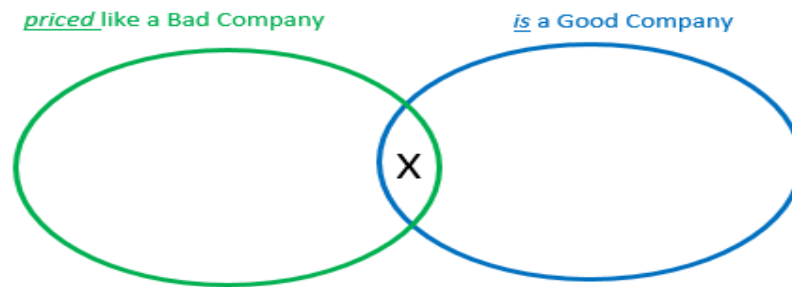


Source: Bain & Company

Deciding today that Amazon is a powerful business run by a brilliant owner manager or that Tesla is an innovative company run by a similarly innovative leader is maybe a reasonable conclusion. But both are clearly conclusions held by the wider market also. Thus, the valuation of these companies likely reflects these views. As we search for compounding and growth, we do so also with an eye on Margin of Safety i.e., via reasonable starting prices (yes, there are still investors still trying to do this in 2021!). Thus, we are challenging Mr Market’s pre-conceived views on Quality vs Price. This is why time and time again we have used the pictorial in Fig 2 below to show the short-cut in our investment process.

Fig.2 Our process super simplified

Again, when we show this picture, the nods come maybe a little too quickly. This is the simplest chart in investing but actually one that must be reflected on. **What is it really like to be an owner manager vs a CEO of large org?** and **What is it really like to buy shares in a company when everyone around you is telling you are an idiot to do so?**



Source: Holland Advisors

Owner manager vs large org CEO

We have been reproducing Fig.2 in our research for maybe five years now. It helps us focus a little more on the odd depressed entrepreneur-led company realising that it just might be a great company in a tough spot. However, recently we spent a little more time reflecting on the real DNA differences that will have resulted in a business founder ending up owning and running a company rather than being a CEO running say a government department or a large organisation.

The more we reflected on these personality differences the more we realised and could understand why some Owner Managers ended up in spats or at odds with Mr Market on occasions. Hence why periods of mispricing can occur.

Owner Manager Traits

- Is likely someone who will have constantly challenged consensus thinking
- Will have turned left when all others turned right for long parts of their life
- They will have constantly been told to comply with certain rules. Not done so and likely proved the rule makers wrong
- They probably want to break existing industry norms by **revolution**
- They will have fought bureaucracy every step of the way
- They are **outsiders**, not insiders. They hate the status quo
- They may have been outsiders at a young age, not fitting in and not looking to fit in
- Their success will have emboldened them that such non-consensus actions whilst not always successful, do yield real world results in time
 - As a result, when confronted with future requirements to 'comply' they are brave enough to almost always say no
 - They are likely to remain non-consensus in their thinking for life
- Owner Managers tend to be either quietly influential or charismatic. If their product is working well, then are those around them know it and there is buy in. The 'need' for having to 'sell' themselves stopped many decades ago

Large Org CEO Traits

- In order to have been recognised and promoted in mainstream org. to a high level they need to have excelled academically in a conventional sense
- They had to be able to build consensus views that were popular with those above and below them
- They have to be able to lead in conventional sense
- They have to be able to cope with bureaucracy and compliance and grow despite its burdens
- They probably want to grow and change existing norms but by **evolution**
- They are very much **insiders** of the existing systems, not outsiders
- Crucially large org CEO's have to be good at selling themselves or they would never have got promoted in the first place above the c.45,000 other people whom they now lead
- Also, without self-promotion skill they are unlikely to get their next role

[...and our point is...?!](#)

The idea of the above list is not to idolise all founder-led companies and demonise all career CEO's. That is of course foolish. It is instead to try and get inside the head of founder leaders and realise that they are unusual people with unusual driving forces. Some are a little prickly at times and may struggle to articulate themselves. Some whom you may meet as an investor may be rightly bored of meeting short term investors vs their own 25y understanding of their cherished company. Others might not like being backed into a corner by competitors or regulators.

As researchers but also managers of an investment fund with c.90% of its assets invested in owner managed companies we can reflect that all of these managers built something special. Whether they can do it again or keep doing it is always the relevant question for investors. **But as mere investors who did not build a \$1bn company from our garage, pub or basement we need to pause sometimes before we so easily ask the questions assuming we are right and they are wrong in terms of what happens next. They have been there, seen it and... got the T-shirt.**

AJH Nov 2021

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