



“When hiring people, look for three qualities: integrity, intelligence, and energy. And if you don’t have the first, the other two will kill you.”

Warren Buffett

Back in April I made my semi-regular pilgrimage to Omaha to attend the Berkshire Hathaway annual meeting and the University of Nebraska’s Value Investor Conference, held over the two days preceding the meeting. If nothing else I think attending these gatherings helps inoculate me from doing anything **really** stupid for at least a little while. As Charlie Munger observes, if you can just eliminate the really stupid decisions, you’re going to start a long way ahead of the pack.

One presentation at the Value Investor Conference I found particularly interesting was by Dr Fred Kiel, who has attempted to quantify the effect of the character of a company’s management on the financial returns of the company.¹ Dr Kiel defines character as behaviour that displays integrity, responsibility, forgiveness and compassion. He and his team surveyed employees at 80 companies about the extent to which senior management team (and not just the CEO) displayed these characteristics and ranked the companies accordingly. The ten highest ranked companies on this measure had an average annual return on assets of 9.35%. This compared to an overall average of 4.83%, and 1.93% for the ten lowest ranked companies! Compound the difference in these returns over any meaningful period of time and the comparisons are absolutely gob-smacking.

Dr Kiel cites Costco as an exemplar business that is highly ranked by employees and has delivered stellar returns (in excess of sixteen per cent per annum) to shareholders since 1985. For example warehouse workers at Costco are paid almost twice as much as their counterparts at Walmart. But this pays off for Costco in an employee retention rate after two years of 92%². This in turn flows through to lower recruitment, retraining and “shrink”³ expenses.

If we can identify some of these top flight management teams, or even just avoid the most self-serving ones, our investment returns are likely to be at least better than average.

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¹ Fred Kiel, *Return on Character: The Real Reason Leaders and Their Companies Win* (Boston: Harvard Business Review Press, 2015)

² Compared to an industry norm of around 50%.

³ Retail-speak for employee theft, which at Costco sits at around 20% the level of its competitors.