

## Poor management often destroys shareholder' value

by Malcolm Howard

I spent most of my working life in management; that is managing people. My company sent me on a number of expensive residential courses. One of them was run by 'The Leadership Trust' in Ross-on-Wye. There were forty delegates on each week's course; we were divided into four teams of ten. It was a competitive environment.

In one exercise, all forty came together and everyone was assigned a different role. The objective was to follow a set of rules and fill a number of buckets with different coloured liquid. Only the Board knew how to do this (because they were given the instructions) and they had to communicate with the workers. I was appointed 'Managing Director' and at the end of the exercise I was told that my team was the second best in the last twelve months. I was elated!

After dinner each evening all delegates met the tutors where we could all say what we thought about the day's exercise and the tutors offered feedback. Well, the consensus was that my team had done well because the workforce mainly worked things out for themselves. I had not fulfilled my role to anybody's satisfaction; my communication skills were lacking and I had no empathy with the workforce. I was flattened.

In another exercise we had to negotiate up river in a canoe for two people. The objective was to get up and down the river as quickly as possible avoiding the rapids. My companion (we will call him John) was far stronger than me and he knew it. Just before the turning point he turned the screw, no matter how hard I tried I could not keep up. With the boat becoming lopsided, it spun around, hit the rocks and flew into the air. We both landed in the water, noticing that the Leadership Trust had employed divers to protect us. We gingerly clambered back onto the canoe and rowed slowly home. I was so embarrassed!

I was dreading the feedback session, made worse because the tutors reserved our feedback to the last. One tutor opened with the question, "Did anyone see John's and Malcolm's somersault. What did we all think?" Well, the consensus was that deliberately humiliating someone was not leadership, but the

exact opposite. If I had had a mauling, it was nothing compared to what John was subjected to; he was taken apart limb by limb.

In another exercise, each team had to write and present a small play, something I was happy to be part of. But John simply could not face it.

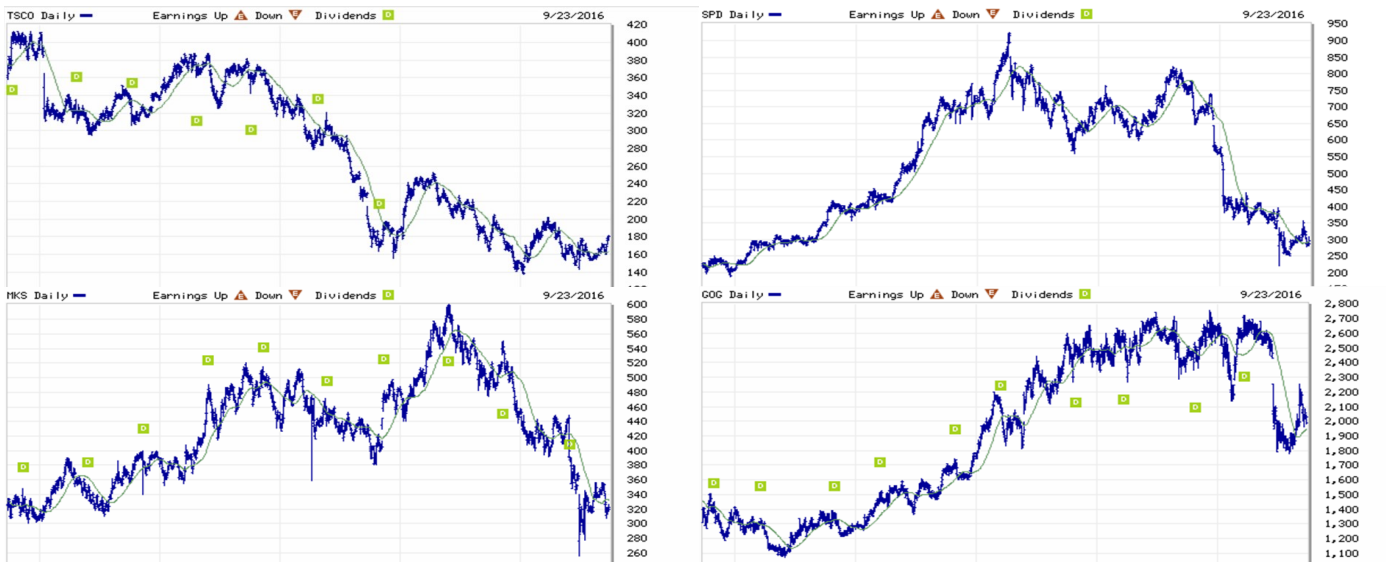
What I learnt from this course was that we are all different; we all have strengths and weaknesses. Leadership is all about discovering an individual's strengths and encouraging that individual to perform to the best of their ability. This is achieved by talking to people, actively discussing the problems to find the way forward and reaching a consensus. Motivated staff will put in extra effort to provide a high level of customer service.

Management who believe their job is simply to bark orders and tell the workforce what to do will always come unstuck as a de-motivated workforce will never perform well.

In the November 2015 (no.179) issue of PI I suggested that then might be the time to be very careful when investing in retail as many of these companies would be hit by the increase in the minimum wage, to be called the 'living wage'.

*Marks & Spencer* and *Tesco* tried to mitigate the cost of the increase by reducing the rate paid for late shifts and Sundays, to the effect that some staff would receive less pay than they did before the minimum wage rate was increased. All this achieved was a disgruntled and de-motivated workforce.

Another company demonstrating poor management skills is *Sports Direct*, which subjected some of their workforce to humiliating searches and could not even pay them the minimum wage. Then we have the *Go-Ahead Group* who is expert at winding up both employees and customers, though their subsidiary GTR (*Govia Thameslink Railway*), which run Southeastern, London Midland and the Gatwick Express. GTR is 65% owned by the Go-Ahead Group, 24.5% owned by France's state owned railway operator and 10.5% owned by a Canadian Pension Fund. The rail service in the South East is



*The charts above, clockwise from top-left, indicate the 5-year share-prices of Tesco (TSCO), Sports Direct (SPD), GoAhead Group (GOG) and Marks & Spencer (MKS). I think you will agree that they lend considerable verisimilitude to Malcolm’s thesis. Charts are by courtesy of Yahoo. Bill Johnston*

as bad as it gets with many cancellations, late running trains and horrendous overcrowding. Management is by edict, with no attempt at consensus with the workforce. Then they propose to close a number of ticket offices, without any consultation.

It was reported that Antonio Horta-Osorio, boss of *Lloyds Bank*, a married man with three children, took a lover on a business trip to Singapore running up a hotel bill of nearly £4,000. He paid his personal expenses, but having just announced that 3,000 employees were to be made redundant, his behaviour was not exactly good leadership.

Another bank, *RBS*, is not renowned for either making a profit or motivating its staff.

The reason why shareholders should be concerned about poor management practices is that they always lead to a poor share performance. Successful companies such as Google Inc are renowned for paying high salaries and looking after their employees.

The table below demonstrates the effect of poor management, but the following should be noted:

\* The fall in Tesco’s price is relatively small as it had already been hammered because of the discovery of fraudulent accounting. It was 378p three years ago.

# The price of the Go Ahead Group increased by over 10% when the government announced that taxpayers were to plough in another £20 million of their money to help Southern Rail get its act together, but it dropped back when it was found out that this money was for rail infrastructure and was not going direct to the company.

As investors we want the Board to be innovative and to recognise they are responsible to all stakeholders. It might be amusing for those directors who behave badly, reward themselves excessive pay, try to break the Unions rather than negotiate with them and humiliate their workforce, but it is shareholders who pay the price.

	Sept 2015	Sept 2016	%change
<b>FTSE 100</b>	<b>6,062</b>	<b>6,686</b>	<b>10.3</b>
<b>M &amp; S (p)</b>	<b>475</b>	<b>314</b>	<b>(33.9)</b>
<b>*Tesco (p)</b>	<b>180</b>	<b>167</b>	<b>(7.2)</b>
<b>Sports Direct (p)</b>	<b>775</b>	<b>288</b>	<b>(62.8)</b>
<b>#Go-Ahead Group (p)</b>	<b>2,600</b>	<b>2,007</b>	<b>(22.8)</b>
<b>Lloyds Bank (p)</b>	<b>77</b>	<b>56</b>	<b>(27.3)</b>
<b>Royal Bank of Scotland (p)</b>	<b>335</b>	<b>196</b>	<b>(41.4)</b>

*Malcolm Howard*