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Savvy investors learn from company visits

By Paul Orfalea and Lance Helfert
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Some of the world's foremost investors have sworn off company visits, insisting there is nothing of value to be learned from highly choreographed tours and presentations. This is true to a point, but also sounds like the type of complacency that could turn someone into a former world's foremost investor. We think a well-prepared visitor can gain useful insights by remembering that eyes believe what they see, while ears believe others.

Company visits are as useful as one decides to make them. Presumably one already knows about the company's financials, but additional homework helps one craft a list of tough questions about specific topics of importance. With preparation, company visits can produce enough information to make or break an investment decision.

Typically, we visit organizations to study facility appearances, worker attitudes and executive interactions.

Appearances matter

This may seem insignificant, but we take note of whether the executive we're visiting makes an effort to greet us in person rather than having an assistant or intern escort us from the foyer.

The receptionist provides our first worker contact, so we eagerly engage him or her in conversation to gauge the person's enthusiasm for and knowledge of the company. A temporary worker in this position isn't automatically a bad sign, but tenure is very important to us. And experienced, confident receptionists make a great first impression.

Once inside, we let our eyes wander, paying special attention to the walls, furnishings and people. The walls are a place where the company and its workers tell their story. Do you see art that speaks to the company's vision and the people's highest aspirations? Do you see charts and graphs that boast of great achievements or offer ideas for improvement? What exactly does the company communicate on the walls?

Furnishings deserve attention: Do they represent extremes of wasteful extravagance or excessive frugality? We are most comfortable when the furnishings fit the organization so well they are almost unnoticeable. But whether stylish or starkly utilitarian, we expect the furnishings to be clean and in good condition.

We recall visiting one chief executive whose office was so embarrassingly huge and luxuriously appointed we found ourselves distracted during the meeting as we mentally tallied the cost of the décor and square footage. Would a frontline worker feel inspired or disgusted by such a display? For the handful of companies that cater to the super-rich, such displays might be appropriate. But we always respect frugality and have to question whether a high-style spendthrift can be a reliable capital manager. Even such casual observations offer a good sense of a company's spending habits as well as clues to its culture.

The real investment

We often say that whatever company we're investing in, we're ultimately investing in its people. Clues to the company culture surround a visitor, but conversations with workers offer the clearest view of how the company feels. Make a special effort to get past investor relations personnel during a site visit. Try to meet as many nonexecutive workers as possible, in as many departments as you can visit. If practical, dine on site with workers and ask about their work (not necessarily their job). You want to feel their level of excitement.

As we mentioned at the outset, tenure means a lot to us. Some people say that long tenure suggests complacency, but one mustn't consider tenure in a vacuum. Pay attention to body language, tone and other nonverbal clues of enthusiasm.

In the May/June 2007 issue of CFA magazine, Christopher Wright spoke to mutual fund manager Chad Kilmer, who recommends site visits for active managers. According to Wright, "He (Kilmer) tunes in to the company's value-set and is more receptive when his gut tells him he has found honest, hardworking, frugal, unpretentious people."

Says Kilmer: "The site visit allows us to have more conviction. That confidence lets us take bigger positions. Culture is very important when we're investing in companies long-term. You want to make sure that you're investing in companies that have healthy cultures and foster employee development and that it's a place where people want to come to work."

If workers freely share complaints about the company, but also offer suggestions for improvement, that might be a very good sign. Indifference does more damage than critical engagement. But if complaints are not accompanied by solutions and resentment seems to be the common theme in workers' conversations, take a closer look at the leadership.

Gauge executives

A handful of people at the top of an organization hold tremendous power, so we want to evaluate them carefully. What are they excited about? Do they appear focused or distracted? How important does company culture seem to them? Do they appear more focused on growing the company, or growing per-share value? How do they treat subordinates in our presence, and when they think we are not looking? How happy are they to see us?

Wise organizations know how easily one can lose self-awareness, so they welcome ideas and input from outsiders. When visiting, remember that your eyes are new eyes, and you may be able to offer insights about subjects the company takes for granted. Quiz executives intensively about what is new, not historical. A primary goal of any visit is the discovery of value not yet reflected in the stock price. Thus, a site visit gives us an opportunity to deduce value that no one else has seen yet, as well as a chance to evaluate the company's culture.

We believe well-prepared visitors learn much by visiting companies already in a portfolio or under consideration for investment. From the foyer to the cafeteria to the executive suites, one sees clues to a company's spending habits, leadership skill and future prospects. As an owner or prospective owner, site visits build the sort of human relationships essential to a productive partnership. We want to know the people running our companies, but must cultivate a certain level of detachment: Respectful skepticism protects both parties from unhealthy delusions and makes every site visit more of a bilateral reality check and less of a dog-and-pony show.

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