

MANAGING DIVERSIFIED COMPANIES

An Address by
John Spalvins

Managing Director, Adelaide Steamship Company Limited

For the benefit of interstate members unable to be present, this address is now reproduced from one of the most popular luncheon meetings of the Institute, held on May 23, 1985 and attended by some 390 persons.

The subject matter of this address was suggested as a base from which I would explain Adelaide Steamship's philosophies and way of doing things.

Let me start by stating that diversified groups, irrespective of size, can be managed, and not only just managed but efficiently, and in a constructive building manner. However, some fundamentals must be adhered to.

Autonomy and Decentralisation

Operations and day to day management must be decentralised. By this I mean that each business segment must be run as a separate company, irrespective of whether it is legally known as a division, subsidiary or associated company. Each business segment must have its own management team dedicated to it, with a clear understanding that the executives succeed or fail by their own efforts. Each division, subsidiary or associated company must have its own objectives and destiny. The executives and the company should be leaders in the industry that they are associated with or have a clear aim to becoming a leader. In our search for excellence we must never compromise our standards.

Head Office — Small but Cost Effective

The Head Office team must be small and cost effective. It should not seek to interfere in the day to day operations of the various businesses. Its function should be to assume responsibility for treasury, secretarial, taxation and insurance functions and co-ordinate reporting. Group buying for diversified operations has limited application and many traps. Obviously there are some areas where benefits can be obtained but when negotiations are appropriate they should be carried out by the larger user or co-ordinated by the head office, as for example, in the purchase of motor vehicles.

Understanding of Key Factors: Management by Exception

The Chief Executive of the group must understand the key factors that determine the success of each separate business and thus be in a position to monitor the performance of the various sectors effectively. Control by exception is a most useful tool. If acceptable returns are not earned one should not hesitate to initiate change. On the other hand, a winning formula should not be tampered with. The chief executive should not have operational involvement for he cannot be an expert in the many fields that a diversified company is engaged in. If he did become involved, he would be diverted from one of his main functions of pinpointing new opportunities, taking advantage of changing circumstances and participation in major entrepreneurial decisions and negotiations.

Involvement in day to day operational matters by the chief executive would tend to centralise responsibility and cut across the concepts of autonomy and decentralisation. Executive motivation could be unfavourably affected. In my opinion, emphasis should always be placed on line management and functional support should be minimised. A good manager needs few advisors, a weak one should not be there. The chain of command should be wide and not deep unless succession is imminent. The levels of command between the general and the foot soldier should be as few as possible. This means that each executive should have reporting to him the largest practical number of next level executives. Whether the textbook maximum of seven has any application will be determined by: the industry, the need for frequent contact, and the ability and time input of the executive himself. Running a large diversified group is like waging a war 24 hours a day, 7 days a week — there are no second prizes.

In business, fortunately, if one doesn't like it one can get out. The manager who suffers stress and cannot

adjust should quit. Business should be, and can be, fun but total dedication and mental and physical health is required.

At this stage, it is appropriate to restate Adsteam's philosophies.

Maximisation of shareholders' wealth is a principal objective and all efforts are directed to achievement of this objective. We believe that if we are successful in this endeavour, then other goals such as the provision of a secure working environment for employees and maintenance of social environmental standards will be easily reached. We at Adsteam recognise that the company is owned by its shareholders and therefore management seeks to be as shareholder orientated as possible in the way in which the company's assets are managed. For example; where possible, assistance is given to senior staff to enable them to acquire shares in the capital of the company; and bonuses are related to performance. In this way the interests and objectives of shareholders and staff become more aligned. The intention is to have management safeguard and understand the company's assets and business as they would their own.

The investment philosophy of Adsteam has been and will continue to be to acquire businesses which ideally meet the following criteria:

- Sound asset backing
- Fundamental to the economy and preferably not subject to competition from imports or reliant on government protection.
- Market leader or capacity to become so.
- Low gearing

To illustrate market dominance, the following list sets out the areas where we are clearly number one or number two as far as market share is concerned.

Number 1 Market Position

Processing, marketing and distribution of food
 Premium retailing
 Optical frame manufacturing
 Production and distribution of wines, in particular champagne
 Smallgoods, meat exports
 Ink manufacturing and distribution
 Radiators, brass extrusions, taps, locks, zinc diecasting
 Above ground pools
 Towage (equal)

Number 2 Market Position

Saw milling — distribution hard wood timber
 Fasteners
 Optical frame distribution

The management philosophies that I have previously outlined do work and perhaps a way to illustrate this point is to draw your attention to the trend of Adsteam and its major associates' share prices:

- Over a 10 year period, Adsteam's share price has increased nearly 35 times which compares with All Industrials having increased nearly 5 times.
- Over the last five years, Adsteam's share price has risen by slightly more than 5 times, the All Industrials index has doubled with only a small margin to spare.
- For comparison, the share prices of our major associated companies have risen as follows:
 - (a) David Jones — up nearly 4 times,
 - (b) DJ's Properties — up 4 times,
 - (c) Tooth — up 3½ times.

Other trends which may be of interest are demonstrated in what is happening to the share price of the major associates of Adsteam in their post acquisition period. The companies are Tooth, David Jones, DJ's Properties and National Consolidated:

- First 12 months — share price weakens or remains the same. This reflects control premium no longer applicable.
- Second 12 months — steady improvement in share price.
- Third 12 months — the benefits of the Adsteam association become clearly evident.

On this basis, I would suggest that partial takeovers, when made by Adsteam, have clearly been beneficial to the shareholders. For a portion of their shares on day one they have received a higher price than that generally available on the market and then are able to participate for the balance of their holding in significant capital appreciation which has tended to take place in a two or three year period.

The net profit and extra ordinaries earned by The Adelaide Steamship Company Limited Group also demonstrate the steady growth in absolute terms of the Adsteam operating net profit after tax, and the significant extra ordinaries that are earned year after year.

There has been a substantial increase in the net worth of the Group, in fact we have averaged 36 per cent growth per annum in adjusted net tangible asset backing per share between fiscal 1980 and 1984.

Future

The Adsteam Group is fortunate to have an excellent executive team in charge of most of its operations. The activities that we are engaged in are a fundamental part of the Australian economy; our profit base under

normal circumstances is solid without wide fluctuations and when they do take place, the diversity of operations has a levelling effect. The cream comes from our entrepreneurial investment activities. The past is the best guide to our future. We stand by our record.

BOOK REVIEW

FINANCIAL PLANNING FOR RETIREMENT

by

Stephen Treulan

To date, most literature on financial planning for retirement, has emphasised the social aspects of planning, with little basic introduction to the financial aspects. Enormous confusion surrounds the variety of problems confronting those seeking prudent deployment of their lump-sum funds. The proliferation of investment advisors has not been matched by helpful texts. So when the first one appears it is a matter for comment.

Equally, it is surprising but commendable that one of Australia's largest accounting firms, Deloitte Haskins & Sells, reveals its social conscience when they provide wide assistance to author Stephen Treulan, in *Financial Planning for Retirement*.

This is not a book to guide the student although students may well find it pragmatic. It is, however, a book to assist those facing, often for the first time, the task of deploying their last and largest payment: their livelihood for the rest of their days.

Apart from the book's great wealth of information on all forms of investment, on social security benefits and on taxation, Chapters 1 & 2 stand out in that they address the initial problems which are so often assumed to have been adequately resolved by the investor.

The reader is encouraged to explore and define the investment objectives, a subject often not realised as a prerequisite by the investor. Because of the manner of the investors' search for advice, investment counsellors often assume that objectives have already been resolved.

More could have been written on the subject of investment risk but it is certainly not glossed over. It is highlighted in a readily understandable way with examples which are easily followed. Nor is the subject of risk confined to the introductory chapters. The outline is reinforced in all chapters dealing with investment. Finally all the advice is gathered together into the last chapter, "Seven steps in planning your Retirement".

Many of the difficulties in relationships between investment advisors and their clients would evaporate if the investor were able to crystallise investment needs before seeking advice.

With this most readable book there is really no excuse for investors to approach advisors any longer in the unprepared manner they so often do.

Brian Hill

Financial Planning for Retirement is published by Longman Professional. Price \$9.95 PB.