



# What is Your Financial Signature?

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**Have you ever** seen a talented employee flounder because their strengths were not properly matched to the job requirements? It happens all the time — a great salesperson is promoted to sales manager and turns out to be a lousy manager of people, for example. When it comes to the CEO, the risks of a mismatch between individual skills and corporate needs are much greater, so it is imperative to pair the strengths of the individual with the challenges facing the company given the competitive dynamics of its industry and the stage of its life cycle.

Ted Prince, founder of the Perth Leadership Institute in Gainesville, Fla., has just released a new evaluation methodology that purports to be able to evaluate the financial wiring of CEOs and determine if their approaches to creating value are suited for the companies they run. Prince published his findings in the spring issue of the *MIT Sloan Management Review*. When I was getting my

MBA a mile up the river from MIT, we referred to the Sloan crowd as the “numbers jocks,” but surprisingly the article does not contain any quantitative data to support his theory. However, what Prince says makes sense. He concludes that CEOs typically have a “financial signature” that indicates their capacity to create shareholder value in two dimensions:

Adding value to products or services (characterized by high gross margins) and

Utilizing resources efficiently (characterized by low expense ratios).

Based on the results of a series of tests, Prince categorizes CEOs as high, medium or low on the above two dimensions. The four extremes are assigned monikers that characterize their behavior patterns.

The “Venture Capitalist” pursues high margins with high investment. This is a high risk/high return approach to running a business. When the strategy succeeds, the payoff is huge. However, in more cases than not,

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this approach results in a washout. This is the CEO signature that a company seeking a breakthrough product, service or technology would want.

Price cites Steve Jobs as a classic Venture Capitalist. Jobs, who founded Apple Computers, is also a founder of NeXT Software and Pixar Animation. These start-ups were bold attempts to revolutionize their respective markets. Pixar has become the leader in film animation despite massive losses early on. NeXT also spent aggressively but has failed to produce the breakthrough in computing that Jobs was after. Often found in technology companies, Venture Capitalists are typically visionary, patient individuals with a high tolerance for risk. My father was an engineer who is so risk-averse that he and my mother are featured in the ads for their retirement community because they are the youngest people to ever buy there, so I could never fit into this category.

The opposite extreme is the “Discounters,” who try to make hay with low-margin businesses by meticulously managing expenses. They don't attempt to add value to their product or service, but focus on how to deliver that product or service with the least amount of resources.

Discounters thrived in the 1980s era of leverage buyouts (LBOs), when takeover artists raided companies with commodity products and high overheads. The leaders of commodity businesses are often in denial that their product truly is a commodity, and they maintain unnecessary overhead.

Discounters, on the other hand, cut costs to the bone. They recognize that the price for their wares is essentially fixed, and the only way to make more money than their competitors is to keep costs as low as possible.

Certainly the prototypical “Discounter” would be Sam Walton, whom Prince fails to mention in the article. Instead, he cites Reginald Lewis, who acquired TLC Beatrice and McCall Patterns through LBOs. By taking on significant debt, these companies were forced to trim fat to remain viable. The debt imposed a disciplined culture in which executives were forced to preserve their jobs by squeezing greater cash flows out of no-growth or declining businesses. When the debt was paid down, huge equity value had been created, and Lewis became one of the wealthiest individuals in the U.S. without ever creating or running a company.

The “Mercantilist” can effectively run a low-margin business with high fixed costs. Two sectors cited by Prince as fitting this mold are consumer electronics and personal computers. The products or services themselves are somewhat commoditized, but a company can be highly successful by building a superior distribution system (Dell); a trendier brand (Apple); more appealing or convenient physical locations (Bank of America) or a more professional sales or service staff (I would like to cite an airline here, but none comes to mind). The above examples are mine, as Prince fails to cite a single successful illustration of this model in his article. My local nominee for a prototypical Mercantilist is Hooters, which

makes money off of commodity burgers and wings by differentiating its sales force.

The final category, the “Buccaneers,” is comprised of CEOs who target very high returns by providing high-margin products or services with minimal expenses. To accomplish this difficult feat, Buccaneers search for innovative approaches or business models. To quote Prince, “They want spectacular earnings, and they want them quickly.” The Buccaneers do not tend to create new technologies; rather, they exploit existing technologies to pioneer a new approach in an existing business.

Prince's example of a Buccaneer is the founder of eBay. There is nothing revolutionary about eBay's technology. Rather, the company built a business model using available technology to accomplish what classified ads never could.

Without taking any of Prince's tests, I know this is the category that I would fit into. My firm uses unique marketing alliances and available technology in a way none of our competitors do to efficiently accomplish routine tasks, so we are able to make more money than our competition. Creativity and frugality rarely come in the same package. While being tight comes naturally to me, it took years of observing innovative clients to learn how to reinvent business processes.

Regardless of your personal profile, you can succeed in creating shareholder value as long as your “financial signature” is matched to the needs of the company or business unit you are running. ●