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Right and Wrong

In one of my previous lives, as a management consultant, I was professionally interested in finding the difference between good and bad managers.

The first impression that you have is that somehow the good manager is smarter, wilier, more intelligent and better educated than the bad manager. In sports, the bigger fighter will generally beat the smaller one, the runner with a slow heart beat will beat one with a fast heart beat. But reality does not bear this out. Take education. Bill Gates and Steve Jobs are school drop outs. Steve Wozniak (WOZ) was not even an engineer, he was "merely" a technician yet he designed some wonderful computers (the original IBM PC's video board had more chips in it than the whole Apple II computer). If it is not the quality of the man, then, what is it? In "In Search of Excellence" Tom Peters came to the conclusion that average people produce superior results in certain companies while average people produce poor results in others. This confirmed my observation that it was not some kind of quality that makes the difference.

My conclusion was that decision making ability is the key. A manager who can make decisions quickly, not too worried about being wrong, but willing to admit his mistakes and to correct them, will be the more efficient manager. The manager who cannot make up his mind, afraid of being wrong or not quite right, will cause stagnation: nothing will get done, bad things will continue for ever and new and improved modes of operation will never be put in place.

Take a look at presidents and heads of state. I believe that Jimmy Carter is a much more intelligent man than Ronald Reagan but Reagan was certainly the more efficient president. I recall two articles on the front page of the English language newspaper in Caracas (The Daily Journal) during the Iranian hostage crisis. The top article talked about Jimmy Carter agonizing about what to do about the hostages, going to Camp David with many trusted advisors to debate the situation. The bottom article was headed: "Maggie says 'Yes.'" Iranian terrorists had taken hostage the Iranian Embassy in London. The head of the British anti terrorist forces asked Thatcher if they should blast the terrorist to kingdom come. The simple answer: "Yes." Thatcher was the longest governing Prime Minister in the history of England, outlasting even Winston Churchill, who, by most accounts, was the better man. Carter only had one four year term. Reagan might have slept on the job but he didn't dawdle while awake.

Making a decision, recognizing your error and correcting it swiftly is the mark of the good manager. Do you recall Bill Gates saying that the Internet was a passing fad? He soon saw and corrected his mistake and vanquished Netscape in a jiffy.

I have come up with a mathematical proof for this thesis. Let us suppose that on average, most people get one half of their decisions right and the other half wrong. The bad manager will agonize about making a new decision while the good manager will let the good decision run (if it ain't broke don't fix it) and will quickly remedy the bad ones. That means that after two

rounds of decisions, on average, he has made 75% good choices and only 25% bad. By doing something about the 25%, on the third round he is 87.5% right and only 12.5% wrong.

Round	Good	Bad
1	50.0%	50.0%
2	75.0%	25.0%
3	87.5%	12.5%
4	93.7%	6.3%
5	96.9%	3.1%

And this is just as true in investing which is a question of managing money. I sold QCOM and when I realized my mistake I bought it back. Sure, I made less than the perfect manager who did not sell at the wrong time but still, I made a respectable 450% annualized gain on it.

This is the reason I keep repeating that investing is not about being right but about making money. You don't have to be right every time to make heaps of money.

Denny