The Outsiders

Who are the greatest CEOs of the last fifty years? Some "obvious" choices may come to mind. Steve Jobs. Sam Walton. Jeff Bezos. Jack Welch.

Jack Welch, CEO of General Electric from 1981 to 2001, seems like an easy choice to take the top prize. He was a charismatic leader, gracing the cover of business magazines, while implementing such management techniques as "Six Sigma" and "TQM" at GE. During his tenure, GE's stock rose at an annual compounded rate of 20.9 percent.

It turns out, though, that Jobs, Walton, Bezos, and even Welch, are all a step or two below a number of mostly lesser-known CEOs, who are the true All-Stars of the management world.

Meet The Outsiders

In his phenomenal book, *The Outsiders: Eight Unconventional CEOs and Their Radically Rational Blueprint for Success*, William Thorndike makes a case for who the greatest CEOs of the last fifty years really are. In defining management greatness, most people focus on growth in revenues and/or profits. Thorndike, on the other hand, focuses on a much more important variable: growth in the company's per share value. In assessing performance, he compared three measures of compound annual return: the shares of the company in question during the CEO's tenure, peer companies, and the broader market.

The CEOs that Thorndike profiles, on average, outperformed the S&P 500 by over twenty times and their peers by over seven times. Studying their accomplishments and decisions can provide great insight for managers and investors.

So, who are some of these exceptional CEOs?

The Broadcaster

Tom Murphy served in the Navy in WWII, graduated from Cornell on the GI Bill, and attended Harvard Business School. Soon after graduating, Murphy was hired by Frank Smith, the business manager for famed broadcast journalist Lowell Thomas, to manage a struggling UHF TV station in Albany. Even though Murphy had no broadcasting experience, he turned the station into a consistent cash generator by improving programming and aggressively managing costs. He soon bought two more stations, and the company adopted the name Capital Cities.

Murphy's modus operandi was the following: focus on industries with attractive economics, use leverage selectively to occasionally buy large properties, improve operations, pay down debt, and go back to step one. Interestingly, other media companies of the day were doing the complete opposite; they were diversifying into unrelated businesses (for example, CBS bought a toy business and the New York Yankees), building large corporate staffs, and overpaying for media properties.

Murphy, at age forty, became CEO of Capital Cities after the death of Smith. He kept buying stations and, in his 1986 masterstroke, bought the ABC Network in what was, at the time, the largest non-oil and gas transaction in business history. In 1996, he sold the company to Disney for $19 billion.

One dollar invested with Tom Murphy when he became CEO in 1966 was worth $204 by the time he sold the company to Disney in 1996. That's a compound rate of return of 19.9 percent. An investment in the S&P 500 over that same period compounded at 10.1 percent, while an index of leading media companies returned 13.2 percent. Over his 29 years, Murphy outperformed the S&P 500 by 16.7 times and his peers by almost four times.

The Math Genius

Henry Singleton was a world-class mathematician with bachelor's, master's, and PhD degrees in electrical engineering from MIT. An avid chess player, Singleton founded Teledyne in 1960 and started by acquiring small electronic companies. The next year, Teledyne went public when conglomerates were all the rage in Wall Street.

Singleton took advantage of people's fascination with conglomerates by issuing pricey Teledyne stock to buy companies. Between 1961 and 1969, he purchased 130 companies in industries ranging from aviation electronics to specialty metals and insurance. In mid-1969, the market turned against conglomerates, and their stock prices started falling. Singleton, always opportunistic, changed strategies. With his stock no longer attractive for acquisitions, he fired his acquisition team, never made another material purchase, and never issued another share of stock. Instead, he started buying back stock, going against the Wall Street orthodoxy of the day. Between 1972 and 1984, in eight separate tender offers, Singleton bought back 90 percent of Teledyne's outstanding shares. Singleton's aggressiveness in buying back stock is unparalleled.

Teledyne's stock compounded at an annual rate of 20.4 percent for the almost thirty years that Singleton was at the helm. One dollar invested with Singleton in 1963 would have been worth $180 by 1990, when he retired as Chairman. In contrast, a dollar invested in a broad group of conglomerates would have been worth $27, and $15 if invested in the S&P 500.

The Widow

As the daughter of financier and *Washington Post* owner Eugene Meyer, Katharine Graham had a privileged upbringing, attending boarding schools and meeting influential people. She married a Harvard-trained lawyer by the name of Philip Graham—who was tapped by Meyer to run The Washing Post—and she had four children. In 1963, Katharine's life was turned upside down when, at the age of forty-six, her husband committed suicide and she unexpectedly found herself as the CEO of The Washington Post; in fact, she was the only female chief executive of a Fortune 500 company at the time.

Despite her lack of managerial experience and being consumed by self-doubt, Graham plowed ahead in her new role, leading the Washington Post through the Pentagon Papers and Watergate scandals, a debilitating union strike, and the company's IPO. She diversified the company into broadcasting, cable, and education and bought back huge quantities of stock—almost 40 percent of the company's shares—when they were trading at rock-bottom prices.

From the time of the company's IPO in 1971 until she stepped down as Chairman in 1993, the compound annual rate of return was 22.3 percent, versus returns of 7.4 percent for the S&P 500 and 12.4 percent for her peers. A dollar invested at the IPO was worth $89 by the time Graham retired, versus $5 for the S&P 500 and $14 for her peer group.

The Oracle

While today Warren Buffett is very well-known, when he took over Berkshire Hathaway in 1965 he was a little-known 35-year old investment manager from Nebraska. Back then, Berkshire was a century-old textile company located in New Bedford, MA. What interested Buffett in the company was that it was cheap: it traded at very low multiple of book value. Buffett soon learned, though, that the textiles business was a horrible business to be in, and he started to diversify the company's operations by using its cash flow to buy other businesses.

One of the first companies that Buffett acquired was National Indemnity, a niche insurance company. From this purchase, he learned about the beauty of float, which is premium income generated in advance of losses and expenses. Buffett invested this float very effectively, buying publicly traded securities and private businesses.

Over the last 48 years, Buffett has transformed Berkshire Hathaway from a struggling textile company into a behemoth. Berkshire is currently ranked number five in the Fortune 500 and is one of the most valuable companies in the world. With close to 300,000 employees, the company has operations in insurance, manufacturing, retailing, energy, media, and financial products.

When Buffett took over control of Berkshire, the company had a market capitalization of $18 million; today it is more than $275 billion. Buffett bought his first share of Berkshire for $7; today it trades for over $167,000.

What It Takes To Be an "Outsider"

So what do these outstanding CEOs have in common?

All were first-time CEOs, most with scant management experience. All but one were new to their industries and companies, and they did not attract or seek the spotlight. While they came from different backgrounds, they all had an intrinsic commitment to rationality.

The most important quality they all shared is that they behaved more like investors than managers. They considered capital allocation to be their most important job, placing a big emphasis on maximizing per share value, and not overall growth or size. They were independent thinkers and kept their interactions with Wall Street and other outside advisers to a minimum. With regards to acquisitions, they were very patient, but acted with quick boldness when merited. They also recognized that sometimes the best investment that could be made was buying their own company's stock, and they were not shy in buying back huge amounts of stock, even when the practice was uncommon in Wall Street.

Their personal qualities are also worthwhile to examine. They were generally frugal, humble, analytical, and understated. They typically worked out of bare-bones offices and avoided the spotlight whenever possible.

Conclusion

The Outsiders is a wonderful book that should be read by any serious investor. Great management can transform a good company into a great company, and this book delineates what to look for in superb leaders. Next time you're analyzing a potential investment, see if the CEO is busy promoting his stock on CNBC or if he is an "outsider" quietly buying back stock or opportunistically making an acquisition. Chances are, the latter will prove more fruitful.

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