

Looks do count

"I don't like the look of the CEO", may be as good as any reason for an investment decision.

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How a CEO looks is a valid basis for investment in lieu of management credentials and experience

Track record is often referred to as one of the most important criteria in coming to a judgement about a mining investment.

Despite widespread acknowledgement of the importance of management skill as a determinant of investment success, the typical mineral explorer or mine developer rarely gives such matters prominence in day-to-day investment pitches.

In four corporate presentations I have attended recently, chief executives showed between 10 and 19 PowerPoint slides of drill results on each occasion and provided zero to eight words (i.e. virtually nothing) about each of the directors of the companies they were describing. So much for track record.

Logically, an investor should want to know about a company's objectives before asking how the assembled skill base will contribute.

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Almost universally, companies only mention their executive teams on a page headed 'Corporate Snapshot' near the front of a presentation. A few words, at most, about what an executive may have done in the past is thought sufficient explanation about why he or she will be important in the future.

In practice, few companies make the link between the backgrounds of those involved and the tasks critical to future success.

Modesty might prevent some executives from extolling their business virtues. In other cases, the assumed coyness is to conceal inappropriate skills.

Coal-mine developers turning their hands to gold; explorers trying to build mines; or people who have never worked outside central Australia pretending expertise in Arctic mining are more often the reason for being as nebulous as possible about the backgrounds of those trying to solicit funds.

"Those presenting investment cases need to cogently argue the merits of their personal corporate stewardship"

Whether or not companies are forthcoming about the backgrounds of their executives, judgements will be made about their abilities.

On the way out of three meetings in the past fortnight, after having sat with different groups of investors listening to presentations, an attendee in each case expressed doubts about the honesty of the individual presenting.

Pushed for details, judgments about integrity seemed to have been a catch-all for historically poor investment performance, some failure to meet business targets and unexpectedly dilutive capital raisings.

In an information vacuum without clearly defined connections between executive backgrounds and corporate success criteria, listeners will make judgments about how the CEO dresses, his demeanour, the tone of his voice, how he answers questions and even scuttlebutt about possibly extraneous behaviours in drawing conclusions about likely investment success.

Basing an investment decision on how someone looks might be construed as an undesirably superficial way to fill the information void. In recent years, however, more research into behavioural finance has highlighted the extent to which personal attributes of chief executives are predictors of corporate financial and investment outcomes.

Some of the many dimensions to this work were summarised in a paper presented at the annual meeting of the American Economic Association in Chicago in January.

The paper entitled "The Face of Risk: CEO Testosterone and Risk Taking Behavior" by Shinichi Kamiya, Andy Kim and Jungwon Suh (KKS) sets out to examine whether the facial features of a chief executive can predict the riskiness of his firm's financial and investment policies.

Interest in the topic among academics has intensified after behaviour allegedly driven by testosterone fuelled cultures that took the global financial system to the brink of collapse in 2008.

Gender diversity advocates have also tried to reason that lowered boardroom testosterone levels would enhance corporate performance. Gender diversity, it turns out, is non-binary. The research suggests the existence of different degrees of masculinity among male executives.

KKS predicate their analysis on neuroendocrinology literature suggesting a link between facial width-to-height ratios (fWHR), a measure of facial masculinity, and testosterone. Researchers have also found a significant association between fWHR and risk-seeking behaviour.

KKS highlighted the importance of their approach "because it is the first finding that the biological trait observed in the face of the leader has an impact on the organisation's risk level and decision making".

KKS were able to collect facial photographs of a suitably high quality for 1,387 CEOs on which to base their analysis.

Among their conclusions, KKS found more masculine CEOs were associated with higher corporate financial risk, with a higher frequency of corporate acquisitions and with more expensive acquisitions.

From a market standpoint, KKS found that daily and monthly investment return volatility rose with chief executive fWHR.

Consistent with these discoveries, KKS also discovered that executive compensation packages are affected. More masculine executives have been willing to accept reward packages more highly sensitive to risk and performance.

In short, the higher the fWHR of the corporate leader, the greater the risk attaching to an investment.

The data from which these conclusions were drawn came from the US and cover all industry groupings. There was no direct analysis of the mining industry and no conclusions specific to the sector.

Mining companies could be different. Executives outside the US may also have different biological drivers.

Until those propositions are tested, the balance of evidence suggests that appearances do count.

Mineral quality may remain among the most important factors determining the likely success of mining ventures but those presenting investment cases need to cogently argue the merits of their personal corporate stewardship.

Without more thorough explanations by executives of what they bring to the task, investors can justifiably look for alternative ways to improve their judgements about personnel quality.

An executive cannot complain if he obfuscates over his ability and later finds out that someone decided whether to invest simply based on the way he looked.

Increasingly sophisticated research is backing judgements about physical features being a sound way to proceed in the absence of a more compelling argument.

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