

## Bathrooms, Speed Limits and Other Investment Artifacts

By Mariko Gordon

June 7, 2011



I once created an entire civilization.

Since this was in the days *before* SimCity, when Pong machines arrived with great fanfare at the local Foodland supermarket, **you'd be right to guess that this was a homework assignment** for my high school anthropology class (yes, [that high school](#) where I was classmates with [that famous guy](#)).

**The class split up into two teams, each charged with inventing a culture from scratch.** Once we figured out what our society was all about (money, sex, power, religion and art thrown in for good measure), we had to make artifacts from our culture and bury them in a pit. **We then dug out each other's stuff and tried to figure out the other team's culture.**

Thirty years later, I have to confess that as cool as the idea was, all I remember about the exercise is that each team got the other's culture colossally wrong. Anthropologists of the world, with all due respect, I know you're just giving it your best guess.

**It's no surprise really - both creating a culture and dissecting a culture are ridiculously difficult tasks** (nothing is simple when human beings are involved). Still, as the founder of one company and an investor in dozens of others, I give a lot of thought to the topic.

**It's one of the reasons why research field trips are so much fun** - they are the grown-up equivalent of being knee-deep in dirt, on a quest to find evidence that will confirm or refute our thinking. Where once I asked, "Are they cannibals or pacifists?", **I now ask, "Do they worship the god of growth or the god of cash flow?"**

### Our latest field trip

Last week I took a train to Amish country with Senior Research Analyst [Brad McGill](#). **On our way to yet another [Armstrong World Industries](#) (maker of ceiling tile and flooring products) on-site visit**, we rolled by tidy farms with laundry hanging on clotheslines in the sun and spotted teams of horses plowing the fields as buggies trotted by.

New **Armstrong CEO Matt Espe** used to run a former portfolio holding of ours (IKON), so we knew he was the real deal - smart, effective and capable of transformational change.



**Big changes are underway at Armstrong as it emerges from a lost and dark decade of asbestos litigation and bankruptcy, and we wanted to see for ourselves how things were going.**

**Espe talked about how he walked into a once proud, 150-year-old company** that had been overcome by analysis paralysis and the aftermath of a painful bankruptcy. **While the management bench had a lot of talent, the culture had become timid:** endless meetings; presentation decks that were 100-slides long; managers carting around binder upon binder of backup data to justify all the actionless analysis.

**I butted in on this discussion about the old Armstrong by saying, "I can still see the old culture in your bathrooms."** I often say stuff like that and people think I'm weird, but Matt Espe was willing to cut me some slack and listen.

**"There are no less than seven instructions/commands/exhortations in your bathroom.** I've never seen anything like it, so [I even took pictures.](#)" Whoever is in charge of bathroom signs in Building 501 has clearly not gotten the memo that output is as important as process.

There's more. **The posted speed limit on the corporate campus is precisely 17 miles per hour.** The speed limit at the entry of the resilient flooring plant is 12 miles per hour. I spotted another sign for 4 miles per hour. That kind of precision and analysis applied to non-revenue generating parts of the business shows misspent energy (not to mention the cost of custom-made signs).

**I would argue that the true signs of culture are not found within a hundred yards of the C-suite of offices.** They live in the far-flung outposts - in the bathrooms, the parking lots and in other places, deep, deep down within an organization.

**Let me be clear. I am not making fun of Armstrong.** Quite the opposite. These remnants of the old sclerosis Espe was describing exist in sharp contrast to what I saw on our factory tour, **living proof of the change in culture taking hold:**

**The vinyl floor tile plant has a brand spanking new, state-of-the-art production line** designed with operator input, based on ergonomic principles, creative in its use of space, and utilizing water-based inks (no VOCs, no pollution, no health hazards). It generates less waste, requires less working capital, and boasts Speedy Gonzalez changeover times and all-around faster throughput. In short, it's nothing less than a wizard wheeze of production engineering.

**But you know what my favorite part was?** How the assistant plant manager, Steve Ashworth, knew clearly which value-added process steps the consumer was willing to pay for and which the company needed to minimize. **When the production guys are focused on the big picture** - as opposed to falling in love with the engineering process itself -



**you're witnessing a healthy business culture.**

**I have no doubt that on our next trip to Armstrong HQ we'll find the changes we saw on the plant floor reflected** in generic speed limits and reasonable bathroom signage. (Espe has already reduced the death-by-meeting toll by instituting a five-slide limit to PowerPoint presentations.) The culture will be less analysis-heavy; employees will be less focused on defense and more focused on offense.

**Nice story, you say, but so what?**

I'll tell you what. **When you visit your investment managers, remember that the most revealing cultural clues are found at the fringes.** Bizarre things like a [manager's choice of cereal and transport](#) or even [what a firm decides to name itself](#) may reveal more than you think.

**So pay attention to the little things; they are *all* cultural artifacts.** And you don't even have to break a sweat digging them up in the hot Hawaiian sun.

[Click here](#) to view a photo gallery of our visit to Armstrong World Industries.

**From the "Everything Matters" Department**

**You think I'm crazy when I say everything matters when evaluating a firm's culture?** Read the following quote from *The New York Times* ([May 15, 2011](#)) about the insider trading case involving Galleon.

"In part, Ms. Gorman formed a negative opinion of Mr. Rajaratnam because of the name of his hedge fund, the Galleon Group. 'Galleon buccaneers, those are pirates, and he named his company after pirates,' she said. 'And if you look at the history of pirates, they're thieves.'"

It's an interesting point. And while strictly speaking, "galleon" simply refers to a large sailing ship from days gone by, it supports the point that **people make judgments based on little bits of information.**



**This reminded me of another firm called Galleon**, started in 1990 and a high flier, which also came to a sorry end, as quoted in the November 2, 1994 edition of *The New York Times*:

"Galleon Capital Management of San Diego, until recently one of the largest minority-owned investment advisory firms, has settled a suit by the Securities and Exchange Commission accusing it of misappropriating clients' money through a complex arrangement of rebates from brokers who handled the firm's stock trades."

Coincidence? I'll let you decide what's in a name!

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*\* Mariko O. Gordon is founder, CEO and CIO of Daruma Asset Management, a NY-based small cap investment management firm. Subscribe to her free monthly e-newsletter On Daruma's Watch [here](#).*

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