

## Hugh Greenway finds a learning theme in the recession

**H**ow much would you pay to buy a goose that, instead of laying golden eggs, laid one pound coin every day? Ten pounds, a hundred pounds, a thousand pounds? It seems quite a simple question. What if someone else wanted to buy the goose? Would the price you would be prepared to pay go up?

If the goose has been consistently laying a pound a day and looks in good health, you may reasonably assume that it will give you £365 a year. If you pay £1,500 for your goose, it will take you just over four years to recoup your original investment. Now, of course, provided that the goose is still laying eggs at the same rate, you should still be able to sell it for something like the price you paid for it and get to keep the money it laid. You can immediately see that the return from the goose is much better (at 24 per cent per annum) than anything you would have got from a bank<sup>1</sup>.

But would you pay £7,000 for the goose? Or £14,500? Well, that is the ratio at which we were buying shares in FTSE250 companies prior to our recent economic collapse and the latter is the ratio at which we were buying shares in the S&P 500 at the end of 1999.

I know that some of you are thinking: "Isn't this the *Training Journal*?! I seem to have picked up some awful hybrid of *Fowl Weekly* and *The Investor's Chronicle*." But I *am* moving towards a learning theme.

I am prepared to bet that a lot of you balked at paying £7k for the goose and most of you recoiled in horror at £14.5k, except perhaps those of you in pinstripes and braces who are reading this magazine while considering a career change from banking to learning. It just seems like too much, doesn't it? To recoup £14.5k, your goose would have to keep producing at the same rate for 40 years to pay back your original investment! Will it live that long? How can I protect it from avian flu or foxes?

The only way you can justify paying the price is that you expect to be able to increase the goose's productivity. If you can get it to produce £2 a day, you will halve the length of payback. This is very easy to say but not quite so easy to do. We often hear about the huge 'synergies' that will be created by a proposed merger. Bear in mind that this is generally code for 'a large overlap of people in the two organisations doing the same job that we intend to make redundant while keeping the revenue'. However "various studies have shown that mergers have failure rates of more than 50 per cent. One recent study

found that 83 per cent of all mergers fail to create value and half actually destroy value"<sup>2</sup>.

It would appear that lots of M&A specialists are getting carried away in some kind of retail therapy frenzy with as little hope of seeing a return as we would if we expected that, by sitting on our goose, we might push more pound coins out of it.

Which brings me to my learning theme of cognitive dissonance. If you have been reading this article with a comfortable diffidence, thinking "see, I always knew those men in suits and corporate bankers were idiots. I would never have paid that much for a goose!", I will ask you one question.

Do you have a mortgage? If you do, you have already bought the goose for £8,750<sup>3</sup>, only in this case **the goose is you**. You have bet on your own ability to earn money through work that will enable you to pay off the mortgage over a period of 25 years. Has that changed your opinion of the business leaders who got us into this mess?

How is it that we resolutely fail to learn the lessons of history? I think it may be the case that integrative motivation (doing something because it helps you fit in with others) is stronger than instrumental motivation (doing something in order to achieve a result). We all instinctively knew that this emperor goose (if I may mix my metaphor) had no clothes and yet we all persisted in fulfilling the myth. We are nearly all guilty of buying things that we could not afford, of juggling our credit cards in the hope that inflation would eventually erode our debt.

I wonder if we had more time for reflection, if we valued criticism more highly and instilled it in our children, would we have avoided this current collapse. Probably not. As Mark Twain said, "history doesn't repeat itself but it often rhymes".

### References

1. For the pedants and those of you with degrees in economics, we will assume that the cost of housing, feeding and watering the goose is zero; this is an analogy after all. For any others, what are you doing reading footnotes?
2. Robert W. Holthausen, Professor of Accounting, Finance and Management, Wharton Business School, University of Pennsylvania
3. Assuming that you have a standard 25-year repayment mortgage.

Hugh Greenway is managing director of Reed Learning. He can be contacted via [www.reedlearning.co.uk](http://www.reedlearning.co.uk)



HUGH GREENWAY