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“Living is easy with eyes closed. Misunderstanding all you see.” *- from “Strawberry Fields Forever” by The Beatles*

The Nobel laureate Daniel Kahneman’s favorite formula relates to luck and skill: “My favorite formula was about success, and I wrote success equals talent plus luck and great success equals talent plus a lot of luck.”

The reality is that luck plays an enormous role in our lives – both good and bad – just as luck plays an enormous role in many specific endeavors, from baseball to investing to poker to winning a Nobel Prize to producing chart-topping hit records, as the Beatles did so many years ago.

Investing talent plays a pivotal role in increasing the odds of success over relying solely on luck. While luck can occasionally play a role in short-term outcomes, a skilled investor can effectively analyze financial statements, and evaluate the skills of company management and competitive advantage to navigate the complexities of investing successfully. Talent in this context refers to research: a combination of knowledge, analytical skills, and the ability to make informed decisions based on a comprehensive understanding of a specific investment.

For our team, investment research is conducted globally. We are able to compare business models and continually learn as much as possible about management thinking and patterns of success that ultimately reward the business with consistent long-term growth. Persistent success in a corporation is the most important aspect to our investment process because, as long-term investors, we want to be sure the business model will not be impaired during our investment horizon.

Impairment to a business model can occur in various ways. Management change is obvious – those with the initial vision and capability retire or exit, leaving the business without a north star. “Transformative acquisitions” is another - the integration of disparate organizational cultures and systems can be a formidable task. Merging two companies with distinct corporate cultures, processes, and structures often leads to complexities that can hinder efficiency and productivity.

Acquisitions are normally applauded by investors as, in the short term, they are seen as providing greater market share and competitive advantages. Through acquisitions, it’s expected that a company can expand its product or service offerings, access new customer segments, or gain a foothold in a different geographic region. All of which may be true.

What is less understood is the impact on the sustainability of the existing business model. In our experience, large acquisitions involve significant immeasurable strain to the existing team: cultural integration including disparate values and communication styles; leadership change including reporting lines and people integration; communication challenges which can lead to internal rumours, anxiety, and decreased morale inevitably resulting in turnover; and operational disruption, including financial pressure, customer dislocations, and impugned service quality or product delivery.

In-depth analysis of small businesses is a unique capability, one that needs to focus on the constructs of what makes a good idea a great business, especially when understanding and evaluating top management – their skill is even more critical to the success of a small business than it is to a large one.

The basic measure of a quality company is its propensity to organically build market share. A company with better products or services and better execution should strengthen its reach among existing consumers in its industry. Owning great businesses that understand and manage change – that skews luck in your favour.