

# News & Views

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## Seven attributes of a global leader

*Des Armstrong, investment manager, outlines how Walter Scott<sup>1</sup> is focused on the selection of high-quality companies and investing in them for the long term, with no expectation of sale.*

Today's markets are both highly competitive and dominated by short-termism. Quarterly numbers are endlessly analysed for nuggets that may deliver a few basis points of relative outperformance, Des Armstrong, investment manager at Walter Scott, says.

However, the team at Walter Scott is looking to create a portfolio of what he terms 'global leaders' – what Armstrong terms "truly great companies" that can generate extraordinary wealth over long periods. "Some will already be leaders that are set to extend their leads; many more will be relatively unknown, in nascent industries with immense, unappreciated opportunities ahead."

Over the past 30 years, Walter Scott, through its team-based approach, has deconstructed history's most successful companies to unearth their common attributes. This analysis of past and present winners was then combined with decades of investment experience among the Walter Scott managers to identify what they expect to be the global leaders of the future.

"A number of key characteristics show up again and again. In our view, this is no coincidence. It's very rare to find companies that embody these characteristics but that's to be expected – global leaders are by definition a rare breed."

### 1. Pioneers

These companies have the ingenuity to provide something consumers or businesses didn't even know they might need. They are genuine pioneers and often go on to dominate the market they have created.

According to the team at Walter Scott, Tokyo-listed Fanuc is a classic example. Tracing its roots back to 1956, Fanuc became the first company to build and operate an entirely automated factory. Today, it remains the world leader in robotic automation.

### 2. Innovators

When a company earns abnormal economic returns, competition naturally follows, Armstrong says. "Global leaders constantly innovate and develop new technologies, not only to fend off competition, but also to increase their lead. Roche is a case in point. For the last 30 years, the Swiss pharmaceutical group has been behind some of the world's leading cancer therapies. This R&D track record is widely attributed to US subsidiary Genentech, a genuine innovation powerhouse."

### 3. Adaptable

Change is a constant backdrop to any industry so companies that want to remain relevant have to be able to handle it. Armstrong points out that this requires flexibility, agility and a management team with enough strategic guts to take the necessary steps when required.

### 4. Differentiated

Standing out from the crowd is what many companies seek to be given the competitive advantage that can accompany it. The team at Walter Scott points out unique characteristics come in many forms but believe the most influential is size, coupled with economies of scale. "In industries with high fixed costs, companies

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that can spread those costs over a larger sales base have a huge advantage. They often benefit from a virtuous cycle too, as they become larger, reduce prices, attract more customers and further increase sales.”

### 5. Sustainable

Corporate governance plays an essential role in nurturing and sustaining high quality companies with a long growth runway and a strengthening competitive advantage, Armstrong says. “Today, corporate sustainability has become an overused and ambiguous phrase. But we believe the best and most successful companies in the world have a different perspective on it. They don’t demonstrate their sustainability and ESG credentials by ticking a list of KPIs created by external consultants. Instead, they focus on developing long-term partnerships with staff, business partners and customers.”

### 6. Inspirational management

Strong leadership is vital as it underpins good corporate culture more than anything else, according to Walter Scott and as such the group believes it is vital to long-term success. Customer focus, integrity, strategic alignment, well thought-out employee incentives are all contributory factors. Armstrong says Alphabet, the parent company of Google, is a classic example. “Its founder and CEO Larry Page spends little time thinking about the transformational technology he co-founded just 15 years ago. Instead, he is focused on the future. His vision includes widespread artificial intelligence, self-driving cars, even high-altitude balloons that bring internet access to the far reaches of the world. Alphabet is involved in several innovative ideas that could change the world and, in so doing, support decades of future growth.”

### 7. Deliver results

First-mover advantage, market dominance and cutting-edge innovation often lead to considerable pricing power. Armstrong notes this is a particularly attractive attribute as it allows a company to drive incremental revenue growth without a commensurate increase in costs and that means rising sales translate into increased profits.

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