The importance of keen judgment

Consultants, attorneys, bankers, accountants, and other professionals are involved in high-risk, high-stakes decisions every day: Should the case go to trial or be settled out of court Should a microchip manufacturer invest another 1 billion dollars to increase production capacity Do the company financial statements represent the actual condition of the business A keen judgment is one of the most valuable asset a professional can have. Few clients, for obvious reasons, go back to a professional whose judgment is poor.

Many of the executives we have interviewed, in fact, remember all too clearly the poor judgments offered by some of their advisers, even though the incidents occurred years ago. Good judgment, in contrast, is invaluable to clients. Win Bischoff, chairman of the British merchant bank Schroders, recalls a seminal decision he made and how the accurate judgment of his adviser contributed to Schroders interna?¬tional success: It was in the early 1980s, and we felt we needed tore-capitalize our U. S.

bank, which engaged in commercial lending. We were convinced we could issue debt to do this. I went to see the head of Warburgs [a major British merchant bank], David Scholey, to seek advice. In the space of an hour he delivered an unequivocal set of judgments. Issuing debt would be all but impossible, he of?¬fered, quickly turning the conversation to the topic of Schroders overall strategy, and the need for us to assess it in detail at this critical juncture. We were already considering undertaking a strate?¬gic review, and Scholeys advice was important encour?¬agement.

We subsequently made a series of important decisions, including eventually selling the U. S. bank in?¬stead of recapitalizing it, as well as making other strate?¬gic choices that enabled us to prosper as an institution. That short, singular conversation, and the rapid-fire but incisive views provided by Scholey, became a significant influence on our thinking. Instinctively, Scholey did several things when asked to advise Schroders.

First, he made a rapid, intuitive judgment about the feasibility of issuing debt. The situation fit a pattern in his experience, and he knew what the answer was without hesitating. In the process, he thought two or three steps ahead, and was able to visualize the chain of events following a hypothetical debt issue by Schroders, and the negative con?¬sequences that could ensue. In effect, he helped Bischoff avoid a potentially bad judgment. Second, he reframed the question Bischoff was asking. The right question wasnt “ Should we recapitalize our American bank” but “ Should we be in the U.

S. banking business at all” Since that time, Schroders market value has increased fifteen-fold, from about $300 million to $5 billion today.