



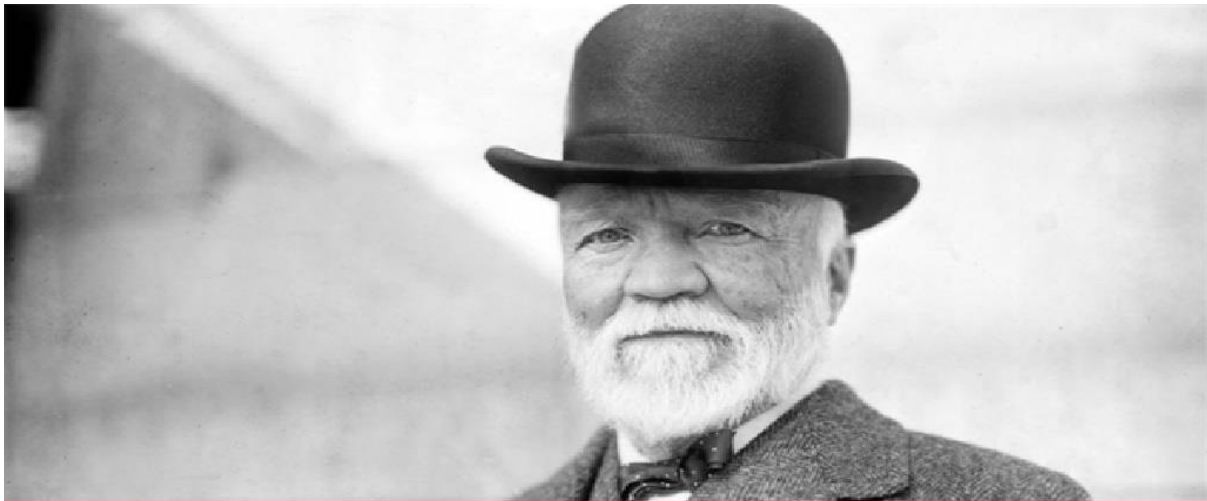
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Executive Search & Board Advisory

## **ANDREW CARNEGIE: THE RICHEST AMERICAN OF ALL TIME**

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*"To spend the first third of one's life getting all the education one can. To spend the next third making all the money one can. To spend the last third giving it all away for worthwhile causes." Andrew Carnegie*

Andrew Carnegie may be the richest American of all time. The Scottish immigrant sold his company, U.S. Steel, to J.P. Morgan for \$480 million in 1901. This amount is equivalent to slightly more than 2.1% of United States GDP at the time.

Carnegie has a rags to riches story from a poor Scottish immigrant to the richest man in the world and then gave it all away.

### **Who was Andrew Carnegie?**

Born in Dunfermline, Scotland, on November 25, 1835, Andrew Carnegie was the first son of Margaret and William Carnegie. Although he had little formal education, Carnegie grew up in a family that believed in the importance of reading and learning. His father was a "political reformer" and influenced Carnegie in the fight of the classes. Whilst his mother was a proud woman that commanded respect in the local community.

Dunfermline was famous for producing fine linen but the town fell on hard times when industrialism made home-based weaving obsolete, leaving workers, such as William Carnegie, out of work. William joined the popular Chartist movement, which believed conditions for workers would improve if the working class were to take over the

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Government from the landed gentry. When the movement failed in 1848, William Carnegie and family sold all their belongings and moved to America.

*“The emigrant is the capable, energetic, ambitious, discontented man.”*

The Carnegie family settled in Allegheny, Pennsylvania which was referred to as a “slum town” at that time. There, at the age of thirteen, Carnegie began his career as a bobbin boy in a cotton factory, earning \$1.20 per week. However, Carnegie’s father died at the age of 51, and although the family quickly paid back their debts, William was never able to take the opportunities in the “new world”.

A voracious reader who could not afford books in Scotland or afford the \$2 membership fee at his local library, Carnegie took advantage of the generosity of an Allegheny citizen who opened his library to local working boys, a rare opportunity in those days. Books provided most of his education as he moved from factory boy to telegraph operator.

Carnegie worked for Thomas Scott, the Vice President of the Pennsylvania Railroad. Scott liked Carnegie’s self-belief and confidence, and Carnegie’s willingness to complete everything was asked of him. One day, Carnegie took a huge risk and signed letters in Scott’s place, giving the orders to fix a complex issue that stopped the trains from running. When Scott found out, he congratulated Carnegie’s courage and initiative. Carnegie quickly learned that success was achieved through keeping the costs down and ensuring nothing stopped the trains from running. Scott promoted Carnegie to Superintendent of the Western Division of the Pennsylvania Railroad at the age of 24.

While working for the railroad, Scott tipped him on an investment, and when Carnegie received the first dividend from this investment, this changed his life. For the first time, he felt like he had made it. Carnegie began to make investments whilst working on the railroads which resulted in substantial returns, especially those in oil. Carnegie also invested in a new company manufacturing railway sleeping cars. He continued to expand his business ventures with great success, in 1864 organising the first of his many companies, the Keystone Bridge Company. He left the railroad in 1865 to focus on his other business interests as his investments were outweighing his salary.

Andrew moved to New York with his mother into the centre of high finance, trading stocks and bonds. He enjoyed the educated society and being able to discuss and debate the issues of the day.

By age 30, Carnegie had amassed business interests in iron works, steamers on the Great Lakes, railroads, and oil wells. He thought iron ore would be the base for tying together his businesses, and he began to consolidate his ownership through vertical integration.

On one of his trips to raise capital by selling bonds to European investors, Carnegie noticed the demand for steel was growing and might outpace iron. He changed his strategy and began to focus on steel holdings in 1873. Around this time, Carnegie created two basic business rules to guide him. One that profits would take care of themselves if costs were

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carefully monitored, and two that gifted managers were worth more than the actual mills they ran.

*“People who are unable to motivate themselves must be content with mediocrity, no matter how impressive their other talents.”*

By the next decade, most of Carnegie's time was dedicated to the steel industry. His business, which became known as the Carnegie Steel Company, revolutionised steel production in the United States. Carnegie built plants around the country, using technology and methods that made manufacturing steel easier, faster and more productive. He was proud of his ability to drive his workforce and be the most productive steel producer. He had a forceful personality, and he liked to push and debate with his people.

Andrew owned every step of the process, including the raw materials, ships and railroads for transporting the goods, and even coal fields to fuel the steel furnaces. This end to end strategy helped Carnegie Steel Company become the market leader in the industry and made Carnegie an exceedingly wealthy man. It also made him known as one of America's "builders," as his business helped to fuel the economy and shape the nation.

Carnegie's mills were already running more efficiently than their competitors, so he was in the best position to buy when the economy hit a six-year slump in 1873. Carnegie snapped up competing mills as well as companies on other levels of production. He renovated the older mills up to modern standards and was out-producing and out-earning his remaining competitors when the economy recovered.

In 1881, Carnegie returned to Dunfermline with his mother in triumph and in contrast to when they left in disgrace. He built his first library for the community. He also decided to be involved in British politics, promoting the United States Republican view against the monarchy. He acquired a number of newspapers to promote his view. However, another newspaper went against him, and ultimately he failed as the people viewed him as a rich American pushing his ideas on them.

The economy hit another downturn in 1883 and Carnegie made two acquisitions that would both cement his empire and harm his reputation. Carnegie bought up his greatest competitor, Homestead Works, and a controlling interest in Henry Frick's coke empire. Coke was essential to the steelmaking process, and Frick owned a lot of it. Although Carnegie and Frick were very different men, Carnegie was charming and jovial where Frick was hard and taciturn. Carnegie saw that Frick had the ability to take over the daily operations of his considerable empire and both wanted to make money. In 1892, Carnegie combined his companies into one, Carnegie Steel Co. and named Frick the Chairman.

Frick was staunchly anti-union, and it happened that the Homestead plant went on strike in the same year he became chairman. The price of steel had dropped, and the cost-conscious Frick wanted to reduce wages to maintain a profit. The union was against any reduction, and a lockout strike ensued. Carnegie was out of the country, and Frick was determined to break the strike rather than give into the demands, something Carnegie often did as he always

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wanted his business to be continually operating. Frick brought in guards from the Pinkerton Detective Agency to protect non-union workers who come in to reopen the plant.

A fight broke out between the strikers and the guards, resulting in seven people being killed. The militia was eventually called in, and the mill went back into operation with non-union workers, but the fight continued. An assassin, unrelated to the union, shot and stabbed Frick a week into the hostilities. Frick not only survived but bound up his wounds and finished his workday. Seeing what they were up against, the union folded and accepted reduced wages to get back their jobs. However, the reputation Carnegie had built up was destroyed. Frick through his attempted murder was perceived as an anti-hero whilst Carnegie was seen as a silent coward.

Carnegie asked Frick to resign which he did, but Carnegie low valued his shareholding in an “ironclad” agreement. Frick did not agree, and the dispute went to court until an agreement was reached.

*“The man who dies thus rich dies disgraced.”*

In 1901, Carnegie decided to make a dramatic change in his life. He sold his business to the United States Steel Corporation, started by legendary financier J.P. Morgan for \$480m. At the age of 65, Carnegie decided to spend the rest of his days helping others. While he had begun his philanthropic work years earlier by building libraries and making donations, Carnegie expanded his efforts in the early 20th century.

Carnegie’s philanthropic career commenced around 1870. He is best known for his gifts of free public library buildings. Carnegie believed that the rich are merely “trustees” of their wealth and are under a moral obligation to invest it in ways that promote the welfare and happiness of the common man. As he boldly declared in *The Gospel of Wealth* (1889), “The man who dies thus rich dies disgraced.”

Carnegie gave away his fortune to build what would become 1,689 public libraries across the United States, donating \$60m to build these institutions of learning. He did not want the next generation to be in the same position when he was young and could not afford the library membership.

*“I resolved to stop accumulating and begin the infinitely more serious and difficult task of wise distribution.”*

In addition to the libraries, in 1900, Carnegie started a technical school that would become one of the best universities in the world. With a million-dollar donation, he created a technical institute in Pittsburgh with the goal of providing an affordable education for working people. In less than 20 years, it grew to include graduate programmes and had a sprawling campus in Pittsburgh; it became known as Carnegie Tech. By 1967, the school merged with another college, the Mellon Institute, to become Carnegie Mellon.

Carnegie’s fortune has also supported everything from the discovery of insulin and the dismantling of nuclear weapons to the creation of Pell Grants and Sesame Street.

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By the time of his death, Andrew Carnegie, despite his best efforts, had not been able to give away his entire fortune. He had distributed \$350m but had \$30m left, which went into the Corporation's endowment.

*“Whoso wants to share the heroism of battle, let him join the fight against ignorance and disease and the mad idea that war is necessary.”*

Toward the end of his life, Carnegie, a pacifist, had a single goal: achieving world peace. He believed in the power of international laws and trusted that future conflicts could be averted through mediation. He supported the founding of the Peace Palace in The Hague in 1903, gave \$10 million to found the Carnegie Endowment for International Peace in 1910 to “hasten the abolition of international war,” and worked ceaselessly for the cause until the outbreak of World War I. He died, in August 1919, two months after the signing of the Treaty of Versailles.

### **What can we learn from Andrew Carnegie?**

*“The result of my own study of the question, What is the best gift which can be given to a community? is that a free library occupies the first place.... It is, no doubt, possible that my own personal experience may have led me to value a free library beyond all other forms of beneficence.”*

Carnegie believed in the value of education, especially in having a free library. The best thing a community can do for their people is have a free library. He wanted everyone to have the opportunity to have lifelong learning, personal development and pursue knowledge. He believed in providing the tools for self-help. He even tried to campaign to make the English language more efficient.

*“The men who have succeeded are men who have chosen one line and stuck to it.”*

Carnegie had the ability to think differently, investing in numerous businesses whilst working at the railroads. He was the first and only person in the country who controlled wide-ranging integrated iron and steel operations. His innovations comprised of the inexpensive and efficient production of steel on a mass level. Because of him, the United States steel output was far greater than the United Kingdom.

*“You cannot push anyone up a ladder unless he be willing to climb a little himself.”*

Carnegie was able to get the best out of people, not by higher wages but rather through pride. He was described as a good judge of character and knew his managers were his key to success. He allowed his managers to make decisions and be intuitive to ensure the operations was always running.

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“I would as soon leave to my son a curse as the almighty dollar.”

Due to his effects, Carnegie was able to replace his image as one of the hard-nosed robber baron with that of a modern-day “Santa Claus”. His considerable business and investment expertise may be forgotten over time, but thanks to his philanthropy, his name will not be.

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**Contact us**

**Sydney** p +61 2 9253 0950

**Melbourne** p +61 3 9653 9510

**w** [www.blenheimpartners.com](http://www.blenheimpartners.com)