The Warren Buffett CEO

Secrets From the Berkshire Hathaway Managers

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MAIN IDEA

The success of Warren Buffett and Berskshire Hathaway, Inc. is legendary and already well documented. Many people try and emulate his investment strategy, with varying degrees of success. Yet in recent years, it isn't Buffett's equity investments that have performed well. Instead, much of Berkshire's recent growth has come from the success of the company's wholly owned subsidiaries. As evidence of that, Berkshire Hathaway's asset base has evolved from its one time structure of 90-percent equities and 10-percent operating companies to today's weighting of 30-percent equities and 70-percent operating companies. And this is likely to continue into the future, with Warren Buffet himself forecasting that his ideal would be for Berkshire's investments to be 90-percent in operating companies and 10-percent in marketable securities.

What's notable with all of Berkshire's acquisitions is the fact Warren Buffett has never bought a company and then installed new management. On the contrary, Buffett will only consider an acquisition if exceptional managers are already in place and those managers are willing to stay involved in the future. Thus, in the 35-years during which Buffett has grown Berskshire's asset base to more than $140 billion (generating annual revenues of over $40 billion), none of the managers of companies acquired by Berkshire have left to join a competing enterprise. Since all of these managers are independently wealthy in their own right, this fact alone suggests working within the Berkshire Hathaway corporate structure and on a personal level with Warren Buffett confers some unique advantages.

So what underlies this incredible track record of success? In large measure, it's the direct result of Warren Buffett's personal business philosophies which permeate throughout the entire Berkshire Hathaway business organization:
• Buy pieces of wonderful companies that you intend to keep forever.
• Only consider businesses run by managers that can be admired and trusted.
• Slowly buy whole companies with phenomenal management in place.
• Let the managers continue to do what attracted you to them in the first place with no outside distractions.
• Let each CEO have a direct financial interest in their business, with a compensation plan tied directly to their results.
• Allow the managers of operating companies freedom to choose how often they want to report into headquarters.
• Let each CEO allocate their own capital (with help from Berkshire's best capital planner) and expand their business as they see fit.
• Free the CEO from worrying about analyst's meetings, press interviews or mandates from headquarters.
• Expect each CEO to do business with high ethical standards and integrity.
• Only do business with someone who loves his or her company, not just the money a sale will bring.
• Each manager is free to run the business as if they owned 100% of it and they intend to keep it forever.

"When a business masterpiece has been created by a lifetime – or several lifetimes – of unstinting care and exceptional talent, it should be important to the owner what corporation is entrusted to carry on its history. Charlie and I believe Berkshire provides an almost unique home. We take our obligations to the people who created a business very seriously, and Berkshire's ownership structure ensures that we can fulfill our promises. When we tell John Justin that his business will remain headquartered in Fort Worth, or assure the Bridge family that its operation will not be merged with another jeweler, these sellers can take those promises to the bank. How much better it is for the 'painter' of a business Rembrandt to personally select its permanent home than to have a trust officer or uninterested heirs auction it off. Throughout the years we have had great experiences with those who recognize that truth and apply it to their business creations. We'll leave the auctions to others."
– Warren Buffett

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