



Copyright © 2012 by Mark Gavagan.

Published by Cole House LLC - Mendham, NJ 07945

ISBN: 978-0-9800056-4-6

Available in print or eBook at www.GemsFromBuffett.com

Managing With Style

On Berkshire's shareholder-oriented management:

“We are here to make money with you, not
off you.”

-1996 letter

* * *

Berkshire's Disgusting “Corporate Bloat”

I love this title, but they actually do run a tight ship...

“The five people who work here with me ...
outproduce corporate groups many times
their number. A compact organization lets

all of us spend our time managing the business rather than managing each other.”

-1982 letter

* * *

“In a characteristically rash move, we have expanded World Headquarters by 252 square feet (17%)”

-1982 letter

* * *

The Corporate Jet

While notoriously frugal with shareholder funds, particularly regarding executive perks, Mr. Buffett finds the lure of a private corporate jet - thought by some to be a wasteful extravagance - irresistible. That it is so out of character makes Mr. Buffett’s humorous disclosures all the more entertaining.

In 1995, Mr. Buffett became a personal customer of what is today called NetJets, the world’s largest fractional jet ownership company, which gives individuals and businesses the benefits of whole aircraft ownership at a fraction of the cost. A few years later, Berkshire Hathaway acquired the company and thereabout, sold it’s own jet and began relying entirely on NetJets for corporate jet travel.

“Our goal is to do what makes sense for Berkshire's customers and employees at all times, and never to add the unneeded. (‘But what about the corporate jet?’ you rudely ask. Well, occasionally a man must rise above principle.)”

-1987 letter

Readers should understand that Mr. Buffett runs Berkshire in partnership with his longtime friend, Vice Chairman Charlie Munger, who is brilliant, shareholder-minded and perhaps even *more* frugal than Mr. Buffett (he wasn't a fan of the corporate jet).

This snippet from the 2010 letter conveys the tone of their relationship: “If you decide to leave (during the annual shareholder meeting's Q & A), please do so while *Charlie* is talking.”

“Naming the plane has not been easy. I initially suggested ‘The Charles T. Munger.’ Charlie countered with ‘The Aberration.’ We finally settled on ‘The Indefensible.’ ”

-1989 letter

* * *

“My own attitude toward the (new corporate) jet can be summarized by the prayer attributed, apocryphally I'm sure, to

St. Augustine as he contemplated leaving a life of secular pleasures to become a priest. Battling the conflict between intellect and glands, he pled: ‘Help me, Oh Lord, to become chaste - but not yet.’ ”

-1989 letter

* * *

“Our entire corporate overhead is less than half the size of our charitable contributions. (Charlie, however, insists that I tell you that \$1.4 million of our \$4.9 million overhead is attributable to our corporate jet, The Indefensible.)”

-1993 letter

* * *

“Were I to die tomorrow, ... Berkshire's earnings would increase by \$1 million annually, since Charlie would immediately sell our corporate jet, The Indefensible (ignoring my wish that it be buried with me).”

-1990 letter

(Note: immediately above is Mark Gavagan’s favorite Warren Buffett gem.)

Managing the Managers

Berkshire Hathaway is a holding company, owning part or all of a diverse array of businesses, including insurance companies, railroads, utilities/energy, manufacturing, services, retailing, finance and financial services.

Berkshire's approach is to invest in companies with great businesses AND great management, then mostly leave them alone.

“We possess a cadre of truly skilled managers who have an unusual commitment to their own operations and to Berkshire. Many of our CEOs are independently wealthy and work only because they love what they do. They are volunteers, not mercenaries. Because no one can offer them a job they would enjoy more, they can't be lured away.”

-2010 letter

* * *

“We want (CEOs of Berkshire-owned businesses) to feel that the businesses they run are theirs. This means no second-guessing by Charlie and me. We avoid the attitude of the alumnus whose message to the football coach is ‘I'm 100% with you -

win or tie.’ Our basic goal as an owner is to behave with our managers as we like our owners to behave with us.”

-1995 letter

* * *

“At Berkshire, managers can focus on running their businesses: They are not subjected to meetings at headquarters nor financing worries nor Wall Street harassment. They simply get a letter from me every two years ... and call me when they wish. And their wishes do differ: There are managers to whom I have not talked in the last year, while there is one with whom I talk almost daily. Our trust is in people rather than process. A ‘hire well, manage little’ code suits both them and me.

Berkshire’s CEOs come in many forms. Some have MBAs; others never finished college. Some use budgets and are by-the-book types; others operate by the seat of their pants. Our team resembles a baseball squad composed of all-stars having vastly different batting styles. Changes in our lineup are seldom required.”

-2010 letter

* * *

On how the managerial stars at Berkshire's operating units, Berkshire's performance is not affected if Charlie or I slip away from time to time (Mr. Buffett was elected Interim Chairman of Salomon Inc. Aug 1990 with no plans to be there permanently):

“The role that Charlie and I play in the success of our operating units can be illustrated by a story about George Mira, the one-time quarterback of the University of Miami, and his coach, Andy Gustafson. Playing Florida and near its goal line, Mira dropped back to pass. He spotted an open receiver but found his right shoulder in the unshakable grasp of a Florida linebacker. The right-handed Mira thereupon switched the ball to his other hand and threw the only left-handed pass of his life - for a touchdown. As the crowd erupted, Gustafson calmly turned to a reporter and declared: ‘Now that's what I call coaching.’ ”

-1991 letter

* * *

“You learn a great deal about a person when you purchase a business from him and he then stays on to run it as an employee rather than as an owner. Before the purchase the seller knows the business intimately, whereas you start from scratch. The seller has dozens of opportunities to mislead the buyer -

through omissions, ambiguities, and misdirection. After the check has changed hands, subtle (and not so subtle) changes of attitude can occur and implicit understandings can evaporate. As in the courtship-marriage sequence, disappointments are not infrequent.”

-1980 letter

* * *

“The attitude of our managers vividly contrasts with that of the young man who married a tycoon’s only child, a decidedly homely and dull lass. Relieved, the father called in his new son-in-law after the wedding and began to discuss the future:

‘Son, you’re the boy I always wanted and never had. Here’s a stock certificate for 50% of the company. You’re my equal partner from now on.’

‘Thanks, dad.’

‘Now, what would you like to run? How about sales?’

‘I’m afraid I couldn’t sell water to a man crawling in the Sahara.’

‘Well then, how about heading human relations?’

‘I really don’t care for people.’

‘No problem, we have lots of other spots in the business. What would you like to do?’

‘Actually, nothing appeals to me. Why don’t you just buy me out?’ ”

-2005 letter

* * *

“In most cases the remarkable performance of these units arises partially from an exceptional business franchise; in all cases an exceptional management is a vital factor. The contribution Charlie and I make is to leave these managers alone.”

-1988 letter

* * *

“Our premium of business value to book value has widened for two simple reasons: We own some remarkable businesses and they are run by even more remarkable managers. You have a right to question that second assertion. After all, CEOs seldom tell their shareholders that they have assembled a bunch of turkeys to run things.”

-1987 letter

* * *

“Investors should pay more for a business that is lodged in the hands of a manager with demonstrated pro-shareholder leanings than for one in the hands of a self-interested manager marching to a different drummer.”

-1984 letter

* * *

“Irrespective of titles, Charlie and I work as partners in managing all controlled companies. To almost a sinful degree, we enjoy our work as managing partners.”

-1981 letter

* * *

“Indeed, if we were not paid at all, Charlie and I would be delighted with the cushy jobs we hold. At bottom, we subscribe to Ronald Reagan's creed: ‘It's probably true that hard work never killed anyone, but I figure why take the chance.’ ”

-1994 letter

* * *

“Last year I stated unequivocally that pre-tax margins at The Buffalo News would fall in 1988. That forecast would have proved correct at almost any other newspaper our size or larger. But (Buffalo News CEO) Stan Lipsey - bless him - has managed to make me look foolish.”

-1988 letter

* * *

“Charlie and I put Chuck Huggins in charge of See’s (Candies) about five minutes after we bought the company. Upon reviewing his record, you may wonder what took us so long.”

-1988 letter

* * *

“A footnote: After our "soft" opening (of a new furniture store for subsidiary R. C. Willey) in August, we had a grand opening of the Boise store about a month later. Naturally, I went there to cut the ribbon (your Chairman, I wish to emphasize, is good for something).”

-1999 letter

* * *

“It's not our style to tamper with successful business cultures (of acquired companies).”

-2001 letter

* * *

“Berkshire’s operating CEOs are masters of their crafts and run their businesses as if they were their own. My job is to stay out of their way and allocate whatever excess capital their businesses generate. It’s easy work.”

-2002 letter

* * *

“There’s a reason NetJets (sells and manages fractionally-owned aircraft) is the runaway leader: It offers the ultimate in safety and service. At Berkshire, and at a number of our subsidiaries, NetJets aircraft are an indispensable business tool. I also have a contract for personal use with NetJets and so do members of my family and most Berkshire directors. (None of us, I should add, gets a discount.) Once you’ve flown NetJets, returning to commercial flights is like going back to holding hands.”

-2006 letter

“At 86 and 79, Charlie and I remain lucky beyond our dreams. We were born in America; had terrific parents who saw that we got good educations; have enjoyed wonderful families and great health; and came equipped with a ‘business’ gene that allows us to prosper in a manner hugely disproportionate to that experienced by many people who contribute as much or more to our society’s well-being. Moreover, we have long had jobs that we love, in which we are helped in countless ways by talented and cheerful associates. Indeed, over the years, our work has become ever more fascinating; no wonder we tap-dance to work. If pushed, we would gladly pay substantial sums to have our jobs (but don’t tell the Comp Committee).”

-2009 letter

* * *

“Charlie and I believe that those entrusted with handling the funds of others should establish performance goals at the onset of their stewardship. Lacking such standards, managements are tempted to shoot the arrow of performance and then paint the bull’s-eye around wherever it lands.”

-2010 letter

“Much of the extra value that exists in our businesses has been created by the managers now running them. Charlie and I feel free to brag about this group because we had nothing to do with developing the skills they possess: These superstars just came that way. Our job is merely to identify talented managers and provide an environment in which they can do their stuff.”

-1990 letter

* * *

“Accomplishing this will require a few big ideas - small ones just won’t do. Charlie Munger, my partner in general management, and I do not have any such ideas at present, but our experience has been that they pop up occasionally. (How’s that for a strategic plan?)”

-1984 letter

* * *

“Charlie and I can’t promise results, but we do promise you that we will keep our efforts focused on our goals.”

-1986 letter

“And now a small hint to Berkshire directors: Last year I spent more than nine times my salary at (Berkshire subsidiaries) Borsheim's and EJA. Just think how Berkshire's business would boom if you'd only spring for a raise.”

-1998 letter

* * *

“Ben Graham taught me 45 years ago that in investing it is not necessary to do extraordinary things to get extraordinary results. In later life, I have been surprised to find that this statement holds true in business management as well. What a manager must do is handle the basics well and not get diverted.”

-1994 letter

* * *

‘Til Death Do Us Part

Warren Buffett turned 81 in August 2011 and Charlie Munger turned 88 in January 2012. Though they've created succession plans, their aim appears to be living and running Berkshire Hathaway forever.

“Berkshire is my first love and one that will never fade: At the Harvard Business School last year, a student asked me when I planned to retire and I replied, ‘About five to ten years after I die.’ ”

-1991 letter

* * *

“Mrs. B (Blumkin), Chairman of Nebraska Furniture Mart, continues at age 93 to outsell and out-hustle any manager I’ve ever seen. She’s at the store seven days a week, from opening to close. Competing with her represents a triumph of courage over judgment.

It’s easy to overlook what I consider to be the critical lesson of the Mrs. B saga: at 93, Omaha based Board Chairmen have yet to reach their peak. Please file this fact away to consult before you mark your ballot at the 2024 annual meeting of Berkshire.”

-1986 letter

* * *

“Charlie (Munger)'s dictum: ‘All I want to know is where I'm going to die so I'll never go there.’ ”

-1996 letter

* * *

“Whatever the future holds, I make you one promise: I'll keep at least 99% of my net worth in Berkshire for as long as I am around. How long will that be? My model is the loyal Democrat in Fort Wayne who asked to be buried in Chicago so that he could stay active in the party. To that end, I've already selected a "power spot" at the office for my urn.”

-1998 letter

* * *

“I've reluctantly discarded the notion of my continuing to manage the portfolio after my death – abandoning my hope to give new meaning to the term ‘thinking outside the box.’ ”

-2007 letter

Other Chapters

Honesty, Transparency, Accountability & Accounting

I Screwed Up

Seeking Long-Term Shareholder Partners (Only)

Smart Business

The Insurance Business

The Airline Industry

Acquisitions & Investments

Bankers, Brokers, Consultants and other “Helpers”

Market Forces: Fear, Greed, Risk and Reward

Government

Uncategorized

The Annual Shareholders’ Meeting

Baseball Anyone?

The Last Word

Buy your own copy of the entire “Gems from Warren Buffett” book in print or eBook format at www.GemsFromBuffett.com

Other books by Mark Gavagan:

“12 Critical Things Your Family Needs to Know”

“The It’s All Right Here Life & Affairs Organizer.”

Both are workbooks for helping families organize their finances and getting their affairs in order. If something happens to you, loved ones will know:

- What you have;
- Where it’s located; and
- What your wishes are.

To learn more, visit www.organizemyaffairs.com