Introduction—
The Warren Buffett CEO

Berkshire Hathaway's chief architect and CEO, Warren Buffett, has handed off his extraordinary record and legacy to his successor Greg Abel. For 56 years, Buffett has received most of the acclaim, but to truly understand the company, you need to appreciate all the relatively unheralded operating managers who have been and are part of this huge corporation. Hundreds of books have been written about the world's most famous investor, but, until now, none has thoroughly explored Buffett's management team and its unique culture. While the other Buffett books explore the quantitative aspects of his investment principles and methods, this book attempts to capture the essence of Berkshire Hathaway by profiling CEOs, including Abel, who are entrusted with management of its underlying wholly owned businesses—also known as the qualitative aspects of investing.

Since management is a major part of every investment Berkshire makes, it is appropriate for an in-depth analysis of its leadership team. Buffett's long-standing criteria for investing in a business are:

- ★ Earnings
- ★ Return on equity
- ★ Little debt
- ★ Management (*we cannot supply it*)
- ★ A simple business

So, 20 percent of the investment decision is qualitative—or, by definition, that which cannot be measured. Buffett knows that every investment, whether in stocks or negotiated purchases, makes him a partner with the CEO.

For the uninitiated, Berkshire Hathaway (NYSE: BRK.A; NYSE: BRK.B) is a conglomerate known most for its partly owned businesses including

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Occidental Petroleum (28 percent owner), Kraft Heinz (27 percent owner), American Express (22 percent owner), Bank of America (10 percent owner), and Coca-Cola (9 percent owner). Buffett's company is not only an investor but the largest owner of these companies. In addition, Berkshire has significant investments in Chubb (7 percent owner), Chevron (7 percent owner), and Apple (2 percent owner).

Buffett made his name and wealth by growing Berkshire from $40 million in sales in 1967 to $40 billion 25 years ago to $425 billion in sales today, currently ranking fifth by revenue in the United States and ninth in the world. In 2000, when the first edition of this book was published, Berkshire generated $936 million in net operating earnings; by 2024, that number had risen to $47 billion (see Chart 1.1). Starting with shrewd common stock selections, Berkshire has transformed itself by buying wholly owned businesses like GEICO (car insurance), BNSF (railroad), PacifiCorp (energy), See's (candy), Dairy Queen (ice cream), and NFM (furniture), to name just a few. (See appendix three for a complete list of the "Conglomerate of Everything.")

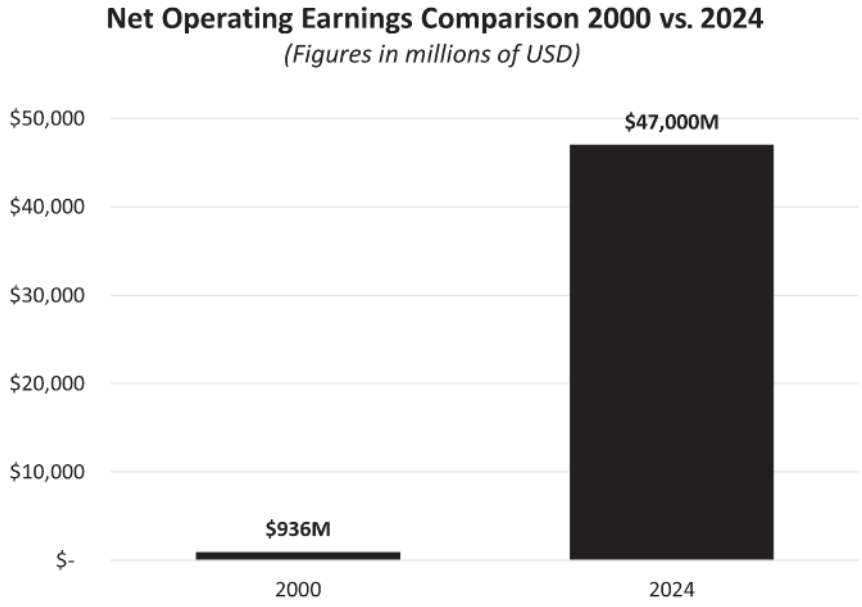


Chart 1.1 Net operating earnings 2000 vs. 2024.
Source: Berkshirehathaway.com

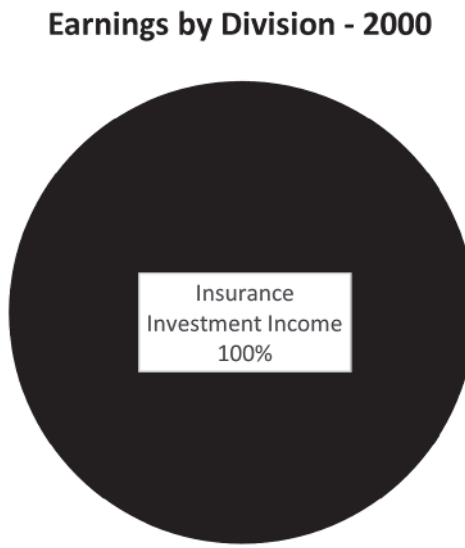


Chart 1.2 Earnings by division 2000.
Source: BerkshireHathaway.com

Twenty-five years ago, Berkshire's net operating income came entirely from its insurance investment earnings. Since then, the company has added powerful new engines of profit—from railroads and energy to manufacturing and retail—yet insurance remains its largest contributor to the bottom line (see Chart 1.2 and Chart 1.3).

Table 1.1 breaks down the disciplined conglomerate.

While this book profiles one former and partly owned CEO (Graham of the *Washington Post*), the primary focus is on the CEOs and businesses that are owned in their entirety, also known as Berkshire's operating companies.

This perspective is significant for several reasons:

★ Berkshire Hathaway is an investment vehicle created by a financial and management genius, but it has now become larger than Warren Buffett. Its diversified units are run by financially independent managers within an extraordinarily flat organizational structure. Berkshire Hathaway has more than $1 trillion in assets without a typical corporate infrastructure. It is now the largest corporation in the United States ranked by net worth.

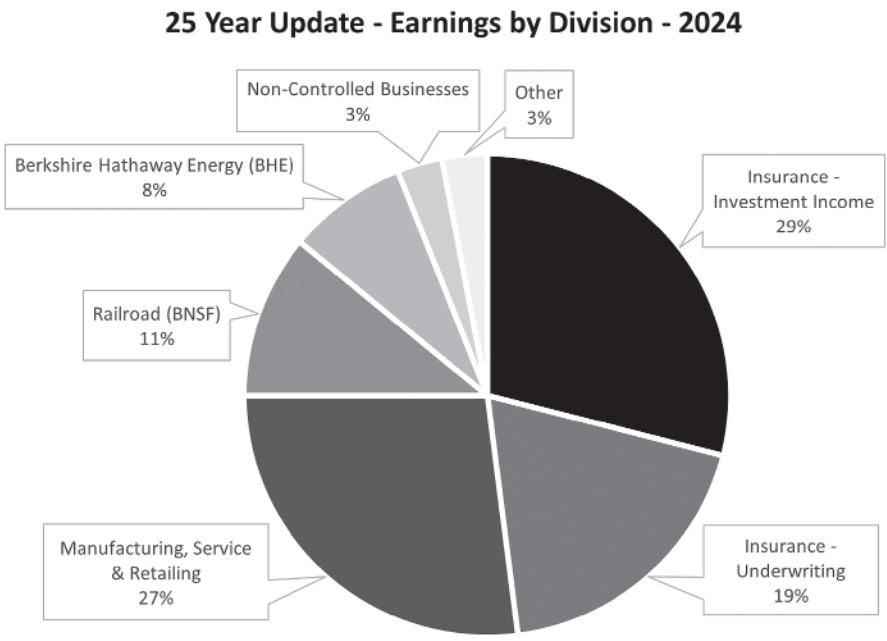


Chart 1.3 Earnings by division 2024.
Source: BerkshireHathaway.com

★ Although long known as Warren Buffett's holding company of publicly traded stocks, Berkshire Hathaway's present collection of wholly owned subsidiaries supersedes its image as a quasi-mutual fund. Not long ago, Buffett's holding company was composed of 90 percent equities and 10 percent operating companies, and everyone was eager to learn what stocks Buffett was buying. Today, Berkshire Hathaway is 80 percent operating companies and 20 percent equities and is striving to be 90 percent wholly owned and 10 percent marketable securities. When it was a much smaller insurance company (it now owns more than a dozen separate insurance firms), Buffett chose to own parts of large businesses via the stock market so that Berkshire's assets were liquid enough to pay insurance claims. As his company grew, Buffett acquired more wholly owned companies because there was less risk of having to sell them if claims were made.

TABLE 1.1 PORTRAIT OF A DISCIPLINED CONGLOMERATE 2000–2024

Berkshire Hathaway Operating Companies Earnings	*Year 2000*	*Year 2024*
Insurance—Underwriting	1.0	9.0
Insurance—Investment Income	1.9	13.7
Net Insurance Income (underwriting + investment)	0.9	22.7
Railroad (BNSF)	—	5.0
Berkshire Hathaway Energy (BHE)	0.1	3.7
Manufacturing, Service, Retail	0.8	13.2
Other	0.4	1.4
Net Operating Earnings	0.9	47.0
Insurance Float	28	171
Revenue	34	371
Total Assets	136	1200
Equities	37.6	272
Net Worth	62	650
all figures in billions		
Book Value per share	$40,000	$452,000
Share Price	$71,000	$681,000
Number of Operating Companies	53	189
Number of the Largest Companies within their industry	12	28
Number of Employees	45,000	392,000

Source: BerkshireHathaway.com

★ Management can easily make a mistake in purchasing common stock. If the CEO has not acted in the best interests of the shareowners, the newly acquired business can be sold fairly quickly on the open market. On the other hand, buying a whole company that has incompatible management in place is difficult and expensive to reverse. Buffett has written: "[We] try to buy not only good businesses, but ones run by high-grade, talented and likeable managers. If we make a mistake about the manager we link up with, the controlled company offers a certain advantage because we have the power to effect change. In practice, however, this advantage is somewhat illusory: Management changes, like marital changes, are painful, time-consuming and

chancy." Over 60 years of acquiring companies, some Buffett CEOs have chosen to retire, but none has left to join a competing enterprise. All Buffett CEOs are considered partners for life. This remarkable record alone is worth examining. How are the managers selected, managed, evaluated, compensated, and assigned within the corporate parent's structure to ensure such devotion and loyalty? Berkshire has a select group of managers. Primarily, they are centimillionaires who work hard for groups of financially independent board members and long-term millionaire shareholders.

★ Most CEOs allocate their own capital and expand their business whenever they can. Berkshire has centralized this function in the hands of its most talented capital allocators. This unique management structure has led to superior investment and management successes and has proven to be Buffett's finest cultural and structural strategy. It may also account for the low CEO turnover. Most, if not all, of Berkshire Hathaway's underlying businesses have enjoyed steady and increasing employment. Except for its early textile ventures, competition from foreign shoe manufacturers, and the newspaper group facing stiff Internet competition, few divisions have suffered major layoffs.

Technology—particularly the Internet and its impact on Berkshire—is worth exploring from the inside. Long a technophobe and bearish on anything he couldn't value, including most "new economy" stocks, Buffett had carefully avoided technology-based businesses. FlightSafety, partly owned IBM, and Apple are exceptions. Berkshire likes to invest in businesses with a durable competitive advantage—or as Buffett calls it, an economic moat. Recent market performance has shown how difficult it is for Internet companies to devise a successful business model. Still, like the invention of the wheel, the Internet has continued to lower the costs of doing business. Among Berkshire's businesses, it has helped GEICO and See's Candies and hurt World Book. Eventually, it threatened the *Buffalo News* and the *Washington Post*. Indirectly, the Internet has created more customers for its NetJets fractional jet business. The Buffett CEOs discuss the impact of technology on their various businesses.

Now that Buffett has handed over the CEO duties, including capital allocation, to Berkshire's vice chairman of all non-insurance businesses, Greg Abel, this book offers a timely review of how Berkshire will now

operate. You will learn about Abel—how he operates differently—and, naturally, comparisons of his acquisition, business, and management principles to those of Buffett. The book also provides an updated look at the other Berkshire managers, including what business and management principles they endorse, how they have handled the succession issue within their own businesses, and how their companies fit into the Berkshire mosaic.

One fact unearthed during the interviews may surprise you: the operating managers don't know much about the other wholly owned subsidiaries, beyond what is revealed in the chairman's annual letter to shareholders or in media reports. To some degree, you will learn, as did some of the Berkshire interviewees, what their counterparts are doing.

There is no "average" Buffett CEO, but the persons profiled here tended to be white males in their sixties who were already managing third-generation businesses that are 100 years old. All but one of the managers was promoted from inside the business. Most Buffett CEOs manage "old economy" businesses: insurance, railroads, energy, bricks, candy, furniture, jewelry, homebuilding, air compressors, and footwear.

Each individual profiled exhibits traits that are uncompromising to Buffett: high ethical standards and integrity. When he put his reputation on the line to save Salomon Brothers, Buffett told a Senate subcommittee: "Make an honest mistake and I will be understanding, but lose the reputation of the enterprise and I will be ruthless." He has often said, "Never do anything that can't be printed on the front page of your local newspaper."

After Buffett's transition, his chairman of the board responsibilities will likely be taken over by a family member—most likely his son Howard. He will become non-executive chairman of the board and continue the "Buffett family" atmosphere, influence, and culture. As non-executive (which means not an officer or salaried employee), he can override the board of directors by firing a CEO for any reason.

Berkshire has seldom sold an operating company or fired an original entrepreneur after buying their company. A few have chosen to retire, but most have a passion for the business that continues today and into the future. Berkshire will sell, and has sold, subsidiaries that have long-standing labor problems or businesses, like newspapers, that require more capital to be put in than can be taken out as earnings.

Most publicly traded companies force out brilliant managers (like Jack Welch of GE) when they reach 65 years of age, but each one of Buffett's

managers, like Mrs. B, can continue to run their business unit until age 104 and can then "retire." Like good soldiers, the Berkshire management team is permitted and encouraged—and may prefer—to die with their boots on. Maybe that's why all the Buffett CEOs are smiling.

In the case of FlightSafety's 80-something year-old founder and president, Al Ueltschi, Warren wouldn't split Berkshire's stock but did intend to split Ueltschi's age when he reached his hundredth birthday. Unfortunately, Ueltschi died in 2012 at the age of 95.

Buffett CEOs do not deal with the responsibilities of typical chief executives. There are no meetings with analysts or shareholders, no press interviews, no expansion requirements, no limitations on available capital, and no headquarter mandates. These CEOs instantly obtain the highest credit rating and the financial strength enjoyed by only a few other corporations in the world.

Buffett CEOs have the unique ability to focus entirely on internal affairs and completely on the long-term success of their business, with no outside distractions. Berkshire managers can report into headquarters as often or as seldom as they choose. One manager never set foot in Omaha until 20 years after his company was purchased.

Berkshire's unique management compensation system has been led by its chief executive. With a salary of $100,000 and no stock options, Buffett set an example for others and was one of the lowest paid of all Fortune 500 CEOs. All his managers have higher salaries, and all Buffett CEOs have a direct financial interest in their business. Their compensation plans are simple and directly tied to the results of their own enterprise.

Don't expect outrageous stories or elaborate business strategies here. The Buffett business and management principles are simple:

- ★ Buy pieces of wonderful companies that you intend to keep forever.
- ★ Only consider managers that you admire and trust. Then slowly buy whole companies with phenomenal management in place.
- ★ Manage your companies exactly as you would a small portfolio of stocks.
- ★ Let the managers continue to do what attracted you to them in the first place.

Even though Buffett CEOs know little about one another and are independently wealthy enough to speak their minds, each CEO, to a person, described Buffett and his influence on them almost identically. If their responses seem repetitive, it's because very independent CEOs came to the same conclusions on their own.

This is a fascinating story of outstanding individuals who have been led by an extraordinary man. Of Berkshire Hathaway and the Buffett CEOs, Buffett wrote in his 1987 letter to shareholders, "This divine assemblage . . . is a collection of businesses with economic characteristics that range from good to superb. Its managers range from superb to superb. Most of these managers have no need to work for a living; they show up at the ballpark because they like to hit home runs. And that's exactly what they do. When I call off the names of our managers—the Blumkins, Chuck Huggins, Stan Lipsey, Ralph Schey—I feel the same glow that Miller Huggins must have experienced when he announced the lineup of his 1927 New York Yankees."