
Leadership, Berkshire-style

May 1 is the annual meeting – dubbed Woodstock for Capitalists – for shareholders of Berkshire Hathaway, the company led by Warren Buffett and Charlie Munger.

The following excerpts from Buffett's February 26 letter to shareholders provide a glimpse of the principles, priorities and practices that have guided Berkshire Hathaway to consistent levels of high performance.

On conviction

"We've put a lot of money to work during the chaos of the last two years. It's been an ideal period for investors: A climate of fear is their best friend."

On delegation

"We tend to let our subsidiaries operate on their own, without our supervising and monitoring them to any degree. That means we are sometimes late in spotting management problems and that both operating and capital decisions are occasionally made with which Charlie and I would have disagreed had we been consulted. Most of our managers, however, use the independence we grant them magnificently, rewarding our confidence by maintaining an owner-oriented attitude that is invaluable and too seldom found in huge organizations. We would rather suffer the visible costs of a few bad decisions than incur the many invisible costs that come from decisions made too slowly – or not at all – because of a stifling bureaucracy. We now have about 257,000 employees and literally hundreds of different operating units. We hope to have many more of each. But we will never allow Berkshire to become some monolith that is overrun with committees, budget presentations and multiple layers of management. Instead, we plan to operate as a collection of separately managed businesses, most of whose decision-making occurs at the operating level."

On the CEO's role

"Charlie and I will limit ourselves to allocating capital, controlling enterprise risk, choosing managers and setting their compensation. It's my job to keep Berkshire far away from problems. Charlie and I believe that a CEO must not delegate risk control. It's simply too important. If Berkshire ever gets in trouble, it will be *my* fault. It will not be because of misjudgments made by a Risk Committee or Chief Risk Officer."

On accountability

"In my view a board of directors is *derelict* if it does not insist that its CEO bear full responsibility for risk control. If he's incapable of handling that job, he should look for other

employment. And if he fails at it, the financial consequences for him and his board should be severe. It has not been shareholders who have botched the operations of some of our country's largest financial institutions. Yet they have borne the burden, with 90% or more of the value of their holdings wiped out in most cases of failure. Collectively, they have lost more than \$500 billion in just the four largest financial fiascos of the last two years. To say these *owners* have been 'bailed-out' is to make a mockery of the term. The CEOs and directors of the failed companies, however, have largely gone unscathed. Their fortunes may have been diminished by the disasters they oversaw, but they still live in grand style. It is the behavior of these CEOs and directors that needs to be changed: If their institutions and the country are harmed by their recklessness, they should pay a heavy price – one not reimbursable by the companies they've damaged nor by insurance. CEOs and, in many cases, directors have long benefitted from oversized financial carrots; some *meaningful* sticks now need to be part of their employment picture as well."

On communication

"We try to communicate with our owners directly and informatively. Our goal is to tell you what we would like to know if our positions were reversed. Additionally, we try to post our quarterly and annual financial information on the Internet early on weekends, thereby giving investors plenty of time during a non-trading period to digest just what has happened at our multi-faceted enterprise. These matters simply can't be adequately summarized in a few paragraphs. Last year we saw how sound-bite reporting can go wrong. Given a few experiences we've had like that, you can understand why I prefer that our communications with you remain as direct and unabridged as possible."

On passion

"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)."

Common sense leadership. Uncommon practice. ■