

## Author Interview

### Lawrence A. Cunningham - Berkshire Beyond Buffett: The Enduring Value of Values

LAWRENCE A. CUNNINGHAM



*Larry, we want to extend lots of gratitude to you for, most importantly, putting this book together, but then also for taking time out of your day to answer a few of the questions we had after spending time with your book over the course of a couple of months!*

#### THE BOOK

*How did the idea of this book come up?*

In two stages, reflected in the title's dual meanings: (1) the idea of a book about *Berkshire without Buffett* came up after yet another annual meeting where that subject dominated and (2) the idea of a book focusing on the people of *Berkshire besides Buffett* came up as I researched the first idea. In each case, I wrote to Warren, asking his thoughts and permission to contact Berkshire's managers, and got his support.

*What's the significance of the tree on the book cover?*

Besides signifying growth, strength, and durability, the tree reflects the mathematical property of "self-similarity," where an object is similar to parts of itself and the whole has the same shape as its parts. Berkshire's corporate culture is like the tree and its branches, with the various subsidiaries bearing values similar to the parent's and thus to the whole.

*This book must have taken quite some time to put together. Miles and miles of text have been written about Berkshire/Buffett, but not so much about the subsidiaries themselves, what makes them tick and how they fit together. Was the theme of the book, leading up to the B-E-R-K-S-H-I-R-E acronym, always the working hypothesis or did you start up another alley?*

In some ways the book took twenty years, since I began studying Berkshire in 1995, but the discrete

work took only two. At first, I was going to stress the corporate culture as Buffett has defined it at the top, like viewing Berkshire as a partnership, using debt sparingly, and holding subsidiaries forever. But corporate culture animates an entire firm, not just headquarters, so I had to take a deep dive into the subsidiaries—their histories, personalities, and values that shape corporate actions and practices.

As my research progressed, nine cultural features emerged as common across the subsidiaries and the book's structure became obvious. There is a chapter on each value, each illustrated by several subsidiaries; all that is framed by the first part's look at Berkshire's history and the third part's take on the future. The acronym was an afterthought that occurred to me while jogging on the beach, toying with synonyms to make it easier for readers to remember the nine values.

*What is the most important thing for a chronicler of corporate autobiographies to think about in order to produce a good read?*

The story has to be about people and their actions, unveiling managerial motivations and business values in a vivid way. The colourful and inspiring characters of the Berkshire subsidiaries made their stories a joy to narrate and a cinch to give readers a treat on virtually every page.

## SUCCESSION

*In the book you aptly describe the creation of Berkshire almost as accidental, hugely affected by the intricate personalities of chiefly Buffett, but to some extent also Munger. "Berkshire is my painting, so it should look the way I want it to when it's done...it is designed to fit me", is Buffett's quote. So despite the fact that Berkshire and its subsidiaries possess the strongest of all moats – corporate culture centred around trust and permanence – succession will therefore be an immense challenge. If you were picked as Chief Operating Officer, what would you focus on during the first three years on the job?*

Since Buffett built Berkshire by hand one deal at a time over many decades, no one will have the same knowledge or ability to oversee the company's sprawling subsidiaries. To facilitate oversight without creating bureaucracy, I'd focus on arranging Berkshire into a dozen groups headed by presidents reporting to Omaha. As I explain in the book, Berkshire's Marmon Group subsidiary is a model: that decentralized conglomerate, a mini-Berkshire, was built by the iconic Pritzker brothers through scores of acquisitions over many decades. But my first operating principle would be change as little as possible.

*For more than 40 years, Berkshire rarely lost a subsidiary CEO, bar death. The last few years, however, have seen a few hiccups in terms of management-positions – why is that do you think?*

Before 2001, Berkshire had only seen a handful of CEO departures while there have been a dozen

since then. Although each departure had its own logic without indicating any pattern at Berkshire, the difference in frequency reflects how radically Berkshire has changed over that time: twenty years ago, only 20% of its assets were in wholly owned businesses, the rest in stocks, while today they represent 80%. With so many more and larger wholly owned businesses, it's unsurprising to see more management change today than in earlier decades. What's surprising is how Berkshire's rate of management change remains low compared with norms in corporate America.

*You mention in the book that the succession issue came up as early as 1993. The short-listed names on the shortlist have throughout the years likely included Richard Santulli and David Sokol, showing the need for constant adaption. Considering the "Three Ts" (Todd Combs, Ted Wechsler and Tracy Britt Cool) already in place and Berkshire's overall make-up, who would be your choice of CEO?*

Berkshire has a deep managerial bench. I highlight ten in the book who'd be outstanding based on my own analysis and shareholder surveys I did. Besides oft-mentioned candidates like Greg Abel (BH Energy) and Ajit Jain (BH Reinsurance), these include Kevin Clayton (Clayton Homes), Grady Rosier (McLane), and Frank Ptak (Marmon). I'm confident that the board, whose job it will to make this choice, will choose well.

## OTHER

*For every quick-decision "yes" (MiTek, Helzberg Diamond, Pampered Chef etc.) there must be countless rejections? How many proposals pass by Omaha every week?*

Too few very large ones that fit and too many smaller ones that don't. While Berkshire promises confidentiality and rejected suitors may not wish to broadcast the turndown, I am researching a book about the also-rans and what happened to them. I suspect you'll find them doing deals with others:

larger ones sold or merging (Jeff Bezos-Washington Post, FedEx-Kinkos); smaller ones in the homes of Berkshire emulators (like Markel); and others bought by private equity firms (maybe Domino's Pizza, Fortunoff Jeweler, Friendly's Ice Cream, KB Toys, Mervyn's Department Stores, and Reader's Digest).

*Considering that the culture and “cult” is likely stronger among Berkshire shareholders than among its (subsidiary) employees, can a Buffettless Berkshire suffer as a result of a less loyal shareholder base?*

Yes, because shareholder loyalty is part of Berkshire culture, which Buffett earned by the tone at the top headlined by a partnership attitude and strong results. Shareholder loyalty will be preserved by sustaining both the culture and the returns, which go hand-in-hand.

*The discussion in the book about Berkshire as a private company was interesting. What odds would you put on that happening?*

Close to zero. But the scenario I draw in the book dramatizes the stakes of the shareholder

## SHARING OF FINANCIAL WISDOM

showdown likely to emerge post-Buffett. Activist shareholders will clamour for subsidiary divestitures and cash dividends. Stalwarts will resist by pointing to the tremendous long-term value in the commitment of permanence and the capacity that large cash hoards create to act opportunistically.

*What is the number one thing a company can do in order to learn from Berkshire’s long-term outlook in making decisions?*

Embrace the fact that people value a long-term outlook, including: (a) business sellers who take a discounted price in exchange for the promise of permanence and (b) managers who conquer thorny challenges when their pay is based on performance over several years not one.

### BERKSHIRE IN 9 SECONDS (please choose one!):

Buffett or Munger?

EPS or BVPS?

Right people or Right numbers?

Katharine Graham or Benjamin Graham?

Simpson (Lou) or Todd & Ted?

H.J. Heinz or Coca-Cola?

Insurance or Manufacturing?

Railroads or Utilities?

Exchange (membership) or Private (ownership)?

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