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## High Performing Investment Teams: A Case Study of Berkshire Hathaway Inc.

By Jim Ware, CFA

Warren Buffett, chairman and CEO of Berkshire Hathaway, and Charlie Munger, vice chairman, are famous for their investing prowess. But little is said about their so-called "soft skills," their ability to lead and build a great culture. "Buffett is underrated for his people skills: he is the best judge of human talent there is," says Rich Santulli, who heads up NetJets, a company that leases fractional shares of aircraft, "and people want to work for him." As a long-time fan of this dynamic duo, I would agree.

Buffett and Munger practice the key behaviors that are also evident in the best investment firms. No surprise that two men as bright as Buffett and Munger have learned over the years that these key behaviors reduce the sludge in an organization and allow for improved decision making: both in speed and accuracy.

### Building trust and eliminating corporate sludge are key to speeding up decision-making

Buffett says, "We have less overhead and faster decision-making than any other place of our size in the world." How do they do it? By eliminating corporate sludge. Corporate sludge gums up the works in an organization. It manifests in behaviors like these:

- Gossiping
- Lying
- Breaking agreements
- Becoming defensive
- Feeling entitled
- Withholding key information

All of these behaviors are fear-based and lead to distrust which slows down communication and compromises decision making. Buffett is clear that trust is the key lubricant that keeps Berkshire Hathaway running smoothly. He has often said, "I only do business with people whom I like, trust, and admire." Munger is equally fanatic about being trustworthy and looking for business partners who are trustworthy: "Great managements must be assessed beyond just numbers: are they able, trustworthy, and owner-oriented?"

Here are the key behaviors that we have observed in the best investment firms, and how Buffett and Munger endorse the same behaviors in creating a sludge-free culture at Berkshire Hathaway.

### 1. Choosing curiosity over defensiveness

Research from many sources indicates that top executives have learned to choose curiosity over defensiveness. Buffett and Munger realize that this skill is critical, and they stress its importance frequently in their communications:

- "Cultivate curiosity and strive to become a little wiser every day."
- "Continually challenge and be willing to amend your best loved ideas."
- "You need a lot of curiosity for a long, long time"
- "Warren and I are very good at changing our prior conclusions. We work at developing that facility because without it, disaster often comes."
- "The curious are also provided with much fun and wisdom long after formal education has ended."

With curiosity, the goal is learning. With defensiveness, the goal is winning and being right. Buffett and Munger seem to understand this fundamental difference, as they emphasize the importance of learning: "The game is to keep learning..."

### 2. Choosing candor over withholding

A second behavior practiced by top teams is candor. Candor means telling the full truth, revealing all the relevant information, seeing reality accurately, differentiating between fact and fiction, and holding one's opinion lightly. Both Buffett and Munger endorse candor publicly, saying, "Our guideline is to tell you the business facts that we would want to know if our positions were reversed ... Candor benefits us as managers: the CEO who misleads others in public may eventually mislead himself in private."

We would also argue that much corporate drama—conflict and fighting—is the result of people forming an opinion and then holding to it tightly. Buffett and Munger are wise to this folly, noting that the practice of holding one's opinions tightly leads to poor decision making. Munger says that in a typical debate, "Either position is OK. But being totally sure on issues like that with a strong, violent ideology, in my opinion, turns you into a lousy thinker."

Decision making at the world class level is achieved by building the trust that therefore allows team members to be perfectly candid with one another. The top investment teams operate like Buffett and Munger with high degrees of trust and candor.

### 3. Choosing responsibility over blaming

We advocate a culture in which people are encouraged to take responsibility. When things go wrong, these people don't point fingers, they instead ask themselves, "What did I do—or not do—that contributed to the poor outcome?" Buffett says it plainly: "There's no way you can live an adequate life without making many mistakes." Investment pros, like baseball pros, must understand that they will strike out many times in their career. The key according to experts like Munger and Buffett is not the result—a hit or miss—but the quality of your swing.

### 4. Choosing Authenticity over Politics

High performing teams reduce or eliminate manipulation and politics. Long-time friend of Buffett, Don Graham of the *Washington Post* says, "Buffet has extraordinary ability to state things clearly and make them simpler." Munger says of Buffett, "No side of his personality is hidden. What you see is exactly what you get." This sort of authenticity reduces posturing and politicking and promotes authentic and straightforward behavior.

All corporate drama involves what we call the "conflict triangle." The triangle is based on the idea that there are three common roles (personas) that people assume in life. The three basic personas are:

1. The villain ("somebody is to blame, and I'm going to find them.")
2. The victim ("poor me, everyone is always doing things to me.")
3. The hero ("I'll save the day...tah dah!")

Buffett and Munger avoid the triangle by assuming personal responsibility for their lives. Munger was asked once to give a one word answer for his success. He said, "rational."

### 5. Choosing Genius (Passion) over Mediocrity (Safety)

Another behavior practiced by the top investment teams is one we call "genius" -- an ability to identify one's sweet spot and spend 80% of the time working there. Listen to the way Buffett describes the importance of this: "Each of you will have to figure out where your talents lie. And you'll have to use your advantages. But if you try to succeed in what you're worst at, you're going to have a very lousy career." He gives this advice: "Go to work for whomever you admire the most. You'll be turned on; you'll feel like getting out of bed in the morning; and you'll learn a lot... As a corollary, I would never go to work for an organization that I had any negative feelings about."

Activities that are outside of the Genius Zone tend to be energy drainers vs. energy gainers. Buffett and Munger seem peppy even at their advanced ages (late 70s, early 80s, respectively) because they are gaining energy during the day, doing activities they love. Neither ever talks of retiring. In fact, Buffett says that he'll retire, "about five to ten years after I die."

### 6. Choosing appreciation over entitlement

The sixth behavior of successful investment leaders and teams is the choice to be appreciative vs. resentful. The latter comes from a mindset of entitlement: "I expect my life to be a certain way and if it's not, I'm resentful."

Buffett and Munger appear genuinely appreciative of the lives they have created for themselves. Munger quotes the philosopher Whitehead on this topic, "No one who achieves success does so without acknowledging the help of others. The wise and confident acknowledge this help with gratitude." Each of the duo seems genuinely happy taking each day as it comes, enjoying the journey rather than focusing only on the outcome: "Enjoy the process along with the proceeds, because the process is where you live."

People who choose appreciation spend more time being grateful for what they have rather than envious of what they don't have. Munger has much to say about the folly of envy. In one speech, he humorously stands the topic of happiness on its head and says, "I cannot recommend envy enough if you desire misery."

### Summary

We thought we had really discovered some radically new ideas when we wrote, "High Performing Investment Teams (Wiley, 2006.)" We thought we had articulated the key behaviors of great investment teams for the first time. So, we find it interesting to see that these same behaviors that we wrote about are at the core of Buffett and Munger's leadership style.