FOREWORD

Author’s Note: After Berkshire Hathaway’s 2014 annual meeting, I asked Warren Buffett who should write the foreword to this book. He immediately suggested Tom Murphy, a legendary businessman whom Warren said he had tried to model himself after. Warren later added a further explanation: “Most of what I’ve learned about management, I learned from Murph. I kick myself, because I should have applied it much earlier.” When I relayed that to Tom, he modestly dismissed any notion of being Warren’s role model, but agreed to write the foreword anyway, and I am honored that he did.

L.A.C.

It’s hard to remember a time when Warren Buffett wasn’t well known. But in 1986, when a small TV and newspaper company named Capital Cities bought the broadcasting giant ABC, few people recognized the name of the man who financed 18 percent of the deal. A small number of investors knew about his record, and Wall Street was learning. But the general public had yet to meet this low-profile Omaha analyst, a man who would become America’s premier teacher of all things business and attract an international media following eager for his insights. Warren Buffett would one day help make business understandable to the average person, while earning the notice and respect of the country’s most sophisticated financial minds.
But this was 1986, and no one could have predicted what lay ahead for Warren. In the decades that followed, he would build a $300 billion company, one acquisition at a time, a feat that would awe even those of us who have known him for so long. Larry Cunningham’s book is a comprehensive look at many of the lessons to be gleaned from Warren’s experience in putting together an organization structured to thrive long into the future.

I met Warren in 1969 through a Harvard Business School friend who invested with him. I knew instantly how fortunate I was: Warren was the smartest person I had ever met. It wasn’t long before I flew to Omaha and asked him to join my board at Capital Cities Communications. It was a sale I didn’t make. He told me my multiple was too high; I said it wasn’t. He said he wouldn’t be a director, but he offered, instead, to be a sounding board if I needed one. So I ended up with the best of two possible worlds: I had the most valuable director who wasn’t a director. How lucky can one man get? And by the way, for the record, I was right about that multiple!

I remember what Warren told me just before the ABC deal was completed. He warned me that my happy life as a paddleball-playing, below-the-radar businessman was about to change. My new responsibilities would up the ante in ways large and small, but one thing was certain: because I was to be head of a television network, my anonymity would be a thing of the past. Was I ready for a change this big?

He might have asked himself that question as well. Capital Cities became ABC, Inc., and Warren finally joined our board. His more frequent presence in New York and Washington, where he had been on the Washington Post board, exposed him to the national press and generated media coverage. He continued to turn down interviews and speaking engagements; but the genie was out of the bottle, and this genie was colorful and played a ukulele. In hindsight, those of us who knew him well understood his uniqueness and appeal. His national standing and attendant level of journalistic interest was not surprising.

It has now been almost three decades since Capital Cities acquired ABC for $3 billion. That deal, the largest non-oil merger at the time, has been dwarfed by the size of today’s transactions. Warren’s business base during that period has grown even more exponentially. Berkshire’s trajectory has been so consistent and seamless that Warren’s own professional transition has gone almost unnoticed. The man who began his business life as a precocious “stock picker” and investor has morphed into chief executive of one of the largest collections of businesses in the world. Larry Cunningham’s book astutely chronicles this development and, with Larry’s years of experience...
writing about Warren and studying Berkshire's businesses, helps us understand how this happened.

The skills that set Warren apart were clear to all of us who knew him in those early years. He had invited me to call for advice, and I did. I soon had a bird’s-eye view of Warren’s breadth and nuanced understanding of a business’s long-term prospects. I considered our conversations “Acquisitions 101”—a class Warren could teach with his eyes shut. In those days, I was focused 100 percent on growing Capital Cities. I had a great partner in the late Dan Burke, who ran the company’s operations, and his help gave me time to dream. Warren reinforced those dreams. I focused on finding bigger and bigger TV and radio stations, plus newspapers and other properties that we could buy and improve. Warren has done this on a vast scale at Berkshire and with companies in a diverse range of businesses. He was always available if I needed another opinion. I learned a lot from him, and he generously claims to have learned from me. In my role as a member of the Berkshire Hathaway board, he continues to educate and surprise me.

Warren is a student of entrepreneurial success and a man who deeply appreciates how businesses are created and built, brick by brick, by those with a good idea, immeasurable drive, and strong character. We are both proponents of a decentralized management philosophy: of hiring key people carefully, of pushing decisions down the organization, and of setting overall principles and resisting temptation to be involved with details. In other words, don’t hire a dog and try to do the barking.

Decentralization, though, is not a magic bullet. We used to remind ourselves that in the wrong environment, chaos and anarchy sit side by side with decentralization. One wrong hiring decision at a senior level can really hurt hiring decisions down the line. We have all been there. If we're lucky, such errors of judgment are few and discovered quickly. If not... I rest my case.

Decentralization worked well for Capital Cities because the company was a loose confederation of small, and in many cases far-flung, individual operating units. But given the distances involved, it was critical to let managers know exactly what we wanted them to do. We worked to make cost-consciousness a part of our company’s DNA. We wanted operators to make their own decisions, and we promised to gauge performance over the long haul. We stressed a basic, operator-autonomous philosophy at all management meetings, to the point that managers could almost repeat the words with us. Every big meeting and annual report began with the following credo:
Decentralization is the cornerstone of our management philosophy. Our goal is to hire the best people we can find and give them the responsibility and authority they need to perform their jobs. Decisions are made at the local level, consistent with the basic responsibilities of corporate management. Budgets, which are set yearly and reviewed quarterly, originate with the operating units that are responsible for them. We expect a great deal from our managers. We expect them to be forever cost-conscious and to recognize and exploit sales potential. But above all, we expect them to manage their operations as good citizens and use their facilities to further the community welfare.

The principles worked in practice, and managers took pride in keeping down costs. Indeed, at budget meetings, you frequently found executives competing to be the most effective tightwad. Cost control was the baseline of our company culture, and we built from there. Two other components made all this work. One was the sense of purpose and professional pride that drove our managers. They owned their bottom line, and they owned their property’s success and reputation. They took it seriously, and they found the independence motivating. The other was that we rewarded our managers well, with a system that recognized performance and encouraged long-term commitment to the company.

Then came 1986 and completion of the merger with ABC. We had quadrupled the size of the company overnight. Now we assessed the best way to combine the two entities quickly, recognizing that we faced precipitous change in the economics of the business. We made management changes and began to adjust the size of our workforce. We started the process by bringing together, within days of our closing, the senior managers of both companies at an off-site meeting.

Warren joined us and reinforced our management philosophy in a question/answer session that would become an annual tradition. Some two hundred managers began to understand the skills and characteristics that distinguish Warren’s way of thinking. He is a gifted teacher who makes complex issues seem simple. The executives were wowed by his brilliance, by his sense of fun, and by his ability to place issues and events in historic context. They saw that he is pragmatic and realistic, yet at heart an optimist. He also used humor very effectively.

In hiring, for example, he used to tell our executives this: “You should look for three qualities: integrity, intelligence, and energy.” And the kicker: “If you don’t have the first,” he’d say, “then the other two will kill you.”
Warren’s message in that aphorism is that the character of your employees is key to building a company, and that was our view as well. He understood that key messages need to come from the top, so everyone knows what is expected. We were on the same page, and one of the ways we chose to communicate it was through the reading of our credo. What began with “Decentralization is the cornerstone of our company…” ended with this thought:

You have heard a great deal about profits. You can miss your budget. You can make mistakes, but only honest mistakes. There is no second chance at Capital Cities/ABC if you discredit yourself and your company with unethical or dishonest actions or activities.

If I were a young man or woman, this is the kind of company I would want to work for and grow with. I hope you feel the same way.

The values we tried to instill at Capital Cities and ABC are similar to those that tend to characterize Berkshire Hathaway and its subsidiaries. From afar, it may look like Berkshire’s wide-ranging businesses are very different from one another. In fact, as Larry’s book discusses, though they span industries, they are united by certain key values, like managerial autonomy, entrepreneurship, frugality, and integrity. That is not happenstance.

Warren wants to work with people he respects and admires. It is very important to him. He has, above all, scouted for companies whose managements share his values, and he has cemented those values across the Berkshire Hathaway organization.

That achievement, as this book shows, contributes significantly to the company’s stable underpinnings and its durability.

Tom Murphy