

Cunningham, Lawrence A - Berkshire Beyond Buffett

Columbia University Press, 2014 [Equity Investing] Grade ★★★★★

Hopefully this book can do for corporate culture and creating value what William Thorndike's *Outsiders* did for share buybacks and "value creation". For those of you with a high degree of Warren Buffett-nausea, please keep reading! If Larry Cunningham's *The Essays of Warren Buffett* is an "MBA in a book", this book can be described as a doctorate degree in corporate stewardship in a day. One Buffettteer remarked that what Alice Schroeder did for Buffett The Man, Cunningham has done for Berkshire The Corporation.

Looking at the entrepreneurial juggernaut that Berkshire is today, it would be easy to say that it looks as if it was built by happenstance. And that would be absolutely correct. After reading this year's shareholder letter from Berkshire, Cunningham remarked that Charles Munger seemed to have caught a slight version of the hindsight bias virus in chronicling the superiority of the "Berkshire system", creating the 4th most valuable company in the US. And that comment makes total sense - people with integrity, intelligence and energy don't come walking around the corner at regular intervals, carrying an appetizing price tag. This makes a copycat approach of Berkshire's evolution nigh impossible. But while the most crucial part of this is not replicable - Buffett's inimitable broad capacities - the blueprint he and others created can surely be learned from and applied more than is currently the case. This book will take aspiring students a long way towards permanent learning.

The outline of the book is very Buffett-esque; simple, yet witty. After establishing its distinct corporate culture as the one homogeneous factor among Berkshire's 80 subsidiaries, the author outlines the underlying traits via the acronym B-E-R-K-S-H-I-R-E (Budget-conscious, Earnest...). Overall, the book is filled-to-the-brim with anecdotes and nerdy facts. However, it sometimes falls into the trap of being too narrative; there are just so many stories to be told, so many nuggets to bring out. But the topic is not any obscure

company premiering in the spotlight. Yes, large parts about Berkshire is misunderstood and/or neglected. But not the narrative aspects, rather the details. The "why" rather than "what", the "how" rather than "when". *Berkshire Beyond Buffett* really shines when diving into the nerdy facts about competitive edges of MiTek or discussing Marmon as a Berkshire Mini-me.

Overall however Berkshire is all about permanence and autonomy, the latter which can best be described as a trust-arbitrage. The net gains from giving full authority to people far outweigh its potential abuse. "*There is money in being trusted. It is such a simple idea*". The book does this aspect a huge favor, as the myth of "Buffett just buys high quality companies" is widespread. Cunningham provides several interesting statistics around this, where the quality is not so much apparent in the absolute numbers themselves (for the subsidiaries), but rather via its people and organizational values.

While it is easy to agree with the author on the "endurability" of corporate culture - in Buffettshire...pardon, a Berkshire beyond Buffett, that might not matter in the medium term. With the aura around the company gone, Berkshire's loyal shareholder base might slowly be replaced by Mr. Market - and he might not be so forgiving. It is all too easy to see how the bad apples at GenRe, Benjamin Moore or Salomon would have affected a Buffettless Berkshire. Another aspect likely to hurt is that it might be the most personal corporate animal ever created (considering its size). The "benign dictatorship" has led to everything being a result of Buffett's personal taste. "*Berkshire is my painting, so it should look the way I want it to when it's done...it is designed to fit me*". Cunningham brings up the "make Warren proud" motif among many operating chiefs, and this aspect cannot be overstated enough. "Make the memory of Warren proud" does not have the same ring to it. The seamless web of deserved trust might be neither seamless nor deserved down the line. Let us enjoy the creation before the buybacks start.

Henrik Andersson, March 16, 2015