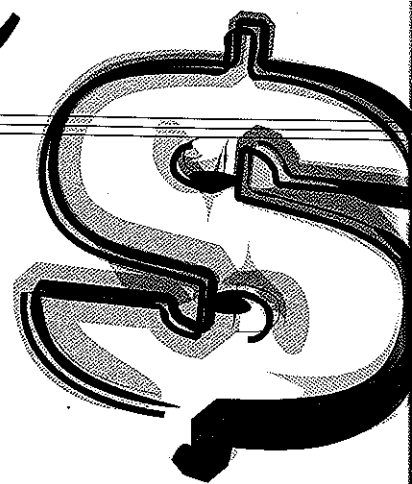


Warren Buffett

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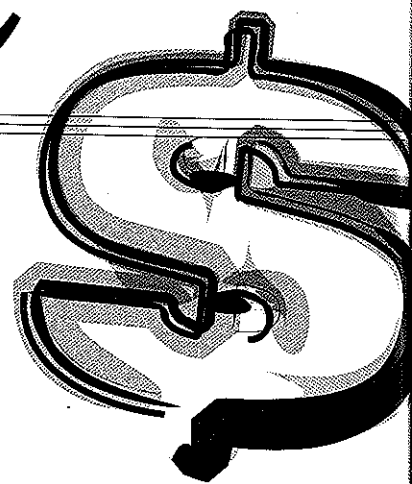


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Valuing Values

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Valuing Values

While many have tried to emulate Buffett's technique of creating wealth, there is one aspect of his investment strategy that can never be copied – time. Much like compounding interest, you can never get it back, and Buffett has nurtured his investment strategies over decades. Part of this strategy has been to surround himself with like-minded people. According to those who know him, he's a man who is happy because he spends time with people who are completely aligned with his values and goals. He is also a gifted communicator, and is very accessible in his style of writing and speaking. He can communicate his message in a way that people can understand. Perhaps Buffett's writings can be perfectly summed up by Albert Einstein's quote: "Make things as simple as possible, but not more so."

'Simplicity' can sometimes be read as 'unremarkable.' Not so in Buffett's case. If Berkshire were a country, and its revenues its gross domestic product, the company would rank among the top 50 economies in the world. Its subsidiaries employ more than 300,000 people – about the population of Pittsburgh.

Now worth around US\$59 billion, the 83-year-old Buffett draws a comically low annual salary of US\$100,000. He is known for his aversion to computers, enjoys his cherry-flavored cola and has passed on the flashy cars and private boats. The challenge (and love) of building a successful and lasting company has been more satisfying to him than showing the world how special he is.

In 2006 Buffett decided to make the most important investment of his life – in the well-being of others – by pledging to give away 99 percent of his fortune to the Bill and Melinda Gates Foundation and to The Giving Pledge, a campaign that encourages billionaires to commit at least half their wealth to philanthropy and good causes, either during their lifetime or in their will. Buffett's investment in humanity might well deliver his highest return yet. Only time will tell. To date, 127 billionaires have signed the pledge alongside Bill and Melinda, including Ted Turner, Michael Bloomberg, Mark Zuckerberg, Diane von Fürstenberg and YPOers Sara Blakely (YPO Southern 7) and Sheryl Sandberg (YPO Barbary Coast N. CA). The pledge does not accept money directly, but allows each person to decide which particular causes or organizations they wish to support. The pledge is a moral commitment to give, not a legal contract.

While not known as a philanthropist prior to this 2006 commitment, Buffett identified the Gates Foundation as he

would any of his other investments: a venture with all the correct logistics in place to deliver a good return. He will not receive any share certificates or voting rights for this substantial investment either. Rather, he has invested in the potential of an untold number of lives, invisible people, some still unborn, who will one day benefit from this carefully considered investment.



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Closer to home, Buffett has put mechanisms in place that will allow Berkshire to sustain itself for 60 years after he is gone. He has also ensured that his three children don't become lackluster trust fund kids by donating around US\$1 billion to each of the three foundations run by them: The Howard G. Buffett Foundation run by his oldest son, the NoVo Foundation run by Peter Buffett and the Sherwood Foundation run by daughter Susan. They, in turn, fund a range of causes from anti sex-trafficking efforts in India to conflict resolution in the Congo. Wisely, the money is structured in a way that benefits the foundations, with each child drawing a salary. His kids will be more than comfortable for the rest of their

lives, but having the world's richest dad is not going to guarantee a lavish lifestyle for free: his kids will need to work for their money. He has instilled in them the same philosophy of wealth to which he subscribes.

It's something that author Lawrence Cunningham calls 'intangible virtues.' The business law professor at George Washington University explains that translating intangible virtues into economic gain is the basis for creating enduring value in business. Cunningham has spent years studying Buffett's style

of business and explores the role of values in his new book: *Berkshire Beyond Buffett: The Enduring Value of Values*.

"You should treat others as you'd like to be treated," says Cunningham. "You need to carefully protect customer interests. When a company finds a way to save costs and cut expenses they shouldn't pocket all the profits, but rather reduce their prices to protect customers' interests. This is an intangible virtue of reciprocity and if you do that more customers will come, they will buy more from you and you will increase both your revenue and your profit," he says.

All Berkshire subsidiaries practice the idea of getting economic value from old-fashioned behavioral values, with many acting as if they are family-owned, an attribute that is impossible to trade in unless you're actually practicing it yourself. "Thinking about something in terms of 'forever' will translate into economic gain because you're able to make

a decision that will not necessarily pay off immediately, but in greater amounts in the long term," says Cunningham.

Buffett is smart enough not to invest in companies that have a short-term focus looking for quick profits. "Buffett has brought his values to the acquisition market and selects companies that have similar qualities," says Cunningham. "If a CEO from a certain company takes a different approach he will stand out like a sore thumb and he'll be relieved. It's already happened a few times," he says.

A succession plan like no other is in place at Berkshire, that will ensure the cultural identity of the world's largest corporation. Buffett has identified at least a half dozen potential candidates, heads of the various subsidiaries, that could easily step into his shoes. One attribute of a real leader is knowing when to step aside or, alternatively, successfully creating duplicates of yourself with matching values.

Someone who had these values impressed on him forever after one lunch with Buffett is Guy Spier (YPO Greater Europe), who paid US\$650,100 for this honor in 2008. Buffett auctions himself off for lunch once a year on eBay and the proceeds go to the GLIDE foundation. One of the lessons Buffett conveyed to Spier that day was to adhere to core values that you know are right, rather than being swayed by external forces such as peer pressure. "He told me that it's very important to live your life by an internal scorecard, not an external scorecard," says Spier. "To illustrate this he asked me, 'Would you prefer to be considered the best lover in the world and know privately that you're the worst - or would you prefer to know privately that you're the best lover in the world but be considered the worst?' I began to realize in the months afterwards just how much of my life I'd spent measuring myself by external factors - wanting people to respect me, win plaudits from professors at Harvard and to be seen as a successful investment banker," says Spier. He feels that Buffett helped him understand that people often justify their improper or misguided actions by reassuring themselves that everyone else is doing it too. Buffett clearly lives by his own internal scorecard; he doesn't just do what is right, but what is right for him.

Buffett has told Berkshire shareholders that there are things he could do to make the company more profitable, but he's not prepared to do them. "He resists laying people off or selling holdings that he could easily replace with more profitable business," says Spier. "Some investors have complained that Berkshire would be more profitable if he moved its tax base to Bermuda, but he won't, even though it's completely legal and would save tens of billions in taxes."

When asked if he had consciously created Berkshire's unique decentralized structure, Buffett emphasized that it operates that way because it suits his personality, not because it maximizes returns. "Charlie Munger and myself knew we would become very wealthy," Buffett told Spier,

"but we weren't in a hurry." Some of the ways in which he keeps his inner scorecard intact and unswayed by lesser distractions is by keeping his cellphone off and avoiding personal email. Buffett rides out the peaks and lows of the markets by staying firmly fixed on the horizon.

"As Buffet taught me," says Spier, "it's not enough to rely on one's intellect to filter out the noise: you need the right processes and environment to do so. It has taught me that instead of trying to compete with others I should become the very best version of myself," says Spier.

Yet, Buffett is not perfect either. Jeff Pinter (YPO Global One) recalls a meeting with him recently where he said, "I haven't made my last mistake. I have made many, and haven't yet made my last." Surrounding himself with competent people he can trust is one way of avoiding mistakes and also one of his strongest traits. "He gives the people he partners with the autonomy to run the business the way they deem fit. He has complete faith and trust in his staff," says Pinter. He's also not just throwing money at a cause because it's fashionable, says Pinter in relation to the US\$9.5 billion in shares Buffett has already given to the Gates Foundation. "This would just scratch the surface of a social problem," he says. Instead, Buffett has seen the wisdom in combining generational wealth from the Gates and Buffett families to create a lasting legacy on a scale that has rarely been seen throughout history, if ever. It creates the staying power and longevity so coveted by Buffett and provides the capital to attract and retain the best talent to fuel initiatives for generations to come.

Buffett acknowledges that he is a winner of the 'ovarian lottery' as he likes to put it. The fact that he was born a white, middle-class citizen of the United States at a time when business plans and strategies were openly given to those smart enough, and brazen enough, to ask. Ken Shubin Stein (WPO Northeastern U.S. At Large), who has met Buffett on many occasions, explains that Buffett is acutely aware of societal structures and is very philosophical about it. "Imagine you are given the power to design the world any way you wish before you are born," says Shubin Stein. "How the rich are treated versus the poor, how the fat are treated versus the skinny, how the disabled are treated versus the able-bodied. The only catch is that you don't know where or how you'll be born."

It might come as no surprise then to know that Buffett's world view currently includes tackling the proliferation of chemical weapons and biological warfare. He knows that threats halfway across the world can become everyone's problem if allowed to. "He's directly attacking big, complicated problems," says Shubin Stein. "He talks about wanting to try and solve the hard problems of the world. What he does in business is easy for him - creating value for humanity is the real challenge." ■