An informative and inspiring book on Berkshire Hathaway’s business management practices, all in Warren Buffett’s own words. Warren Buffett on Business provides direct, hands-on information on how to effectively manage a company that will connect with senior executives, managers, entrepreneurs, and business students.

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The name Warren Buffett is synonymous with success and prosperity in the business world. There are many books written about how Buffett invests and how you can invest just like him—but this is not one of them. This book is not about how Buffett invests, but rather, it is about his highly successful business management principles and practices. It is about his way of communicating with and treating employees and shareholders fairly and honestly; responsible corporate governance; ethical behavior; patience and perseverance; admitting mistakes; having a passion for work; and more. Richard Connors weaves Buffett’s priceless pearls of business and management wisdom into an engaging narrative presented in an accessible manner and organized by business and management topics—with strong lessons from Buffett in every chapter.

Warren Buffett on Business provides direct, hands-on information on major topics important to senior executives, managers, entrepreneurs, business students, and anyone interested in business. Informative and inspiring, this unique book puts Warren Buffett’s business beliefs in perspective and provides you with a timeless guide to the management strategies that will help you run a successful business.

Warren Buffett is one of the most admired and prolific investors and managers in corporate America. In this one-of-a-kind collection of Buffett’s letters to the shareholders of Berkshire Hathaway, the “Sage of Omaha” reveals, in a clear, simple style, his basic management principles of sound business practices. Through Buffett’s own remarkable words, this practical management handbook shares valuable insights on communicating with and treating employees and shareholders fairly, responsible corporate governance, ethical behavior, patience and perseverance, admitting mistakes, having a passion for work, and more. Richard Connors weaves Buffett’s priceless pearls of business and management wisdom into an engaging narrative presented in an accessible manner and organized by business and management topics—with strong lessons from Buffett in every chapter.

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To my father, a great investor, who would have loved to have met Warren Buffett

To my grandchildren, Bridget, Frankie, Richie, Patrick, Catherine, and Sean
I wish I knew what I know now when I was younger.
—Rod Stewart

The wisdom of the wise, and the experience of ages, may be preserved by quotation.
—Isaac Disraeli
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Acknowledgments

Unknowingly, this book began in April 2006, when I wrote Judith Schwartz, the executive director of the Washington University in St. Louis Lifelong Learning Institute (LLI) proposing a course on Warren Buffett. Rather than throwing the letter away, she forwarded it to Harry Estill. After several planning meetings with Harry and Butch Sterbenz, the course was born. Thanks to Charlie Moore of the LLI for his encouragement and input. I thank them all for their interest and support and the LLI for its great facility, and its administrators and volunteers for their extraordinary contribution to the senior citizens in St. Louis.

I thank the many participants who have attended the course over the past three years. Their enthusiasm and participation were all A+. At the last class of each course, we feasted on Cherry Cokes, See's Candies, and Dairy Queen, all Warren's favorites. We had a lot of fun.

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Last, and most importantly, I thank Warren for his time and extraordinary generous support over the past three years. Whenever I e-mailed him about my course or the book, I always received a quick response, usually the next day. He always had time for me, for which I will always be grateful.
Introduction

Most books written about Warren Buffett have focused on how he invests and how you can invest just like him. When I am asked “How can I invest like Warren Buffett?,” my answer is simple and direct: Buy either Berkshire Class A or Class B stock. In his 1987 Berkshire stockholder letter, Buffett also advised, “If they want to participate in whatever Berkshire is buying they can always purchase Berkshire stock. But perhaps that is too simple.” Buffett also says that most individual investors should purchase stock index funds because they are very low cost and they outperform most professional investment managers. In January 2008, to prove his point, Buffett entered into a bet (each side put up roughly $320,000, with the final proceeds going to the winner’s favorite charity) with Protege Partners, a fund-of-funds hedge fund, that their handpicked funds will not beat the S&P 500 index over the next 10 years. A principal of Protege said, “Fortunately, for us, we’re betting against the S&P’s performance, not Buffett’s.”

For the past three years, I have presented a course on Buffett at the Washington University in St. Louis Lifelong Learning Institute. It all began in April 2006, when I sent a letter to Buffett telling him that I was going to present the course. Four days later, he wrote back encouraging me and supporting the course. I was very excited to receive his letter, but no more than the woman who framed it for display on my office wall. Since then, Buffett and I have regularly exchanged e-mails about
the course. In January 2007, at his invitation, I traveled to Omaha and met him in his office. As busy as he is, he has always had time for me.

This book is different. It is not about how Buffett invests or how you can invest like him. Rather, it is about his business management principles and practices. It is about his way of communicating with and treating employees and shareholders fairly and honestly; responsible corporate governance; ethical behavior; patience and perseverance; admitting mistakes; having a passion for work; and having fun and a sense of humor. Can all this be learned from one man? In my view, yes. There are some people who are simply so unique, so very special, that no words can do them justice. His genius is in his character. His integrity is unsurpassed. His patience, discipline, and rationality are extraordinary.

The Buffett/Berkshire Hathaway model of managing a business, large or small, should be required reading for all business executives, entrepreneurs, and business school students. Shareholders, employees, and the public would all benefit by employing his management principles and by emulating his straightforward, genuine, and sincere behavior. His ideas and philosophy of life will last far beyond his own. When you strip it all away, effective business management—the Warren Buffett way—is remarkably obvious and simple. He describes his business principles as “simple, old, and few.”

In the words of Charlie Rose, “When we spend a year with someone in conversations in a variety of places, you learn what makes them tick. What do you come away with from conversations with Warren Buffett? It is his passion for his company, passion for his friends, passion for his work and a passion for living life. This is a man that has fun.”

This book is mainly a carefully selected compilation, by topic, in Buffett’s own words from his Berkshire Hathaway shareholders letters, written over four decades (1977–2008). My most difficult task was deciding what not to include. I strongly urge you to read his letters in their entirety. They are freely available on the Berkshire Hathaway website. Also, I recommend you read the *Intelligent Investor* by Benjamin Graham.

I hope this book will both educate and inspire you to be a better manager.
Chapter 1

Shareholders as Partners

Although our form is corporate, our attitude is partnership. Charlie Munger and I think of our shareholders as owners-partners, and ourselves as managing partners. . . . We do not view the company itself as the owner of our business assets but instead view the company as a conduit through which our shareholders own the assets.¹

CEOs must embrace stewardship as a way of life and treat their owners as partners not patsies. It’s time for CEOs to walk the walk.²

—WARREN BUFFETT

Charlie and I hope that you do not think of yourself as merely owning a piece of paper whose price wiggles around daily and that is a candidate for sale when some economic or political event makes you nervous. We hope you instead visualize yourself as a part owner of a business that you expect to stay with indefinitely, much as you might if you owned a farm or apartment house in partnership with members of your family. For our part, we do not view Berkshire shareholders as faceless members of an ever-shifting crowd, but rather as co-venturers who have entrusted their funds to us for what may well turn out to be the remainder of their lives.

The evidence suggests that most Berkshire shareholders have indeed embraced this long-term partnership concept. The annual percentage turnover in Berkshire’s shares is a small fraction of that occurring in