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CAREERS

The Warren Buffett School

They have free rein, ready capital and the best boss a CEO could want. They run Berkshire Hathaway companies, and you've only begun to envy them.

BY RUSS BANHAM



Successful, confident, well-adjusted...these chief executives don't mind working for another CEO, especially one considered by many to be the world's best. That CEO is Warren Buffett, the avuncular chief of the Berkshire Hathaway holding company.

To secure a place in Berkshire Hathaway's vaunted and pricey portfolio, these individuals—or their fathers, mothers or retired bosses—sold the companies they helped build and nurture. In return, their companies stayed solvent, their employees kept working and they gained access to Berkshire's \$30 billion in capital and triple-A credit rating. Moreover, they needn't answer to Wall Street analysts nor to impatient shareholders.

They run their companies as they did before, under the benevolent stewardship of one of corporate America's best-loved billionaires. Robert P. Miles, author of the best-seller *The Warren Buffett CEO*, likens Buffett's holdings to a museum of business. "Buffett sees his job as curator, bringing paint and brushes to the artist," observes Miles. "Like a good art patron, he lets them paint the way they always have."

Chief Executive spoke with several authors of Buffett books and six Berkshire Hathaway CEOs to learn what it takes to catch the Omaha financier's eye.

What Warren likes

Buffett's Acquisition Criteria

1. Large purchases (at least \$50 million of before-tax earnings).
2. Demonstrated consistent earning power (future projections are of no interest to him, nor are "turnaround" situations).

Miles and two other Buffett book authors, Robert Hagstrom and Andy Kilpatrick, say the heads of the 37 subsidiaries in which Buffett chooses to invest are cut from a single cloth. "Buffett always says he seeks three character traits: integrity, energy and intelligence, in that order," explains Miles. "He's also said that if you don't have the first trait, the other two will kill you and the business."



LEFT TO RIGHT: Melvyn Wolff, chairman and CEO of Star Furniture; Scott Hymas, CEO of R.C. Willey Home Furnishings; and Jeffrey Comment, chairman and CEO of Helzberg Diamond Shops.

3. Businesses earning good returns on equity while employing little or no debt.
4. Management in place (he can't supply it).
5. Simple businesses (if there's lots of technology, he won't understand it).
6. An offering price (he doesn't want to waste time or the seller's by talking, even preliminarily, about a transaction when the price is unknown).

Source: Berkshire Hathaway annual report

Against a backdrop of corporate scandals and CEO mistrust, Buffett seems a stark contrast. He shunned the Internet bubble. He led changes in the way executives are compensated. He is a high-profile proponent of expensing stock options. He has more feeling for his employees and customers than some CEOs seem capable of mustering for a single shareholder. And he's reassuringly human. At this year's annual Berkshire meeting, Buffett entertained shareholders by playing the ukulele and singing, "When NASDAQ's down, you'll never frown, Berkshire's here to stay."

Buffett's investing criteria are outlined in his yearly reports to shareholders (see sidebar, below). "Buffett has said repeatedly if a company falls within these criteria, don't call an investment banker, call him," Miles says.

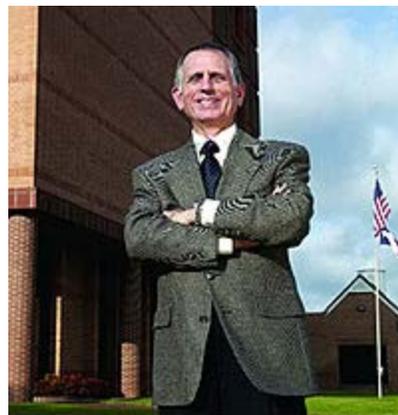
Buffett insists that his CEOs run their companies as they did before he acquired them. He asks only that they follow his management philosophy, which Hagstrom, author of

The Essential Buffett and The Warren Buffett Way, sums up as "acting rationally about capital allocation, being candid at all times and resisting the lemming tendency of companies to imitate one another for no good reason."

His second tenet, honesty, comes up again and again. "Buffett believes that the best managers are those who are willing to admit their mistakes, which makes them less likely to repeat them and more likely to correct them," says Hagstrom, who when he isn't writing about Buffett is a senior vice president at the Baltimore financial services firm Legg Mason. "He also believes there is no such thing as a perfectly run business, so if you're not admitting mistakes, you must be sweeping them under the carpet."

Kilpatrick, author of *Of Permanent Value: The Story of Warren Buffett* and a stockbroker at Prudential Securities, says Buffett's real talent is assessing people. "He can look someone in the eye and tell in an instant if the person has character," vows Kilpatrick. "That may be going a little bit mystic, but he's rarely wrong."

Some Buffett watchers have been surprised in recent months by his modest investments in struggling companies like Level 3 Communications, a fiber optics network operating in the red, and The Williams Cos., an energy group. Buffett is known for preferring old economy companies and firms that are already in the black. "He doesn't like technology companies because he doesn't understand technology," says Miles. "He invests in companies like Gillette because he loves the fact that millions of men grow whiskers every night." But the investments were not a complete surprise. Buffett has said that if markets fell significantly he would use it as a buying opportunity.



Harrold Melton, CEO and president of Acme Brick.

So what does it take to become a Buffett CEO? Most are men, with the exception of Susan Jacques at Omaha-based Borsheim's Jewelry (see sidebar, "Serendipity and Smarts," p. 40). Their average age is 64; the 72-year-old Buffett doesn't believe in retirement. Typically they're either third- or fourth-generation family managers of privately held companies, or have been promoted from within.

Buffett seldom grants interviews and this story is no exception, but six of his managers agreed to share their experiences as Buffett brigadiers: Eliot Tatelman, Melvyn Wolff, Jeffrey Comment, Harrold Melton, Scott Hymas and Susan Jacques.

Becoming Berkshire

Estate taxes drove Melvyn Wolff and his sister, Shirley Toomim, into the Buffett fold. The sole owners of Houston-based Star Furniture realized that when they met their maker, their business "would have to be sold under the hammer to justify the tax," Wolff explains. "We cared deeply about the employees and had to do something. So we engaged Salomon Brothers to give us advice."

A merger was contemplated, as were an IPO and an employee buyout. Ultimately, Wolff rejected all three strategies. "I was having dinner with the Salomon managing director, and I apologized for being a lousy client," he recalls. "I told him we'd just keep things as is." Outside the restaurant, while standing on the curb waiting for their cars, the investment adviser turned to Wolff with a last-minute solution. "There is one stone we may have left unturned," he told him. "Warren Buffett. He pays a fair price for companies and lets management run them. He's already in the furniture business, so it's not something he has to learn." Nothing ventured, nothing gained, figured Wolff. The acquisition took place in 1997.

Jeffrey Comment, chairman and CEO of 87-year-old Helzberg Diamond Shops in North Kansas City, Mo., came to Buffett under more serendipitous circumstances. His boss, company founder Barnet Helzberg Jr., was looking to exit the business when he ran into Buffett by chance.

It happened on a Manhattan street corner in 1995. Helzberg was standing on Fifth Avenue at 58th Street waiting for the light when he noticed a familiar face. "Are you Warren Buffett?" Helzberg asked. Indeed, it was. "Sir, I have a jewelry business," Helzberg went on to say. "Would you be interested in buying it?" Buffett gave him his business card and told him to call. They struck a deal less than three months later.

Buffett snapped up the venerable Acme Brick business two years ago for its people, asserts Harrold Melton, president and CEO of the Fort Worth company. "The first thing he looked at in the packet I handed him was the part about employees," Melton recalls. "He was impressed by their average tenure: 27.2 years in the finance group, 21.8 in production and 14.8 in the field. He wanted people who demonstrated they could perform successfully over a long period of time."

Similarly, what impressed Buffett about 74-year-old Jordan's Furniture was its customer focus. Co-CEO Eliot Tatelman elaborates, "We do these interactive entertainment things to bring people into the store, even if they're not looking for furniture." One day Eliot and his brother Barry had the idea to build an IMAX 3-D theater in their store. Buffett was skeptical, but gave the go-ahead. At the grand opening, Buffett helped Eliot and Barry behind the concession stand. "Then he watched two movies with us," says Eliot. "He'd never seen an IMAX movie before, but after that second one he turned to me and said, 'You've hit a home run.'"

Typically, Buffett seals his deals quickly, often in a matter of minutes and on the phone. “We made the deal in two hours and 20 minutes,” recalls Wolff. “There was no due diligence, no employment contract, no noncompete agreement and no one was ever sent to Houston to look at the company. There was a handshake.”

Still, Buffett sifts through the deals carefully. “He asked the most piercing questions you can imagine in those two hours,” Wolff relates. “He said, ‘Melvyn, in your 1994 statement, there is a footnote in the back that said you were taking earnings on unrealized gross profits. Two years later, however, the auditor changed the wording of that footnote, though it seems to say the same thing. Can you explain to me why?’ That just blew me away. How can someone read three years of 30-page financial statements and note the different wording of a footnote way in the back of two of them?”

Every year, Buffett reminds his CEOs how important personal integrity is to him. “He sends out this letter, and the opening paragraph is always the same,” Wolff says. “I’ve seen it enough times by now that I’ve got it memorized: ‘We can afford to lose money. We can afford to lose a lot of money. But we cannot afford to lose one shred of our reputation. Make sure everything you do can be reported on the front page of your local newspaper written by an unfriendly, but intelligent reporter.’ Those comments were written long before the recent corporate scandals.”

Berkshire Hathaway CEOs operate with minimum oversight and a generous budget. “The only part Buffett plays is managing asset allocation, and we’re small enough that he doesn’t do much there. We spend capital pretty freely,” Wolff says. “Sometimes I stop and remind myself I don’t own the company anymore.”

Likewise, when Buffett acquired Helzberg Diamond Shops, “Mr. Buffett said that I should run the company as I saw fit,” Comment recalls. “Two days later he called to apologize. ‘Jeff,’ he said, ‘I do want you to change one thing. Call all your friendly bankers and tell them to go away. I’m your bank now.’ And he has been ever since.” Helzberg Diamonds has grown from 150 stores in 1995 when Buffett acquired it to 245 today.

Not that Buffett rubber stamps every request for money. Scott Hymas, CEO of Salt Lake City-based R.C. Willey Home Furnishings, acquired by Buffett in 1995, says the financier was taken aback when Bill Child, Hymas’ predecessor, wanted to open another furniture store in Boise, Idaho, but planned to close it on Sunday, a day when most retailers make 20 to 25 percent of their weekly gross. “Bill believed workers needed a day of rest, and since the store was open from 10 a.m. to 10 p.m. the rest of the week, he figured there was ample time for people to shop,” Hymas explains.

Buffett was skeptical. So Child footed the \$9 million bill for the store, which now brings in \$60 million a year. “Bill waited until the store was successful and then sold it back to Berkshire Hathaway at cost,” Hymas says. A couple of years later, Child wanted to build another store, this time in Las Vegas. Buffett asked if the store would be closed on Sunday and Child told him yes. Not wanting to be wrong again, Buffett put up the cash. Today, the Las Vegas store is the highest grossing in the R.C. Willey chain.



Barry and Eliot Tatelman, co-CEOs of Jordan's Furniture.

Buffett family values

More than anything else, what sets Berkshire bosses apart from other CEOs is a wholesome sensibility. Buffett has pledged almost all of his money to the Buffett Foundation, a charity focused on world population control. His CEOs also are deeply involved in philanthropy. Eliot Tatelman and his wife, for instance, run a retreat for sick children in Hubbardston, Mass., called Camp Miracles and Magic. Comment has just written a book, *Santa's Gift*, with a foreword by Buffett, about his involvement in a seven-year-old program of the same name. Every year he dresses up as Santa Claus and visits pediatric hospitals. “I see about 3,000 kids each year,” Comment says, “giving each a teddy bear that says, ‘I am loved.’”

Buffett’s foreword is revealing: “As I write this, my grandson Howard is in his fifth week in a hospital recovering

from injuries that he suffered in an auto accident... Howie's pain is far more easily borne when love and humor are in the room with him. He is getting that in abundance, but not all hospital-bound children are so lucky. In his Santa activities, Jeff has redefined family, embracing all children as his own."

Tatelman's advice for those who would emulate the Berkshire spirit: "Become more involved in life than just making money," he says. "There is so much glorification of money in this country. People are so wrapped up in what they have and what they make, and they forget it doesn't buy happiness."

Tatelman hesitates, then adds, "You know, when I saw on television that that guy from Enron was building that crazy-looking gigantic house, I said, 'What the heck is the purpose of that? Was that this person's goal in life?'"

As Buffett himself once said, "It is not necessary to do extraordinary things to get extraordinary results." In short, keep it simple.

Russ Banham is a playwright, journalist and author of *The Ford Century*, a new history of Ford Motor Co. Send comments to *CE* at features@chiefexecutive.net.

Serendipity and Smarts

From secretary in Africa to CEO in Nebraska.

She is the only female CEO in the Buffett Brigade, but that's not the only thing that distinguishes Susan Jacques from the men in the Berkshire Hathaway fold. Jacques, president and CEO of Borsheim's Jewelry, is young, foreign-born, never attended college and is not a family member of the company she leads. "I'm a great believer in fate," says Jacques, 43.

How else can one describe her meteoric rise? Born and raised in Rhodesia by an Australian mother and English father who met and married in India, Jacques was unsure what to do with herself after finishing high school. Her mother advised her to go to secretarial school. The teenager complied and after graduating, got her first job as a junior secretary at Scottish Jewelers, a small store in Salisbury, Rhodesia. Fate had played its first card in Jacques' life.



In 1979, Jacques' family moved to England to escape Rhodesia's civil war. They returned a year later to what is now Zimbabwe. Jacques took a marketing position at the same jewelry store. In 1980, they sent her to the Gemological Institute of America, known as one of the world's authorities on precious stones. In her class at the California school was young Alan Friedman, whose family ran the country's largest independent jewelry store, Borsheim's, in Omaha, Neb. Fate had dealt its second card.

"Alan and I became friends and kept in touch after graduation," she says. "In August 1982, I was working at a grading laboratory for gemstones when Alan called and said there was a retail position opening up at Borsheim's. I packed up the car and drove cross-country."

She started as a sales associate and appraiser making \$4 an hour. Ike Friedman, the family patriarch and CEO, was impressed by her character and integrity, the same traits that would later appeal to Warren Buffett. "There's an old saying, 'If you don't know jewelry, know your jeweler,'" says Robert Miles, author of [The Warren Buffett CEO](#). "Susan is the kind of jeweler people can trust with what are arguably among the most difficult buying challenges in their lives."

Jacques was named merchandise manager at Borsheim's in 1986, responsible for all jewelry buying. An

unexpected series of events accelerated her climb up the corporate ladder. The first was Buffett's decision in 1989 to purchase 80 percent of the company (later increased to 90 percent), which put her career in the hands of a man known for being a meritocrat. Then in September 1991, Ike Friedman died, and Alan left the company to pursue other interests. Alan's brother-in-law, Donald Yale, was named CEO and Jacques was promoted to senior vice president. Two years later, Yale's wife was diagnosed with cancer and he resigned to take care of her and their five young children.

A few days later, Jacques got the call that changed her life. She was only 34 when Buffett summoned her to Berkshire Hathaway, a short distance from Borsheim's superstore. "I presumed he was meeting with all of the executive management team to talk about the future," she recalls. "He said, 'Susan, I want you to consider taking over the president's job.' I was dumbfounded. I couldn't speak."

Jacques still wonders why Buffett picked her. "I had three strikes against me. I was very young, female and, unlike most jewelers in the United States, a goy. What I had going for me was a great relationship with our vendors and the outlook that business is based on trust."

Miles says Jacques essentially fits the profile of a Buffett CEO. "He always promotes from within, with only one exception," he says, referring to Stan Lipsey, CEO of *The Buffalo News*. "Susan also perfectly exemplifies Warren's concept of meritocracy. It isn't whom you know that counts or what country clubs you belong to—it's who you are. Susan doesn't even belong to a country club; she goes camping with her kids."

While other Berkshire CEOs say they rarely see their benefactor, they are not located down the block from Buffett's headquarters. "Mr. Buffett used to come by a lot more than he does now," she says. "There were many Saturday mornings when the doors would open at 10 and he'd drop in, but he has never interfered. Things are different now due to his celebrity. I miss seeing him, actually."

Close proximity to Berkshire Hathaway has other benefits. Jacques hosts a big cocktail party every year when the other Buffett CEOs gather for the company's annual shareholder meeting. When the CEOs or one of Buffett's close friends need jewelry, they usually shop at Borsheim's. Lipsey bought his wife's engagement ring there as did Chuck Huggins, CEO of See's Candies.

So did Buffett's friend Bill Gates. Buffett called Jacques and asked her to open the store on a Sunday, a day it's always closed, to let Gates shop in private. There they were: Bill Gates and Warren Buffett—and Susan Jacques, erstwhile secretary of a Rhodesian jewelry shop. "You never dream the life you will lead," Jacques says. "I tell my staff that all the time, that you have no idea how the decisions you make will alter your path in life."

Jacques is the second female Buffett CEO: Rose Blumkin, who ran the Nebraska Furniture Mart until she died at 104, preceded her. She'll soon be joined by another. Berkshire Hathaway recently announced its decision to acquire the cookware manufacturer Pampered Chef, headed by Doris Christopher. "We haven't met yet, but I can't wait," says Jacques. —*Russ Banham*

source = Chief Executive Magazine Dec 2002

If you enjoyed this article you may enjoy an [audio](#) adaptation of The Warren Buffett CEO available on Mr. Miles's [books/multi-media page](#).