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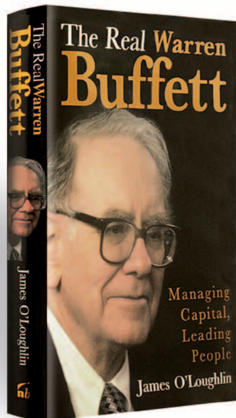

By James O'Loughlin

CONTENTS

Berkshire Hathaway and the Institutional Imperative
Pages 2, 3

Warren Buffett, Investor: The Early Years
Pages 3, 4

The Owner's Manual
Page 4

Buffett's People Leadership
Pages 4, 5

The Circle of Competence
Pages 5, 6

Leadership in Action: The Buffett Model
Pages 6, 7

The Circle of Illusory Competence
Pages 7, 8

Managing Capital, Leading People

THE REAL WARREN BUFFETT

THE SUMMARY IN BRIEF

When one thinks of the brightest minds of investment over the last 50 years, Warren Buffett's name invariably tops the list. And well it should—as his leadership of Berkshire Hathaway has shown, his strategies, guidance, and direction have brought little but success to all involved—from account managers to the "owner-partners" (customers) who entrust their investment dollars to Berkshire. Indeed, Buffett's prevailing philosophy—that investors should act and think like owners—informs everything he does as a manager, and forms the overarching premise for telling his story in The Real Warren Buffett. *When Buffett makes a capital management decision, he makes a move only after considering what he would do if it were his own money. When he makes a people management decision, he does so in the context of how the move will affect owner-partners. Buffett truly acts like an owner in all he does as a leader—a philosophy any good manager or executive would do well to consider for themselves.*

What You'll Learn In This Summary

✓ **How to define and avoid the "Institutional Imperative."** It is important to keep a proper alignment between corporate goals and customer goals; the more typical misalignment of the two forms an "institutional imperative" that leaders must avoid at all cost.

✓ **How to forge a path to better customer relationships.** Through the Berkshire *Owner's Manual*, Buffett communicates his expectations for the managers and employees who work for him — to act like an owner.

✓ **The Buffett Model of Leadership.** Only by taking a pragmatic leadership approach can executives think like owners and react to various problems and circumstances in kind.

✓ **How to determine and act within your Circle of Competence.** Warren Buffett recognizes the limits to his knowledge and capabilities, and he declines to stray past those limits. He recognizes that some things are unknowable or unimportant, and that others are important but unknowable. Buffett makes his capital allocation decisions within the realm of the important and knowable—his circle of competence.

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Berkshire Hathaway and The Institutional Imperative

In the early 1960s (after spending nearly 20 years as a successful stock picker), Warren Buffett developed a vision of his future role — as the manager of an enterprise — that was unique when he had it, and remains unique today. The vision was this: In the management of the enterprise, he would act as its owner.

To accomplish this vision, Buffett recognized that he would have to redefine the role of a manager as one who would choose, from the mass of opportunities that lay within his core competence, the application of capital that would both earn its highest return and incorporate the least risk — just as shareholders would if the money was in their hands. If he could not achieve a return in excess of what they could earn on it elsewhere, he would return it to them. He called this role the *allocator of capital*. Those who work for him must fall in with this philosophy.

At Berkshire Hathaway, Buffett is both owner and manager, which means that his interests as one are perfectly aligned with his interests as the other. He treats even the smallest of Berkshire's shareholders as an equal partner in the enterprise, so that he manages the company on their behalf as much as his. This runs counter to the typical misalignment of corporation and customer and was, initially, a problem for Buffett the manager — until he discovered a negative force he termed the "institutional imperative" (see box).

A Human Nature Problem

Buffett's discovery in the early 1960s was as momentous for his future management of Berkshire Hathaway as that of Jack Welch's seminal revelation at GE, which was to make the company the number one or number two player in every industry in which it was active. "Institutional dynamics," said Buffett, "not venality or stupidity, set businesses on these courses, which are too often misguided."

In order for Buffett (and Berkshire Hathaway) to gain and maintain a competitive advantage and continue to outperform both the Dow Jones Index and his competitors, he realized he would have to change his approach. It would be a different one from GE's, however; the institutional imperative has no respect for size or market position.

To attain sustainable advantage, Buffett had to acknowledge the institutional imperative in himself. Specifically, he had to open his eyes to the concept of *value creation on an ongoing basis,* and see that the imperative was an

(continued on page 3)

Defining the Institutional Imperative

Buffett described the workings of the institutional imperative as follows:

1. As if governed by Newton's First Law of Motion, an institution will resist any change in its current direction.
2. Just as work expands to fill available time, corporate projects or acquisitions will materialize to soak up additional funds.
3. Any business craving of the leader, however foolish, will be quickly supported by detailed rate of return and strategic studies prepared by his troops
4. The behavior of peer companies, whether they are expanding, acquiring, setting executive compensation, etc., will be mindlessly imitated.

He adds, "In business school I was given no hint of the imperative's existence, and I did not intuitively understand it when I entered the business world. I thought then that decent, intelligent and experienced managers would automatically make rational business decisions. But I learned over time that it isn't so. Instead, rationality frequently wilts when the institutional imperative comes into play."

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Berkshire Hathaway And The Institutional Imperative

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obstacle to this — in all aspects of the management of, acquisition of, and investiture in companies.

Buffett recognized the imperative and specified its mechanism as a problem of human nature. He also put himself in a position where he could bridge the void between the manager of an enterprise and its owner, and act like the capital allocator that all owners want their managers to be. ■

Warren Buffett, Investor: The Early Years

While others (including Buffett's mentor, Benjamin Graham) paid deference to the role played by the future earning power of a business in its stock market valuation, Buffett originally appraised companies far more in relation to the valuation of the assets on their balance sheets than their ability to create value on an ongoing basis.

Cigar Butt Investing

Buffett's early career was premised on a technique he called "cigar butt investing" — identifying companies that were statistically cheap compared to the value in their tangible assets, whose prices would rise once other investors caught on to this discrepancy.

"A cigar butt found on the street that has only one puff left in it may not offer much of a smoke," he explained, "but the bargain purchase will make that puff all profit."

The problem with this type of investing is that whether the managers of the underlying companies that Buffett rented acted like allocators of capital was irrelevant to the highly lucrative game in which he was engaged. He bought oversold stocks cheap, then simply waited for others to recognize this fact and push prices to fair value, oblivious to any dynamics that may have been unfolding within the stocks.

By relying on Buffett's ability to analyze a "snapshot" of a valuation, rather than manage an enterprise, cigar butt investing did not prepare Warren Buffett for the job of anticipating the imperative and/or managing it. It did predispose him to escalating his commitment by choosing to own and operate companies rather than simply renting their stocks — a mistake he would eventually learn to avoid.

The Rise and Fall of the Partnership

In 1956, at just 26 years old, Buffett set up three pools of funds later amalgamated into the Buffett Partnership. Between 1956 and 1969, the value of the Partnership's assets had grown at a compound rate of 29.5 percent, compared to the Dow Jones index's 7.4 percent. However, in the late 1960s, growth stocks were discovered, sending stock prices to the moon, trailing the fortunes of investment managers behind them.

By 1967, Buffett knew he would be unable to outperform the index every year, so he reduced his target of beating the Dow from ten percentage points to five percentage points. Even after that, he became increasing uncomfortable with the market's volatility; his partners, on the other hand, voiced dismay at his reduced, more conservative projections—while other investors made out like crazy, they felt they were sidelined, making profits, but not at the extreme levels that some others did.

Resolute in his decision to pursue a more logical strategy in a period of illogical growth, Buffett decided, in a stunning move, to fold the Partnership. It was too much to contemplate — to be chided for not running with the herd, using methods that were foreign to him, lacking in any logic he could trust.

Enter Charlie Munger

Warren Buffett's predilection toward introspection could help him spot and resolve some issues (dissolving the Partnership, for instance), but not all of them. He lacked a framework for his introspection — a system of analysis that would link one to the other and make sense of the totality of his behavior.

Enter Charlie Munger, a lawyer friend from the West Coast who preached that value could be found in a company's enduring earnings potential, which included management's ability to create value. Eight years Buffett's senior and possessing a legendarily abrasive personality, Munger encouraged Buffett to recognize that companies create value by dint of things like their ingenuity, service, brand, marketing managerial competence, and so forth. Above all, Munger encouraged Buffett to look for value in each company's capacity to act like owners, then to invest in these good businesses.

By necessity, Munger's approach meant analyzing the factors shaping the future economics of a company — the orientation of management with respect to the company's shareholders, their quality and corporate culture, and the competitive characteristics of their industry.

Psychological Principles

Munger carries in his head scores of psychological principles that he feels are important for understanding how humans tick. He understands that human decision making incorporates biases, rules of thumb and emotions, which do not always produce sound results. People think and act out of survival and self-interest, which has little to do with the efficient allocation of

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Warren Buffett the Investor: The Early Years

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capital. They are afraid of being inconsistent with a prior commitment, of failing and admitting failure, of missing out on the chance of ultimate success. The result: the institutional imperative.

Munger's insights on psychology and the institutional imperative infused Warren Buffett's vision of capital allocation. Buffett had already had the facts:

- As a manager, you cannot tell people what to do and expect them to do it. They must be motivated personally.
- Commitments to businesses manifest their own dynamics, divorced from their original conception, aggregated around self-interest.
- The psychological needs of managers' managers can threaten to change the way companies are managed on their behalf.
- The companies in which Buffet would henceforth invest also faced the same problems he himself had experienced, most importantly in dealing with the expectation of shareholders whose motivation was subject to imperatives of their own.

Thanks to Munger, however, these facts now spoke to Buffett with one voice. At last, he had them in usable form. ■

For Additional Information on the influence of Benjamin Graham on Buffett, go to: http://my.summary.com

The *Owner's Manual*

"Act like an owner" is Warren Buffett's credo and his directive to employees throughout Berkshire Hathaway. It's embedded in what he says and does, and is enshrined in the rules of conduct he prescribes for his managers to follow.

This directive is distilled in what he calls the company's *Owner's Manual*, a document that has been reprinted in every annual report since 1983. In it, Buffett articulates the principles that guide his stewardship of other people's money:

- **"Although our form is corporate, our attitude is partnership."** Buffett and Munger think of their shareholders as owner-partners, themselves as managing partners, and the company as a conduit through which shareholders own its assets.
- **"We do not measure the economic significance of Berkshire by its size; we measure by per-share progress."** Compensation for Berkshire executives will never be related to the company's balance sheet.
- **"A managerial 'wish list' will not be filled at shareholder expense."** Berkshire's people treat their owner-partners' money as they would their own.
- **"Noble intentions should be checked periodically against results."** Retention of earnings should deliver shareholders at least $1 of market value for every $1 retained.
- **"We will be candid in our reporting to you. We owe you no less."** Berkshire will tell owner-partners the business facts they would want to know if the positions were reversed, and the company was the customer.

The *Owner's Manual* is no mere public relations mission statement — it is the substance of the way Warren Buffett behaves, the way he has striven to behave in the past, and the way he will behave in the future. ■

Buffett's People Leadership

The current gold standard of corporate management is Jack Welch, who retired in 2001 after 17 iconoclastically successful years at the helm of General Electric, one of America's most admired companies.

In his role as chief executive, Welch was a process man at heart whose managerial excellence could be described by his remarkable ability to get the teams he assembled under him to pull together and perform. His overriding objective was to be the number one or number two player in every industry it engaged in, and, in order to do that, Welch had to remain the process/details man he was as an operational manager. It is said that he got involved in everything he could, from the quality of the company's X-ray machines to the introduction of gem-quality diamonds.

That Welch successfully executed his strategy is to be commended. Many who share his objective have failed. Reinventing an organization at every turn, in anticipation of every turn, and striving to deliver consistent and above-average returns is a risky strategy — one Warren Buffett rejects.

Rather than get his hands dirty in every detail, Buffett has been careful to design rules ensuring that the behavior of his managers self-organizes around the interests of Berkshire Hathaway's owners. Company rules require the following:

- Remuneration packages are compatible with the principle of taking inner responsibility for behavior.
- Self-interest is oriented toward return on capital and not growth.
- The optimum amount of capital is retained within the enterprise, with the excess sent to Buffett.
- If Berkshire's managers find themselves struggling, they do not throw capital at the problem.

Rather than telling people how to behave, Buffett influ-

(continued on page 5)

Buffett's People Leadership

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ences the way in which they behave by allowing their minds' own self-governing "wiring" to do his management for him. To the casual observer, it may look as though Buffett interferes very little in the day-to-day management of his companies, but in reality, he is a constant, if ethereal, presence, mediating in the interaction between agents and their environment, rather than controlling it. ■

The Circle of Competence

Warren Buffett and Charlie Munger do not believe the economy lends itself to forecasting in the sense in which forecasting has come to be practiced. Just like the stock market, the economy is a "complex adaptive system" that is poised in a critical state—one change can trigger an avalanche of side effects or generate an outsized result. No one can accurately predict the way things will go 100 percent of the time.

Buffett understands and admits his own inability to do this and has used his understanding to define the boundaries of Berkshire Hathaway's deployment of capital. The model he uses — called the Circle of Competence — does not go for completeness; it recognizes some things are unknowable or unimportant, and that others are important but unknowable. Buffett makes his capital allocation decisions within the realm of the important and knowable — the "strike zone" where he is happy to swing his bat at the pitches thrown his way. In this zone, he can make objective assessments of the opportunities presenting themselves with almost total certainty.

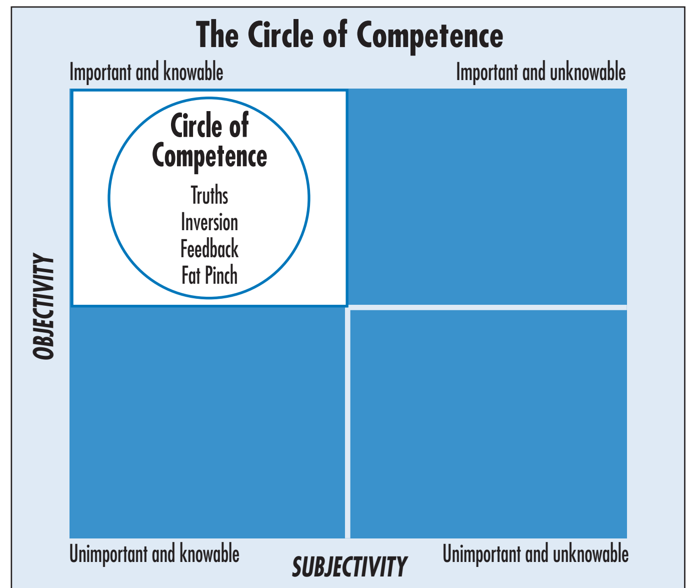
Buffett draws his Circle of Competence according to three essential instructions:

1. He establishes what he knows by identifying truths, the dynamics that sit behind them, and their relationships to each other.

While Buffett readily acknowledges that all businesses are subject to change over time, he has established that, in the realm of the business analyst, there exists incontrovertible truths that do apply and can be expected to hold in the long term, even in complex systems:

● He found these truths in the laws of business economics. Among these is the fact that there are always capital requirements needed to maintain the status quo, as well as those needed to grow business.

● He found them in the human proposition. There is a hardwiring that governs the behavior of managers and determines the effectiveness of his and their leadership, a hardwiring that also governs the interaction between the firm and its customers, as well as managements and their shareholders.



● He found them in the fundamental premise of value creation. Value creation depends on a manger's ability to generate incremental earnings on capital equal to, or above, those generally available to investors.

● He found them in the equation for value. Buffett combines business economics and the human proposition into a calculus that enables him to judge price.

● He found them in the essential characteristic of complex adaptive systems — they will deliver opportunities to him. Regardless of the unpredictability of change, these opportunities will enable Berkshire to do well within the circle they've staked out.

2. He ensures that he knows by a process of inversion whereby he seeks to disprove his prior conclusions.

There is a school of thought that humans accept all information they encounter as initially correct, and subsequently recode the information that is found to be false. Buffett ascribes to this view — he believes that transforming an area of knowledge into a Circle of Competence (and keeping it that way) can only be achieved if he constantly stress-tests what he believes to be true, and changing prior conclusions when necessary.

3. He checks that he knows by seeking out feedback from the consequences of his decisions.

Agonizing over errors is a mistake; acknowledging and analyzing them, however, can be useful. Buffett conducts post-decisional analysis, not on the decisions he gets right, but on the ones he gets wrong. Indeed, the only way he can validate the decision rules originating within the Circle of Competence is to seek out and take feedback from them.

By confining his capital management to the important and knowable, Buffett places himself in control. He has identified the immutable economic and behavioral laws

(continued on page 6)

The Circle of Competence
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that apply in this sphere. He is intimately familiar with the rules by which humans make decisions under conditions of uncertainty. He has defined his Circle of Competence with rigor and honesty. He has a fix on where its boundaries lie. He can identify the origin of his errors and therefore amend his decision after an event. His decision-making is enlightened. ■

Leadership in Action: The Buffett Model

Berkshire Hathaway is, in many ways, a product of the irregular market environment in which it operates, not an imposition of Warren Buffett's will upon it. Crucially, as Buffett picks his way through this environment, he carries his shareholders with him. He thinks like an owner. He acts like an owner. So do they.

CEOs can benefit from Buffett's model for managing capital, since his pragmatic style can help them think like owners and react to various problems and circumstances in kind. "When proper temperament joins with proper intellectual framework," Buffett notes, "then you get rational behavior."

The Proper Intellectual Framework

In order to emulate Warren Buffett, the first thing CEOs must do is adopt the right mindset. Although they might have come through the ranks as an operational manager, if they are predisposed to manage as an executive, the institutional imperative will color any "rational" debate about the conduct of the firm.

Battling the institutional imperative includes refusing to pursue pre-ordained strategies; indeed, Buffett's leadership at Berkshire Hathaway follows his maxim "In order to act like an owner, first you must think like an owner."

Buffett explicitly embeds this philosophy into the deliberation process he follows when managing capital. The intellectual framework to which he adheres in this respect centers on whether to pay the capital out to the shareholders or keep it within the company. If the decision is made to pay it out, what is the best method (via repurchases or dividend)? On the other, if you retain the capital, how do you use it to create value with the least risk?

In managing the enterprise, Buffett defers to mental models and essential elements contained in his Circle of Competence — truths, the equation for value, the patience to wait for value, and an intimate knowledge of how his cognitive apparatus functions. The lesson for any who would seek to emulate Buffett's capital management is to do the same.

Pre-Deliberation Bias in the Institutional Imperative

One aspect of the institutional imperative not previously mentioned is the common finding in studies of group decision making that — "as if governed by Newton's First Law of Motion," Buffett reminds us— the process of deliberation serves only to polarize the opinions of the group further in the direction of their pre-deliberation bias.

In one such study, individuals were first asked to reach a judgment on a number of legal cases. Subsequently, they aggregated the same individuals into juries so that they might further deliberate the cases and discovered that, after deliberation, the dollar verdict of the jury was typically higher, often far higher, than the median judgment of the same jury as individual members. Study leaders believe the manifestation of this shift stemmed from the existence of a systematic rhetorical advantage held by members of the group. In this case, it was the rhetorical advantage enjoyed by those members of society who argue for higher dollar rewards.

The Proper Temperament

Buffett's overriding objective in his communications with his shareholders is to facilitate market efficiency in the pricing of Berkshire Hathaway's stock price — that is, to ensure, as far as he is able, that it bears a close relationship to its intrinsic value. While he recognizes that management cannot determine market prices, Buffett knows that it can, by its disclosures and policies, encourage rational behavior by market participants. Therefore, Buffett reports fully and fairly on Berkshire Hathaway's operating results and outlook. By doing so, he provides the company's shareholders with the information required for them to make a judgment on whether he has achieved high earnings rate on equity capital employed ("the primary test of managerial economic performance," in his words), and, more importantly, whether he is likely to do so again in the future. Buffett does not seek to dress up Berkshire's results for public consumption, nor does he tolerate any managers' decisions to be affected by accounting considerations.

The end result of Buffett's commitment to open, transparent communication and his honesty in delivering it (though he rarely delivers it personally) is an unusual consistency in the relationship between Berkshire and its customers.

"Over the long term," Buffett says, "there has been a more consistent relationship between Berkshire's market value and business value than has existed for any other

(continued on page 7)

Leadership in Action—The Buffett Model

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publicly traded equity with which I am familiar."

This efficient pricing stems from several key elements in Buffett's (and Berkshire's) methods of doing business:

● **They reward the right behavior.** Warren Buffett and Charlie Munger receive their rewards from the growth in Berkshire's intrinsic value, which is closely mirrored by the performance of its stock. Buffett recognizes that alignment of the interests of managers and shareholders is a must; if the remuneration package for management is wrong, the behavior it induces is also likely to be wrong.

● **They set achievable targets.** Buffett's long-term rate of return for Berkshire has been 15 percent per annum. He set this target in light of the fact that the long-term average return on equity in the United States is around 12 percent. This is the stable frequency — the truth. It doesn't need to be "fixed" in the name of market control, like below-average returns do, nor does it face the remorseless scrutiny that typically greets above-average returns. With Berkshire's fundamentals and his Circle of Competence, Buffett considers 15 percent to be a realistically achievable return.

● **They embrace volatility**. Volatility can bring opportunity, and Buffett operates using the best of what an irregular world has to offer. He operates in a state of preparedness, husbanding capital and raising it in an opportunistic fashion when necessary, financing in anticipation of a need, rather than in reaction to it.

● **They work to obtain shareholder-partners.** Buffett realizes that getting quality shareholders is no easy task. It takes convincing them that what they are buying is what they will get — any increase in intrinsic value from their point of entry will be mirrored in the market value of the stock, which encourages a long-term perspective. Buffett says he tries "through our policies, performance, and communications, to attract new shareholders who understand our operations, share our time horizons, and measure us as we measure ourselves."

● **They maximize the trust between themselves and their shareholder-partners.** Naturally, Buffett's Circle of Competence and his track record have engendered a great deal of trust between him and Berkshire's shareholders. This trust can only be established and grown over the long term — some things, quite frankly, take time. Buffett also recognizes that trust can be destroyed in an instant. "Once management shows itself insensitive to the interests of owners," he says, "shareholders will suffer a long time from the price/value ratio afforded their stock." ■

For Additional Information on Buffett's views on realistic returns, go to: http://my.summary.com

Marconi's Rhetorical Advantage Proves Disadvantageous

All CEOs need to establish where the rhetorical advantage lies within the companies they manage. At the UK telecommunications company Marconi, the rhetorical advantage lay in becoming a leading player in the telecom industry, and the company clung doggedly to a growth strategy that eventually brought the company to its knees.

"We didn't give up on the beaches of Dunkirk, and we are not going to give up now," said one non-executive director at Marconi, going down with his sinking ship.

Marconi's chief failure was following a predestined strategy, without considering the impact of that strategy and its rigidity on their business in a volatile market, and without considering its impact on those who invested in the company. "Managers frequently have trouble putting themselves in the shoes of their shareholder-owners," observes Warren Buffett.

The Circle of Illusory Competence

Buffett owns and operates franchises because of mean reversion. He associates with the right personality types because human nature is resistant to change. He swings only at fat pitches because the market is generally efficient. He buys only good businesses, and he structures his acquisitions in a particular fashion because successful mergers are difficult to bring about. By imposing these operating restrictions on himself, Buffett is admitting to the probability of failure should he behave any differently.

But it is Buffett's outside view — his detached and global perspective on the task at hand — that defines him both as a capital manager and a leader. His Circle of Competence delivers this, enabling him to let go and trust in the natural laws governing outcomes. He can also adopt an inside view and consider a problem individually, rather than in its global context.

How Buffett Focuses on the Rational

Buffett has identified two problems in the management of capital.

The first lies in the nature of the environment in which he must make his forecasts; the second in the brain that he uses to make them.

Complex systems may be inherently unpredictable, but they are also eminently comprehensible. In order to step forward into the otherwise unknown, humans feel compelled to be in the driver's seat, even though the human

(continued on page 8)

The Circle of Illusory Competence

(continued from page 7)

brain can only process a limited amount of information at once. Buffett admits his abilities in this regard are "boundedly rational." His early career taught him to set aside emotional reactions and involvement and focus purely on the truths at hand. Emotions compensate for the fact that a person lacks a comprehensively rational mechanism for sorting the relevant from the irrelevant and weighing the relevant aspects accordingly. Warren Buffett's focus has evolved to encompass the rational and relevant, and little else.

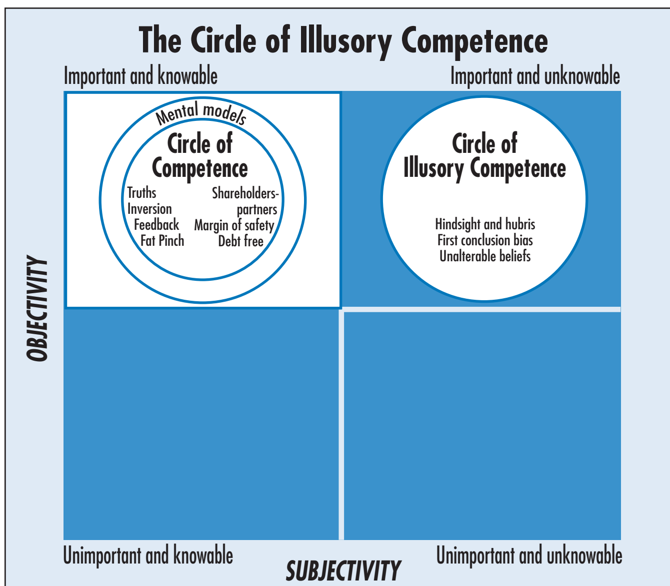
Buffett recognizes that cognitive biases and emotions seldom exist in isolation; indeed, they tend to act in concert. When they do, they can lead people to a Circle of Illusory Competence in which they come to "know" the unknowable. The consequences for the quality of decisions made in capital management can be easily guessed.

Hindsight Bias

Humans not only tend to view what has happened in the past as inevitable, but also as having been relatively inevitable before it happened. Our memories do not form perfect replicas of events they're supposed to recall. Instead, we reconstruct our memories by filling in missing details with plausible material.

We also have an innate talent for spotting patterns, which helps us extract the narratives from his history that enable us to explain what was previously unknowable. This is what makes hindsight bias so powerful and such a strong contributor to overconfidence or hubris.

The next step is to overestimate our ability to predict the future, since the notion of a surprise-free past is suggestive of a surprise-free future, enabling us to convince ourselves that we know the unknowable.



The "Except-For Insurance Company"

It is crucial for executives to admit mistakes or miscues — or else will they ever learn or improve performance? Warren Buffett recounts a story he was told by one of the ex-chairmen of insurance giant General Re:

"Every year his managers told him that 'except for the Florida hurricane' or 'except for Midwestern tornadoes,' they would have had a terrific year. Finally, he called the group together and suggested that they form a new operation — the Except-For Insurance Company — in which they would henceforth place all of the businesses that they wouldn't want to count. In any business, insurance or otherwise, 'except for' should be excised from the lexicon. If you are going to play the game, you must count the runs scored against you in all nine innings.

"Any manager who consistently says 'except for' and then reports on the lessons he learned from his mistakes may be missing the only important lesson — namely, that the real mistake is not the *act*, but the *actor.*"

Weak Tests of the Past

It is in our nature to convince ourselves that we know what we purport to know. This is an automatic tendency often called "first conclusion bias."

One of the ways we achieve this is by subjecting the hypotheses in our narratives of the past to weak tests; we tend not to cast around for reasons we might be wrong. When we receive positive feedback, we attribute our successes to skill and infuse them with foresight. When disappointed, we write off failure.

If CEOs operate within a Circle of Illusory Competence, they will convince themselves that they know the unknowable, to which Warren Buffett responds, "If we can't find things within our circle of competence, we won't expand the circle. We'll wait."

Within his Circle of Competence, Buffett makes sure he knows what he purports to know. In his early days as a manager, Buffett went through several failures before he began to take a serious look at the information revealed in postmortems of his deals. When he found a portion of his strategy that did not work, he changed his strategy. He was not trapped by a need for an illusion of competence or control—he rationally looked at the truths of each matter and honestly appraised his performance.

The only way to break the cycle of self-deception and the formation of unalterable beliefs is to stop living in denial of incompetence. The person who wants to define a Circle of Competence in the Buffett mode has to admit his mistakes — in the Buffett mode. ■