

Berkshire's Distinctive Shareholders and Corporate Longevity

The following article is authored by Lawrence Cunningham, Professor of Law at George Washington University.

Shareholder composition matters less than many think, according to a [research summary](#) by Stanford's Rock Center. In a paper released last week, the authors Anne Beyer, David Larcker, and Brian Tayan explain that while executives care about who their shareholders are, little evidence shows that shareholder demographics affect corporate decision making. While people pay a premium for block shares, voting power does not systematically translate into value.

An important exception to these general findings is Berkshire Hathaway, whose shareholder demographics do make a difference in decision making and value. Indeed, as I explain in my book, [Berkshire Beyond Buffett: The Enduring Value of Values](#), Berkshire's durability is reinforced by a shareholder body that shares the principles Buffett injected into the company.

For starters, despite being a massive public corporation, Berkshire's shareholder character is that of partnership. Buffett forged that conception by stating it repeatedly in his annual letters and acting like the managing partner of a partnership. He explains business decisions candidly, admits mistakes, and catalogues the events that have defined Berkshire culture.

Reciprocally, the owners of the company's equity act more like partners in a private firm than shareholders of a public company. Berkshire shares are owned by many people for whom Berkshire is among their largest holdings.

In the past decade, share turnover has been less than one percent compared to three to five percent for other conglomerates, large insurance companies, or Berkshire's formerly-public subsidiaries. (I provide detailed tables in [the book](#).)

Berkshire's low share turnover ties in to another unusual feature: most Berkshire shares are owned by individuals and families, not firms and funds. Typically, large public companies see seventy to eighty percent of their shares controlled by institutional investors. Investment decisions are often made by committee and based on financial models and forecasts that can lead to trading the stock for reasons unrelated to the company.

In contrast, at Berkshire a large portion of the voting power and economic interest are controlled by individuals and families, who focus on its specific economic and cultural characteristics.

Berkshire shareholders flock to its annual meetings. Attendance has risen from 7,500 in 1997 (the first year I attended) to 21,000 in 2004; 35,000 in 2008; and 40,000 in 2013. They study Berkshire's annual report, Buffett's shareholder letters, and other reference materials.

At most large public companies, individual shareholders are rationally apathetic. They skip reading the reports and rarely attend meetings, which verge on formal ritual. Meanwhile, substantive business discussion takes place at Berkshire's annual meeting where the passion for the company is palpable.

Berkshire is not a family company in the same way that Cargill, Mars or S. C. Johnson are, but many families treat Berkshire shares as prized parts of their financial picture to be preserved by successive generations. They are led by the examples at the top.

Howard Buffett's Berkshire shares give him 0.12% of the voting power and 0.07% of the economic interest. Charlie Munger's brood—eight children and dozens of grandchildren—owns more than 1.00% of the voting power and nearly 1.00% of the economic interest, with instructions from the patriarch to hold them forever.

Certain owners of substantial amounts of Berkshire stock also manage institutions whose clients, wealthy individuals and families, are large Berkshire holders. Berkshire director Sandy Gottesman, for example, personally owns shares yielding 2.02% of Berkshire's voting power and 1.29% of its economic interest. Clients of First Manhattan, the firm he formed in 1964 where his son Robert W. Gottesman is a senior manager, command another 1.91% of the voting power and 1.22% of the economic interest.

Most Berkshire directors own meaningful stakes, especially Bill Gates, who personally owns Class A shares with 0.45% of the voting power and 0.26% of the economic power. Meryl Witmer bought seven Class A shares shortly after being elected a director in 2013 and is part-owner of Eagle Capital, whose holdings include Class B shares with 0.16% of the voting power and 0.53% of the economic interest.

Managers of Berkshire's subsidiaries also own considerable Berkshire stock. Most are independently wealthy and many own greater stakes in Berkshire than all but the most-invested directors do. Like the board, they believe in Berkshire culture and eat their own cooking.

Sophisticated investors generally follow conventional wisdom to avoid concentrating portfolios in the stock of one company. Among holders who publicly disclose stakes, for instance, few of the largest hundred shareholders of blue chip companies allocate more than five percent of their portfolios to that company's stock. In contrast, many Berkshire shareholders concentrate in its stock, following the example of Berkshire's own portfolio concentration. ([The book](#) presents several tables providing details.)

America's blue chip companies tend to have the same largest shareholders, chiefly big banks, investment advisors, and money managers. For example, institutions like Blackrock, Fidelity, State Street, and Vanguard own two to five percent of the stock of such companies, dominating their shareholder lists. While many also own Berkshire, they are not Berkshire's dominant shareholders.

Berkshire shareholders are also collegial, generous, and informed, as I confirmed when conducting shareholder surveys and interviews for the book. The Berkshire community embraced the research and offered their help. For example, MOI Global introduced me to several Berkshire shareholders who generously shared their views—among some 500 others, I specifically thank a dozen more in the book's acknowledgements (see below).

As the Stanford research suggests, Berkshire's shareholder body is unusual in corporate America. An affiliation of readily coordinated shareholders with a meaningful percentage of the voting power, it's a group of stalwart shareholders with a partnership conviction about Berkshire and faith in its owner orientation. True, their fondness for Buffett overflows and they believe that no one can replace him. Yet they appreciate what he built and believe in its durability beyond him. The voting power they wield will help shape Berkshire's future.

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