Free case study on how model supports the corporate strategy

Business, Company

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Management of Berkshire Hathaway

- Corporate strategy

The corporate strategy of Berkshire Hathaway can be described as a heavily decentralised system of company management. This strategy places colossal reliance on the abilities and capacities of local managers instead of centralising systems. It is said the operating structure embraced extreme decentralisation. Munger correctly opines that theirs was delegation just short of abdication. Indeed the strategy is founded on the concept of giving the local manager essential powers that facilitates management without the necessary and unnecessary cases of consultation. This is largely premised on the concept of faith and trust on the local management. According to this strategy, which was thoroughly and effectively embraced by Warren and his friend Munger, the company confers both adequate and sufficient powers of control and management. The managers are given the resources, the authority as well as the accountability. In fact the company only had two main requirements; submission of financial statement information on a monthly basis and remittance of free cash flow generated to the headquarters. The company strategy is predicated on the concept of trust and self-drive. In that strain, there is a general expectation that every employee would perform and discharge his or her duty without supervision. The strategy also relies on the fact that the employees are there for the satisfaction they derive from their job. In that strain, it is imperative to note that the employees do not merely pursue money. Rather, they pursue their talents and interests. It is this strategy that sets the company above the fray. The company stands out for its abilities and capacities to address inherent interests in personalities .

Looking at the narration about Buffet, they would never be motivated by cash only. The two prime owners have an inkling for excellence. This is attested by the confession by Warren in which he asserts that they at times paid the sellers of the companies more than they deserve of what the market offered in appreciation for the value in the item of purchase. In other words, the company can be said to have embraced a strategy that essentially works on mutual trust and believes in value for money. It is this corporate strategy that has governed the workings of the company since its inception.

- Corporate model

The corporate model of the company is manifested by a highly decentralised system. In the model, the parent company essentially owns several subsidiaries. The genius of this model perhaps lies in the diversification of risks in the portfolio of investments. Some of the owned subsidiaries include Shaw industries, Mid-American Energy, Clayton Homes, Iscar and Marmon. The company has a model that necessarily gives them adequate representation across the business divide. The model incorporates all significant sectors of the economy. Indeed, it can be argued that the money within the company circulates and arises across the entire economy .

The model facilitates autonomy and decentralisation to the highest degree possible. This is predicated on the fact that the subsidiary company managers are experts in their own fields and in the added advantage that the headquarters confer on the local managers near absolute delegated responsibility and power. The model in addition, allows for the smooth functioning of various the companies without the expected friction that usually characterises management of subsidiaries . Indeed, this problem must have been cured by the approach taken by headquarter managers. The paper outlines that Buffet’s role was limited to the allocation of capital to various subsidiaries. The manner in which the capital was utilized was left to the local manager to deal with. This model also allows for uninterrupted management by the subsidiary managers as opposed to patronage and harassment of local managers by headquarters employees. Ultimately, the model promotes the application of the overall corporate strategy which is premised on the concept of decentralisation.

- Advantages and disadvantages of decentralization

The decision to decentralise probably accrues with a heavy cost. However, it is noteworthy that is also occasions merits that go deep in addressing mundane issues common in companies. The biggest gain perhaps is the defeat of bureaucracy. The need to consult and re-consult and seek consensus, which often is illusive has been dispensed with. The speed at which decision making takes place enables the company to cut deals in their favour with the benefit of being timely. Munger asserts this when he reckons, “ we don’t waste the time to do that, we think those people know how to allocate the money that relates to the actual operations.” This is a major deviation from the typical phenomena that confronts parent companies that have in place strict consultation rules .

In addition, decentralization has enabled the company subsidiary managers continue operations without confluence or conflict with the company owners.

This is because even with the ownership residing in the shareholders, the model confers on the managers the powers of control and regulation. They have the three elements essential for effectiveness, that is, authority, resources and accountability. This level of decentralization necessarily allows for smooth running of the companies without clashes between headquarters and the subsidiaries. The general benefit also attributable to decentralization is the retention of the best quality of personnel within the company. The fact that managers continue to exercise real and near absolute powers has made them remain honest and loyal to their jobs and responsibilities.

On the other hand, decentralization comes with its own costs . First, it should be noted that decentralization works on the premise of trust between parties. In fact, as Warren notes, they need to be cautious in the choice of managers. For them, they only purchase companies with competent and reliable managers. This amounts to a confession of the limitation inherent in decentralization. It remains unknown what consequences would be incurred in the absence of trustworthy management. In addition, decentralization creates the additional costs and inconvenience of auditing and creating a check and balance. On this score, the company goes against the grain. They instead chose to trust the managers and the local employees and avoid the necessary costs of auditing. In fact, their compliance expenditure is lower compared to other companies. The folly of such a move is that the trust between the parties could fail to stand the test of time. This is what in other squatters has often resulted to the need for compliance and regulation tests.

Finally, it can be argued that decentralisation could create a divisive company policy. This is because each individual unit in the portfolio promotes its own interests, which might be in opposition or to the detriment of the other units. This may necessarily lead to a divisive system. However, it is the observation of Munger that the managers would make decisions in the interest of the company. This is further supported by business attributes to the extent that there was no blind delegation of authority.

- Acquisition of new businesses

The process of business acquisition has been both fine and tortuous. This is because the decision makers went through comprehensive analysis and studies before picking on the units that together inform the portfolio. The company was, however, advised by the belief in secure and well managed companies. The interest of buyers of the subsidiaries was predicated on the fact that a well-managed organization could be turned slightly around and start recording the desirable profit margins. To this extent, Warren and his friend went around in the business of acquiring any business that was well managed and had a promising future in their eyes . Warren seems to be exonerated by the fact that all his acquisitions turned around to be good performers in the industry. In addition, the buyers were motivated with the synergies present in other business units. Some of the successful acquisitions include GEICO, General Re, Mclane, MidAmerican, and Clayton Homes. In some cases, acquisition was guided and spewed by the expectation that an additional unit would contribute positively to the overall needs of the company.

This process supported the corporate strategy in that it allowed the application of the decentralized approach while at the same time enabling continued growth across the economic sectors.

- Key levers used

The working of the corporate strategy was supported by various levers. However, the areas worth mentioning at this juncture resonate around management selection and compensation and the performance measurement methods adopted. First, it should be appreciated that Warren and his deputy often were choosy in the selection. They did not hide the fact that they valued excellence and merit from the managers. This contributed to the efficient management of subsidiaries. The companies retained in most cases their employees, who were experts in their specialities. This facilitated the implementation and maintenance of the corporate strategy .

On the other hand, the two main owners were keen not reward themselves too much. They earned only what was basic and necessary. In doing this, they seemed to embrace the concept of leaving on dividends rather than salaries. In addition, their managers were well remunerated, negating any temptations as to theft or any other illegalities. Finally, the rubrics of performance measurement were different from what would be commonly expected. This enabled them to remain on top of their game and arguably the best run company in the world .

Works Cited

Griffin, Ricky W. Management. New York: Cengage Learning, 2012.