

Cooperatively Solving Societal Problems - Learning from Berkshire Hathaway

William Eimicke

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All these great speakers of the last couple of days are very hard acts to follow. I'll tell you a simple story. In 1951, Warren Buffett went to Columbia University and studied with two professors, one named Graham who wrote a book called *the Intelligent Investor*, which laid out a strategy called value investing and Dodd with whom Graham wrote *Security Analysis*. Warren obviously was a good student because he went back to Omaha, Nebraska, and founded a company called Berkshire Hathaway [an American multinational conglomerate holding company that Warren Buffet took over in 1964]. In 2006, he made a decision to give away all the money he had made up until that point, \$50 billion, to his friend Bill Gates, who had left Microsoft to start a foundation. Basically, Warren said, I know how to make money. I don't know how to do good. So I'm giving my money to Bill Gates and he will do good with it.

Learning from Berkshire Hathaway

I teach a course in management. Last fall there was a bright-eyed student in the back of the room wearing a little bow tie. He looked like something out of a Norman Rockwell painting [American artist, 1894–1978]. Somehow in the course of my lecture, I was talking about New York City, where I was born and grew up. New York City, which was arguably the worst, most dangerous city in the world through most of my life, turned around in the 1990s, and since then, I would argue, it is the best big city in the world because of good management. About the recovery of my city, I said, I don't know why anybody would live anywhere else. I mean, why would anybody live in Omaha, Nebraska? I had never said that before, and I never said it again.

At the end of the class this young man walked up to me, shook my hand and said, professor, that was an excellent lecture. But I have to tell you, I am from Omaha and I like it. It was the beginning of a lifelong friendship. And over the last decade, Howard [Warren Buffet's grandson] and I decided to solve some of the world's most difficult problems. There has to be a way to use the lessons of value investing such as those used in the management strategies of Berkshire Hathaway.

Social value investing

That's what social value investing is about. I'm just going to very quickly give you a snapshot. Interestingly for me, one of our key examples of how this can be done is India. For all of India's and Modi's problems [India's prime minister, Narendra Modi] which I hear about from my students and my wife and everybody else, nevertheless, probably one of the great wonders of the twenty-first century will be what's happening in India today, and particularly a system called "Aadhaar."

I would argue our most pressing problems in the world—climate change, affordable education, health care for all, housing for all and eliminating inequality—are not going to be solved by government alone. That's not going to happen. Maybe Franklin Roosevelt [US president, 1933–1945] could do it, maybe the Soviet Union tried to do it. It's not possible in the world we live in today. It's not possible in countries the size of India and China.

So if we are going to attack these problems and solve them in the future, it's going to require a partnership. It's going to require a partnership of the private sector, which brings efficiency, innovation and willingness to take risks and brings capital. It must include the government because government has scope. Even in the United States, one of the most privatized economies in the world, 50 percent of the Gross National Product (GNP) is the government. So government has got to be there, but government can't drive the bus.

So it must include the social sector, the fastest-growing sector. A lot of what we have witnessed here today and yesterday is the power of the social sector to convene, to bring people together, to focus people on values. With those three together, you can do things. You can solve these problems and you can solve them, I think, in a reasonable amount of time.

Management strategy

So our argument is that we should take the wisdom of value investing used at Berkshire Hathaway and bring it to bear on social problems. I told you that our management strategy has five components. They all begin with Ps, so you can remember them.

Process: You've got to have a process that integrates the three different sectors.

People: You need a new kind of leader that can collaborate across sectors and across organizations.

Place: We had a great example in New York in recent times, where Amazon was going to build their second headquarters in the Borough of Queens. It was great for everybody. The community rose up and rejected it, even though they were going to be the primary beneficiaries. Why? Because the governor and the mayor and Amazon cut a deal in private, without letting anybody else know, and then said, We have great news for you! Immediately the community said, [His thumb points down indicating rejection], even though if the citizens had been at the table [part of the negotiations], they probably would have loved the deal that was cut. You've got to speak to the people who are going to benefit. They want to be your partner. They don't want gifts. They want a chance.

Portfolio: As the political candidates in the US are learning, the government can't handle financing things like education for all and healthcare for all. People don't even want the government to do it. It's got to be a partnership.

Performance (measurement): In my field, Peter Drucker is the Albert Einstein of management. He said, "Pure and simple: If you don't measure it, you can't manage it." So you've got to measure. Otherwise, how do you know whether you are making things better or worse or not doing anything at all?

Strategies at work in India

So that's our management strategy. I'll give you a quick example of each strategy. Process: If you haven't heard about Aadhaar, Google it. In the last five years India has enrolled 1.3 billion people with an ID card that has your iris, your fingerprints and your picture. It enables you to do banking. It enables you to get your government benefits. For a woman with children, no longer can a government official or tribal head steal her benefits. Only you can claim your benefits.

It allows you to link your driver's license to it and to vote using it. It is miraculous. And in partnership with a large private for-profit hospital, Apollo Hospitals, they are providing world-class healthcare all across India. Not to everybody in India, but the best kinds of experts are available for two or three US dollars for treatment. There is a whole chapter on each one of these in the book, so I'm just going to give you a slice.

Two cases in New York City

People: (collaborative leadership) One example is Central Park. I knew it as one of the most dangerous places in New York City. If you came to New York City, I would tell you, Don't go in before 9:00 in the morning and be out by 4:00 pm. One of the highest crime rates in the US was in New York City. Today, Central Park is the most visited tourist attraction east of the Mississippi River [Twenty-six of the fifty US

States are east of the Mississippi]. Last year 46 million people visited Central Park; a quarter of a million people came on any given day in the summer. The Park would be spotless the next day. It closes from 1 am to 6 am only to clean it, not because it is dangerous at night. It is a public park; it is free to everybody. The government owns it, but the government does not run it. The Central Park Conservancy does and the private sector pays 90 percent of the cost.

And just in case you think that's a one-off, you may have heard of the High Line. It is the second most visited tourist attraction in New York City now. When Mike Bloomberg was the mayor [2002– 2013] I worked for him. This was a rail line that Rudy Giuliani [New York City mayor 1994–2001] was going to tear down. The community objected. They built a world-class park, again, free to everybody. The nonprofit sector is paying ninety percent of the cost; basically both the community and real estate in the area. Amazing. Collaborative leadership.

Success in Brazil

Place: This is an example from Brazil. Talk about the private sector working with government. Some of the richest corporations and individuals in Brazil, where the government has problems, have pooled their resources to provide free consulting services and some of the best architects and engineers to fix local government problems. They do it for nothing. The people who pay for it commit themselves to not doing business for eight years in those companies, so there is no quid pro quo. In this particular case the community is always consulted, what is their first priority? In this city in the south of Brazil the mayor reached out to the people, who said, we want full-service wellness clinics. Not health clinics. This clinic is a model for all of Brazil. It was built with private dollars and the public sector is now replicating the model in other places.

Rio de Janeiro

Next is portfolio. If you have never been to Rio, you should go because it is great. It is like Malibu with New York City on the back end -- beautiful beaches, beautiful scenery, and I think one of the most fabulous museums in the world. It is called the Museum of Tomorrow and it is totally about climate change. It takes you from where the world is today and where the world could be. It's a public-private partnership. The risk capital was put up by the private sector. Major publicly-traded corporations came in with money, and then the government came in with zoning. It took one of the most dangerous neighborhoods in Rio and made it one of the safest.

Preventing fires

Then one more P, Performance. If you don't measure it, you can't manage it, you can't improve it. This is just one more example from my city. I had the unique opportunity to serve as deputy fire commissioner in New York City, which was an amazing experience. But because it had always been the best, it never thought about being better. They have the fastest response time, the bravest firefighters. Everybody loves them. But the problem is that buildings still burn down, and people still die. We finally got them to think about is how we could do better, that is by going faster thereby preventing fires before they happen. The problem is, they never collected data and they did not have the people to analyze the data.

We partnered with IBM. We converted all their paper records into digital information. We were able to then identify for every fire captain in the city, in 228 different firehouses around the city, every day, during twenty-four-hour shifts, which were the most dangerous buildings, the highest potential area for fire the next day. They inspected those buildings. Now we have reduced the number of serious fires in New York City from 117,000 to 17,000. The number of fire deaths is the lowest in the history of the City of New York, largely because we are preventing fires before they happen rather than rushing out to put them out.

It would never have been possible without IBM and without their databases and their AI skills and their algorithms. So it is a partnership. I think issues like climate change and affordable housing, health care for all, education, urban transportation systems, using tech to combat corruption, can all be solved by cross-sector partnerships.