

2017 CORPORATE VALUES SUMMIT

WHY CORPORATE VALUES MATTER TO LONG-TERM INVESTORS

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CORPORATE CULTURE ⁽¹⁾

**“A SET OF NORMS AND VALUES
THAT ARE WIDELY SHARED AND
STRONGLY HELD THROUGHOUT THE
ORGANIZATION”**

O'REILLY AND CHATMAN (1991)

CORPORATE CULTURE ⁽¹⁾

- **INTEGRITY**
 - ETHICS, ACCOUNTABILITY, TRUST, HONESTY, RESPONSIBILITY, FAIRNESS, DO THE RIGHT THING, TRANSPARENCY, OWNERSHIP
- **TEAMWORK**
 - COLLABORATION
- **INNOVATION**
 - CREATIVITY, EXCELLENCE, IMPROVEMENT, PASSION, PRIDE, LEADERSHIP, GROWTH, PERFORMANCE, EFFICIENCY, RESULTS
- **RESPECT**
 - DIVERSITY, INCLUSION, DEVELOPMENT, TALENT, DIGNITY, EMPLOYEES, EMPOWERMENT

CORPORATE CULTURE⁽¹⁾

- **QUALITY**
 - CUSTOMER, MEET NEEDS, COMMITMENT, MAKE A DIFFERENCE, DEDICATION, VALUE, EXCEED EXPECTATIONS
- **SAFETY**
 - HEALTH, WORK/LIFE BALANCE, FLEXIBILITY
- **COMMUNITY**
 - ENVIRONMENT, CARING, CITIZENSHIP
- **HARD WORK**
 - REWARD, FUN, ENERGY

CORPORATE CULTURE ⁽¹⁾

- **“CULTURE WAS ALWAYS A VITAL PART OF GOLDMAN SACH’S SUCCESS. IT REVOLVED AROUND TEAMWORK, INTEGRITY, A SPIRIT OF HUMILITY AND ALWAYS DOING RIGHT BY OUR CLIENTS. THE CULTURE WAS THE SECRET SAUCE THAT MADE THIS PLACE GREAT AND ALLOWED US TO EARN OUR CLIENTS’ TRUST FOR 143 YEARS. I AM SAD TO SAY THAT I LOOK AROUND TODAY AND SEE VIRTUALLY NO TRACE OF THE CULTURE THAT MADE ME LOVE WORKING FOR THIS FIRM FOR MANY YEARS” GREG SMITH VP GOLDMAN SACHS, NY TIMES OP-ED (1)**
- **SMITH’S FOLLOW UP BOOK BLAMES THE DEMISE OF GOLDMAN SACH’S CULTURE DUE TO GOING FROM A PARTNERSHIP TO A PUBLIC COMPANY. (1)**

LEADERSHIP

- **EVERY INSTITUTION IS THE LENGTHENED SHADOW OF ONE WOMAN/MAN**
 - **RALPH WALDO EMERSON**
- **MUTUAL TRUST IS THE FOUNDATION UPON WHICH EVERY GREAT ORGANIZATION IS BUILT**

MANAGEMENT INTEGRITY

- **WILLIAM RUANE**
- **RICK CUNNIFF**
- **BOB GOLDFARB**
- **CARLEY CUNNIFF**

- **MANAGEMENT INTEGRITY IS PARAMOUNT**
 - **CRITICAL COMPONENT OF COMPANY ANALYSIS**
 - **AVOID COMPANIES WITHOUT IT**
 - **SELL COMPANIES WITHOUT IT**

- **DIFFICULT TIMES BEST ILLUSTRATE MANAGEMENT INTEGRITY**

LONG-TERM INVESTORS

- **WARREN BUFFETT/BERKSHIRE HATHAWAY**
- *“It’s much easier to build a corporate culture from scratch than try to change an existing culture.”*
- **INTEGRITY**
- **INTELLIGENCE**
- **INTENSITY-WORK ETHIC**
- **VALUES ARE FAR MORE IMPORTANT THAN TALENT OR SKILLS**

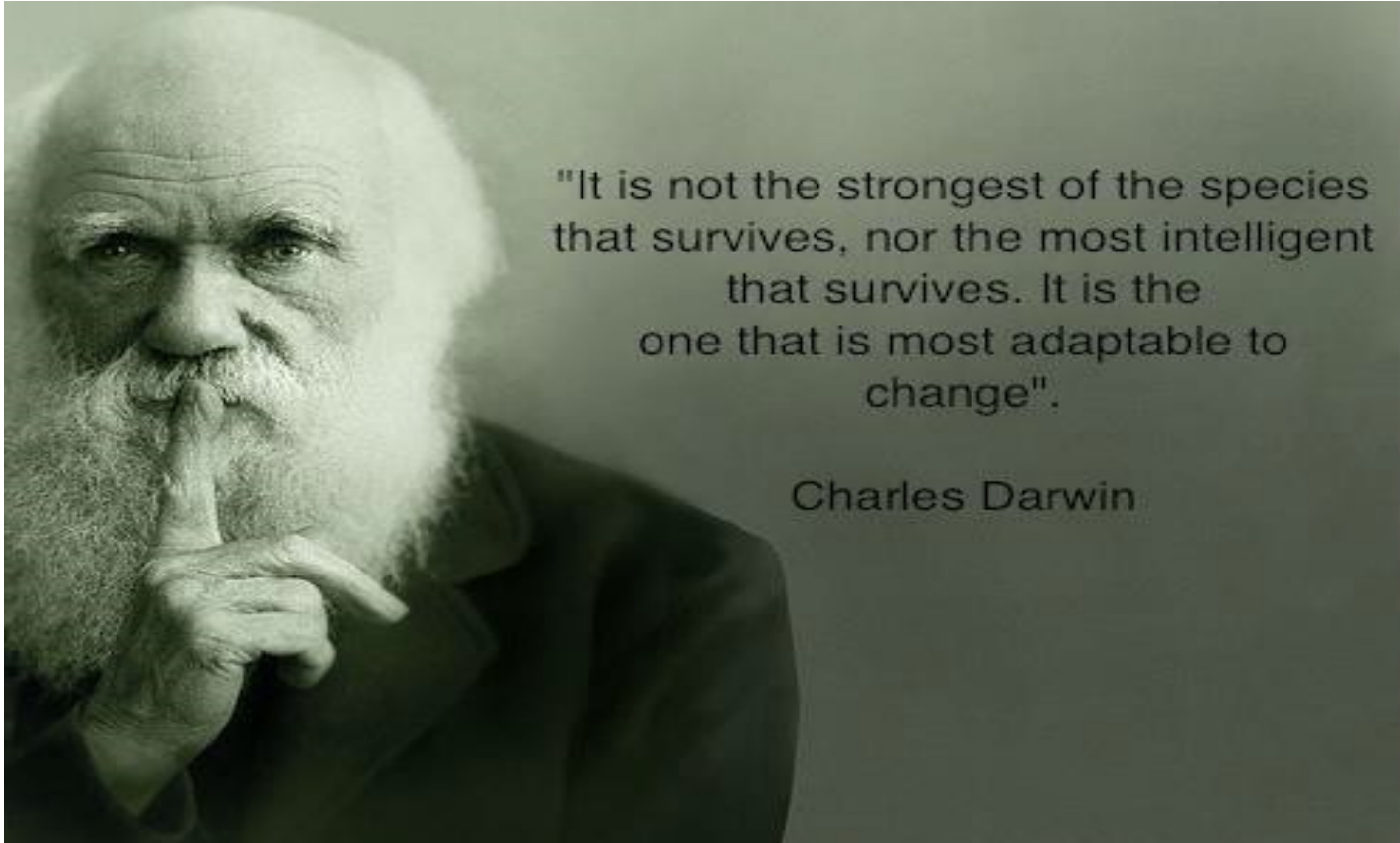
LONG-TERM INVESTORS

- **EVERY BUSINESS/INDUSTRY IS BECOMING MORE COMMODITIZED**
- **NEW WORLD OF FEROCIOUS COMPETITION**
- **GREATER UNPREDICTABILITY AND UNCERTAINTY**
- **TRADITIONAL BUSINESS MODELS ARE COLLAPSING**
- **TRADITIONAL INDUSTRY STRUCTURES ARE CHANGING**
- **THE RAPIDITY AND MAGNITUDE OF CHANGE IS UNPRECEDENTED**
- **FEWER BIGGER WINNERS AND MORE LOSERS**

LONG-TERM INVESTORS

- **EVERY BUSINESS/INDUSTRY IS BECOMING MORE COMMODITIZED**
 - BROADCASTING
 - CABLE
 - NEWSPAPERS
 - INSURANCE
 - BANKING
 - RETAILING
 - TELECOM
 - RESTAURANTS

LONG-TERM INVESTORS



LONG-TERM INVESTORS

- **CULTURE IS BECOMING THE PRIMARY SUSTAINABLE SOURCE OF COMPETITIVE ADVANTAGE**
 - **ADAPTABLE**
 - **CREATIVE**
 - **INNOVATIVE**
 - **FAST MOVING**

LONG-TERM INVESTORS

- **“CULTURE EATS STRATEGY FOR BREAKFAST”
-PETER DRUCKER**
- **“CULTURE WILL TRUMP STRATEGY EVERY TIME”
-NILOFER MERCHANT**
- **“CULTURE ISN’T JUST ONE ASPECT OF THE
GAME, IT IS THE GAME.”
-LOU GERSTNER**

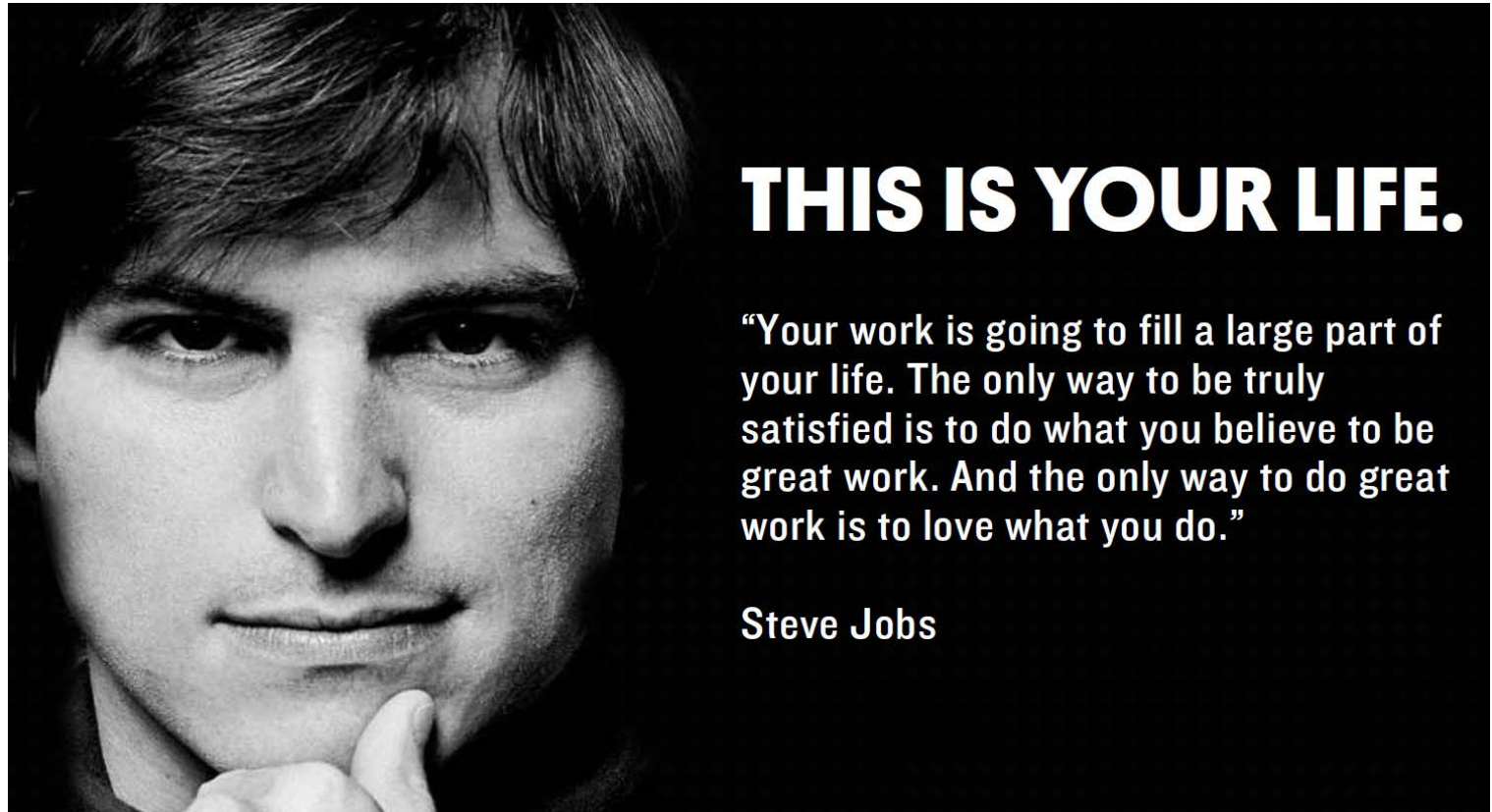
LONG-TERM INVESTORS

- **REAL ESTATE**
 - LOCATION, LOCATION, LOCATION
- **COMPANIES**
 - PEOPLE, PEOPLE, PEOPLE
- **PEOPLE ARE LOYAL TO CULTURE NOT STRATEGY**
- **EMPLOYEES SEEK**
 - PURPOSE
 - AUTONOMY
 - MASTERY

LONG-TERM INVESTORS

- **HUMAN CAPITAL IS MORE IMPORTANT THAN ANY OTHER COMPONENT IN BUILDING SUCCESSFUL BUSINESSES**
 - **CREATES COMPETITIVE ADVANTAGE**
 - **DRIVES AND ADAPTS TO CHANGE**
 - **SPAWNS INNOVATION**
 - **EMBRACES UNCERTAINTY**
 - **EXPERIMENTS REGULARLY**
 - **LEARNS FROM FAILURE**

LONG-TERM INVESTORS



THIS IS YOUR LIFE.

“Your work is going to fill a large part of your life. The only way to be truly satisfied is to do what you believe to be great work. And the only way to do great work is to love what you do.”

Steve Jobs

LONG-TERM INVESTORS

- **GOVERNANCE AND CORPORATE CULTURE ARE INEXTRICABLY TIED TO STRATEGY AND DRIVE VIRTUALLY EVERY ASPECT OF THE ORGANIZATION**
- **CORPORATE VALUES CREATE AND SUSTAIN COMPETITIVE ADVANTAGES/MOATS LEADING TO IMPROVED SHAREHOLDER RETURNS**

LONG-TERM INVESTORS

- **THE QUALITATIVE CHARACTERISTICS OF A BUSINESS DRIVE THE QUANTITATIVE CHARACTERISTICS**
- **FINANCIAL RESULTS ARE A DERIVATIVE OF THE CORPORATE CULTURE**
 - **WALL STREET HAS IT BACKWARDS BY FOCUSING UPON THE NUMBERS**
 - **THE NUMBERS TELL YOU THE PAST BUT YOU ARE INVESTING IN THE FUTURE**

LONG-TERM INVESTORS

- **WHAT IS UNIQUE OR DIFFERENT ABOUT YOUR BUSINESS?**
- **HOW COMPELLING IS YOUR PRODUCT OR SERVICE FOR CUSTOMERS?**
- **WHY ARE YOU SUCCESSFUL? BETTER?**
 - **OPERATIONAL EXCELLENCE**
- **WHAT PROBLEMS DOES YOUR FIRM RESOLVE FOR CUSTOMERS?-MAGNITUDE OF PROBLEM BEING SOLVED**
- **IS THE FOUNDER STILL ENGAGED?**

LONG-TERM INVESTORS

- **WHAT IS THE SIZE OF THE MARKET YOU ARE FOCUSED UPON**
 - DOES IT HAVE A LONG RUNWAY
- **WHAT IS THE NATURE OF THE COMPETITION**
 - DYNAMICS OF THE MARKET
 - BARRIERS TO ENTRY
- **WHAT CUSTOMER VARIABLES WILL CHANGE**
- **WHAT CUSTOMER VARIABLES WILL NOT CHANGE**
 - ASSORTMENT/SELECTION
 - LOW PRICES
 - RAPID DELIVERY
 - EXCELLENT CUSTOMER SERVICE

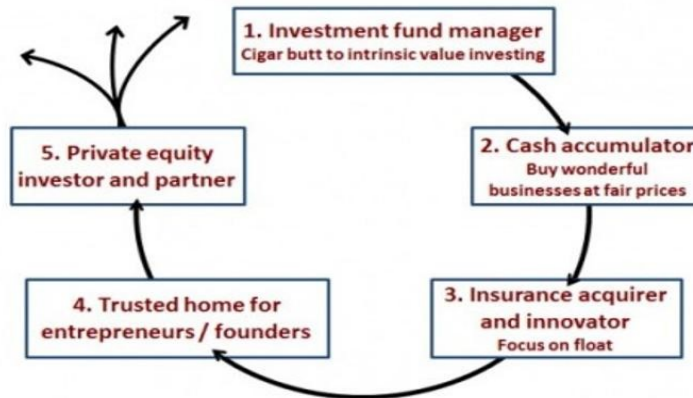
LONG-TERM INVESTORS

- **BERKSHIRE HATHAWAY (2014 AR AND LAURA RITTENHOUSE BLOG)**
- **CULTURE**
 - **AUTONOMY**
 - **TRANSPARENCY**
 - **SMALL**
- **LEADERSHIP**
 - **VISION**
 - **COMMUNICATION**
 - **JUDGMENT**
- **TRUST**
 - **CREATES LOYALTY**

LONG-TERM INVESTORS

- BERKSHIRE HATHAWAY
- CULTURE + LEADERSHIP + TRUST=WEALTH

Buffett, Chief Capital Allocator and Culture Officer
Berkshire Hathaway Evolution



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LONG-TERM INVESTORS

- **ENTERPRISE RENT-A-CAR**
- **SOUTHWEST AIRLINES**
- **CHICK-FIL-A**
- **WEGMANS**
- **NIKE**
- **USAA**
- **PROGRESSIVE**
- **WYNN**

- **TYCO**
- **ENRON**
- **WORLDCOM**

OUR FOUNDING PRINCIPLES

- **THE QUALITY OF YOUR RELATIONSHIPS DICTATE THE QUALITY OF YOUR LIFE BOTH PROFESSIONALLY AND PERSONALLY**
 - **TRUST IS THE FOUNDATION AND BUILDING BLOCK OF ALL RELATIONSHIPS**
 - **OPENNESS**
 - **HONESTY**
 - **TRANSPARENCY**
 - **MUTUAL RESPECT**

OUR FOUNDING PRINCIPLES

- **EMPLOYEES (INTEGRITY, INTELLIGENCE, INTENSITY)**
 - **ARE YOU TRUSTWORTHY?-CAN WE TRUST ONE ANOTHER?**
 - **DO YOU CARE ABOUT YOUR COLLEAGUES, THEIR FAMILIES AND OUR FIRM?**
 - **ARE YOU COMMITTED TO EXCELLENCE?**

OUR FOUNDING PRINCIPLES

- **EVERYTHING BEGINS WITH MUTUAL TRUST**
- **TEAMWORK IS HIGHLY PRIZED AND RECOGNIZED AS IT MAXIMIZES MANY INDIVIDUAL CONTRIBUTIONS**
- **AN OPEN CULTURE THAT IS A TRUE MERITOCRACY IS OUR ULTIMATE ORGANIZATIONAL GOAL**
- **ENCOURAGING DISSENT LEADS TO A TRANSPARENT AND OPEN CULTURE. RESPECTFUL COMMUNICATIONS IS THE FOUNDATION FOR A SUCCESSFUL WORK ATMOSPHERE AND CULTURE.**
- **RESPONSIBLE FREEDOM PROVIDES THE OPPORTUNITY FOR INDIVIDUALS TO ACHIEVE SUCCESS ACCORDING TO THEIR INITIATIVE AND MATURITY.**
- **HIERARCHY SHOULD BE DE-EMPHASIZED TO SPAWN CREATIVITY**
- **THE CLIENT COMES FIRST IN ALL WE DO AND IS THE FOCUS IN ALL WE DO-RESEARCH, PERFORMANCE, SERVICE**
- **PEOPLE NEED THE OPPORTUNITY TO FAIL. THE ABILITY TO FAIL IS ONE OF THE GREATEST GIFTS AVAILABLE TO ALL OF US-LEARN FROM IT AND MOVE ON.**

APPENDIX-SOURCES

- **1-THE VALUE OF CORPORATE CULTURE**
 - **LUIGI GUIISO-EINAUDI INSTITUTE FOR ECONOMICS AND FINANCE & CPER**
 - **PAOLA SAPIENZA-NORTHWESTERN UNIVERSITY, NBER, & CEPR**
 - **LUIS ZINGALES-U OF CHICAGO, NBER, & CEPR**
 - **(SEPTEMBER 2013 ABSTRACT)**