



## Warren Buffett and Leadership Potential

### an investor's guide to talent management

*"Life is like a snowball. If you want to grow, the important thing is finding wet snow and a really long hill."*

## Talent management as an organisational investment

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The top team are meeting for the company's annual Organisation and Management Review: the forum to discuss the organisation's current leadership bench strength as well as review its emerging talent.

Much effort has gone into this activity. Forms have been filled. Spreadsheets have been consolidated. A succession plan has been compiled. And listings of names have been generated. A key item on the agenda is the discussion of high potential managers. This is the group of high performing individuals highlighted from the firm's different business units. Decisions now need to be made to finalise the list of managers who represent the pool of likely internal successors requiring further organisational attention and backing.

In essence, the organisation is about to undertake a series of critical investment decisions about its future, decisions that will help the organisation go on to survive and succeed<sup>1</sup>, or which will undermine its capacity to compete, or even begin a trajectory of decline.

**When organisations are reviewing leadership potential, it may be useful to apply the wisdom of the world's most successful investor: Warren Buffett.**

*"In looking for people to hire, look for three qualities: integrity, intelligence, and energy. And if they don't have the first, the other two will kill you. If you hire somebody without the first, you really want them to be dumb and lazy."*

<sup>1</sup> <http://www.pressdispensary.co.uk/releases/c991776.php>

## Warren Buffett's investment record

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Warren Buffett, the “sage of Omaha”, is CEO of Berkshire Hathaway, the investment company with a market value of \$206 billion. His personal wealth of \$62 billion makes him the wealthiest individual in the world.

Anyone who had the foresight to invest \$1,000 in Berkshire Hathaway in 1965 when Buffett took charge would have seen their stake grow to over \$4 million. (By comparison, \$1,000 invested in the S & P 500, would be worth only \$14,400).

Avoiding the excesses of the dot com bubble in the late 1990s, Buffett also predicted the current credit crunch, warning that derivatives were “financial weapons of mass destruction.”

*“Our method is very simple. We just try to buy businesses with good to superb underlying economics run by honest and able people, and buy them at sensible prices. That’s all I’m trying to do.”*

Buffett’s outstanding investment track record lies in his attention to fundamentals, shrewdness in reading events, understanding of risk and commitment to the long run. How might Buffett’s approach to investment shape the way in which organisations think about talent and the decisions they make about future leadership?

- **know the detail of your people**
- **don’t be dazzled by impressive career summaries**
- **it’s better to miss possible talent than take unnecessary risks**
- **stay inside your circle of competence**
- **work out a distinctive “leadership theory”**
- **allow talent time to develop**

## Know the detail of your people

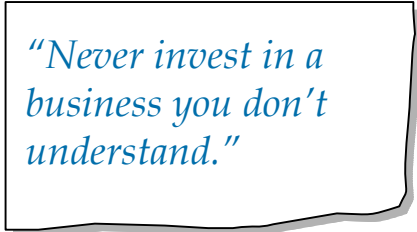
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Don't invest in a business you don't understand is Warren Buffett's motto, however attractive the potential earnings.

*"We continue to concentrate our investments in a very few companies that we try to understand well...we just stick with what we understand."* A strategy for Buffett that ignored the frenzy of the dot com era. He just didn't understand how the business model could sustain consistent returns.

**Shrewd investment in leadership talent is based on a detailed insight into your people.** A superficial exercise in performance - potential mapping, conducted in secret by your line managers, won't provide the level of analysis needed to identify those individuals able to take on positions of greater leadership responsibility. Evaluations of talent need to be grounded in an informed assessment of what individuals have achieved and how they achieved it, mapping out the detail of their technical know how, leadership expertise as well as deep-seated qualities of character.

And if the head hunters know your key people better than you do, you might find you begin to lose some of your leadership stock.



*"Never invest in a business you don't understand."*

## Don't be dazzled by impressive career summaries

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Talented people, key to your organisation's future, will have a solid track record of achievement. But don't be overly impressed by those career resumes listing out high status positions within blue chip firms. As Buffett knows: *"a good managerial record is more a function of what business boat you got into than it is of how effectively you row."*

It is easy to buy leadership talent at inflated prices, paying more for the boat than the rower, but it may be talent that is past its shelf life, with limited future potential for your organisation.

**Look at talent to find out how well it personally rows rather than which boats it has rowed in.**

Shrewd investment in your leaders must be more than an evaluation of their past. It should be based on an assessment of individuals' current capability and the indicators of future contribution.

*"The investor of today does not profit from yesterday's growth."*

## It's better to miss possible talent than take unnecessary risks

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Warren Buffett applies a selective investment strategy. Although his investment portfolio spans a range of different industries and sectors, it isn't a strategy of hedging bets. As Buffett remarks, *"an investor needs to do very few things right as long as he or she avoids big mistakes."* Opportunities might be missed but few expensive mistakes are made.

**In the identification of talent, be cautious.** It may be you fail to spot the occasional leadership genius, but it also means you don't fast track those individuals who might jeopardise your business.

This isn't a strategy that develops and appoints the "safe pair of hands", those individuals more noted for their blandness than for any remarkable talent. But it is an operating approach that is robust in selection decision making, setting demanding criteria, conducting in-depth and extensive evaluations, and is uncompromising in the appointments it makes.

*"The ability to say "no" is a tremendous advantage for an investor.*

*"We will reject interesting opportunities rather than over-leverage our balance sheet."*

## Stay inside your circle of competence

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*“We try to think about things that are important and knowable. There are important things that are not knowable, and there are things that are knowable, but not important. And we don’t want to clutter up our minds with those.”*

Investors become unstuck when they attempt to predict the “unknowable”. Investors wanting quick and easy returns look for a fool-proof system or insights from a guru forecasting the next big market move. Warren Buffett avoids the circle of “illusory competence”, that attempt to predict the unknowable.

**Your leadership investments won’t be enhanced by snake oil consultants who promise massive gains in predictive power through “black box” assessments or the “next big thing” in potential.** Robust assessment practice based on a combination of different methods (candid performance appraisals, informed by in-depth interviewing, and cross referenced with objective assessment and well designed 360 feedback data) will improve the quality of information about your emerging leaders and inform the discussion about priorities for accelerated development.

*“Our job is to focus on things that we can know that make a difference.”*

*“If we can't find things within our circle of competence, we don't expand the circle. We wait.”*

## Work out a distinctive “leadership theory”

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*“Most people take their cues from price action rather than from values. What doesn’t work is when you start doing things that you don’t understand or because they worked last week for somebody else. The dumbest reason in the world to buy stock is because it’s going up.”*

Buffett’s investment strategy is informed by a painstaking analysis of the fundamental economics of different businesses, determining their intrinsic value and knowing when to buy them at sensible prices. Here Buffett is driven by his own distinctive logic and investment framework.

*“You pay a very high price in the stock market for a cheery consensus.”*

**Implement a leadership investment strategy based on a solid model of leadership success: its causes and consequences.** This model should reflect your

organisation’s distinctive strategy, values, culture and operating outlook. Competency frameworks may be the predominant paradigm in leadership assessment and development, but too often are bland check-lists of generic managerial processes. There are alternatives<sup>1</sup> that may prove more powerful in identifying unusual or overlooked talent or in challenging current perceptions of leadership effectiveness.

*“You can’t really know anything if you just remember isolated facts. If the facts don’t hang together on a latticework of theory you don’t have them in a usable form.”*

<sup>1</sup> <http://www.amazureconsulting.com/files/1/73424767/RethinkingLeadershipRealities.pdf>

## Allow talent time to develop

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*“Our favourite holding period is forever.”*

Leadership doesn't develop overnight. Leadership with the breadth and depth of capability, credibility across different stakeholder groups, qualities of character to sustain long term success, and savvy of career tactics, needs to develop over time in the full flow of organisational experience and life's challenges.

**Back your initial investments for the long-run, accepting that the leadership stock will fall from time to time.** Leaders will make mistakes, but these mistakes are part of the development process. Don't dump your leadership stock based on any short-term set backs that are made in the genuine attempt to improve and build the business. (Of course some failings, e.g. ethical malpractice, are indicators of toxic leadership that should be addressed immediately.)

If you've made well considered investments, based on a thorough risk assessment, hold on to your long-term leadership bets. Make the ongoing development and retention of your key players a critical component of your leadership investment strategy.

*“Only buy something you'd be perfectly happy to hold for 10 years.”*

## The fundamentals of Leadership investment



*"You can't do well in investing unless you think independently and the truth is, you're neither right nor wrong because people agree with you. You're right because your facts and reasoning are right."*

**Buy in and bribe** is the strategy that acquires talent in the external market-place with money as the key weapon. Acquisition and retention of the "star players" is the goal. But buying in external candidates at market premium and shovelling more money at them when they get restless is an expensive and high risk resourcing strategy<sup>1</sup>. This is not an investment game plan for long-term sustainable leadership returns or organisational success.

Warren Buffett has delivered a compound growth rate of over 20% per year by investing in businesses:

- he understands
- have favourable long-term economics
- are run by able and trustworthy management
- come with a sensible price tag.

If you're rethinking your organisation's talent management strategy and re-evaluating your leadership investment strategy, it might be worth applying Warren Buffett's philosophy. It has worked for his shareholders.

<sup>1</sup> <http://www.amazureconsulting.com/files/1/49159603/MoneyBallTalentWarsDecisionAnalysis.pdf>

## About us

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If you are interested in our approach to leadership assessment, development and succession management, and the processes, programmes and products we utilise to support long-term talent management, call us on:

44 (0) 1608 654007 or

Email [admin@azureconsulting.com](mailto:admin@azureconsulting.com)

- **we're professionals but we're not pompous.** We are at the edge of the latest research and thinking in the field of people management, but we're not precious about the "one thing". We have some good ideas to help your organisation perform even better, but we know that you have some better ones, but want support in making them work. We don't impose the "solution".
- **we design but we also implement.** Our content, design and technology can build cost effective solutions quickly. Our consultancy experience of "real world" implementation will move things forward from initial concept to results rapidly.
- **we start things to build momentum but we also follow through.** Results come from the discipline of "making it stick", of evaluation, learning and continual improvement. And we maintain ongoing relationships with our clients to keep achieving positive outcomes.