



Warren Buffett's Truck: The 10 Commandments of Succession Management



Key Words

Succession management; leadership;
potential; organisational realities and change;
do's and don'ts

*"All in all we're prepared for the
truck ."*

Warren Buffett

The world of Warren Buffett

Warren Buffett, CEO of Berkshire Hathaway, and the second wealthiest person on earth knows the importance of long-term investment. With total assets now approaching \$250 billion, over the last forty one years, Berkshire Hathaway has delivered annual compound growth of 22% (compared to 10% for the market).

His strategy, expressed in his idiosyncratic manner:

“At Berkshire Hathaway we have no view of the future that dictates what businesses or industries we will enter...we prefer to focus on the economic characteristics of businesses that we wish to own and the personal characteristics of managers with whom we wish to associate...and then hope we get lucky in finding the two in combination.”

And on leadership: “When you have able managers of high character running businesses about which they are passionate, you can have a dozen reporting to you and still have time for an afternoon nap.”

“Succession has always been the ultimate test of any top management and the ultimate test of any institution.”

Peter Drucker

For Warren Buffett, success is a long-term game. He isn't interested in quick hit gains. And sustainable success is about the right business with the right kind of leadership, a leadership that shares his “old fashioned” values of integrity, (notwithstanding the trauma of General Re, Berkshire's insurance business.)

Of course now that Warren is now 76 years old, investors are particularly interested in his own succession. Buffett has identified his successors. Their names are sealed in an envelope, to be opened at the appropriate time, with a letter that begins: “Yesterday I died. That is unquestionably bad news for me but it is not bad news for our business.” Buffett also said, “When they open that envelope, the first instruction is to take my pulse again”.

If Berkshire Hathaway continues to perform at a similar level in a world without Warren Buffett, it is indeed prepared for “the truck”.

The status of succession management

Over the last 10 years we have coordinated a number of research surveys, tracking trends in succession management.

The results may not be as harsh as the summary provided by Pat Noon*:

- “succession planning is critically important to the future well-being of organisations
- done properly, succession planning can provide strategic advantage and competitive edge
- despite all of this nobody seems to give a toss about succession planning
- and most of those who do it are completely useless at it anyway”

But it's not a million miles away from the outcomes of other surveys of succession activity. Organisations may take genuine pride in particular processes: imaginative recruitment, high impact training, leadership programmes, and so on. But succession management is rarely the “jewel in the crown”.

Organisations identify its importance. After all, most have experienced the impact of badly judged appointments at senior levels, bringing in an outsider who has wrought havoc on the business, or over-promoting the insider who has failed to meet expectations.

They also recognise its role in helping reposition the organisation for the future. Succession management is a moment of strategic choice, the opportunity to rethink business priorities and re-assess the shift in leadership emphasis.

But there is less certainty about “who wants it”. In principle, everyone thinks it's a good thing. In practice, few seem to want to do much about it.**

And organisations find it difficult to make it work. **Why?**

* Receiving the Secret, Pat Noon, Coventry University

** Practical Succession Management, Andrew Munro

Succession management: why it's difficult

It's about the future

That's a long time away and there are lots of other pressing priorities that we need to address. The future is a far away place that we don't need to worry about right now.

It can be about unpleasant realities

Whilst succession can be an important factor in supporting growth and expansion, in the deployment of emerging talent that provides new career opportunities, it can also be triggered by the trauma of death. Or by the dismissal of an under-performing executive in the wake of an embarrassing organisational episode. Or the departure of a high performing executive to a better job, igniting management envy.

The stuff of organisational life that we don't really want to spend time thinking about.

"The succession plan...that's where you look after your friends and settle old scores."

senior manager in the public sector

It needs "joined up" thinking and communication

Succession involves a bit of "joined up thinking" to integrate business processes, recruitment, performance management, rewards and career management being the key levers. And alignment of H.R. priorities and practices within the strategic planning process seems a tough challenge.

Succession also requires a dialogue within the top team, with team members and their reports, and with the H.R. function. And it needs frank discussion between line managers and their team members.

It's about politics

Succession at its simplest, answers the question: "who gets the job". Here the organisational requirement for the best candidate comes head-to-head with a combination of political dynamics and personal emotions. Throw in the relationship between the CEO and the head-hunters ("the ties that bind") and perhaps we shouldn't expect objective decision making to be the winner.

Succession management: response options

Give Up

Maybe succession management is one of those organisational activities that has outlived its usefulness. It may have worked for some organisations in the past, operating in relatively stable industries. But the pace of change and level of uncertainty in today's business environment makes any kind of systematic leadership planning futile.

So, appointments are less about “continuity from within”, and more about a range of resourcing manoeuvres - short-term contracts, interim management, use of consultants and other partners.

The game-plan here is to “buy in” the talent, as and when it is needed, and get rid of it when it isn't.

Turn the wheel faster

This response accepts that flexible resourcing is critical. But it also identifies the hazards of abandoning any attempt at structured leadership planning. Here the approach is: keep doing what we're doing (or attempt to replicate the processes of best in class organisations), but do it better.

- if the current competency framework isn't creating a dialogue about leadership criteria for progression, then create a new version
- introduce better selection processes by implementing assessment centres
- upgrade the succession software package
- improve the talent review documentation to make it more user-friendly for managers
- and so on

None of the above are “wrong”. But perhaps it's time to stand back and re-assess what we think we're doing when we “do succession”.

Succession management: a rethink

Succession management needs a fundamental rethink:

We need an overhaul. Classic succession planning isn't working. More of the same, but more efficiently, won't make a difference. The game has moved on.

One manager at Sun Microsystems put it well: what do we need to do to "future-proof" the business? Rather than simply get stuck into another round of chess board style succession charting, how do we build the kind of leadership capability and diversity to achieve and sustain success when we're not sure what the future holds?

Succession management as "success management"

This rethink requires:

- clear thinking about what it is we want succession to do and not do
- a willingness to question our criteria for leadership progression and ask if competency frameworks are hitting the right targets
- flexibility in thinking about what meaningful succession plans might look like
- clarity about accountabilities, and what the organisation can and must do vis a vis what is the responsibility of business units, line managers and individuals themselves
- a shift in thinking about the implementation process

The Ten Commandments of succession

Here are the Ten Commandments. In the spirit of the original version, we express them as negatives the “do not’s” of succession management.

But we also provide more positive alternatives.

1. don't assume continuity from within
2. don't waste valuable time
3. don't be secretive
4. don't ask the impossible
5. don't assume it gets done once a year
6. don't mistake paper for reality
7. don't assume it's just about potential
8. don't wait for SAP
9. don't overdo the identification of potential
10. don't wait for the “right time”

First Commandment: don't assume continuity from within

It isn't: appointments exclusively from within

Jim Collins in his highly influential research - Built to Last and Good to Great - stresses the importance of "continuity of capable leadership" as a key driver of organisational success. Here succession is critical to the "ying yang" of business success, that balancing act which manages the tensions between "preserving the core" and "stimulating progress".

So keep looking within for Level 5 leadership talent with the character and capability to reinforce the organisation's guiding values and principles whilst providing that energy to innovate and progress.

"They prepared a wonderful group of executives for yesterday's business. By being so good at narrowing the gene pool, they replicated people who would have been good leaders in the past but not the future."

Ed Lawler analysing the succession problems of AT & T and IBM in the late 1990s, despite their considerable investment in management development

It is: a lever to rethink the organisational future

Succession as "home grown talent" is important, and no doubt helps sustain the kind of culture that reinforces trust. And a reliance on external recruitment - apart from the obvious operational delays and disruptions it creates - is a potential indicator of a lack of organisational resilience. But succession that looks to appoint from within incorporates the risk of preserving the past rather than repositioning the organisation for the future.

Where the future is unknown or likely to be very different, succession should be that exercise that asks:

- how is our strategic focus changing?
- do we have the organisational capability to shift direction?
- do our structures direct time and effort around those capabilities?
- which roles are becoming increasingly critical?
- do we have the breadth and depth of leadership talent to be excellent in these roles?
- and if we don't, where externally should we be looking to find that leadership outlook that reflects our new business emphasis?

Second Commandment: don't waste valuable time

It isn't: replacement charting

How much organisational time and effort went into the last succession review to create the “organogram” that maps out short and medium term successors within the management structure? By the time you have finalised “the succession plan” it will be out of date: a piece of paper that makes no impact on ongoing resourcing decisions.

It is true that there is an expectation - not least from regulatory bodies - that the organisation has a succession plan, the chart that maps out management accountabilities and lists credible back up and emerging successors. But don't confuse the exercise in impression management with the reality of thinking about the leadership future.

“In preparing for battle I have always found that plans are useless but planning is indispensable.”

Dwight Eisenhower

It is: disciplined action about business risks

Proactive succession management is alert to the obvious and the predictable. Death is an unpleasant but unavoidable reality. Succession will happen, one way or another. The question is: will it happen smoothly to minimise business disruption and in a way that results in stronger leadership?

Proactive succession also thinks through the risks of different scenarios. This doesn't require full blown charting for all roles and levels. But it does:

- pinpoint those “mission critical roles”, those roles emerging as fundamental to the future of the organisation
- assess the different types of risks - from outside as well as within
- nominate contingency successors to provide back up coverage
- keep revisiting this exercise to track risks and check contingency plans are in place

Third Commandment: don't be secretive

It isn't: chicanery behind the scenes

In a research programme we conducted three years ago we analysed the impact of succession management, and its outcomes on organisational well-being. No doubt there was a bit of “halo effect”^{*} going on. Nonetheless it seemed clear:

- organisations reporting higher levels of resilience, that corporate toughness to persevere in the face of adversity, manage succession better.
- and trust was a key component in the dynamic. Succession “works” for several reasons, not least because it makes it easier to foster that fragile factor of organisational culture: trust.

But trust has its darker side: the cronyism that builds up through familiarity. Succession based on established relationships as part of shared career progression within the senior management team is hazardous. Appointments are made to preserve the status quo, drawing on a narrow talent pool of like minded individuals with a similar business outlook.

It is: candour about business realities and openness of decision making

Clearly some aspects of succession management - mapping out different strategic scenarios - are privileged and confidential. But “black book” succession planning drawn up in secrecy is inherently flawed. Transparency encourages defensible decision making.

And, succession management that makes a difference in building leadership capability has to result in a meaningful discussion with individuals. This isn't a “nod and a wink” conversation, with the promise of promotion, but it is organisational openness and maturity in agreeing a programme of practical development to guide individual's own career planning.

Succession also needs to address with candour that group of individuals who in one way or other are blocking the pipeline of talent. Succession can't work if under-performing individuals are allowed to stifle the talents of the next generation of leadership.

^{*} The Halo Effect, P Rosenzweig

Fourth Commandment: don't ask the impossible

It isn't: the assumption that top down works or that the Human Resource function will make it happen

Someone, somewhere, says we need to “do succession”. A policy statement is drawn up, briefings are held, documentation circulated, and reviews take place, coordinated by H.R. And a succession plan is produced. Job done.

Five years on, and someone finds the original “grand succession plan” and looks at what was agreed and what has now happened. And typically there is a gulf between succession projections and the current position. Individuals highlighted as successors have left the organisation or been sidelined. And key roles are held by the most “unlikely” of individuals.

This is reality. The business has moved on. It has reorganised and new structures have created different leadership requirements. But it is also the outcome of top-down succession, that organisational attempt to control and coordinate what is unknowable or impossible.

It is: clarity of accountabilities and a culture to support “bottom up” succession

Before embarking on top down succession, define the scope of succession, what it is and isn't setting out to do, and clarify accountabilities. Who does what:

- **For the organisation** the succession agenda typically is: reviewing that small number of exceptional individuals whose development requires significant expenditure, involves wider organisational manoeuvres or has implications for top management time.
- **For the business unit**, the focus is: filtering to the organisation the “exceptional issues”, and resolving at its level: who do we need to retain; who requires accelerated development; and who needs to be redeployed?
- **For line managers**, their succession responsibility is to manage performance, identifying and nurturing talent, dealing with the under-performers, and highlighting to the business those individuals who have “out stretched their roles”.

Succession management isn't the resolution of the problems that business units or line managers are avoiding. But it does address those individuals and roles that require a coordinated response.

Fifth Commandment: don't assume it gets done once a year

It isn't: an annual jamboree

The annual review, that exercise in which executives embark on form filling to feed into a two day event in the corporate calendar, doesn't work.

In this exercise, the senior executive team wade through charts and listings, and attempt to plot the leadership population on a performance-potential matrix. And become so frustrated, they give up.

Or, senior executives see this activity as a *"beauty parade"*, an organisational show case to impress the CEO with the quality of their leadership talent.

Or, more likely, a political battleground to play out their own games in empire building, and find ways of holding on to their key people. Enron's infamous Organisation and Management Review, wasn't called the *"pit of vipers"* without reason.

It is: an ongoing agenda item at all levels

This is part of ongoing management discussion, focusing around three questions:

Retention: who are we at risk of losing?

Does it matter? If it does, do we have back up coverage? Or should we rethink the role to open up new resourcing options?

Proactive development: who are investing in?

What progress are they making? What challenges do these individuals need to build and broaden their leadership capability and character? What additional support will help accelerate this development?

Pipeline blockers

Who is performing in the "zone" that is holding up the progression of emerging talent? Are these individuals in the wrong role at the wrong time? Or do we need to initiate a "de-hire" process?

If this discussion doesn't result in practical next steps, it's a talking shop, not a driver of succession.

Sixth Commandment: don't mistake paper for reality

It isn't: policies, process maps and procedures

There isn't much research to link succession management activity to organisational performance. In one of the better studies, Friedman* found that the best predictor of succession effectiveness was time, top management time. High performing organisations simply spend more time on succession.

But the formalities of succession management, the stuff about policies and procedures made little difference.

Of course, an organisation needs to create a "story" about succession, and develop a coherent framework, with operating ground rules to guide activity. But don't get too preoccupied with the bureaucracy of succession management.

It is: a messy set of initiatives that make a difference

Far better to concentrate on the practical actions:

- improving selection decisions through better assessment
- developing a robust induction programme
- equipping managers with the tools to manage the full spectrum of performance and progression
- organising "open forum sessions" with top management and the emerging leadership population
- providing resource for leadership development and career management
- implementing policies that reward managers for people development

If there is a connecting glue, a compelling story to pull these different activities together, make it about the business, the challenges it faces, and the expectations for leadership. Don't write a manual about it.

* Friedman, Succession Systems in Large Corporations, H.R.M., 1986

Seventh Commandment: don't assume it's just about potential

It isn't: just about the identification of potential

Organisations need to find a way of thinking about leadership that emphasises the themes that are of growing importance to their strategy, and to provide an explicit map of progression by levels, to highlight “the rules of the game”. Incidentally, this isn't best served by overall judgements of potential (see the Ninth Commandment). It's too loose and vague to do anything other than create a debating club in senior management succession reviews.

But succession is more than a listing of high potential individuals.

It is: addressing the full spectrum of performance and potential to keep strengthening the leadership pipeline

Succession management won't happen by listing out the “stars”, “top bananas” or whatever short-hand vocabulary the organisation utilises for its most talented individuals. No one became a better leader simply because their name appeared on a succession list.

Exceptional talent does need encouragement and accelerated development. But exceptional talent won't flourish and make an impact, if it is working within an environment of mediocrity, or even worse, where under-performance is ignored.

Proactive succession management isn't “all sweetness and light”. It also addresses the “shadow side” to tackle that group of under-achievers who are either coasting or struggling, and constraining the progression of genuine talent.

Eighth Commandment: don't wait for SAP

It isn't: a software system called "succession management"

In 1999, in our first survey of succession practice, we found that only 3% of organisations felt that they made good use of I.T. Three years ago in a follow up survey, three quarters of firms were dissatisfied with their management of succession intelligence.

Despite the pace of technology shaping improvements in business processes, succession management is proving a tough nut to crack.

Dedicated succession software packages, however well marketed, are not working. And waiting for SAP implementation is like "waiting for Godot". But Godot isn't turning up.

"Do the head-hunters know more about your talent than you do?"

It is: finding ways to know your people well

The problem isn't the technology. It is the attempt to build in functionality that flies in the face of the realities that succession management is grappling with. Yes, a click will generate metrics of "exposure" and "dependency" and all the other classic indicators of succession outcomes. But if the business is changing, this data is no more than a statistical print out.

What we can do is:

- have authentic conversations. For the top team this is about their own personal visibility in going out to meet the next generation of leaders. For line managers this is about candid discussions based on an insight into their people's performance and career aspirations. For H.R. it is about directness of communication and consistency of action.
- utilise current office software. Of course key data about individuals shouldn't reside in files in folders in filing cabinets. But don't invest in succession software if intelligent database management available right now on your PC is fit for purpose.

Ninth Commandment: don't overdo the identification of potential

It isn't: an ongoing search for the perfect way of identifying potential

Exceptional individuals make an exceptional difference*. So it is understandable that organisations keep searching for the next big thing in assessment, that process that will identify the “right stuff”, to differentiate those who have what it takes from those who don't. But it's not quite as simple as this.

There is no “right stuff”**. Instead there are some individuals with the mix of talent, character and motivation who are right for the business now. But as the business moves on, a different mix will be required and a different leadership group should emerge.

And there is no “silver bullet” assessment of potential, despite the claims of the charlatans, selling “old wine in new bottles” through over-hyped repackaging of established assessment practice.

“I have yet to see any method that can predict a person's development more than a short time head.”

Peter Drucker

It is: investing in the proactive development of key individuals

A well constructed assessment process (probably incorporating structured interviewing, psychometric testing, informed by a 360 feedback system that asks the right questions) should improve predictive power, over and above line management evaluation. This is the easy part. The difficult bit that gets neglected is putting in place the practical development to translate promise into future performance.

This isn't necessarily about the design of a leadership programme or the implementation of coaching. It is mainly about insight in identifying which experiences individuals need to develop their effectiveness.

Development needs real life experience of the tough stuff, operating with **accountability** to deliver big results; facing up to **adversity** and having to dig deep to discover new strengths; and **autonomy** with the scope to make a distinctive mark.

* The Extraordinary Leader: Turning Good Managers into Great Leaders” John H. Zenger and Joseph Folkman, 2002

** The Myth of Talent, Malcolm Gladwell, www.changethis.com/

Tenth Commandment: don't wait for the "right time"

It isn't: lining up the ducks for a big bang initiative

Succession management, like any other organisational process, requires discipline in the execution to translate a good idea into results. What it doesn't need:

- a big consultancy-led review to state the obvious and report back what any informed manager has been saying for years
- a change management programme and complex project management infrastructure
- the paraphernalia of corporate communications to announce we're doing succession

"It is not necessary to do extraordinary things to get extraordinary results"

Warren Buffett

It is: doing something now to move in the right direction

It is true that timing is everything. But succession management is one of those organisational activities that can't be put off to the last minute. Success in the implementation of change occurs* when:

- people are dissatisfied with the status quo, and want something better; who wants a more systematic approach to leadership planning?
- there is clarity of direction and a focus on the end-point; be specific about the solution that succession can provide
- there is a confidence that change will happen and will make a real difference. Make succession a practical tool for managers to help them manage their people now rather than simply promise a better organisational future.
- the acceptance it will be messy and there will be setbacks on the way; don't assume it will be perfect. It won't be. Keep doing things, listening to the feedback, improvising and improving.

* Hard Facts, Dangerous Half Truths and Total Nonsense, J Pfeffer & R Sutton

"We find doing nothing the most difficult task of all."

Warren Buffett

Sometimes it is better to stop and take stock before embarking on another initiative.

"Do nothing" is not our recommendation for succession management. That is a strategy for organisational decline.

But before introducing changes to how your organisation manages leadership succession, check that you're not breaking any of the Ten Commandments.

1. **don't assume continuity from within**
2. **don't waste valuable time**
3. **don't be secretive**
4. **don't ask the impossible**
5. **don't assume it gets done once a year**
6. **don't mistake paper for reality**
7. **don't assume it's just about potential**
8. **don't wait for SAP**
9. **don't overdo the identification of potential**
10. **don't wait for the "right time"**

About us

AM Azure Consulting Ltd works with a broad portfolio of clients in the design and implementation of on line services in recruitment and selection; management assessment, development and career management; performance management; and talent and succession management.

If you are interested in our approach to talent management and succession planning, call us on:

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- **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 may 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. Over-engineered consultancy solutions don't interest us, and they are bad for organisations. 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.