

Buffett must show his sage side on succession

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Warren Buffett's witty annual letter to Berkshire Hathaway's shareholders will reach an audience of millions when released on Saturday morning. The 80-year-old loves the limelight, and still epitomises the role of charismatic chief executive. But this year's report will be examined for what it says about who will run Berkshire after he is gone. And as with Apple chief executive Steve Jobs, Mr Buffett seems to be struggling with the fact that his moment in the limelight is ending.

Mr Buffett's money-making skills have long engendered a "trust me" approach to his succession. It is understood that no one can match his mix of charisma and prowess as an investor. Back in the 1990s, he told his shareholders only that his job would eventually be split: with a chief executive overseeing operations, and a chief investment officer handling Berkshire's portfolio. The names of those secretly anointed were memorialised in a letter that began "Yesterday I died", meant to be read only on that occasion. Mr Buffett said he would keep his family – not the board – posted with any other succession thoughts.

In 2003, regulators forced Mr Buffett to partially show his hand, by giving Berkshire's directors a list of three internal candidates for the chief executive role. But recently the number of candidates has expanded, from three to four. In a well-run succession race the choices should become fewer, and the reasoning clearer as time passes. At Berkshire, the process has grown murkier.

Last year, for example, Mr Buffett failed to take a chance to clarify how he envisaged the chief investing role, when Lou Simpson, the only investing manager Mr Buffett ever relied on, retired. Just how the company's \$166bn of invested assets and its derivatives portfolio will be managed after he retires remains a mystery, because he has also backed away from the commitment to have a chief investment officer at all.

The market is now fed up with the "trust me" approach, and is no longer giving Mr Buffett the benefit of the doubt. Berkshire's valuation has progressed steadily downward of late, turning the so-called "Buffett premium" into a "Buffett discount". The annals of business are filled with chief executives who have fallen prey to the blind spot of poor succession planning. The danger now is that Mr Buffett will join a list of failed transitions that includes the financially disastrous departure of his friend, Maurice "Hank" Greenberg of insurance company AIG. And as history has shown, there is nothing to prevent stock from getting cheaper, unless investors' confidence is rebuilt.

One way to do that is through more transparency, but at Berkshire there are two obstacles. One is Mr Buffett himself, who is not open about succession. The second is Mr Buffett's desire that his children should play a role. He argues each year in his annual report that his children should "help" to pick the company's management. Last year he also wrote that it would be "wise" for the board to choose one of them as non-executive chairman.

Mr Buffett's wish for his family to be involved is understandable, but there is no business justification for it. Indeed, the obvious choice for non-executive chairman is Bill Gates who, with his wife Melinda, will eventually control the largest economic interest in Berkshire, through Mr Buffett's decision to entrust the bulk of his fortune to their charitable foundation. Mr Gates is also an example of a transition well-handled, at Microsoft.

If the matter were put to a vote of Berkshire's shareholders, it is hard to imagine that they would see Mr Buffett's son, Howard, a farmer and accomplished photographer, as the wiser business choice for non-executive chairman. Ultimately, this choice will not be hypothetical either. When the board decides, the market will vote, and the results will show in Berkshire's value.

The same is true with Berkshire's choice of its next chief executive. The board must realise that the "trust me" era in business has been over for years, except at a few companies run by unusual leaders with gigantic personalities. The sooner these companies realise it is ending there too, the better it will be – for shareholders, and for their chief executive's legacy.

The writer is author of [The Snowball: Warren Buffett and the Business of Life](#)

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