



PHILEQUITY CORNER

By Antonio R. Samson

The succession line

Warren Buffett stepped down last December as the long-time CEO of Berkshire Hathaway. He announced his succession plan months earlier, naming his replacement along with the timeline for his retirement. At 95 years old, he issued his last CEO report to stakeholders before stepping off the stage after a distinguished leadership stint spanning six decades.

The more successful a company is in terms of growth and profitability, the less concerned it seems to be in looking for a replacement for the CEO responsible for talent management, building the corporate culture and steering business strategy.

Identifying a specific individual to take one's place, even if there is already a clear number two (sometimes more than one) invites risks for the incumbent to be increasingly sidelined in his remaining term.

A designated CEO-in-waiting tends to be lionized by those investing in the future and who are themselves not yet in power. He attracts talents, especially new arrivals, who want to be part of the new palace guards. Isn't it then a short step for the successor to push for an earlier timetable for the handover? (Sir, maybe you should stay in your beach resort more often. I'll take care of the company's new strategic partner). Even a distant-sounding time horizon like three years eventually comes around – is it three years already? How time flies!

The delaying tactic of a ruling leader can involve completing a last unfinished project – let me just finish this six-year plan and then we can sit down and talk about our timeline. The successor is portrayed as impatient, over-eager and simply not ready for the big job. There are core skills he must acquire like the ability to meditate and wait in line for his coffee.

Age is a factor. Being too young is a liability – you can afford to wait. Being too close to retirement is a disqualifier – we need a younger person to project dynamism.

As a management discipline, succession planning is deemed critical, especially to investors and other stakeholders. If no one has been specified, all the "one-downs" are in the running – so what's the rush? In each planning session, the facilitator (coached by the second in line) has a last slide on the challenges of the future like a changing marketplace, the rise of AI and the "depth of the bench." This basketball metaphor on player rotation and the designation of a new go-to shooter falls flat in terms of the CEO's priority. It is fine for strategic business unit heads to provide a succession plan, but does the CEO need to worry about that?

What about the "Red Truck Effect"? This typical American slang is adopted by consultants to add urgency to the succession issue. It refers to the need for a quick replacement – What if a red truck hits the leader? It is never explained why the leader is crossing a street full of fire engines – isn't he always driven around in a limo? Why isn't it called the "cardiac effect?"

The horizontal exit of a sudden demise is never brought up at a company's planning sessions. It's just too morbid.

Even with designated successors, contingent events can make the exercise impractical. The successor may get tired of waiting for his turn and decide to bolt to a competitor, leveraging his designation as successor to get a top job elsewhere and more quickly. A recruit from another industry or country may then be poached from somewhere else. (Your title for now is director for corporate governance).

Expecting to eventually take over an occupied position is sometimes bound to disappoint. It's like the frog waiting to be kissed by the princess to turn into a royal figure. Well, he may be hopping for a bit longer, with puckered lips.

Analyzing a company's true market cap goes beyond the usual numbers like revenue, capital expenditure, net income before tax and all the accounting checklists. The matter of strategy and marketing depends on management and its continuing succession line.

Warren Buffett, in our example above, gives this warning: "Only when the tide goes out do you discover who's been swimming naked." A clear succession plan is sure to provide a good cover after high tide.



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