

Passing the Baton: Succession Planning or Succession Development?



Yunus Hayat Khan

Globally, it is said that between 60 to 85 per cent of business families or corporate houses are able to retain or build on the success upto the third generation in case of family run businesses and one level up executive leaders in case of corporate environment, e.g. Mittal's, Dalmia, Gargias, S. Kumar's Karloinds, Singhania, Martho of Infosys, Dhawan, Bajaj and Hans from Dabur, Wipro, Mittal's Lays, & Coforge etc. The point researcher would like to draw here is on two fundamental concepts - one is 'Succession Planning' - a System or a Process in a given firm and second is what occurred to my mind is "Building on Skill sets, Competencies, Qualities etc. Business acumen, Stock absorbing capacity, Dynamism, Business Pressure, most importantly financial & other resource optimizations, at times being Lying Low and so on and so forth. ... In all these which is all more of Skill Legacy left behind by the Chair persons and Distinguished Business Owners when they call it a Day and handover the "Baton" to the legal heir or senior leadership team member, who are the true aspirants for the top job, which are more of Success Factors.

Keywords: Skill Legacy, Success Factors, Succession Planning, Succession Development, Competencies, Boards, Retention.

Introduction

Passing the Baton... Means the transition of Business process or a stick or reigns to the next generation or deserving senior leadership successor in a family run organizations or corporate houses respectively.

The emphasis here is passing on the Business and Behavior related Success Factors that will enable new owners as a "Default Password" to hold the fort and take their respective organization to a next level. Some of the broad parameters along with their skill-sets are worth a mention here and they are as under: (India's Business Houses, Business Today 1998)

- Strategy
- Operations (including Sales & Marketing and Technology)
- Finance
- People

1. Strategy includes:

- Existence of a Defined Line of Business
- Willingness to seek assistance on strategy
- Use of a Strategic Approach instead of Opportunism
- Focus on Competitive instead of Political mileage

- Define and action out the choice for CA - Competitive Advantage

- Forward thinking for Global Exports etc.

2. Operations may include:

- Ability to develop or acquire technology
- Brand Building
- Make or Buy Decisions
- Quality of products & process
- Customer Segmentation
- Productivity improvement throughout the Value Chain
- Supply Chain resources

3. Finance function include:

- Strong business acumen to plan financial framework
- Management & control of Funds and Working capital
- Cost Leadership
- Ability to raise funds
- Return of Capital (RoC)
- Transparency in Financial disclosures

Succession Planning or Succession Development?



Yonus Hayat Khan¹

Generally, it is said that between 80 to 85 per cent of business families or corporate houses are able to survive or build on the success upto the third generation in case of family run businesses and mid-level or executive leaders in case of corporate environment. E.g. Mittal's, Dubois, Geerka, S. Kumar's Kasturba, Sripathan, Murthy's Infosys, Dhoots, Raju and Hanuman Dhoti, Wilson Merrill Lynch, B. Citigroup etc. The point researcher would like to draw here is on two fundamental concepts: one is "Succession Planning" as a System or a Process in a given firm and second is what occurred to my mind is "Building on Skill sets, Competencies, Business acumen, Stock-absorbing capacity, Dynamism, Business Pressure, most importantly financial discipline, for Chair persons and Distinguished Business Owners when they call it a day and handover the "baton" to the legal heir or senior leadership team member, who are the true aspirants for the top job, which are more of Success Factors. Inland like team member, who are the true aspirants for the top job, which are more of Success Factors. Key words: Skill legacy, Success Factors, Succession Planning, Succession Development, Competencies, Boards, Retention.

Introduction

Passing the Baton... Means the transition of Business powers or a stick or reigns to the next generation or deserving senior leadership successor in a family run organizations or corporate houses respectively.

The emphasis here is passing on the Business and Behavior related Success Factors that will enable new comers as a "Default Password" to hold the fort and take their respective organization to a next level. Some of the broad parameters along with their skill-sets are worth a mention here and they are as under: (India's Business Houses, Business Today 1998)

- Strategy
- Operations (including Sales & Marketing and Technology)
- Finance
- People

1. Strategy includes:

- Existence of a Defined Line of Business
- Willingness to seek assistance on strategy
- Use of a Strategic Approach instead of Opportunities
- Focus on Competitive instead of Political mileage

- Define and action out the choice for C.A. - Competitive Advantage

- Forward thinking for Global horizons etc.

2. Operations may include:

- Ability to develop or acquire technology
- Brand Building
- Make or Buy Decisions
- Quality of products & process
- Customer Segmentation
- Productivity improvement throughout the Value Chain
- Supply Chain resources

3. Finance function include:

- Strong business acumen to plan financial framework
- Management & control of Funds and Working capital
- Cost Leadership
- Ability to raise funds
- Return of Capital (RoC)
- Transparency in Financial disclosures

- Delivering on stakeholder expectations
 - Focus on Shareholder Value
- 3. People Focus**
- Strategic & Operational HR Road map for the company
 - Personal involvement into Development of Senior Leadership team
 - Feeling the pulse of employees
 - Defining Performance framework and Rewards for all
 - Creation of Talent management framework for Hi-Potential Performers including Retention strategies.
 - Open Door to employees
 - Training, Mentoring and Coaching

McDonald's CEO, James Cantalupo, died of a Heart Attack in 2004 and the next day the name of Charlie Bell was announced by the board to take over as CEO, without a formal succession plan in place, the reason being the board never prepared any system in advance for such an uncertainty.

In 1971, a seemingly ordinary man named Derwin E. Smith was made chief executive of Kimberly-Clark, one of the members of the board was not sure about his competencies and abilities to lead, and however, Derwin remained the CEO for 20 years and created a stunning transformation at Kimberly-Clark, turning it into the leading consumer products company in the world. He is a classic example of Level 5 leader-an individual who blends extreme personal humility with intense professional will.

Ratan Tata, the then Chairman of Tata Sons and his Senior Executives including Satish Pradhan (Chief of Group HR). Looking at diverse factors, it appears that selection committee has given preference to the following points while making a choice for the successor for Ratan Tata.

1. Long Run Leadership Continuity for the next 20 odd years or so
2. Matured leadership with a diverse exposure to work dimensions of similar size, scale, scope and complexity
3. Someone holding strong ethics and values
4. Shareholders acceptance etc.

Another interesting scenario and controversies of Succession Planning of Indian Software company called Infosys during the induction of Rohan Murthy into Infosys which could undermine succession planning to choose a new CEO if his interactions are not handled with tact and integrity, experts have warned.

The presence of Rohan, whose father NR Narayana Murthy returned from retirement as its executive chairman on June 1, could unsettle senior executives with aspirations for the top job.

"The way Infosys was perceived into Infosys, it seems that the greater intent is to train him on the job than making an objective choice from the 120 lakhs employees making an objective choice to get a chairman of Infosys." "This is bound to cast a shadow of doubt in the minds of current senior leadership who have aspirations for the top job."

• Among internal candidates, V Balakrishnan (India business and BPO head), Ashok Vaswani (Americas head) and DG Srinivas (Europe head) are widely regarded as front-runners to succeed SD Shibulal when he retires in March 2015 upon completing 60 years. No one outside has become the CEO of Infosys since its founding.

What happened the next week, we all know very much and to the utter surprise of all of us and Corporate Pandits were the announcement of Vishal Sikka. He has earlier worked with German business software maker SAP AG on its head of products and innovation. He quit SAP AG in May this year. At SAP, Dr Sikka was key in developing its flagship product, Hana, which helps firms analyze large amounts of data quickly and bring it to market. The point to be noted about the above stunning developments is the failure of Succession management as a system or a complete absence of the same and another message it carries, is all about the Leaders at helm and that too the likes of Stalwarts and Ethical Leaders called Mr. Narayana Murthy.

"The critical thing for Murthy is to balance the way it is being done. It must look like a project rather than a re-definition of the top management and succession system in the organization." Those who have known Murthy closely and worked with him for several years said they were surprised at his request to bring along his son and even more mystified that it was approved by the board. For many of us who have seen him in action, it's not quite in his character."

Ramesh Soltu, CEO of INDUSIND Bank, who transformed INDUSIND Bank into \$3 Billion Bank from \$200 Million about five years ago. He goes on to assert that Succession Planning has been happening in the INDUSIND for the past six years. I don't determine my successor. It's the prerogative of the nomination committee. I would love to give them internal senior team names that I found in my tenure as CEO, well deserving and qualified in all manners to take the bank forward. I am of the strong opinion to that succession at senior level needs to be filled from within the reason being of continuity approach. (Economic Times, February 17, 2014)

Well, with the above citations and examples of real life corporate world. Let us, focus on the results of my paper on "Passing the Baton ... (Succession Planning or Succession Development)

Some Definitions:

Succession planning is the process of developing the talent already existing in the organization for future deployment.

succession management to the daily process of cultivating talent talent through assessing, coaching, mentoring, feedback, recruiting and development.

Professor Ron Narveson (Strategic Strategic Solutions, Florida) defines succession planning as "career planning that the company uses to merge the career aspirations of individual managers with organizational goals and management needs. Both career planning and succession planning are (in my opinion) should be "developmentally oriented," focusing on the long-term development of managers for future positions etc. But, because succession planning typically focused on the five to ten percent of key positions in the organization that are considered critical leadership pools and because these positions often have different requirements than all other management jobs, therefore succession planning usually requires a separate or additional set of "position requirements". The skills and talents required to lead key functions, business units, or the organization as a whole, are not necessarily the same as those needed at intermediate or specialized management levels.

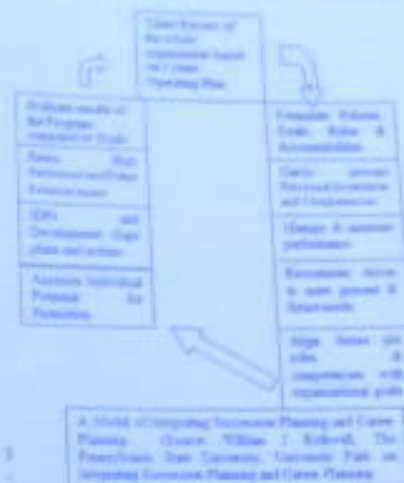
With the above definition I would like to recall what Marshall Goldsmith, an acclaimed author on Leadership and Coaching states, "Plans do not develop anyone-only development experiences develop people." Companies put more effort and attention into the planning process than they do into the development process. For eg. many human falls into the same trap regarding physical fitness. We have fantastic plans in place to lose weight, we may be very proud of our plans, which include detailed daily goals for diet, alcohol consumption and exercise, and if the execution is half as impressive as our planning, we would be very viable. Our focus should be on weight loss, not planning for weight loss.

Many CEOs/ Business Heads even during my discussion during client visit express concern about the lack of bench strength in their companies and lack "ready now" potential employees to replace planned and unplanned executive exodus. With the above paraphernalia on Succession Planning, let me take you all to the core of the system to be successful in a practical corporate life and see the color of the day.

There are primarily four basic steps of successful transitions. (CEO Succession Planning, Marshall Goldsmith)

1. Planning for the Transition
2. Identifying and Developing the successor
3. Guiding the successor
4. Finally, Pass the Baton.

Integrating Succession Planning and Career Planning



A Model of Integrating Succession Planning and Career Planning. (Covers: William J. Rothwell, The Practitioner, Dan Gannon, University Park on Integrating Succession Planning and Career Planning)

helps and if he/she have done exceptionally well, the organization may last long after he/she has left the firm. This longevity is highly dependent on the success of the leadership hand pass between CEO and successor. One does not realize that even during the process of succession, things moves on irrespective of wrong or right ways in an organization set-up and the stakeholders and competitors keep a close eye on the entire drama as the current incumbent i.e. CEO slows down and the successor speeds up and the handoff is made.

Is the CEO ready for succession?

The answer to this question is simply "it all depends" like...

- CEO's competitive drive
- Team's resistance not to quit
- CEO seems to stay just a little longer

In addition to the above selection and accidents, there are other predicaments, which make Letting Go of the CEO position so difficult.

- Power: The sudden loss of power, the potential of influence and achieve big results that accompanies leaving this position can be hard to take
- Wealth: Money sometimes becomes a personal scorecard. It may not seem hard to walk away from making money.
- Divorciants: Perks like private jets, sporting events, luxurious hospitality and dedicated staff of professionals are hard to give up.

- **Items:** Bring a CEO brings with a vision and a list of successful people/organizations "used to be CEO".
- **Relationships:** CEOs come most of their ideas from elsewhere, from people in particular family.
- **Preparations:** They are involved with the contents of their jobs, work, projects, deadlines, meetings, learning, etc.

Meaning CEOs are important. With direct impact on people and products, their work is vital.

Most importantly, the top team develops people, create jobs and generate economic benefit. They are most proud of these things. Not making a contribution can lead to emptiness. So I recall one of the contemporary HR practitioners' personalities by coaching colleagues as "Conscience, Passion and Practice", which I certainly sense has considerable results, subject to one's adoption of the said philosophy.

2. Identifying, Developing and Closing on the Successor

It's the prerogative of the Board to ensure that the identified internal candidates are being nurtured appropriately. It is imperative to help key talent understand the requirements to become CEO. Candidates should be left to wonder. A comprehensive, challenging and actionable development plan needs to be established for each candidate. One critical component of the plan is to identify enterprise-wide initiatives that each candidate can lead to demonstrate his or her strategic, collaborative, and skills-breaking leadership competencies. Research has demonstrated that "stretch assignments" can account for up to 70% of leadership development impact.

Whether it is international, cross-functional or cross-business unit exposure to broaden a candidate's understanding of the entire business, the best training for the CEO role is often leadership away from headquarters, where the business unit leader has the opportunity to captain the ship. Companies such as Northrop Grumman have moved successor candidates into staff roles.

Another stopping point to be taken into consideration by the Board is all about Outsider's possibility of being the new Executive Chief. This happens typically when an organization is discussing facing disruptions in their business, a marked increase in competitive pressure, or a failed CEO and management team, will not have a pool of inside candidates to draw upon. In these cases, the board should know the outside leadership community well and have their eyes on potential successors, even if from a distance.

The board should maintain a quite "stable" of outside candidates. Of course, the identification of capable outsiders is best conducted without formal contact with the potential candidates until the board "pulls the trigger" and moves quickly on a CEO transition.

3. Guiding the Succession

When the succession process requires an external coach, the CEO should be involved to make sure the coaching process is successful with a prior handful of knowledge of questions like:

1. Does he/ she really want this person to be the next CEO? If there are any doubts, if the CEO doesn't really want this person to have the job, then he/she will not be very helpful in the coaching process and the transition will probably not be successful.
2. Will this person be given a free hand by stakeholders? The CEO may think this person is perfect for the job, but if the board doesn't think so, it won't matter.
3. Does the person want to change? The motivation for change has to come from inside the successor. It will not happen because the CEO is a great coach. No one gets better because of the coach; they get better because they are willing to and work toward change.

It's important to involve key stakeholders in the coaching process and in determining the successor's strengths and areas for growth. These are the people who will be involved with the successor long after the CEO has passed the baton, so it's important that they be on board for a number of reasons as per the suitability and the nature of business the firm is in.

The CEO should look for key patterns, what areas of strength and weaknesses (if any) for improvement will make the most difference in bringing the candidate into the best position to become a great CEO?

The most important variable in achieving positive, lasting change is follow-up. It's the utter most duty of the successor to follow rather than the CEO (Goldsmith and Morgan 2004).

Regardless of whether the CEO selection is internal or external, it is too soon for boards to declare the victory and hand the new leader the keys. CEO retention is an increasing issue in today's corporate corridors. Due care needs to be taken for their on boarding. This is best directed by the retiring CEO in partnership with the board. The new CEO will be evaluating the existing team, and care must be taken to ensure that on boarding does not become political. Nor this is the invitation for boards to meddle, the new CEO needs a free hand once he/ she is being given a clear road map and board expectations and strategic agendas with the helping hand from the boardroom.

4. Finally, Pass the Baton.

When the successor is ready to move into the role of CEO, the CEO will finally have to go. The CEO may be tempted to stay on the board or in some other capacity. It is best to just go if the successor is going to be successful. Hanging on is not helpful.

Therefore, the CEO can do these things to the very end by doing everything possible to ensure that the next CEO is successful.

In addition to the above, I would like to mention about the best practice of Succession Management Business Right Management (2010 Publication).

Best Practices on Succession Management

- Review and Refine the Strategic Business Imperatives.
- Determine Critical Roles Required to Achieve the Business Imperatives and also.
- Conduct Systematic Talent Review Integrated with the Business Planning Process.

Conclusion

Succession management begins the day a new CEO takes the helm and continues until the next CEO takes over. At P&G (Procter & Gamble), the board works with the new CEO during the first year of the CEO's tenure to develop a plan for his or her succession. It's not a one-off event that happens every seven to ten years, nor is it just a transaction in which a search committee is formed and executive head hunter retained. Rather, it's a systematic process integrated into a company's talent management approach. When done well, a company has multiple internal candidates, as well as younger up-and-comers with recognized future CEO material and has specific tailored development plans to fit.

While the development plans and succession charts aren't promises, they are often communicated as such and can lead to frustration if they aren't realistic. Bottom line, don't jerk around high performing leaders with unrealistic development expectations. Only give the promise to development with an eye of realistic approach at an appropriate time to come by building a "stable of good horses".

Departing leaders must ask themselves, "What legacy do I want to leave?"

Finally the board's single greatest ability to influence the strategy of the company is through the CEO they hire.

Therefore, one can only well conclude that Succession Management and Development should be one of the major parts of Board's Agenda with properly and professionally conceptualized, drafted strategic-talent-management-informed set of leadership competencies with an inclusive process involving the entire board, the current CEO, the head of Human Resources, and other the outside key business advisors.

Management reports to the CEO but only the CEO reports to the board. Therefore, the board, as a senior executive strategic execution through the CEO. The leader chosen by the board must be properly groomed to develop and implement the strategic direction the company must take with complete autonomy to hold the fort and take it to the next level subject to board's supervision of the ship on a regular basis.

References

1. Harvard Business Review, Level 5 Leadership, by Jim Collins (On Leadership pg.17)
2. Economic Times, February 17, 2014.
3. William J Rothwell, The Pennsylvania State University, University Park on Integrating Succession Planning and Career Planning
4. Goldsmith Marshall, CEO Succession Planning, Pg. 369, creating sustainable competitive advantage (2011) McGraw Hill.
5. Purnankar Jindira, Head - Human Resources, #2 Electronics (MNC) Mumbai (2011)
6. Goldsmith Marshall, 4 Tips for Efficient Succession Planning, LinkedIn, 2009, Burlington, MA.
7. Nardoni Ben, Nardoni Strategic Solutions, Florida
8. Laurence S Lyons, Goldsmith Marshall, Coaching for Leadership (2012) Pfeiffer, Wiley India