Succession Planning - Ready, Willing but Not Able: A Global Perspective

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Today’s workforce is growing older. As of January 1, 2011, the first Baby Boomers, those born between 1946 and 1964, turned 65 and approximately 10,000 more will continue to do so every day for the next 20 years. Here raises the questions of succession planning and its implementation. The present paper enlightens the significance of succession planning in the organisations with rapid global growth, competition, organisational restructuring and the recent economic crisis for which organisations require to survive. The paper tries to bring out the planning and implementation status of succession planning in the organisations throughout the globe by focusing on the various recent surveys and research.

Introduction

Succession planning has been used to describe a wide variety of activities involving the planning for key transitions in leadership within the organisations. Succession Planning is a topic which has brought much controversy in mainstream business and government leadership. Succession planning can be defined as any effort to ensure the continued effective performance of an organisation,
division, department or work group by making provision for the
development, replacement, and strategic application of key people
over time (Rothwell, 2001).

Although succession planning is widely recognised as being
important for developing the next generation of senior leaders
(Welch, 2001), there is less understanding for when the development
process should start and who should be involved (Tichy and
Devanna, 1990; Zenger and Folkman, 2002). It has been said that
one in every five senior executives of the Fortune 500 are eligible to
retire, and more than 50% of all senior government executives in
the US are also eligible to retire (Rothwell, 2002). According to Bill
George (2003), former CEO of Medtronic, “One of the most
important things leaders do is to prepare for their own succession.”
Marketing Week magazine (2005) said, “Choosing a successor-in-
chief is one of the most important decisions made by any
organization, whether it is the cardinals in Rome selecting the next
Pope or the United Kingdom wondering if the anointed successor is
up to the job of King.” Distinguished economist Clifton R. Wharton
Jr. (2005) said, “One of the greatest derelictions of leaders is their
failure to prepare or nurture their successors.” The National Academy
of Public Administration (NAPA) defines succession management
as a deliberate and systematic effort to project leadership
requirements, identify a pool of high potential candidates, develop
leadership competencies in those candidates through intentional
learning experiences, and select leaders from among the pool of
potential leaders.

**Significance of Succession Planning**

Organisations today face the ever increasing issues related to
growth, globalisation and competition. Succession planning is needed
to cultivate the right talent in order to meet these daunting challenges.
Senior leadership should be strategically focused in the development
of future leaders, “combining proactive assignments monitoring,
rigorous success planning, and experiential educational programs
[that will] help make companies more competitive, with a talented
pipeline of leaders ready to take charge” (Mercer, 2005). While
many Fortune 500 companies have implemented a succession planning process, “small and medium sized businesses also need them. In fact, inadequate succession plans are a common cause of small business failure as founding entrepreneurs fade from the scene, leaving no one to continue their legacy” (Rothwell, 2001).

Nearly “two-thirds of CEOs said they were likely to step down from their positions in the next 10 years” (Jusko, 2005). Of the CEOs who will step down over the next decade, 39% said, “They have a likely successor in mind, with 45% having identified no successor at all” (Jusko, 2005). The latest Workplace Forecast from the Society for Human Resources Management (SHRM) indicates “that few organizations have executive succession plans” (Schramm, 2005). These startling facts place a new sense of value and importance on the succession planning process.

Today’s business and “the environment in which it operates is never static” (Alexander, 2005). The “incessant wave of mergers and consolidations” (Pfeffer, 1998) along with “other cost containment efforts have led to reductions in the middle management ranks, a traditional training ground and source of top management talent” (Rothwell, 2001). Effective succession planning can be a valuable resource to identify “promising candidates early and to actively cultivate their development” (Rothwell, 2001).

Dami Baldwin (2005), in his article “The Strategy of Succession Planning” states that succession planning plays a major role in the companies’ strategic planning. Succession planning is not only for CEOs but also for all key positions. It further illustrates the advantages and disadvantages associated with succession planning. The process of developing succession planning requires a long term strategy for the company involving the key area that requires continuity and development and the key people that the organisation wishes to develop. There have been some interesting findings from the survey of Canadian small and medium sized enterprise (SME) owner managers on their intentions on significance of succession planning.

- Over 60% of the businesses surveyed reported an increase in profits and business after a succession.
82% reported that the plan assisted in providing for their family’s future.
76% said that have a succession plan reduced their tax liability.
75% said it assisted with financial stability for the business.
73% reported that it assisted with maintaining family harmony.
72% said having a plan assisted in preparing their successor for the future.
64% said it increased the value of their business.
Finally, 56% reported that it improved the financial standing of the business.

Succession Planning – A Global Perspective

Succession planning is playing an increasingly important role in all the organisations throughout the globe. The rapid global growth, global competition, organisational restructuring and the recent economic crisis required to survive in the global economy strains the capability of succession planning to quickly fill the large number of leadership gaps that are created. Evidently to have sustained growth every company needs a succession plan. But most managers and owners exhibit a kind of aversion to nurture talent, in advance for various reasons. The following are the surveys which covered the succession planning implementation status of organisations from almost all the parts of the globe.

In the U.S. and Canada, the 2010 Survey on CEO Succession Planning conducted Heidrick & Struggles and the Rock centre at Stanford University surveyed more than 140 CEOs and board directors at large and mid cap public companies, with 10% of respondents also from large private firms. The key findings of the survey:

- While 69% of respondents think that a CEO successor needs to be ‘ready now’ to step into the shoes of the departing CEO, only 54% are grooming an executive for this position.
A full 39% of respondents cited that they have ‘zero’ viable internal candidates.

Only 50% have a written document detailing the skills required for the next CEO.

71% of internal candidates know they are in the formal talent development pool, but there is regular communication (typically yearly or bi-yearly) for only 50% of these internal candidates.

The majority of firms 65% have not asked internal candidates whether they want the CEO Job, or, if offered, whether they would accept.

Once viable internal candidates for the CEO Job are identified, 38% of firms think that the external search should continue at the same pace.

While 48% of respondents think they have an extremely strong or very strong understanding of the capabilities of internal candidates, only 19% have extremely or very well established external benchmarks to measure their skills against.

Succession planning has rapidly emerged as a significant strategy for sustaining organisational health but the data collected by American society for Training & Development (ASTD) indicates that succession planning in many organisations has fallen short of its goals. ASTD conducted a study in late 2009. Total of 1,247 high level learning, HR and other business professionals completed a survey on their succession planning practices. Many insightful findings from the study explain the challenges faced in this area. The key findings are:

In the first place, many organisations have failed to formally activate a succession planning process. The research team defined succession planning as ‘the process of identifying key positions, candidates, and employees needed to meet the challenges that an organisation faces in the short term and in the long term’.
Only 45% of respondents indicated their organisation has a formal process matching the definition.

Consequently, senior leaders have adopted other tactics to manage succession planning.

Among the organisations that admitted not having a formal process, more than half reported that they are relying on an informal approach to succession planning.

Despite a self-professed lack of action from many organisations, the perceived importance of succession planning clearly emerged from the data.

The most popular driver of succession planning is to identify and prepare future leaders (87% cited this as a driver).

The second-most cited reason was to assure business continuity (74%).

These results demonstrate that for many organisations, succession planning is predominantly about the future health of the organisation.

In India, an ASSOCHAM Business Barometer (ABB) Survey has revealed that India Inc. has a long way to go for putting in place its succession plan at top level. The ABB surveyed 275 leading management consultants, corporate, academicians and professionals on ‘Missing Link in Succession Plan’. The key findings were:

- Only a few companies formulate and effectively implement succession plan for the key positions in their organisation structure.
- This was confirmed by 75% of the ABB respondents.
- They rated Indian companies 4 on a scale of 10 in terms of long term planning and grooming of the successor to the head of a firm.

In Malaysia, Succession Management Practice has surveyed 41 companies. Of the 41 participating companies, 24% are national companies with business presence only in Malaysia while 76% indicated that they are a multinational organisation. 46% are large
organisations while 54% are medium to small-size organisations. The key findings are:

- 66% of the organisations have a succession management system in place.
- Many are not satisfied with the way successions decisions are made.
- More than half (59%) of the organisations surveyed felt that a good succession management process is needed to ensure that leaders with the ‘right’ capabilities are available at the right time to drive business results.
- A fairly large number of organisations still practice replacement planning where only a single candidate is identified for a position before it becomes vacant.
- 54% of the organisations surveyed indicated that the desire to improve business results is driving their need for a good succession management system.

In North America, as many as two thirds of CEOs and corporate boards of directors acknowledge that they do not give CEO succession planning the time and effort that they believe the crucial activity warrants. Future success for any business depends in part on who is leading the business, according to the new research from the American Society for Training & Development (ASTD) a survey was taken, the leaders from 1,247 organisations were surveyed for its new study Improving Succession Plans: Harnessing the Power of Learning and Development. The key findings are:

- Fewer than half of companies (45%) have a formal succession planning process in place.
- 72% say succession planning addresses positions at the vice-president level.
- Despite this demand only 14% of companies surveyed said their organisation’s succession planning efforts were successful to a high or very high degree.
- Only 17% say they look externally to feed their succession pipeline to a high or very high extent.
• Overall majority of the companies admit that their efforts in succession planning are weak.

Another recent survey by the National Association of Corporate Directors found that:
• 43% of U.S. public companies had no formal CEO succession plan.
• 61% had no emergency CEO replacement plan (Forbes.com).

American Institute of Certified Public Accountants (AICPA) conducted a Succession survey in 2008 on Private Companies Practice Section (PCPS). They surveyed multi owner firms & sole proprietors. The key findings are:
• 5% of multi-owner firms and 9% of sole proprietors had a written succession plan in place.
• A total of 67% of multi-owner firms and more than 50% of sole proprietors believed succession planning would be a significant issue for them in the near future.
• In multi-owner firms, 27% of respondents were not actively grooming or formally training anyone successor. In sole proprietors, 29% had no one to develop because they were either a sole practitioner with no additional talent or didn’t feel the people working for them were leadership material.

In the U.K. and Ireland, companies embrace the idea of Succession Planning with great enthusiasm, but rarely put the mechanisms and tools in place to effectively follow through on their initiatives. Success Factors Research recently conducted a survey of Succession and Talent Management capabilities across the U.K. and Ireland, and found that:
• Companies have initiatives in place, but do not back them up with effective processes and support.
• 76% of all companies in the survey were found to have some kind of succession plan in place.
• 40% of companies lacked any process or capability to identify future talent.
According to a recent survey of 836 top executives worldwide conducted by Egon Zehnder International, the key findings are:

- Only one third of their companies had a professional succession plan in place.
- At the European level, 32% of companies in the UK reported having a succession plan.
- 29% of companies in Germany have a succession plan.
- 26% of companies in France having a succession plan.

Experts warn that poor succession planning represents a key business risk and that a power vacuum at the top in the case of an unexpected departure can prove expensive. A survey in 2010 from Korn/Ferry revealed more interest than action in CEO Succession Planning among top companies. They surveyed global corporate leaders from 60 countries, representing a wide spectrum of industries and functional areas. The key findings are:

- Nearly all companies – 98%, regard CEO succession planning as an important piece of the overall corporate governance process.
- Yet, only 35% of respondents are prepared for either the unexpected or planned departure of their CEO.
- 43% of respondents have not increased their attention to succession planning in response to recent scrutiny and headlines focused on hasty CEO departures.
- Nearly half of respondents, 49%, have not put a succession plan in place in the last three years.
- 48% reveals that CEO succession planning is more important now than it has been in the past.
- while 51% have not changed their attitude toward CEO succession and believe it has always been important.

The majority of the above surveys reveal that despite the recent increase of unexpected departures of several CEOs, the trend has not fully opened the eyes of corporate executives. The majority of global companies do not have a succession plan in place, even though they regard succession as an important element of overall
corporate governance. Many organisations have felt the need and the importance of succession planning but when it comes to the implementation part, the picture changes. There may be many reasons for the failures for the implementation of succession planning in the organisations.

CONCLUSION

Every organisation talks about the succession planning, it’s proven to be beneficial, yet most organisations do nothing about it when it comes to implementation. Research shows that approximately 70% of all succession planning programmes fails in the long term due to implementation problems. But for any organisation that thrives on the dynamics of constant change, success comes to those who have the foresight and the ability to counter unexpected challenges. The whole process of planning for the future leaders is evidently time consuming and requires a lot of additional resources, but in the long run it is a worthwhile, which is essential for the survival of any organisation.

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