Passing the Baton: Succession Planning or Succession Development?

Yunus Hayat Khan

Globally, it is said that between 60 to 85 per cent of family run businesses and corporate houses are able to retain or build on the success with the third generation in case of family run businesses and one level up executive leaders in case of corporate houses. In case of corporate houses, e.g., Mahindas, Godrej’s, Ratan Tata’s, Reliance, Birla, Tata and HUL (now Dabur), Wipro, Amul, Nestle, & Citigroup etc. The point researchers would like to discuss here is on two fundamental concepts, i.e., “Succession Planning” and “A System or a Process in a given firm, which is crucial to any business.” Building on the skill sets, Competencies, Technology, Business acumen, etc., is the new approach to corporate success. In other words, if we take a look at the different skill sets of the company, not only will this bring a new wave of skill sets but will also define the next generation of the company.

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

Introduction

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

The emphasis here is passing on the Business and related related Success Factors that will enable new comers as a “Default Password” to hold the fort and take their respective organization it to a next level. Some of the broad parameters along with their skill-sets are worth mentioning 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 mark assistance on strategy
   - Use of a Strategic Approach instead of Opportunities
   - Focus on Competitive instead of Political influence

- Define and action out the choice for CA – Competitive Advantage
- Forward thinking for Global horizons etc.

2. Operations may include:
   - Ability to develop or acquire technology
   - Board 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)
   - Transparencies in Financial disclosures
Succession Planning or Succession Development

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   - Focus on forward thinking for Global footprints etc.

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   - Strong business acumen to plan financial framework
   - Management & control of Funds and Working capital
   - Cost Leadership
   - Ability to raise funds
   - Return of Capital (ROE)
   - Transparencies in Financial disclosures
- Delivering on Stakeholders' expectations
- Focusing on Shareholder Value

4. People Focus
- Strategic & Operational HR Roadmap for the company
- Personal involvement into Development of Senior Leadership team
- Feeling the pulses of employees
- Extending Performance Framework and Rewards for all
- Creation of Talent management framework for High Potential and Performers including retention strategies
- Open Door to employees
- Training, Mentoring and Coaching

McDonald's CEO, James Cantaloupe, 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 young and ambitious man named Darvin E. Smith was made chief executive of Kimberly-Clark, one of the members of the board was not sure about his capabilities and abilities to lead, and however, Darvin remained the CEO for 20 years and created a strong 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+/
2. Matured leadership with a diverse exposure to work dimensions of similar size, scope, scale and complexity
3. Someone holding strong ethics and values
4. Shareholders acceptance:

Another interesting scenario and controversies of Succession Planning of Indian Software company called Infosys during the induction of Rohan Murty 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 key lesson was that strategy is to train him on the job than seeking an active choice from the 1.5 lakhs employees of Infosys, "Infosys bound to cast a shadow of doubt on the minds of current senior leaders who have aspirations for the top job."

Among internal candidates, V Balakrishnan (India, Business and ITO) head, Arvind Vemuri (American head) and Srinivasan (Europe head) are widely regarded as management-in-accordance to succeed SD Shibulal who retired in March 2018 and his company." No CFO has become the CEO of Infosys since founding.

What happened next was that we all knew very much to the surprise of all of us and Corporate Panda saw the announcement of Vishal Sikka. He has earlier worked with German business software maker SAP AG as its head of products and innovation. He quit SAP AG in May this year. At SAP, Dr/Sikka was key to 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 in the failure of Succession management as a system or in a complete absence of the same and another message it conveys, is all about the leadership at Infosys and that too the likes of Satish Pradhan 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 that 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 a surprise,"

Roman Sehit, 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 appointment 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.

Some Definitions:

Succession planning is the process of developing the talent already existing in the organization for future deployment.
With the above definition I would like to recall what Marshall Goldsmith, an acclaimed author on Leadership and Coaching states, “Leaders do not develop anyone-only develop experienced leaders.” Companies put more effort and attention into the planning process than they did into the development process. For eg, many human falls into the same trap regarding physical fitness. We have fantastic planning for weight loss, we may be very proud of our plans, which include detailed daily goals, diet, alcohol consumption and exercise, and if the execution is half as impressive as our planning, we would be very happy. Our focus should be on weight loss, not planning for weightloss.

Many CEOs/ Business Heads even during my discussion during client visits express concerns about the lack of bench strength in their companies and lack “ready now” potential employees to replace planned and unplanned executive vacancies. With the above paraphrasis 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
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 cross-functional leadership competencies. Research has demonstrated that “stretch assignments” can account for up to 70 percent 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 capture the ship. Companies such as Northrop Grumman have used successor candidates in staff roles.

Another tipping 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 in discussion, 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 those 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 formalized with 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 usually has received the opportunity to select the coach at the start, but the coaching process is still crucial for maintaining a clear and focused leadership team.

4. Finally, Pass the Baton.

When the successor is ready to move into the role of CEO, the CEO will likely face the challenge of passing the baton smoothly. The CEO must be prepared to stay on the board or in some other capacity. It is best to just go if the successor is going to be successful. But if not, it’s not helpful.
Executive Succession Planning

It is during this time that the CEO transitions to another company or the company becomes a part of another company, or they may choose to retire or resign due to health or other personal reasons. In these situations, succession planning becomes crucial to ensure the smooth transition of leadership and maintain the company's success.

Conclusion

Succession management begins the day a new CEO takes the helm and continues until the new CEO takes over. At P&G (Proctor & Gamble), the board works with the new CEO during the first year of the CEO 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 headhunters 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 for them.

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.

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