**ISSN 2249-4103 GGGI Management Review**
*A Bi-annual Refereed International Research Journal*

# Succession Planning: A Study on Patterns and Practices in Various Nations

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## ABSTRACT

*Corporations invest heavily in human resource management infrastructures intended amongst other things to provide for the future leadership needs of the corporation. Adopting well-known succession planning techniques, human resource managers routinely engage in corporate leadership identification and development processes, often directly involving the chief executive officer. This paper gathers the data of pattern and practices of various nations. Drawing the result through a series of articles and research conducted in various report. The data reveals that most of the country is trying to establish its relationship with various factors like ROA, Cultural, Interim CEO and business transfer. The paper represents a table of all major researches among done in other nations.*

***Key words:*** *Succession, Leadership & Ownership*

## Introduction:

Etymologically the word succession comes from the Latin word succession meaning "a following after, a coming into another's place." It implies the action or process of Inheriting a title, office, property, etc. from the incumbent/ predecessor by the inheritor successor- whether an individual or a team. 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 place them appropriately. Broadly speaking, therefore, succession implies change in ownership and control structure of business, that arising from voluntary internal and external restructuring, off-loading of equity, transfer or sale of business as well as involuntary acquisitions and takeovers as well as leadership and management succession.

It may be noted that it is possible for leadership and management succession to be independent of ownership and control, e.g. CEO succession; it is also possible and prevalent that business ownership and management is concentrated in and transferred to the person/s belonging to the owning and controlling group, latter being a frequent occurrence in family owned and controlled enterprises. Indian business houses, old as well as new, typify family ownership and control driven business groups having large business empires. Thus, succession in Indian business houses implies intergenerational transfer of ownership, control and management of business.

There was a time when organizations had many managerial levels, and the abundant leaders spent a substantial amount of time in strategic activities such as process improvement, training and mentoring. Employees had expectations of staying with an employer for decades and hoped that after a few years of distinguished service they might be invited to join the ranks of management trainees. With the luxury of time, supervisors had the opportunity to observe direct reports across many situations and guide employees with high potential toward future career opportunities. In short, it was every supervisor's responsibility to develop the next generation of leaders. This focus on future talent lasted into the '70s for some organizations and into the '80s for others. The executives who rose through the ranks during this period are now retiring. It has been said that 1 in every 5 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, 2002a).US is not an exception, similar effects of aging workforces can be seen throughout the developed world. Despite of India being young, it gives tremendous pressure among corporations to make an appropriate choice on right time. Another issue that needs to be addressed is the economic turbulence across the globe. These issues are integral part of planning succession at all the levels. 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 Survey of 275 leading management consultants, corporate, academicians and professionals on 'Missing Link in Succession Plan' found that only a few companies in India formulate and effectively implement succession plan for the key positions in their organization structure. This was confirmed by 75 per cent 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. Almost half of the Indian top 100 organizations are family run businesses. Though astute in business, when it comes to sorting out matters of succession some of India's oldest business families may still need to do their homework. Be it the Ambanis of Reliance Industries, the Bajajs of Bajaj Auto, the Nandas of Escorts, or the Modis of Modi Rubber - each family has, in the recent past, faced

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**ISSN 2249-4103 GGGI Management Review**
*A Bi-annual Refereed International Research Journal*

succession and ownership issues and found them tough to resolve. As blue-chip CEO's like K.V. Kamath, Deepak Parekh and Shiv Nadar, among others, near retirement, the biggest challenge their companies face is to groom successors. At the Tata group, the challenge is even more daunting. In 2002, retirement age for group executives was increased to 65 from 60 and at Tata Sons to 75 for non-executive chairman in 2005. Not only does the board need to groom a successor to Chairman Ratan Tata, who retires in 2012, but also the CEOs of Tata Steel and Tata Motors, the two biggest companies by revenue, B.Muthuraman and Ravi Kant are 62 years old and due for retirement. At HCL Technologies, Shiv Nadar said recently in a media interview that he wants to call it a day by 2010-11, and at Wipro, Chairman Azim Premji, 61 needs to get a successor in place too, although Wipro has no retirement age for the chairman. Except for a handful of companies like Infosys, where the passing of baton from N.R. Narayana Murthy to Nandan Nilekani to Kris Gopalakrishnan happened without a hitch, the issue of corporate governance isn't addressed with the seriousness it deserves.

While concerns about succession are as old as the human race, professional research on succession planning and management began in earnest in the 1950s (*Zaich, 1986*). The chief focus of that research was on CEO succession until the 1980's (*Kesner & Sebora, 1994*). At that time, due to the growing interest in human resource planning, still a topic of interest today (*Rothwell and Kazanas,2003*) – research began to take on a broader focus that encompassed more than CEO's.

**Literature Review:**

In family-owned businesses, the important actors involved or getting affected by the succession process are the incumbent, the successor and the shareholders. India has a very high concentration of family controlled business groups. The country has a rich history and tradition of strong family ties and family businesses have long been a part of the Indian culture. Indian family businesses, thus, provide an interesting setting to understand the impact of management succession on firm value. Family business research has been of interest to scholars from many sub-disciplines of social sciences. However, it is only in recent years that efforts have been made to undertake serious empirical research in this emerging young discipline. The relationship between family businesses and various aspects of succession has not been investigated much. Researchers have argued that determinants of a successful succession can range from the subsequent financial performance of the firm after succession, the satisfaction of various stakeholders with the succession performance, to the ultimate viability or the survival of the firm (Miller, Steier and Miller, 2003).

Intersection of ownership, management and family found in family businesses makes them unique in their needs and creates challenges for a successful succession (Lansberg, 1997). Firms, in which both ownership and management are vested with the family, have to constantly balance the needs of the family with that of the business and this further complicates the issue of succession (Veliyath, 2004). Trust and harmony amongst the family members are also important factors affecting the succession process (Ward, 1987; Venter and Maas, 2005).

As incumbent leaders of family businesses can exert a great deal of control over the process of succession (Sharma, Chrisman and Chua, 2003), much of the research has focused on their unwillingness to cede control (Ward, 1987; Sharma, Chrisman and Chua 2001; Pontet, Worsch and Gagne, 2007). There are a number of studies (Sharma, Chrisman and Chua 2001; Handler, 1990) that have focused on successor-related factors as well, but not much has been said about the successor's experience of succession. Despite the widespread attention given to succession by family business scholars, the discussion around the issue remains lopsided with the focus being too much on "succession as a process" (Chua, Chrisman and Sharma, 2005; Zahra and Sharma, 2004). Researchers have repeatedly discussed the interpersonal dynamics between the incumbent and the successor, and the incumbents' inability or apprehensions about letting go of the business leadership. Authors like Handler (1990), Fox, Nilakant and Hamilton (1996), Miller, Steier and Miller (2004) and Vera and Dean (2005) have discussed in detail the importance and implications of any succession on the firm and its performance. For instance, Handler (1990) conceptualized succession as a mutual role adjustment between the predecessor (founder-owner) and next-generation family member(s) and put forward a stages-of-succession model. Typically the entrepreneur seems to progress through various stages of lessening involvement in business over time and this role adjustment influences the parallel role adjustment process of next generation family members in business.

Emphasizing the long-term, dynamic and iterative nature of succession, Miller, Steier and Miller (2003) put forward an integrative model of succession. Their integrative model consists of three contexts – non-family context which includes the industry and the organization's competitive environment, the business context that includes the primary actors (incumbents and successors) within it, and the family context which, in turn, is embedded in the social context. At the heart of the model, are the four critical stages of the succession process itself, each unfolding in sequence and influenced by both family and business contexts. The four stages are: "establishing ground rules for succession planning", "nurturing/development of successors", "selection of the successor", and "final hand-off to the chosen successor". They argue that all the three components of the model (processes, actors and context) and their interaction collectively determine the success of a succession.

In essence, a successful succession in family firms has two dimensions: satisfaction with the process and performance of the firm after succession. An alignment of the perceptions of incumbents and successors increases the probability of a satisfactory succession process (Sharma, Chrisman and Chua, 2003). Incumbents and successors' preparedness to give up control and take charge respectively, the extent to which family unanimously takes business decisions and a clear succession plan are other factors that enhance the shareholders' satisfaction with the succession process.

Succession of CEOs by family heirs may have a positive impact on family businesses because these CEOs benefit from non-monetary rewards linked to the firm's long term success (Bertrand and Schoar, 2006; Bennedsen et al, 2006; and Perez-Gonzalez, 2006). These family successors are often brought up learning the business and hence have a more fundamental understanding of its operations, resulting in them being able to secure the trust of majority of the stakeholders. A smooth transition of control from one generation to next is crucial to the survival of these businesses. Quality and clarity of relationship within the family naturally impacts the succession process (Aronoff and Ward, 1992; Ramachandran and Jha, 2008). This is particularly so when the future roles of family members are likely to impact their individual access to wealth, personal growth ambitions, social recognition and trust in the capabilities of the successor (Ramachandran, 2008). Family firms are also characterized by nepotism, inheritance norms, and family politics. Relationships between family members often have an effect on business decisions that may lead to destruction of value. The situation gets often murkier when the ownership structure of the business(s) is neither clear nor accepted by all the key family members.

The above discussion clearly suggests that succession is more than an event in family businesses. It, in fact, is processes which if planned well in advance and executed properly without causing any damage to family relationships, can not only increase the firm value in the short run, but can also contribute positively towards the long-term viability of business.

The review of Indian studies on business succession show two co-existent strands, viz., the continued dominance of business groups as a form of economic organization and the emerging trend of splits in the families that need to be studied in the overall historical, socio-cultural, politico-legal as well as ethnic-moral perspective

Within the CEO succession literature many studies examine the source of the successor (inside/internal or outside/external) as an explanatory variable (see for example, Datta & Guthrie, 1994; Kesner & Sebora, 1994; Lauterbach, Vu, & Weisberg, 1999; Ocasio, 1999; Pitcher, Chreim, & Kisfalvi, 2000). However, Shen and Cannella (2002) discovered some interesting findings by introducing two insider types, the "follower" and the "contender." Because of the nature of the family business and the divergent choices available, may involve four different types: the inside family member, the inside professional (non-family) member, the outside family member (who is not currently involved in the business), and the outside professional manager.

**Methodology:**

To obtain our body of research for review, first collection came from the multiple online databases provided by various E-journals. For each of these databases, the keyword succession planning was used, along with the limiter peer-reviewed sources. This returned 35 articles and research papers ranging from 1992 to 2010. Several particularly meritorious research articles published in the prior several years were also retained, to gather the information. This list was then prepared.

A final supplementation was made using articles and survey reports collected by the authors through work on related projects, using 1993 as the cut-off publication year. I chose 1993 as my cut-off because of excellent reviews and research conducted by most of the eminent authors after 1993 in this field.

The next step involved paring the article lists according to content. For this step, articles were first classified according to whether they provide information required information to contribute in the overall result. Articles containing research or recommendations regarding transfer of ownership & control, Firm's performance & SMEs were retained; articles focusing exclusively on other aspects of succession (e.g., compensation, contracting, or legal considerations) were discarded. The remaining articles were content-coded according to the following: Country, Author, Year, Sample used and Results. The data is synthesized and presented in a tabular format to create a comparative effect.

**ISSN 2249-4103 GGGI Management Review**
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| Country | Study | Year | Author | Sample | Technique | Results |
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| Netherlands | The relationship between successor and planning Characteristics and the success of business transfer in Dutch SMEs | 2005 | Joris Meijaard Lorraine Uhlaner Roberto Flören Bart Diephuis Bas Sanders | From a total panel wave of 1900 firms, data was collected from 628 firms that detailed business transfers and its Characteristics. | Bivariate relationships are first examined using Pearson product-moment bivariate correlation Statistics. A multivariate model is then developed using Ordinary Least Squares multiple regression. | This study suggests that certain variables, especially the use of outside advisors may have an opposite effect on profitability. The paper suggests a few interpretations, e.g. that professional leadership suppresses profitability (for tax reasons and due to investment levels). |
| Poland | Succession Scenarios in Polish Family Firms - Empirical Study | 2010 | Aleksander Surdej and Krzysztof Wach | 496 family enterprises.<br>The companies were divided into three groups:<br>• 85 family firms which were sold or transferred (17.13%),<br>• 147 family firms which plan to face the choice of succession (29.64%),<br>• 264 family firms which are not interested in succession planning (53.23%). | Arithmetic Mean & Standard Deviation | Three ways of succession observed.<br>Succession is the passing to the heir, transfer control and ownership among them selling the whole business and selling the part of the business share |
| India | Succession in Indian Family Firms:<br>Impact of Successions on Performance of Indian Family Firms | 2007 | Aditi Talreja | A dataset with 124 successions between 1992 and 2006 in Indian public family firms traded on the Bombay Stock Exchange. | Data was taken from Ministry on Indian Economy & Return on Assets (ROA) used as a measure of firm performance | Key Finding fights between heirs around succession improve firm performance more than no fights, whereas splits improve firm performance less than no splits. |
| Malaysia | The Impact of Social Culture and sophisticated succession planning by Owner- managers of SMEs in Malaysia | 2010 | Nelson Oly Ndubisi | The data collected from 105 SMEs. SMEs in Malaysia was collected from the SMIDEC website, an SME information and advisory centre | Data through collected In - office interviews and drop off surveys from Directors. SPSS. Regression Analysis was used to establish the relationship between the variables | key findings are that individual culture namely stimulation and conformity have significant relationship with the degree of sophistication of succession management plans. The study indicates that CEOs of firms that deploy sophisticated succession planning score |
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| USA | The use of an interim CEO during succession Episodes and firm performance | 2009 | Gary a. Ballinger* and Jeremy j. Marcel | This process identified 540 CEO successions during The time frame. Complete management and financial data were available for 479 succession episodes, of which 89 involved the use of an Interim CEO. | Multistage model with research software and regression at some variables | This study quantifies the cost to firms that extend the CEO search process by appointing an interim CEO. That this type of CEO succession places the firm at a competitive disadvantage. Still, our findings Suggest that boards can mitigate this potential harm by carefully selecting which executive they Appoint as interim. |
| Korea | Family Business Succession in Korea & US firms | 1993 | Donald F. Kuratko Jeffrey S. Hornsby Ray V. Montagno BaU | There were two samples used in this study. The U.S. sample was made up of 39 owners of family businesses in the mid western United States. The Korean sample consisted of 34 small business owners visiting the United States as part of a trade delegation. | Survey was done through questionnaire in two section- one demographic questions & relationship of family members in business. The study was exploratory | The question of comparability of samples is, of course, a critical one that must be addressed. The U.S. businesses tended to be a bit older than the Korea firms but were similar in size. The owners' ages were also Comparable. This last Factor of age should be an important issue because the owner's age will relate Closely to his or her concern with succession. |

**Results:**

Results of these articles were clustered around common themes, presented as emerged partly from practical experience and partly from the review process itself.

- Many countries, other than India plan succession, as an integral process of Human Resource Management.
- Succession planning is also very common point of discussion in board meeting in other countries whereas in India, it is still a conservative and confidential matter.
- In many countries, Succession planning is a planned activity for long lasting smooth functioning of the business. Whereas in India it is a forced activity.
- In India, succession planning is more of handing over the tasks and duties of overall control of the business and hence it is generally passed to heirs.
- In other countries, succession planning is a proactive process whereas in India it is more reactive process.
- In other countries, selection of successor is purely on the basis of performance whereas in India, it is generally passed to Family member.
- In other countries, succession planning has pre defined policies and procedure where as in India, either there are no policies or it depends on case to case basis.

**Discussion & Conclusion:**

In conclusion, I believe that our research review finds succession planning to be continuing to evolve into an integral part talent management in many organizations. At the same time, its core processes appear to be changing to foster greater efficiency, flexibility, and accountability. I hope this review has provided our practitioner audience with ample food for thought and multiple entry points into the vast literature on the subject that can be tapped to inform evidence-based practice. On the basis of data presented we can understand that Succession planning is an upcoming research which most of the nations are doing and most importantly most of the researchers are findings relationship between various variables.

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