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Succession Planning in Business Enterprises: Implication and Strategies for Emerging India

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Abstract: Business enterprises play a pivotal role in steering the economy of a nation and that is precisely what the world has witnessed in the past century. India is no exception to that. The economic reforms introduced in India during early 1990s propelled the evolution and growth of several enterprises- both domestic and international, which have clearly paved the way for India's entry into the globalized world. Two decades hence, a serious issue facing many of these enterprises is their leadership succession. To be competitive in this globalized world Indian business enterprises need to understand and adapt to the constantly changing business environment. Hence, identifying and nurturing talent for leadership roles is an essential part of succession planning. For larger interests of the enterprises as well as of the economy, it becomes extremely crucial and inevitable to have effective succession planning in place. The growth and development attained so far can be sustained and taken forward only if these enterprises are placed in capable hands. The process of succession planning involves not merely the business interests of the enterprise; it has an important bearing on the development of the nation and its people. In the light of this, the paper examines the perspectives and significance of succession planning, its challenges in the Indian corporate scenario, and strategies for effective implementation.

Keywords: succession planning, business enterprise, succession challenge, economic growth, India Inc., family business enterprise.

I. INTRODUCTION

Business enterprises- both small and large have a major role to play in the economic and social development of a nation (Wheeler and Mc Kague, 2002), particularly in terms of job creation and innovation (Edmiston, 2007), which in turn is heavily influenced by the role of the State and the economic policies introduced from time to time (Lall, 2001). This is true of India as well, for the policy reforms implemented during early 1990s promoted entrepreneurship which eventually led to enhanced economic growth (Lal and Clement, 2005). Ever since, the Indian companies have been increasingly expanding geographically and pervading the international market; for instance, Tata Group, Godrej consumer Products, Dabur, Marico, Videocon, Dr. Reddy's Laboratories, Bharti Airtel and Ranbaxy Laboratories, to name a few have all forayed into global businesses.

The rise in globalization of Indian business enterprises has resulted in India becoming the biggest contributor to the world economic growth along with China. Now, in order to sustain and augment the incredible growth registered by India Inc., there emerges an inevitable need to pass on the mantle to the more capable lot. This therefore warrants the increasingly global and ambitious Indian companies to build a bench of global-ready leaders who can operate in different countries and in a diverse set of cultural contexts.

A. Succession Planning:

In the words of Oliver Wendell Holmes, “the great thing in the world is not so much where we stand, as in what direction we are moving”. Rightly so, perhaps the most critical moment in the history of a business enterprise is the transition (periodic or otherwise) of its leaders (read CEO). More often than not, what entails a CEO (Chief Executive Officer) transition is uncertainty among all concerned. Nevertheless, it is essential to uphold the confidence and trust of investors, shareholders, employees, customers and business partners during all times. Therefore, a strategically designed succession plan is of utmost priority for any organization. This not only facilitates a smooth transition, it also aids relationship building and provides an easy take-off for the incoming CEO.

Conventionally, succession planning is “a process by which one or more successors are identified for key posts, and career moves and development activities are planned for these successors” (Hirsh, 2000). But, succession planning need not be limited to management positions alone; in fact, an effective succession plan must address the need for critical back-ups and individual development of key people in the professional, technical, sales, and production ranks and any other critical job category. Therefore, the need to extend the definition of succession planning in business enterprises is becoming imminent as organizations are increasingly focusing on high performance and following contemporary management practices such as decentralized decision-making, leadership through empowered workforce and so on (Rothwell, 2010). Over and above, organizations are undergoing strategic transformations owing to expansions- reorganizations, mergers, acquisitions, addition of new products or product lines- that demand new types of managers and skills.

Therefore, in effect, succession planning is concerned with: one, identifying posts that are critical to success and choosing the best way to satisfy future requirements; two, developing strategies to determine the optimum mix of internal and external recruitment (Cannon and Mc Gee, 2011). This requires accomplishing dual objectives: One, to match the available talent with the needed talent; two, to fulfill the operational and strategic challenge of having the right people at the right time at the right places (Rothwell, 2010). With the increasing demand in leadership requirement amidst competitive and dynamic environments, organizations ought to have a well-crafted succession planning process in shape.

B. Literature Review, Need for the Study and Objectives:

The concept of succession planning is an extension of talent management which has implications throughout the organization which is why organizations need to devise ways and means of creating, nurturing and managing talent (Cannon and Mc Gee, 2011). While Rothwell (2010) gives an account of succession planning perspectives, and systematically explains how to manage and evaluate a succession planning program, Russel Reynold Associates outline the necessary steps for smooth transition of an organization’s CEO. Comey (2004) focuses on the need for identifying leadership competencies in order to create a leadership succession plan process. Berzon and Currie (2006) suggest practical strategies for succession planning and knowledge management in the California Union Sanitary District to combat the challenges of a shrinking pool of qualified candidates and the loss of critical knowledge. Fulmer (2002) gives practical insights into succession planning and recommend the effective practices followed by companies.

With regard to succession planning in Indian enterprises Vedupuriswar (2002) briefs about the strategic issues involved in succession planning and also provides suggestions to manage them. Guruprasad (2010) lists down the issues, challenges and practices of Indian succession planning in business enterprises. A study by Spencer Stuart reveals the absence of a strategic approach and therefore lays down the imperatives for doing so. Avanes (2011) studies the impact of succession planning on the performance of Indian IT sector. Martinez and Gadhoke (2012) also profess that in a well-funded high-growth economic environment India Inc. faces an urgent need to design effective succession planning programs.

Studies related to family-managed businesses in India have also been reviewed as they constitute a major chunk of India Inc. Rastogi and Agrawal (2010) have studied the intention of offspring in joining family enterprises. While Ramachandran and

Bhatnagar (2012) give an account of challenges faced by Indian family businesses, Lees and Malone (2012) provide solutions to managing family businesses. A report based on a study conducted Indian School of Business (ISB, 2012) states that Indian business families are in a transition mode and are learning to 'let go' of their control and hierarchy for the future of the organization.

With respect to the economic turbulence in the country, Indian business enterprises, irrespective of their family lineage, have to realize the importance of succession planning as it not only shapes the future of the organization but also has a bearing on the overall growth of the country. In this direction it is heartening to know that family-run businesses-which constitute a major lot of India Inc., are positive in their succession approach (ISB, 2012). With several Indian companies opting for the route of globalization, the need for capable leaders and critical employees becomes all the more mandatory for sustained growth. As the economic growth rate threatens a downturn, India Inc. should feel responsible. Hence, this research paper attempts to fill that gap by focusing on the significance, issues, real-time practices and effective strategies in the Indian business context. The objectives of the paper are thus two-fold: one, to identify the challenges in succession planning among Indian enterprises; and two, to recommend effective succession planning strategies to them.

II. SUCCESSION PLANING IN INDIA

Before we move on to discuss the succession planning scenario and its challenges faced in India we need to primarily understand the business terrain of the country. India is a unique mix of public-owned and private-owned companies constituting large, medium and small enterprises- which can further be categorized into government-managed, family-managed and promoter-managed. The question of leadership succession attracts the nation's attention with respect to 'who will lead the big businesses?' as in the case of recent succession issue faced at the Tata Sons. While we have witnessed successful CEO transitions at several corporate houses of India such as the Tata Group, Infosys, ICICI, HDFC, Hindustan Unilever, Aditya Birla Group and many others, one must not overlook the multitude of SMEs (Small and Medium Enterprises) that the country is home to. Considered to be the backbone of the Indian economy, the SME sector contributes 45 percent of the industrial output, 40 percent of India's exports, employs 60 million people and creates 1.3 million jobs each year.

Leadership succession is as much an issue for SMEs as it is for corporate business houses. It has not spared family businesses either, which traditionally have been rolling out successors from their own families. Tatas, Birlas, Godrejs, and Bajajs have had their progeny lead the business for more than three generations now. However, there is evidence of leadership transition and business ownership issues confronting Indian family businesses of late (Ramachandran and Bhatnagar, 2012).

Amidst multiplying competition from domestic and multinational sectors, dynamic changes on the economic front, and the inevitable need to globalize, the Indian companies are faced with the leadership succession challenge like never before. In fact, leadership succession planning is not the only issue facing India Inc. today. The need of the hour is to build a leadership pipeline to fill the lesser posts as well who might in the future go on to occupy the leader's seat. Moreover, an organization is managed not by the CEO alone; he/she must be followed by potential people in all the key areas. Now, the big question is how prepared are the Indian companies in choosing their key employees critical to their success.

A. Succession Challenge:

Succession challenge, as it is called, rises in magnitude due to a set of critical factors:

One, an entire generation of leaders retires over the following decade to be eventually replaced by a new generation of executives;

Two, India's economic growth and globalization have created demand for a huge pool of executives far exceeding the available talent;

Three, most of the Indian businesses are family-run which, despite strong internal bonds, will face same challenges and pressures as any other major corporation (CGMA Report), the most prominent among those being succession planning;

Four, the issue gets even more complex when the next-generation family members traditionally take over companies founded by their parents without being tested for leadership fitness;

Five, the succession issue is also critical in the case of promoter-led businesses where the founder tends to have an enduring impact on the leadership style, culture, and values of the company thus making it impossible to be replaced immediately (for instance, Dell and Starbucks, where the founders had to intervene and set things straight even after their exit).

Thus, the challenges mentioned above demand a rigorous and transparent succession planning process constituting effective strategies in the Indian business scenario.

III. STRATEGIES FOR EFFECTIVE SUCCESSION PLANNING

India Inc. evidently needs adept, conceptual and strategic thinkers, with deep integrity and intellectual openness. They must also be innovative, find ways to create loyalty and be capable of leading diverse and independent teams. A strategic approach to succession planning is the need of the hour in Indian business enterprises. The process must essentially follow the following steps (adapted from Russel Associates Report; Vedupuriswar, 2001):

One is to create a written succession plan in that how successors have to be chosen and the respective roles to be donned by the board members in the succession process. Consistency with the future strategic direction is required inasmuch as the culture of the organization. However it must be customized to suit the needs of the changing organization structure and the environmental dynamics.

Two, the process requires conducting regular, in-depth reviews- the succession process must be reviewed twice a year and the current requirements of a new CEO must be summarized. The company's direction and strategy must be examined over a five to fifteen year period, factoring in various scenarios such as the impact of competition, supplier relationships, world economic conditions, national policies, customer trends, and so on.

Three, to compare the resulting list of capabilities against the firm's senior talent pipeline- the Board should have regular exposure to internal candidates and modify their respective leadership development plans as needed to address progress and shortcomings. The key candidates should be identified in anticipation of future openings. The talent pipeline can also be bolstered by a parallel entry from the outside backed by significant advance planning to ensure the outsider gets fully absorbed into the firm's culture by the time the elevation takes place.

Four, to narrow the field to two or three finalists- It is not just selection. Development through job rotation, mentoring and formal training programs must be done. They must be given key initiatives such as entry into a new geographic region or the integration of an acquisition to mimic the potential challenges they would face as a CEO and thereby facilitate the Board to evaluate their performance.

Five, to implement the plan- the implementation must begin one year before the planned transition. An assessment of the final candidates through rigorous testing and their measurement against their peers at other firms must be ensured to choose the best available CEO.

Six, the succession process must be enabled to explore multiple scenarios and imbibe an accommodating plan for contingencies.

Seven, the HR (Human Resource) strategy should have a long-term staffing initiative in place, remain flexible yet focused. It must also include strategic talent and knowledge management initiatives such as attracting, retaining and developing skilled employees.

Eight, to keep up with the changes in the business environment, leaders must be evolved in key areas namely: leadership development, employee engagement and talent retention, strategic leadership, globalization and sustainable business.

IV. CONCLUSION

As companies move through various stages in their life cycle, the issues of leadership and succession become critical. Though companies differ in their dynamics, a succession strategy that ensures certainty, continuity, and effective leadership- both at the executive and board level- needs to be essentially adopted. In other words, it is an organizational process that involves recruitment and development of employees to fill each key role within the enterprise. Notwithstanding the importance of succession planning, business enterprises are continually bogged down by more tangible and visible issues. Thus, business enterprises today are increasingly in need of planned succession to steer the organization in the right direction which in turn will collectively and eventually lead the nation's growth.

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