

## Impact of Governance Transparency and Role of Shareholders on Succession Planning In Banking Sector of Pakistan

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### Abstract

This article aims to explore the impact of governance transparency and the role of Shareholders on Succession Planning in Banking Sector of Pakistan. This is a causal comparative study and a survey was used to address the research goals. For this purpose, 240 questionnaires were distributed manually in the head offices and franchises of twelve different Banks of Rawalpindi; only 200 were returned back. Therefore the response rate was 70%. To interpret data, Reliability analysis was done for scale. Linear regression was used to check the association between variables. The reliability of the scale was 0.782, which is an ideal value of any scale. The results obtained from Regression analysis for H1 were as follows: ANOVA= 0.000, R square=0.358, t sig value 0.000. The regression analysis for H1 were as follows: R square=0.358 ANOVA= 0.000 and t sig value 0.002. Therefore, both of the hypothesis were accepted. This paper is not the representative of the whole population, because it only deals with one sector of twin cities. Future researchers should fill the gaps represented in this research article. There is only a little research done in this field, therefore, this research paper serves as a building block for future researches.

**Keywords:** governance transparency, role of shareholders, succession planning, Banking Sector

### INTRODUCTION:

This is the global competitive world, where only hard work can guarantee success. Pakistan is a developing nation and she is facing tense economic situation. There are stories about lawlessness, corruption, and economic failure, everywhere. Everyone is running blindly behind money accumulation. Financial markets are showing deficit on record. Almost every institution in the country is facing losses, except banking sector, which is still showing resilience and registering profits (Saleem, 2012).

Banks perform various functions, i.e., corporate and investment banking, treasury and retail banking and in order to perform these functions, banks need technical and human expertise at all levels of banking service. Especially the need for human capital has increased a lot, particularly after WWII (Cappelli, 2008). There the concept of Succession Planning emerged.

Henderson defines Succession Planning as, a planning to have the right person in the right place at the right time (2005). Succession planning is important in driving talent movement in the organization. Talent management is not an easy task to be done. A right placed and talented leader can take an organization to the skies and under the supervision of a wrong person the organization will be a total failure. So, Succession Planning can help bringing the real talent forward.

Unfortunately according a survey conducted by the society for Human Resource Management (SHRM) in 2004, 60 % of organisations had no succession plan at all (Dennis, 2005). Another survey conducted on Succession Planning in U.S. by Private Companies Practice Section (PCPS), out of 400 companies, 60 % firms had owners aged 63-65 years and only 25% firms had written succession plans (2004).

In Pakistan the situation is more complicated. Most of the public owned companies don't even know what succession planning is. Only the family owned businesses have the concept of succession. Some of the private firms follow a succession plan, but they don't have any written record. Succession Planning being the most important activity for any organization has to be practiced. To make this process effective, governance transparency should be observed.

According to Transparency international, Transparency is that principle which allows the person to know the basic facts and figures and the mechanisms and processes of administrative decisions, business transactions or charitable work. Term Corporate transparency is described in an encyclopedia as a phenomenon which observes the extent to which a corporation's actions are visible to the outsiders, that is the sincerity of a corporation to its stakeholders, shareholders, employees and the general public.

The most important and commonly discussed feature of governance transparency is, it helps in reducing asymmetrical information, because it makes the disclosure of authentic information possible to its stakeholders (Hermalin and Weisbach, 2007, p.1). According to Schneider, it is very important for a board to select and nominated qualified managers and to replace unqualified ones through Transparent and effective succession planning (2000, p.15).

Here the role of shareholders is also very important. Decision making in corporations is the task of multiple owners, who are the members of the board of directors. The role of multiple owners differs from the role of

single hiring authority. In this case conflicts may arise, and this conflict can be avoided, through the adherence of two fundamental principles: Fairness and Transparency (Laredo, 2003).

Keeping in view the magnitude of governance transparency and the role of shareholders in a corporation and their impact on Succession planning, this study particularly aims at exploring the impact of governance transparency and the role of Shareholders on Succession Planning in Banking Sector of Pakistan. This study will serve as a building block for future researches.

**RESEARCH QUESTION:**

Does governance Transparency has a positive impact succession planning in Banking Sector of Pakistan?

Does Role of Shareholders have a positive impact on succession planning in Banking Sector of Pakistan?

**RESEARCH OBJECTIVE:**

- To explore the impact of governance Transparency on succession planning in Banking Sector of Pakistan
- To explore the impact of Role of Shareholders on succession planning in Banking Sector of Pakistan.

LITERATURE REVIEW:

Talent management has become an important phenomenon for the growth and survival of any business in this global competitive environment. David Watkins was the first person who first talked about talent Management in 1998. That was the time when businesses recognized the need for talented staff (Teo, 2010). Succession planning is one of talent management techniques.

**Succession Planning:**

According to Rothwell, Succession Planning is a systematic process carried out by an organization for the continuity of key leadership positions, and it also helps in developing, retaining and enhancing human capital (2001, p. 41). A successful Succession Plan is the one which is strategically aligned with the vision of an organization and it provides a critical start to leadership development programs. Operational parameters for Succession Planning: nominated positions of successors, the scope of the pool of succession nominees (utilizing internal and external talent) and the rating scales used for assessing contribution and potential (Folkers, 2008; Morris, 2012).

Barry described the probable antecedents of Succession Planning as follows, first of all, a pre-succession plan should be done. Secondly, an appropriate strategy which explains the CEO departure can be an antecedent of SP, and thirdly, current owner/ CEO's characteristics can also leads toward succession planning (2006).

According to Ibarra, a company can adopt one of these types of succession planning: Simple Replacement Planning (SRP), Developmental Succession Planning (DSP) and Talent Pool Planning (TPP). SRP is a process of exploring talent from within the organization. DSP is a process which not only explores internal talent pool, but also develops and trains potential talent to meet future requirements. Whereas, TPP is the process of developing internal talent, and also it suggests, the hunt of outside talent to fill crucial positions in a company (2004).

**Governance Transparency:**

Latin etymology for word Transparency consists of two words, "träns" and päreō. Trans means through and päreō means can be seen (Schnackenberg, 2009, p.3). Transparency is the degree to which the information is visible to others (Bushman, Piotroski, & Smith, 2004; Herdman, 2001) i.e., Stakeholders, Shareholders, investors, employees and general public.

Schnackenberg while explaining the antecedents of transparency said, systemic character and strategy leads toward transparency (2009, p.44). Transparency can be treated as both the independent variable (Rosengren, 1998; Winkler, 2000) and dependent variable (Patel, Balic, & Bwakira, 2002; Churchwell, 2003; Hodge, Kennedy, & Maines, 2004).

It is assumed that a corporation must take into account the practices of fair disclosure and transparency for strengthening their relationship with their shareholders (Fernando, 2009, p.201). Another scholar in his book described Transparency as Fundamental of effective governance and Leadership (Naidoo, 2005, p.1). Measures of Transparency include: level of access to knowledge and level of revealing knowledge ((Curtin & Meijer, 2006, citing Welch & Hinnant, 2003).

**Transparency in succession Planning**

Transparency in succession planning is crucial, but scholars suggest that the better option is to float less and limited information about the process involved (Starnier, 2008). Aguilar stated that transparent disclosure of information regarding succession planning depends upon the size of the company, i.e. larger companies are supposed to disclose Succession information in the annual report, but mostly companies don't do it (2012). A survey conducted by American management association showed, that 46% companies were not transparent in SP, 43% companies said they are to some extent transparent and only 11% companies responded positively regarding transparency in SP (2012).

**Shareholders**

A shareholder can be an individual, a firm, a company or a financial institution and is a part owner of the

business to which the share relates. A shareholder owns a share of the organization in which he/she has invested therefore they have say in the key issues of the company and they can vote on them, however their influence is subject to their level of investment in that company if they own more than 50% of the value of the company they are called majority shareholders and thus have strong impact on their decisions.(AITC,2009)

Shareholders play an important role in financing, operations, governance and control aspects of a business, financing: basic reason for going public is to raise funds therefore in return the owners of the company give part ownership to the new investors depending on their level of investment. Operations: shareholders play direct as well as indirect role in the companies, they elect directors of the company for its supervision and their indirect role is through stock markets. Governance: public and private companies must have formal corporate governance policies and must provide the necessary details to the shareholders on time and procedures should be transparent as well. Control: shareholders are the controlling body of any company. (Basu, 2013)

#### Role of Shareholders in succession Planning

It is one of the primary roles of shareholders to make succession plans, but some times they don't give a lot of importance to this vital issue (Behan, 2010). Aguilar report that only few companies had dedicated role of shareholders in succession planning (2012). The reason is, shareholders do not want a powerful executive in place, that's why they give less importance to succession plans in an organization. They don't want a clash of power between themselves and the CEO of the firm (Larcker & tayan, 2012). On the other hand, Scholar suggests that, Success of CEO succession planning depends largely on ability of the decision of Shareholders (Murphy, 2010).

#### **Hypothesis:**

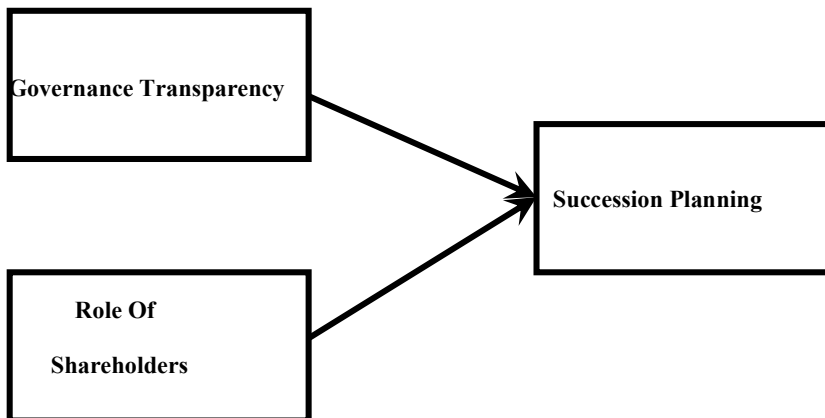
Therefore the proposed hypotheses of the study are:

**H1: governance transparency has a positive impact on succession planning**

**H2: Role of shareholders has a positive impact on succession planning**

**H3: governance transparency and Role of shareholders have a positive impact on succession planning**

#### **Theoretical Framework:**



**Figure # 1: This shows Asymmetrical relationship between the variables Governance & Role of Shareholder and Succession Planning.**

### **CHAPTER 3: METHODS AND PROCEDURES**

This is a causal comparative study<sup>1</sup> that will use a survey to address the research goals.

#### **3.1 SAMPLING:**

The total number of participants chosen for this research was 240. Respondents were selected through purposive sampling technique. The data was collected from the head offices and franchises of twelve different Banks of Rawalpindi; HBL, Meezan, ABL, Askari Bank, Bank Alfalah, Bank of Punjab, NBP, MCB Bank Limited, State Bank of Pakistan, KASB, Barclays and Bank Islami, 20 participants from each Bank. Self full filled questionnaires will be used as a mode of data collection, and questionnaires were delivered manually to the respondents.

#### **3.2 TOOLS FOR DATA COLLECTION:**

In this research, the already constructed scale was used for data collection;

<sup>1</sup> The basic causal-comparative approach involves starting with an effect and seeking possible causes. Causal comparative research attempts to determine reasons, or causes, for the existing condition. Retrieved from://http://www.reference.com/motif/business/causal-comparative-research

### 3.3 STATISTICS:

The data was analyzed through Statistical Procedures for Social Science (SPSS). Descriptive analysis was done for mean, percentages and standard deviation of the demographic profile of the subject. Reliability analysis was done for scale. Linear regression was used to check the association between variables.

## CHAPTER 4: RESULTS

This chapter is based on the discussion of the results obtained through the data analysis tool SPSS. At beginning of the chapter the results of the data analysis will be provided and after that these results will be analyzed.

### 4.1 SAMPLE SUMMARY:

Data was collected from the twelve different renowned banks, situated in twin cities, Pakistan. As the research was checking the impact of Governance Transparency and Role of Shareholders on succession planning, so the participants holding the leadership positions in the banks were chosen for analysis, i.e., CEOs, Managers and Assistant Managers. Further demographic detail is provided in the end of the results section.

Data collected with help of self fulfilled questionnaires was afterwards analyzed with help of statistical procedures for social sciences (SPSS). First, the data was entered in the SPSS and as the research was checking the dependency of impact of one variable on the other, so in order to obtain authentic results the tests applied on the data were; Reliability test, and simple linear.

### 4.2 DEMOGRAPHIC STATISTICS:

Total number of respondents was 50. 34 (68%) were males and 16 (32%) were females. 18 (36%) were between the ages of 36-40, 13 (26%) were between the ages of 31-35, 10 (20%) were above 40, 8 (16%) were between the ages of 26-30, and 1 (2%) was between the ages of 20-25. 43 (86%) were married, and other 7 (14%) were singles. 28 (56%) were graduate, 18 (36%) were M.S/M.Phil, 3 (6%) were PHD and only 1 (2%) was graduate. 31 (62%) were working in the current organization for above ten years, 13 (26%) were working in the current organization for 1-5 years, 5 (10%) were working in the current organization for 6-10 years and only 1 (2%) was working with the current organization for less than 1 year. 40 (80%) belonged to private sector and only 10 (20%) were from public sector. 38 (76%) were Managers and other 12 (24%) were Assistant Managers.

The mean of the gender=1.32, ages= 3.56, marital status= 1.86, education= 2.46, no. of yrs working with current organization= 3.32, sector= 1.80, and designation=1.76. The Standard Deviation of the gender= 1, ages= 4, marital status= 2, education= 2, no. of yrs working with current organization= 4, sector= 2, and designation=2.

### 4.3 RELIABILITY ANALYSIS:

In order to obtain true results, three combined variables were formed by using compute tab in SPSS, namely SH, GOVT and SP. These variables included all the relevant items or variables in them excluding the demographics.. There were 21 items in the scale. The Value of Cronbach's Alpha was 0.782.

### 4.4 REGRESSION:

The linear regression results for H1, H2 and H3 are as follows: The value of correlation between SH and SP was 0.000, GOVT and SP was also 0.000. The value of R square was 0.358. The significance level of ANOVA was 0.000. The value of Beta of SH was 0.248 and GOVT was 0.406 the value of significance of t was 0.002 for SH and 0.000 for GOVT.

## CHAPTER 5: DISCUSSION

### 5.1 Interpretation of Results:

The study was aimed at checking the impact of Governance Transparency and Role of Shareholders on succession planning, in banking sector. For this purpose, the total sample size was 200, and all the respondents belonged to banking sector. The detailed information about the descriptive statistics is being given in results sections.

The reliability test scores were as follows: Value of Cronbach's Alpha= 0.782, which is an ideal value of any scale according to some researchers (Yaffee, (1999); Santos, (1999); Garson, (2011).

Simple regression was conducted to investigate how well Governance Transparency and Role of Shareholder predict Succession Planning. The results were statistically significant  $F=51.589$ ,  $p<0.000$ . The adjusted R square value was 0.351. This indicates that 35 % of the variance in SP was explained by GOVT. According to Cohen this is a large effect (1988). The value of R square= $0.358>0.25$ , ANOVA=  $0.000<0.05$ , and t sig value  $0.000<0.05$ . From all the above mentioned results of simple regression, researchers spew that H1 is accepted, which was “**governance transparency has a positive impact on succession planning**”. The findings are in line to the research conducted by Starnier, research, which suggests that for better succession planning it is crucial to have transparent flow of information about the process involved (2008).

The results For H2 were also statistically significant  $F=51.589$ ,  $p<0.000$ . The adjusted R square value was 0.351. This indicates that 35 % of the variance in SP was explained by SH. The value of R square= $0.358>0.25$ , ANOVA=  $0.000<0.05$ , and t sig value  $0.002<0.05$ .. From all the above mentioned results of simple regression, researchers spew that H2 is accepted, which was “**Role of shareholders has a positive impact on succession**”.

*planning*". The findings are in line to the research conducted by Murphy, who suggests that, Success of CEO succession planning depends largely on ability of the decision of Shareholders (2010).

#### **CHAPTER 6: CONCLUSION**

Succession Planning is a tool used to identify the right person at the right time and at the right place, specifically in the context of top management. Succession Planning is vital for any organisation, because it helps in bringing the right person forward to the key positions, where all the business related decisions are to be taken. The purpose of this paper was to check the impact of Governance Transparency and Role of Shareholders on succession planning, in banking sector, Rawalpindi/ Islamabad.

Literature suggests that there is positive relationship between SH, GOVT and SP. This fact is also checked and proven by the results presented in this article. This paper is not the representative of the whole population, because it only deals with one sector of twin cities. Future researchers should fill the gaps represented in this research article.

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***INFORMED CONSENT FORM***

We are conducting a survey on the impact of governance transparency and the role of shareholders in a corporation and their impact on Succession planning. Your voluntary participation is requested. Our questionnaire will take approximately 15 minutes. Your name will not be recorded on the questionnaire and your responses will be anonymous. Again, your participation is voluntary and you may choose to not answer all of the questions on the questionnaire even after signing the consent. If you are willing to participate, please sign this form.

Thank you for your assistance.

Participant Signature

\_\_\_\_\_

Date

**Demographic Information:**

Pseudonym (Office use only): \_\_\_\_\_

Gender	Male	<input type="checkbox"/>	Female	<input type="checkbox"/>	
Educational level	14yrs	<input type="checkbox"/>	16 yrs	<input type="checkbox"/>	more than 16yrs <input type="checkbox"/>
Your primary functional work area:	HRM	<input type="checkbox"/>	Finance	<input type="checkbox"/>	Accounts <input type="checkbox"/>
	Marketing	<input type="checkbox"/>	other	<input type="checkbox"/>	
Your occupational title in your organization:	CEO	<input type="checkbox"/>	Vice President	<input type="checkbox"/>	Sr. Manager <input type="checkbox"/>
	Jr. Manager	<input type="checkbox"/>	Assistant Manager	<input type="checkbox"/>	
How long have you worked for your company	0-2yrs	<input type="checkbox"/>	3-5yrs	<input type="checkbox"/>	6-8yrs <input type="checkbox"/>
	9-11yrs	<input type="checkbox"/>	more yrs	<input type="checkbox"/>	

SA= Strongly Agree, A=Agree, N=Neutral, DA=Disagree, SDA=Strongly Disagree

V1	The rights of stakeholders that are established by law or through mutual agreements are to be respected	SA	A	N	DA	SDA
V1	The roles and responsibilities of the board of directors/commissioners clearly stated	SA	A	N	DA	SDA
V1	The types of decisions requiring board of directors/commissioners' approval disclosed	SA	A	N	DA	SDA
V1	Does the company have a separate corporate responsibility (CR) report/section or sustainability report/section	SA	A	N	DA	SDA
V1	Does the company provide contact details via the company's website or Annual Report which stakeholders can use to voice their concerns and/or complaints for possible violation of their rights	SA	A	N	DA	SDA
V1	The company explicitly discloses the health, safety, and welfare policy for its employees	SA	A	N	DA	SDA
V1	The Annual Report contain a statement confirming the company's full compliance with the code of corporate governance	SA	A	N	DA	SDA
V2	There is a true and fair representation of the annual financial statement/reports affirmed by the board of directors/commissioners and/or the relevant officers of the company	SA	A	N	DA	SDA
V2	The company discloses its corporate governance policy / board charter	SA	A	N	DA	SDA
V2	The company has a code of ethics or conduct	SA	A	N	DA	SDA
V2	The board of directors/commissioners periodically reviews and approves the vision and mission and has done so at least once during the last five years	SA	A	N	DA	SDA
V2	Different persons assume the roles of chairman and CEO	SA	A	N	DA	SDA
V2	The company has orientation programmes for new directors/commissioners	SA	A	N	DA	SDA
V3	The company has a Nominating Committee (NC)	SA	A	N	DA	SDA
V2	The company discloses the terms of reference/ governance structure/charter of the Nominating Committee	SA	A	N	DA	SDA
V3	Employees are satisfied with the nominating committee.	SA	A	N	DA	SDA
V3	Company has an Effective Succession Plan.	SA	A	N	DA	SDA
V3	Company follows a transparent succession process	SA	A	N	DA	SDA
V3	Succession plan is made after a formal consent and recommendations given by Shareholders.	SA	A	N	DA	SDA
V3	Shareholders can make changes in succession Plan.	SA	A	N	DA	SDA
V3	Employees are satisfied with the hiring process of successor.	SA	A	N	DA	SDA



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