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Succession Management and its impact on Family Business

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Abstract
If your CEO has a sudden heart attack, do you know who will take the chief executive's place? What if your top executives are wooed away to another firm? Do you have the next generation of leaders ready to fill those roles? The only way to reduce the effect of lost leadership is through a strong succession planning program that identifies and fosters the next generation of leaders through mentoring, training and stretch assignments, so they are ready to take the helm when the time comes. Research also supports sound succession planning. “Every company has a succession planning document,” says David Larcker, a professor in the graduate school of business at Stanford University. The question you have to ask is, “Will it be operational?" The Roadmap of this paper offers the importance of succession management, its benefits, process of succession management, succession management and family business issues etc.Jim Skinner, former CEO of McDonald's Corp., was known to tell managers: "Give me the names of two people who could succeed you." It was just one way the CEO continued the culture of succession planning at McDonald's.It was an understandable priority considering Skinner only landed in the role in 2005 after two other CEO's died suddenly over the course of just two years. And when he retired in 2012, Skinner was confident that his successor, Chief Operating Officer Don Thompson, was ready to take over, because he spent much of his seven years mentoring him."I basically felt the responsibility to the board of directors to be sure I provided them with someone who could run the company when I'm gone," Skinner told *Fortune* a year before his retirement. "Until I was capable of doing that, I would not have left."This kind of leadership level commitment to training and mentoring the next generation is a vital component of succession planning. And while most executives understand the importance of succession planning efforts, few of them believe their organization excels in this category.

Introduction
Succession planning is a process for identifying and developing people from inside the organization with the potential to fill key business leadership positions in the organization. Succession planning increases the availability of experienced and capable employees that are prepared to assume these roles as they become available. Taken narrowly, "replacement planning" for key roles is the heart of succession planning. Effective succession or talent-pool management concerns itself with building a series of feeder groups up and down the entire leadership pipeline or progression (Charan, Drotter, Noel, 2001). In contrast, replacement planning is focused narrowly on identifying specific back-up candidates for given senior management positions. Fundamental to the succession-management process is an underlying philosophy that argues that top talent in the corporation must be managed for the greater good of the enterprise. Merck and other companies argue that a "talent mindset" must be part of the leadership culture for these practices to be effective.

Succession planning is not a new phenomenon. Companies have been wrestling with ways to identify, develop, and retain their talent for decades. So, why is succession planning suddenly popping up on every company’s radar screen? Today’s organizations are facing higher demands in a global market with the retirement of the Baby Boomers and the widening talent gap. The home-grown and paper-based succession planning that some of the companies relied on in the past are no longer meeting the needs of today’s workforce. In order to achieve results, companies need to start with the basics, create a strong process and then invest in the tools and technology to instill a talent development mindset in their organization. This report highlights research findings on succession planning efforts in Best in Class organizations across multiple industries.

Succession planning is a process whereby an organization ensures that employees are recruited and developed to fill each key role within the company. Through your succession planning process, you recruit superior employees, develop their knowledge, skills, and abilities, and prepare them for advancement or promotion into ever more challenging roles. Actively pursuing succession planning ensures that employees are constantly developed to fill each needed role. As your organization expands, loses key employees, provides promotional opportunities, and increases sales, your succession planning guarantees that you have employees on hand ready and waiting to fill new roles.

According to a 2010 Canadian Federation of Independent Business survey, slightly more than one third of independent business owners plan to exit their business within the next 5 years and within the next 10 years two-thirds of owners plan to exit their business. The survey also found that small and medium sized enterprises are not adequately prepared for their business succession: only 10% of owners have a formal, written succession plan; 38% have an informal, unwritten plan; and the remaining 52% do not have any succession plan at all. The results are backed by a 2004 CIBC survey which suggests that succession planning is increasingly becoming a critical issue. By 2010, CIBC estimates that $1.2 trillion in business assets are poised to change hands.

Companies that are well known for their succession planning and executive talent development practices include: GE, Honeywell, IBM, Marriott, Microsoft, Pepsi and Procter & Gamble.

Source: Strategic Human Resource Management by Kenneth J. Mcbey (York University)

Objectives of Succession Management:

Research indicates that clear objectives are critical to establishing effective succession planning. These objectives tend to be core to many or most companies that have well-established practices:

- Identify those with the potential to assume greater responsibility in the organization
- Provide critical development experiences to those that can move into key roles
- Engage the leadership in supporting the development of high-potential leaders
- Build a data base that can be used to make better staffing decisions for key jobs
- Improve employee commitment and retention
- Meet the career development expectations of existing employees
- Counter the increasing difficulty and costs of recruiting employees externally

Reasons for Succession Management:

1) Provide increased opportunities for high-potential workers
2) Identify replacement needs as a means of targeting necessary training, employee education, and employee development
3) Increase the talent pool of promotable employees
4) Contribute to implementing the organization's strategic business plans
5) Help individuals realize their career plans within the organization
6) Tap the potential for intellectual capital in the organization
7) Encourage the advancement of diverse group
8) Improve employee's ability to respond to changing environment demands
9) Improve employee morale
10) Decide which workers can be terminated without damage to the organization
11) Cope with the effects of downsizing

Source: Portions of this material in Effective Succession Planning. Copyright 2001 AMACOM, a division of American Management Association, New York, NY. http://www.amanet.org.

Steps of Succession Management:

The process of succession management involves five steps-

1) **Align Succession Management plans with strategy:**
Management development has to be linked to business plans and strategies. If the business plan focuses on global markets, then managers have to be trained to manage global business. The strategic connection is important, so organizations must start with the business plan.
2) **Identify the skills and competencies needed to meet strategic objectives:**
From the strategic plan, managers can then develop a list of the employee skills and competencies needed. There are at least two approaches to identifying the characteristics of successful managers: the job based and the competency based approaches.
Job- Based Approach- The first impulse is to start with a job. The job-based approach suggests that employees, who have significant experience as managers and have acquired job skills such as motivating, delegating, marketing or managing finances, will make successful managers.
Competency-Based Approach- Competencies are groups of related behaviors that are needed for successful performance. (Strategic Human Resources Planning by Monica Belcourt) Competencies are the capabilities that lead to success. A good place to start preparing a list of competencies is to look at what the experts have said about the competencies of successful managers. By emphasizing competencies rather than job skills, individuals will be more flexible in adapting to changing organizational needs. Three types of competencies are identified – *Core Competencies are characters, such as thinking skills, that every member of the organization is expected to possess.
*Specific competencies are characteristics like business knowledge, shared by different positions within an organization.
*Distinctive competencies are characteristics such as expertise in media relations that apply only to specific positions within an organization.

3) **Identify High Potential Employees**:
Organizations use several approaches to identify managerial talent, including the following-
   a) ***Temporary replacement-*** At the most primitive level, most individual managers will have identified a designated backup and potential successor. This is done in case the manger is away from the work for extended periods (vacation, training).
   b) ***Replacement Chart***- At the next level, some organizations prepare replacement charts with predicted departures dates of the incumbents, along with a short list of possible successors. This is usually done using the performance evaluation data. This list includes those candidates who are ready now, those who will be ready in three to five years and the long shots.
   c) ***Strategic Replacement***- It identifies the leadership competencies it needs, based on organizational plans. The organization then tries to support and train these managers from within. The identification of high-potential people moves beyond the evaluations conducted by one or two managers. Some organizations are moving to 360 degree evaluation for this.
   d) ***Talent Management Culture***- Many organizations, whose CEOs lie awake at nights worrying about their ability to find and keep top talent, have adopted a talent management culture. The winners in the war for talent have developed a talent mindset- that is, they believe that talent matters and it must be developed not only at the top level, but at all levels. Managers try to develop both internal and external lists of high potential candidates. Recruitment is opportunistic that is when a top candidate is found, that person is hired regardless of whether there is a vacancy.

4) **Provide Development Opportunities and Experiences:**
Here we have to consider two things-
   Are leaders born or made?
   Should organizations produce their own managerial talent or buy it on the open market?

Many great leaders have had no formal management training. According to Peter Drucker, "Most managers are made, not born. There has to be systematic work on the supply, the development, and the skills of tomorrow's management. It can't be left to chance." Organizations invest many dollars and resources to develop managers, but perhaps experienced, trained managers could simply be hired from other organizations as well. Moreover, most organizations have a policy of promotion within. Advantages of internal recruitment are-accurate record of the employees' past performance, employees know the objective and culture of the company etc. Organizations also follow some Management development Methods like senior leadership course, developmental assignment, mimicking exactly what the current CEO did, job rotation, formal training and development, mentoring and coaching etc.

5) **Monitor Succession Management**:
Succession planners can use to count the number of predicted "high potential replacements" with actual number of those placed in the position. Employees will receive regular feedback based on the assessment process and would participate in development plans. Organizations measure their success not only by the percentage of positions filled by designated high potential employees, but also by attitude survey of these employees.

Benefits of Succession Management:

- Aligning strategic goals and human resources to enable the "right people in the right place at the right time" to achieve desired business results
- The development of qualified pools of candidates ready to fill critical or key positions
- Providing stability in leadership and other critical positions to sustain a high-performing public service and ensure the uninterrupted delivery of services
- Identifying workforce renewal needs as a means of targeting necessary employee training and development
- Helping individuals realize their career plans and aspirations within the organization
- Improving employees' ability to respond to changing environmental demands, and
- The opportunity for timely corporate knowledge transfer
- Talented employees are more likely to remain if they view the best opportunities for career progressions are with their existing employer.
- When the handover occurs, there are minimal distractions internally and externally.

- If the successor is internal, they will be familiar with the business and company culture and they will be able to solely focus on developing the skill sets of the new role.

As highlighted in the book the Leadership Pipeline (Charam, Drotter, Noel, 2011), recruiting outside talent for key positions has a low success rate. Reasons include:

- Cultural mismatches
- Lack of relationship networks
- Resentment of the internal candidates
- Pressure of learning a new management layer at the same time as learning the new company

The Importance of Succession Planning

Succession planning is an essential part of doing business, no matter how certain your future appears. Some of its importance are-

- **You can't plan for disaster.** No matter how good you and your staff are at revenue projections or economic predictions, no one can truly plan for disaster. Whether it's an unforeseen illness, a natural disaster, or a CEO's decision to suddenly retire, the reasons for having a succession plan in place before it is needed are endless. So while you can't plan for disaster, you can put into place a series of contingencies that will help your company stay afloat if, in fact, catastrophe occurs.
- **Succession planning benefits the business now.** Just as business practices have evolved over the years, succession planning has also grown and changed. It's no longer a plan that can only be accessed when leadership is going to change; a succession plan can be used before its "real" intent is necessary. It can be used to build strong leadership, help a business survive the daily changes in the marketplace, and force executives to review and examine the company's current goals.
- **Succession planning gives your colleagues a voice.** If you're running a family business, the process of succession planning will give family members an opportunity to express their needs and concerns. Giving them that voice will also help create a sense of responsibility throughout the organization, which is critical for successful succession planning. Resist the temptation to solely carry the entire weight of creating and then sustaining a plan.
- **A succession plan can help sustain income and support expenses.** Talking about money should be a priority. People generally don't want to work for free and things don't pay for themselves. A succession plan can provide answers as to what you—and your staff—will need for future income, as well as what kinds of expenses you may incur once you step out of the main leadership role. Ask yourself questions about your annual income and other benefits including health and dental insurance for you and your dependents, life insurance premiums paid for by the company, your car, professional memberships, and other business-related expenses.
- **Succession planning gives you a big picture.** Some companies mistakenly focus solely on replacing high-level executives. A good succession plan can go further, however, and force you to examine all levels of employees. The people who do the day-to-day work are the ones keeping the business going. Neglecting to add them to the succession planning mix could have dire consequences. As you develop your plan, incorporate all layers of management and their direct reports.
- **Succession planning strengthens departmental relationships.** When regular communication occurs between departments you are more likely to experience synergy, which breeds a culture of strength. Make sure that you link your succession planning activities with human resources. After all, HR is about people. By including HR in succession planning, you can incorporate elements like the employee-evaluation process, which can help when deciding whether to fill vacancies with internal candidates.
- **Succession planning keeps the mood buoyant.** Change—a major component of a succession plan—is exciting and can bring a company unforeseen rewards. Still, change can be a source of tremendous stress, especially when people's livelihoods are at stake. As you put your succession plan together, consider its positive effects on the business. Planning for the future is exciting and, if done correctly, can inspire your workers to stay involved and maintain company loyalty. It's true that a plan is often put into place to avert catastrophe, but it's also a company's way of embracing the future—a business strategy that is essential for survival.

Family Firms Failure due to Succession Planning:

Family-owned business represents a significant part of the economy in Bangladesh generating huge revenue and employing many full time and part time employees. Yet not few of these family firms have a business plan and very few of them have a long-term strategic plan. Four out of five owners have retired in today’s date and many of them say that they have not selected a successor. Almost all of this business family has no process for succession management. Many people believe that the business wil not survive without them and they are right.

Research has established that hereditary owners have a poor track record: business handed to sons and daughters fall 50% of the time. There are no such things as the "Lucky Sperm Club"- the factor that drives entrepreneurs to succeed cannot be passed down. As A.Mac Cuddy, the bitter founder of Cuddy International, a multimillion-dollar poultry producer whose company was torn apart in a family feud among his five sons, said, "You can hire better than you can sire". Source: The Rich 100- Succession: Family Circus," (December 31, 2000)

In our country, we can see many family businesses have lost their pride, image, goodwill and are facing financial turbulence. Although it is true that succession management is not the only reason behind it, but yes it is one of the major factors. Because most of the time the successors don't take their education seriously as they are already part of the business or will a holding the future Director, CEO or Chairman of that organization. That's why they believe that they don't need to put that much effort to their training sessions or studies. They just get a degree any way and join their business without any sort of training or experience. But soon they face the consequences of it as expected.

According to the CEO of one of the leading Bangladeshi companies, "After completion of my study from abroad, I just came back and joined my family business without any kind of business experience and now I have to face the consequences for that".

According to the IFC Family Business Governance Handbook, "It is also fact that most family businesses have a very short life span beyond their founder's stage and that some 95% of family business do not survive the third generation of ownership. (Source: The Family Business Network, www.fbn-i.org/main.nsf/doclu/facts). This is often the consequence of a lack of preparation of the subsequent generations to handle the demands of a growing business and a mush larger family. Family business can improve their odds of survival by setting the right governance structures in place and by starting the educational process of the subsequent generation in this area as soon as possible. Most of the family run their business themselves (at least during the first and second generation) , there is usually very little interest in setting clearly articulated business practices and procedures. As the family and its business grow larger, this situation can lead to many inefficiencies and internal conflicts due to proper succession management that could threaten the continuity of the business.

According to John Ward, Creating Effective Boards for Private Enterprises (Family enterprise Publishers, 1991) and Ivan Lansberg, Generation to Generation: Life Cycles of the Family Business (Harvard University Press, 1997), " Perhaps the most important issue that will need to be addressed during the life of the founders is Succession Planning. For the family business to survive into its nest stage, the founders should make the necessary efforts to plan for their succession and start grooming the next leaders of the company. Some of the challenges of the sibling partnership stage are: ensuring succession planning for the key management positions".

Family Business and Succession management:

CEO and senior management succession is probably the most important issue that confronts companies, including family-owned ones. This is because a company's top managers are usually the drivers of its performance, growth, and survival. The issue of management succession is even more important for family business as it becomes particularly thorny as the family grows larger and several potential senior management candidates from different branches of the family becomes available. Any family business put off the succession planning of their senior managers until the last minute, which leads to crises that sometimes can cause the death of the family business. Poor senior management succession planning could indeed be one of the reasons most family businesses disappear before they reach their third generation. (Source: Fred Neubauer and Alden G.lank, The family business:its Governance for Sustainability -Routledge New York, 1998).

Families in business might ignore the necessity of planning for the succession of their CEO for a multitude of reasons. Some of these reasons include:

- Family members delaying the decision in order not to create potential frictions among family members in case several potential CEOs are available within the family.
- Family members delaying the decision because no current family member or outsider is deemed capable of replacing the current CEO.
- Family members avoiding to address this issue in order not to discuss the topic of the eventual loss of a family leader.
- Current CEO refusing to admit that the company can survive without him/her and is afraid of retirement and refusing to address succession issues.

  Source: Ivan Lansberg, The Succession Conspiracy", Family Business Review, June 1988

From the view point of succession management, the following table reflects some employment issues between family First Companies and Business First Companies-

Issue	*Family First Company*	*Business First Company*
Employment policy	Open door policy for all family members	Only qualified family members join the company
Compensation	Equal pay for all	It is based on performance and responsibility
Leadership	Leadership is based on Seniority	Leadership is earned
Training	No formal training programs	Need for formal training is timely recognized

Steps of Succession Planning in Family Business

The CEO succession planning process usually differ from one family business to another depending on the complexity of the business, the degree of involvement of the family in it, and the availability of competent CEO candidates from within the family. The following is a step by step process that can help family businesses get better prepared for their CEO succession:

1) ***Starting Early***: Many family business advisors recommend starting the selection process of the next CEO as early as when the current CEO is appointed. This will ensure the continuity of the business and provide the company with a new CEO that was carefully chosen and well prepared to succeed to the current one. The early start of the CEO selection is important if the next CEO is expected to be chosen from within the family. In this case, the process of selecting and grooming the next CEO from the younger generation would take longer than if the CEO is to be chosen from outside the family. In most family businesses, it is the current CEO who initiates the succession planning process.
2) ***Creating Career Development System:*** If the next CEO will be chosen from the family, a rigorous career development system should be developed to prepare the potential CEOs. Such a system would enhance the competence of the CEO candidate by offering them any necessary education, training and by giving them periodic feedback on their performance within the company.
3) ***Seeking Advice***: Some families find it useful to get the opinion of the family council in the selection process, especially if the CEO candidate is from the family.
4) ***Building Consensus***: It becomes mandatory to involve all key stakeholders in the CEO selection process including the board of directors, senior non-family managers, and family members.
5) ***Clarifying the Transition Process***: Once an adequate succeeding CEO from the family members has been selected, a clear transition process for both the current CEO and the successor should be developed. This transition process would specify the level of involvement of the current CEO after retirement (advice to the successor, members and other activities).
Source: Fred Neubauer and Alden G.Lank, The family Business: its Governance for Sustainability (Routledge New York, 1998)

Conclusion

Although management succession planning can be problematic and even painful, it is vital to ensuring the continuity—and perhaps even the continued existence—of businesses following the departure of the owner or CEO. Many business leaders are reluctant to plan for what will happen when they are no longer with the company, usually because they find it unpleasant to confront their retirement or mortality. It may be helpful to consider succession planning as an extension of employee development programs. "Succession planning," William T. Marshall wrote in *America's Community Banker,* "should reach deeply into an institution's management ranks to prepare managers at all levels for career advancement, perhaps to the very top."

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