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The Crucial Task of Succession Planning

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Whenever the topic of sustainability is brought up, most executives think of the environment and the prudent use of our planet's resources. A less common (but no less applicable) understanding of sustainability is the necessity for businesses to pursue strategies and actions that ensure their longevity.

A key aspect of this longevity is succession planning: the practice of identifying and developing in-house candidates for top executive positions. When properly implemented, succession planning will help ensure an organisation's sustainability.

Yet, while it is usually talked about in passing, succession planning is often only intensely discussed when a director, a chief executive officer or a senior management staff decides to leave the company or retire.

One of the findings of the Singapore Institute of Directors's (SID) Board of Directors Survey 2013 is that 65 per cent of companies said they have succession plans with 74 per cent of them indicating that these plans are largely informal.

When Lee Hsien Yang decided in July 2006 to leave his post as CEO of Singtel, he stayed until April the following year. During this period, Singtel searched both outside and internally among its stalwarts for a suitable successor. It eventually appointed Chua Sock Koong, then its chief financial officer and who has been with Singtel since 1989, to take over as CEO.

But while Singtel had the luxury of time to find a successor, DBS had to scramble when CEO Richard Stanley was suddenly diagnosed with leukaemia. He passed away a few months later from an infection, even though his medical prognosis was good. Chairman Koh Boon Hwee stepped in on a temporary basis after Mr Stanley's death in April 2009 until DBS appointed Piyush Gupta as CEO in November that year.

Importance of planning

A poorly planned succession may have a negative impact on a company's performance, image and, ultimately, its value.

While external candidates are sometimes necessary to fill a critical position, hiring from outside can have negative consequences apart from the time needed to conduct a search. One of these consequences is spiralling executive compensation. Attracting executives from other companies often means matching or exceeding their existing compensation packages, which in turn can create internal pay equity issues. At the same time, even if these incoming executives are proven in their previous organisations, they will be hampered initially by the fact that they are new to the company, and will take time to adapt – if they succeed at all in doing so.

With effective succession planning, the organisation will have a steady supply of well-trained, loyal and experienced personnel who are ready and able to step into positions as and when they are needed. When these candidates have defined career paths and a clear future with the company, the organisation will also be able to recruit and retain better people.

Succession planning is therefore something that must be started way before directors or senior managers resign or leave, or before something unforeseen occurs. It should not be reactive but proactive, and requires a systematic and robust process with the board's active participation and contribution.

Role of the board

The Code of Corporate Governance specifies that the nominating committee should review plans for succession of directors including that of the CEO (Guideline 4.2). In my view, the board should also be responsible for the succession planning of senior management in the organisation. Depending upon the board structure, this function of oversight of top management succession planning could be within the ambit of either the nominating committee or the remuneration committee.

Succession planning should be a formal and structured process. This involves identifying potential immediate and longer-term replacements for key management positions. In some instances, internal talent may initially not be ready, but with time, effort and the necessary guidance, the candidates from within are often the best long-term solution. Succession planning should therefore be complemented with talent management and employee development programmes.

The board should also know and be engaged with the key talents in the organisation beyond the CEO, extending to the other members of the C-suite and a level below. I have seen some CEOs reluctant to have board members meet other members of the key management team. Conversely, the board must also take the initiative to give these senior managers the opportunity to meet them during official board sessions, and informally in social settings.

In our ever-changing business environment, successful executives must have the necessary soft skills and respect of the management team and staff to be successful. By being engaged, the board will be in a better position to form an opinion of the internal talents for proper succession planning.

While having a robust succession planning process does not always guarantee an organisation's success, doing it objectively and with transparency will enhance its chances of ensuring continuity and sustainability.

The writer is a member of the governing council of the Singapore Institute of Directors. This article first appeared in BTInvest,

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