SUCCESSION PLANNING & ITS IMPACT ON ORGANIZATIONAL PERFORMANCE IN IT SECTOR

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ABSTRACT

The present study aimed at measuring the practice of Succession Planning and its impact on Organizational Performance in IT companies based in Chennai. This study falls under descriptive study mainly aimed at fact finding. The method adopted to collect data is questionnaire method. The study found that the mean percentage of Succession Planning and Organizational Performance in IT consultancy firms and the relationship between Succession Planning and Organizational Performance is found to be positive.

Keywords: Succession Planning (SP), Organizational Performance (OP), Information Technology (IT)

Introduction

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. Another issue that needs to be addressed is the recognized need for prudent risk management in anticipation of possible terrorist attack – an issue dramatized by the tragic loss of 172 Corporate Vice-Presidents when the World Trade Center collapsed. The loss of talent in the industrialized nations as a direct consequence of aging workforces also adds to the list.

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 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. 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*

select leaders from among the pool of potential leaders.

Review of Literature

There are a number of researches, surveys and studies conducted in this topic. The studies have been conducted in varied dimensions and also across various sectors of the industry. Here are some of the studies that were conducted by researchers across the globe on "Succession Planning".

Anand Adhikari (2006), in his article *"Who's next?"*, he conveys that succession planning is the biggest challenge the companies in India are facing. Further, At the Tata group, the challenge is even more daunting. Not only does the board need to find and 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. At Wipro, Chairman Azim Premji, 61 needs to get a successor in place too, although Wipro has no retirement age for the chairman. It would be unfortunate if India's CEOs needed to stay on their jobs not because they wanted to, but because they were forced to. At this point, that's the sort of leadership crisis India Inc. seems to be staring at.

M. Dami Baldwin (2005), in his article *"The Strategy of Succession Planning"* he states that succession planning plays a major role in the companies' strategic planning. Succession planning is not only for CEOs but also for all key positions. It further illustrates the advantages and disadvantages associated with succession planning. The process of developing succession planning requires a long-term strategy for the company involving the key area that requires continuity and development and the key people that the organization wishes to develop.

Jeff Weekley (2005), in his study *"Succession Planning: Issues and Answers",* he states that the HR professionals develop the succession planning with a mandate received from the CEO. However, the application of the process is not sure. To put the plan in the process, the organizations should follow a few techniques. That is the CEO must be an avid supporter and an active participant, the line management must own the process with HR playing a supportive role, gaps between the current and future skill requirements are to be identified, succession planning must be consistent with other programs, employees are to be held accountable for their own planning and should focus on the selection process, the planning process has to be reviewed quite often.

Steven Jones (2004), in his study on *"Leadership Succession Planning: A Focus on Midlevel Managers"* highlights the following issues:

1. Many organizations have indicated that they have a formal succession plan. However the depth of these plans has yet to be determined.
2. Organizations continue to select the leaders through crisis management.
3. Many organizations are reluctant to have formal succession planning and do not have resources to invest in succession planning implementation.
4. Succession planning and leadership development has inadequate focus on midlevel managers. Therefore, there is an urgent need for succession planning and leadership development strategies in many of the organizations-with specific emphasis on midlevel managers.

Rationale of the Study

The robust growth of the Indian economy can be attributed to the meteoric success of ' Indian IT Industry '. The Indian Software Industry has grown from a mere US $ 150 million in 1991-92 to a staggering US $ 5.7 billion in 1999-2000. The total share of India's exports in the global market rose from 4.9 per cent in 1997 to 20.4 percent in 2002-03. Software and services revenue grew by 32 percent to $ 22 billion and $ 28.5 billion in 2005-06.Even though the IT business in India has grown by 30% in 2007-08, the estimated growth in the current year is down to a little more than 20%.

It is estimated that by the year 2011, most global organizations will lose 40 percent of their top executives, leaving a vacuum that has to be filled by the rising stars in the company. In an era of stiff competition for seasoned professionals, it has become necessary to identify and develop leaders from within the organization (from succession lists) and empower them with additional responsibility to assume increasing levels of leadership. Currently, there seems to be more emphasis on succession planning and leadership development of the Senior Executive rather than midlevel managers. Hence the need to develop succession planning and leadership development strategies for midlevel managers is critical.

In most global organizations, leadership development initiatives are considered an integral part of the corporate strategy. Global human resources consulting firm Hewitt Associates had conducted a leadership study earlier this year which revealed that 91 percent of the top 20 companies have a process for early identification of leaders compared with 61 percent of the rest; also, 82 percent of the top organizations have formal mentoring programs in comparison to half of the others. IBM, which led the list, has 11 leadership competencies for all management levels. Potential leaders from within the organization are assessed on the basis of these competencies and are included in the succession planning process. Microsoft, which ranked second, is known to attract rare talent, and it is right at the hiring stage that the potential stars are identified to be aggressively groomed later. The leading Indian IT companies like Infosys, TCS, and Wipro have leadership strategies in place, with the top management focused on creating the next line of successors. According to a report by US-based business research firm Cutting Edge, while many companies have succession plans, very few follow through with the rigorous implementation required. In fact, 70 percent of succession plans fail due to bad execution.

Therefore, in this study an effort is made to measure the process of succession planning and its impact on organizational performance in Indian IT sector and specific recommendations are made for improving the quality of succession planning and organizational performance. This study is based on the statistical analysis of data collected from IT companies situated in and around Chennai. An attempt was made to review the related literature in respect of the succession planning and its impact on organizational performance. The end result of this review is to formulate conceptual frame work regarding the selected topic of research.

Objectives of the Study

1. To study the Socio-Economic Characteristics of the respondents
2. To study the Practice of Succession Planning in Organization
3. To study the Organizational Performance of Organization
4. To study the relationship between Practice of Succession Planning and Organizational Performance
5. To study the Association between practice of Succession Planning and Organizational Performance with selected Socio- Economic Characteristics

Method of Investigation

Descriptive research design has been adopted in this study. The purpose of choosing descriptive design is to achieve new insights into the phenomenon of Succession Planning, to formulate a complete and comprehensive picture of Succession Planning which helps the well being of IT company employees.

Judgment Sampling has been adopted in this study. The purpose of choosing judgment sampling is to exercise judgment or expertise, in choosing the elements to be included in sample because researchers believed that they are representative of the population of interest. A total of 150

IT Professionals (Project Leaders) were selected for the study. The study was undertaken in Chennai which is a capital city of Tamil Nadu, where may top notch IT companies are located and from which data has been collected.

The data have been analyzed using "SPSS" Version 11.0. ANOVA and Percentage analysis have been carried out to study the Succession Planning in IT Industry.

Hypothesis

Based on the objectives of the study, the following hypotheses were formulated for testing:
1. The practice of succession planning found to be better in IT Consultancy firms compared to that of IT Product/ IT Research companies
2. The level organizational performance of companies found to be better in IT Consultancy firms compared to that of IT Product/ IT Research companies
3. Succession planning and organizational performance are significantly related
4. Association between practice of Succession Planning and Organizational   Performance with selected Socio- Economic Characteristics found to be significant

Variables
Independent Variables - Organizational Performance

- Top Management Support
- Needs Driven Assessment
- Employee Training
- Other Formal Professional Development Opportunities
- Dedicated Responsibility
- Extends to all levels of the Organization
- Strategic & Working Plan
- Employee Values & attitudes

Dependent Variables - Succession Planning

- Employee Retention
- Employee Satisfaction
- Corporate Image
- Competence Level
- Market Share
- Repeat Business
- New Business expansion
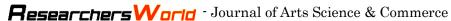- Return On Investment
- Quality costs

Results & Discussion

The summary of the interpretation are as follows:
- o It is interesting to note that among the study group majority were male, belongs to the age group of 31-35 years, with experience between 8-12 years and family income ranging from Rs. 80,000 – 1, 40,000 per month.
- o It is evident from the findings that the higher mean percentage with regard to practice of Succession Planning is observed with the aspect of Top management support in the IT

Consultancy firms (76.2%) when compared to IT Product/ Research firms (73.0). Needs driven assessment is found to be better in IT Product/ Research firms (67.4%) than that of IT Consultancy firms (65.3%). Employee training found to be good in the case of IT Consultancy firms (77.1%), when compared to IT Product/Research firms (75.5%). Development opportunities are higher for IT Consultancy firms (72.8%) when compared to IT Product/Research firms (68.1%). Dedicated responsibility is higher in the case of IT Product/ Research firms (67.2%) when compared to that of IT Consultancy firms (57.2%). Levels of organization found to be better in the case of IT Consultancy firms (67.0%) when compared to IT Product/Research firms (62.2%). Strategic and working plan found to be higher in the case of IT Consultancy firms (73.2%) when compared to IT Product/Research firms (67.2%). Employee values and attitudes are better in the case of IT Consultancy firms (76.4%) when compared to IT Product/Research firms (74.6%).

o   It is clear from the findings that the higher mean percentage with regard to Organizational Performance is observed with the aspect of Employee retention in IT Consultancy firms (84.0%), when compared to that of IT Product/ Research firms (42.4%). Employee satisfaction found to be higher in the case of IT Consultancy firms (84.0%), when compared to that of IT Product/ Research firms (76.8%). Corporate image found to be better in the case of IT Consultancy firms (82.4%), when compared to IT Product/Research firms (80.8%). Quality of service is higher for IT Product/ Research firms (76.0%) when compared to that of IT Consultancy firms (73.6%). Market share remains the same for both IT Consultancy firms (75.2%) and IT Product/Research firms (75.2%). Repeat business is higher in the case of IT Consultancy firms (76.0%) when compared to IT Product/Research firms (75.2%). New business expansion is higher in the case of IT Product/Research firms (77.6%) when compared to IT Consultancy firms (76.8%). Return on investment is higher in the case of IT Consultancy firms (82.4%) when compared to IT Product/Research firms (71.2%). Quality costs are higher in the case of IT Consultancy firms (82.4%) when compared to IT Product/Research firms (75.2%).

o   The study found that the overall mean percentage of Succession Planning Performance of IT Consultancy firms (72.4%) is found to be higher than that of IT Product/ Research firms (70.4%). Further the mean Organizational Performance of IT Consultancy firms (79.6%) are higher than that of the IT Product/ Research firms (76.7%).

o   The relationship between Practice of Succession Planning and Organizational Performance found to be positive in IT Consultancy Groups and IT Product/Research Groups.

o   There exists a significant difference in the Practice of succession planning between male and female respondents

o   It is evident from the research findings that the younger group respondents had high succession planning performance compared to older age group respondents. However, statistically the difference in the succession planning performance found to be non-significant between age groups.

o   The research findings showed that higher the experience of the respondents higher is the succession planning performance level. The statistical results establish significant difference in the succession planning performance between different experience categories of respondents.

o   47.1% of the respondents in the income level of Rs.40,000-80,000 per month possess a high level of Succession Planning Performance and 81.8% of the respondents in the income level of Rs.80,000-1,40,000 per month possess a moderate level of Succession Planning Performance. However the association between Experience and Succession Planning Performance is found to be significant ($X^2 = 4.64*$)

- o It can be considered that performance male respondents to organizational performance found to be slightly higher than that of female respondents. However, the difference in the level of organizational performance between males and females found to be non-significant.
- o The result indicates that younger age group of respondents possesses high level of Organizational performance compared to later counterpart of age group respondents. The difference in the level of organizational performance between study age groups found to be statistically non-significant.
- o It can be concluded that higher the experience of the respondents better is the organizational performance level. Further, statistical findings indicate that the difference in the experience among respondents on level of organizational performance found to be non-significant.
- o It can be inferred that higher the income level of respondents better is the level of Organizational performance. The findings of statistical outcome depicts that the income level found to be non-significant with organizational performance.

Recommendations

The following suggestions are made to make the practice of succession planning culture more meaningful and effective in the respondent companies and thereby enhance organizational effectiveness:

- o Top Management should hold the line management accountable for developing future leaders and simultaneously model the process him or herself.
- o There should be regular reviews to evaluate the succession planning results
- o A needs driven assessment has to be performed, in which positions in need of a succession plan were identified. This list of positions should be referenced and specifically addressed when implementing succession plan.
- o Organizations currently provide employees with the opportunity for professional development through training and job shadowing/rotation for some positions; however, the organization should ensure that this opportunity is implemented for all positions identified through the needs driven assessment.
- o Employees in respondent organizations are currently able to express their career goals with management through the employee evaluation process. Employees are also encouraged to make training choices, as current training opportunities are emailed to all employees when available. To further enhance focus on individual attention in succession planning, management should be more proactive in communicating with employees on their career goals when determining criteria for the annual employee performance evaluation process.
- o Each organization should identify a single employee who will be responsible for monitoring and evaluating succession planning at the agency. Additionally, an employee will be designated from each program area as a liaison that will monitor succession planning within their program area, and report findings on a regular basis to the organization's succession planning coordinator.
- o The succession plan should be communicated throughout the organization. Currently organizations are practicing succession planning at the senior level, but for the plan to truly be successful, it must be organized at middle & lower levels, which will ensure accountability for participation.
- o To boost the morale of employees, ensure that succession planning initiatives are included as one of the attributes in performance appraisal which in turn is linked to the variable pay.

Ending Remarks

For any industry that thrives on the dynamics of constant change, success comes to those who have the foresight and the ability to counter unexpected challenges. The whole process of training these future leaders is evidently time-consuming and requires a lot of additional resources, but in the long run it is a worthwhile investment that is essential for the survival of any organization. In the words of Rashmi Barbhaiya, the President of R&D at Ranbaxy Laboratories India, grooming leaders should be one of the ways of self assessment. "When I am ready to retire, there must be atleast three outstanding candidates ready to takeover." After all, it is more than just the passing of power and responsibility—it is about survival and continuity…..the true challenge for doing business in India!

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