

Appointing a crown prince

The corporate world should take the cue from the Japanese monarchy's succession planning

When the possibility of expecting a male heir from Japan Crown Prince Naruhito and Princess Masako had diminished, there was serious deliberation in the Japanese palace whether female members of the royal family should be allowed to ascend to the Chrysanthemum Throne - something that has not happened since the 1700's. A male heir was finally born to Prince Akishino and Princess Kiko in 2006, and the Imperial family now has its succession plan for the next two generations.

Unfortunately, the same cannot be said for the corporate world. In the most recent Forbes' CEO Network Survey, nearly 56% of C-level respondents said their companies do not have a formalised succession plan in place. According to another study done by the Harvard Business Review, almost two-thirds of large US companies do not have a formalised succession plan as well.

The myth most managements hold about succession planning is that the company does not need a succession plan now, even though unplanned leadership changes can happen unannounced. The thing about succession planning, like all crisis management planning, is that you never know when you really need to put your plans into action.

Jack Welch, ex-chairman and CEO of General Electric (GE), is a strong advocate of succession planning. Ten years into his job at GE in 1991, he made it known that choosing a successor would be the most important decision that he had to make. That was 9 years before his retirement in 2000! This shows that it is never too early to start identifying potential leaders.

For example, the sudden demise of a current leader or forced resignation of a senior executive can create disequilibrium within the organisation. And if the previous leader has been the face of the organisation and strongly associated with the brand, it could affect staff's morale and even shake investors' confidence. These are issues that the top management needs to reduce during a time of uncertainty when there is a transition of leadership. With a well-executed succession plan, the management can pre-empt these issues and address them accordingly.

Furthermore, the development and training of a successor requires time and resources. It is important for the incumbent executive or even the board of directors to determine the skills and capabilities that the new leader would require in order to face the challenges in the next five to ten years. The process takes about two to four years: from identifying the prime candidate to the day the candidate assumes the leadership role. During this time, the successor is trained in the different functions within the organisation and given maximum exposure.

Traditionally, succession planning has been focused on the most senior management and usually meant a vertical move for the identified candidate. However, with the increasingly flatter organisation structure, succession planning should no longer be constrained by upward moves. It proves to be beneficial for organisation if it grooms talent for a lateral move as it facilitates organic growth. A sound succession planning shows that the organisation's leadership is adequately developed to face the current and future market challenges.

All organisations require rejuvenation for the long-term success of the business. The decision whether to source internally or externally for its talent development plan is where the board has to find the right balance. While some may advocate internal employees for their familiarisation of the corporate culture, others prefer external talent as they could bring in fresh ideas and untested approaches. Nevertheless, the vital issue with succession planning is that adequate training must be given to the candidate. Without which, in either case, the successor would find the on-boarding process challenging.

In today's talent crunch, a sound and effective succession plan does help in strengthening an employer's brand. The fact that an organisation is willing to identify, develop and invest in potential

leadership talent for bigger roles sends a very strong message to both internal and external talent that the organisation values human capital.

Hence, whether the institution is a royal family, multi-national or small-and-medium sized business, it is important to have a structured succession plan to ensure the continuity of the empire.

This article is contributed by Mr Josh Goh, Assistant Director, Corporate Services, GSI Executive Search.

