

What is succession planning commerce essay



In Lawrence S. Kleimans writings about the post-hiring phase, he suggests several elements that include training and development, compensation, productivity improvements and both financial and non-financial rewards (p. 8). However, another crucial element that today's employees seriously consider when accepting a job opportunity is the succession planning framework of the organisation in question. Succession planning basically involves the establishing of the right people in the right positions at the right time to enable the division and ultimately the organisation to progress towards its goals. Atwood (2007) reiterates this when he explains that succession planning is the on-going process of identifying future leaders in an organisation and developing these leaders to enable them to helm the organisation effectively (p. 1). Atwood also goes on to explain that the succession planning process involves the reviewing of the organisation's strategic plans, analysing the existing workforce, forecasting potential trends and developing employees through a structured plan to take over from current leaders who retire or decide to leave the organisation for whatever reasons (p. 1).

In Rothwell's (2010) writings, succession planning is defined as a means by which to identify and develop " internal talent to meet current and future talent needs of the organisation" (p. 7). The author further emphasises that succession planning is a deliberate and systematic effort of an organisation to ensure leadership continuity within the organisation. It is also a means to develop intellectual and knowledge capital for the future, and to spur individual advancement (p. 7).

Singer and Griffith (2010) suggest that succession planning is more than just “replacement planning” or merely filling vacancies within the organisation as they occur. The author also states that comprehensive succession management integrates talent management with the organisation’s strategic planning (p. 1). Succession planning is a proactive initiative which does not wait for the talent or those in key positions to leave the organisation before the process kick-starts. Succession planning is an initiative that is ahead of the curve, anticipating, developing, and ensuring that key tasks are accomplished and knowledge is shared as well as transferred healthily (p. 7).

Another explanation of succession planning to mull over is Olstein, Marden, Voeller and Jennings (2005), whereby the authors suggest that succession planning is a utility that encompasses a well-developed plan to prepare for the future generational change (p. 15). Succession planning is further reiterated as a methodical process that involves analysing the existing workforce, identifying the needs of the workforce in the future and determining the gap between the current and future. It also includes implementing solutions so that the organisation is able to achieve its corporate aspirations (p. 16).

Hastings (2005) explains succession planning in four phases as illustrated below in diagram 1. 1:

Diagram 1. 1: Four Phases of Succession Planning (Source: Hastings, 2005, p. 2)

The diagram above talks about 4 phases in succession planning that are crucial for the process to be effective. Hastings also reiterates the earlier <https://assignbuster.com/what-is-succession-planning-commerce-essay/>

statements that succession planning is an on-going process and not just a one-time effort. The organisation has to keep the cycle of succession planning going in order for it to be able to effectively position its leadership candidates in the right places.

1. 1 Who Needs Succession Planning?

Succession planning should be undertaken by organisations who wish to continue their successes in the future or who plan to expand their success in the future. Shipman (2007) states that competitive organisations know that investing in their employees with career development and a good succession planning framework is an investment that will reap multiple rewards (p. 24). Shipman also states that due to the ageing workforce, succession planning is a priority that must be looked into in today's organisations (p. 25). It is an initiative that should involve employees with good performance and who show great potential for leadership roles within the organisation. Succession planning can involve employees from all levels of jobs.

Hastings (2005) states that succession planning is needed for staff, with input from staff as well, as staff need to be aligned to the organisation's succession planning framework in order for it to work effectively (3).

In Rothwell's (2005) writings he states that organisational leaders must realise that their company's long-term viability is at stake if they do not seriously structure succession planning. It will affect the retention of qualified talents within the organisation which will lead to serious effects on the organisation's strategic objectives (p. 27).

An effective succession plan will enhance the smooth transfer of business and allow the organisation to maintain good relationships with employees and business partners by way of (excerpt from the Canada Business Network):

Protecting the business' legacy

Building value for the organisations and its business

Providing financial security for stakeholders

Dealing with unexpected leadership absences such as death, resignations or termination.

Preparing for the future of the business

Therefore it can be concluded that succession planning is not only need for the organisation's workforce but also for the organisation itself to maintain its competitiveness and to achieve its corporate objectives and goals.

1. 2 The Importance of Succession Planning

According to Rothwell (2005), succession planning is important for 4 main reasons (p. 41):

The continued success and survival of the organisation which depends on the right people being at the right positions at the right time.

The lack of good leadership in the market at large to take on the helm of an organisation

To encourage diversity and multiculturalism within the organisation

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To establish the basis for career path planning, development and training plans

In the Houston Chronicle (<http://smallbusiness.chron.com/importance-succession-planning-5129.html>), Louise Balle suggests that succession planning is an approach whereby an organisation or business owner transfers knowledge or even the administration of the business to another capable or well-equipped individual upon retirement, disability or even death. Balle further reiterates that a succession plan is important because it offers the organisation's management or the business owner an alternative for when the need arises.

In Elizabeth Harrin's (2010) article in The Glasshammer website, it is stated that the number of managers available to step into leadership roles will drop dramatically in the coming years according to a study by EgonZehnder International. The study states that the average company will be left with just one half of its talents by 2015, due to the fact that there are just not sufficient people with the right skills and experience to take the reigns for the future (excerpt from <http://www.theglasshammer.com/news/2010/04/27/developing-future-leaders/>). Therefore, succession planning is a crucial element to ensure leadership continuity within an organisation, without which the organisation will have no capable leaders at the helm for the future.

The HR Council for the Non-Profit Sector (excerpt from http://hrcouncil.ca/hr-toolkit/planning-succession.cfm#_secA3) states that succession planning is important because it can offer the following benefits:

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The assurance that the organisation is prepared for leadership crises and can maintain leadership continuity.

The continued supply of qualified and motivated people who are capable and prepared to take on the current senior positions within the organisation.

Assures alignment of the organisation's vision and human resources that reflect a good understanding for strategic human capital planning.

Shows the organisation's strong commitment towards developing its people's career paths as well as enabling the organisation to facilitate effective recruitment and retention of high-performing employees.

A strong reputation as an employer who invests in its people and provides opportunities for advancement.

Strengthen employee engagement conveying the message that the organisation values its employees.

In an article in The StarBiz (2 July 2007), it is stated that Malaysian companies are generally aware of the importance of succession planning, particularly larger corporations. The article quotes SMR Technologies Bhd Chairman and Chief Executive Officer, Dr R. Palan as saying that common sense dictates that an organisation should have a succession plan in place despite their size and status. Palan also states that in Malaysian government-linked companies, much effort has been made to develop the next level of leadership in a conscious and planned manner. He said that there is a common trend worldwide for large companies to focus on developing stars and "A" players - the top 5 per cent of a company's manpower. He

reiterates that smooth successions were a result of well-thought plans to ensure business continuity (excerpt from <http://biz.thestar.com.my/news/story.asp?file=/2007/7/2/business/18179462&sec=business>).

Dr Palan offers an example in The General Electric Company (GE), whereby he states GE is arguably one of the most successful companies in the world with a good track record of returns to shareholders. Dr Palan explains that this is attributed to GE's CEO Jack Walsh, having a pool of three successors, before he retired, to take on the administration of the company. One succeeded Jack Walsh whilst the other two went on to contribute successfully in other corporations. Dr Palan stresses that companies should have a succession plan as it is the only way to stay relevant in a changing world (excerpt from <http://biz.thestar.com.my/news/story.asp?file=/2007/7/2/business/18179462&sec=business>).

Another statement by a Malaysian business stalwart in The StarBiz (2 July 2010) - Dr Michael Yeoh states that Malaysian corporations were now increasingly aware of the importance of succession planning in order to establish business continuity in the interests of stakeholders. He quotes that some listed companies on Bursa Malaysia now have three or four possible candidates that could replace the CEO if and when necessary (<http://biz.thestar.com.my/news/story.asp?file=/2007/7/2/business/18179462&sec=business>).

1.3 The Current Issues in Succession Planning

The current issues affecting succession planning can take on many facets. According to Rothwell (2001), these issues can include (article 78);

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An aging workforce and retirement of Baby Boomers.

Changes in the work environment with varying processes, technologies and mechanisms.

Changes in the workforce with regard to diversity, with the increasing number of immigrant workers in all sectors.

Globalisation which includes rules and regulations, government policies and processes as well as evolving methods of business transactions.

Military conflicts, affecting countries with civil instability.

Technology accelerators, that enable business to be done in a myriad of methods which are different from past business transactions in the 1990s and before that.

Tight labour market

Unethical and unprofessional behaviour of organisation leadership, that includes prejudice, unequal opportunities and unprofessionalism, amongst others.

According to Mathis and Jackson (2010), issues surrounding succession planning are prevalent worldwide. The authors state that the percentage of the aging population in the workforce in Japan, Germany, Italy and England, are even higher than in the USA. Their analysis says that with the growth of the immigrants, employers are facing both legal and workforce diversity issues. The authors also state that in countries with growing native workforces, such as China and India, succession planning is crucial (p. 290).

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Mandi (2008) explains that issues relating to succession planning can stem from various aspects. Effective succession planning involves the identification and selection of future key leaders, however, if there are no suitable candidates for leadership within the organisation, that poses another problem (p. 88). Organisations must have a formal and structured succession planning framework to ensure the success of this process. Without a formal and structured framework, organisations are sure to meet failure. Many organisations today, especially the smaller establishments, may not see the succession planning as mission critical until a leadership crises hits them. However, succession planning does not always guarantee success for the organisation, however, it can set the organisation on the right path to success. Achieving that success is altogether another aspect to consider and analyse.

1. 4 How To Effectively Conduct Succession Planning

According to an article in The Star (30 October 2012), change can be traumatic. Large organisations, small businesses, families and even governments are at their most vulnerable during a leadership transition. In many cases, the moment a new CEO takes up the reins, there will be issues, regardless of how competent or experienced the new leaders is on paper. The article suggests 6 critical steps to kick-start succession planning within the organisation:

Align the board and top management with the organisation's business strategy and map out short-term, mid-term and long-term wins. It defeats the purpose of identifying new leadership candidates to lead the organisation into the future if the future itself is not clear.

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Build leadership profiles. Identify the attributes needed to help the company achieve its corporate goals. Identify the ideal skills needed and analyse the board's or top management's vision of the ideal CEO in the next five to ten years.

Identify high potential talent. Find people within the organisation and externally, who have leadership potential and match them to the ideal vision of the corporate leadership.

Develop talent. Have clear cut developmental plans for high-potential leadership candidates, so as to groom these candidates to take on the intended leadership roles within the organisation. Identify their areas of weakness or inexperience and device structured plans to address these areas and provide them with opportunities for more exposure within the organisation. This might mean giving them the opportunity for hands-on experience in management positions that they have never dealt with previously, sending them on overseas assignments, improving their technical skills and business acumen and even shadowing a member of senior management to learn the ropes.

Coach high potential candidates. Management succession candidates should receive one-on-one sessions with high level executives to learn more about top management functions and how to manage problems. Internal mentoring is a powerful tool and is incredibly valuable. External executive coaching is also an excellent way to learn new and innovative techniques from other successful leaders.

Transfer knowledge. It is crucial for succession planning to establish mechanisms that maintain succession planning despite board or management turnover. The succession planning momentum must be maintained regardless of the changes happening within the organisation. Only then can succession planning be effectively administered within the organisation.

Close monitoring of candidates' progress. Succession candidates must be closely monitored with regard to their progress and development. A candidate chosen today may not be suitable anymore after a one-year period. Candidates must be evaluated periodically on their current suitability for potential leadership positions in the future.

According to Durai (2010), prerequisites for successful succession planning include the following (p. 246);

Complete support and patronage from top management.

The organisation must periodically review the list of critical positions within the organisation and bring them under the succession planning programme.

Whilst determining HR strategies for training and development, the succession planning requirements must be taken into account.

The knowledge, skills and capabilities of employees must be developed on a sustained basis.

A proper mechanism must be established to provide constant feedback to the potential successors about their performance and progress.

The organisation needs to adopt a strategic and holistic approach to succession planning as well as the development of its leadership.

1.5 Conclusion

Many organisations realise the importance of succession planning and have great plans to support this idea. However well these plans may have been crafted, there may be hitches in them that need to be addressed. According to Durai (2010), these impediments may include the following (p. 246):

Lack of criteria for the identification of the successor

Organisations must set clear-cut criteria for the selection of potential succession candidates. This will outline an unbiased framework for the selection of eligible and capable candidates.

Existence of traditional succession planning systems

Many traditional succession planning systems entail the selection of succession candidates to replace specific individuals instead of the position. This kind of system can often end-up with the identification of a few subordinates by the senior managers for inclusion in the succession planning programme. The organisation should instead identify key positions to be included in the succession planning programme. Only then it should develop a pool of high-potential candidates for inclusion in the succession planning process.

Inaccurate diagnosis of development requirements

There are many cases where organisations make a wrong assessment of skills requirements of potential candidates. When skills requirements are misjudged, it can lead to the inaccurate selection of training and

development approaches as well as performance evaluation methods.

Therefore it is crucial for organisations to engage proven methods to identify skills and knowledge requirements for its succession planning candidates.

Insufficient emphasis on interpersonal skills requirements

Leaders should have good interpersonal and team-building skills that can help them engage employees. Therefore, succession planning candidates for leadership positions must be evaluated on their ability to engage people within the organisation. Often this is not properly evaluated leaving gaps on communication, motivation and socialisation skills for potential candidates.

Lack of sufficient and timely sharing of feedback

The lack of feedback and guidance towards a succession candidate can drive the successor out of the organisation due to frustration and a lack of purpose. Therefore it is importance for potential candidates to know that they are in the succession planning line for leadership positions in order for them to be well-aligned with HR's plans.

Lack of follow-up actions

In many organisations, succession planning often remains in the background without clear-cut follow-up plans and actions. In these organisations, management fails at taking succession planning to its logical end, resulting in the chosen candidates for succession being left in limbo. This speaks about bad planning and implementation for succession planning within the organisation.

Absence of managerial initiative and support

Management initiative and support are crucial to the success of succession planning. Therefore it is important for HR to educate management on the benefits of succession planning so that management can support this concept on a sustained basis.

Psychological effects and insecurity of superiors

It is quite common for managers to feel threatened when succession planning is done for their positions as they see it to be an end of their own career. In cases like this, an insecure superior may display disinterest and even apathy in sharing his skills and knowledge with potential candidates. To address this, top management must enlighten managers about the purpose surrounding the succession planning framework and dispel apprehensions about the programme.

QUESTION 2: COMPETENCY-BASED PAY

2.1 What is Competency-based Pay?

Lawrence Kleinman's article on Human Resource Management (HRM) offers a broad perspective of human resource management. The article suggests that human resource has gone beyond just hiring and paying employees. Instead, he states that HRM encompasses a whole paradigm of human capital management with many facets, one of which includes the strategic intent behind an employee's pay scale.

Traditionally, wages have always been determined by the assigned job of an employee. However, in today's human resource management, many organisations are adopting the approach of competency-based pay.

According to Caruth and Handlogten (2001), competency-based pay is a salary structure whereby workers are paid not simply for the job they may be doing presently, but on the basis of the total number of jobs they are able to perform or on the basis of the depth of knowledge they have acquired (p. 146). Another explanation of competency-based pay by Baldwin (2003) states that employees' value depends on what they can do, based on their respective competencies. The more an employee is able to do, the more the organisation can expect and the greater the individual's value (p. 101). The author states that competency-based pay stresses importance on the competency of an employee (p. 101).

According to Robbins, Odendaal and Roodt (2003), competency-based pay is another alternative to job-based pay. Instead of having an individual's job title define his or her pay, competency-based pay sets pay levels on the basis of how much an employee can do and how many skills the employee has (p. 161). The United Kingdom's Local Government Employers (excerpt from www.lge.gov.uk) define competency-based pay as a system that rewards individuals who positively contribute to the overall values and objectives of the organisation - basically meaning, rewarding the way people work and not just acknowledging their delivery capabilities.

Another definition to consider is one by Jackson, Schuler and Werner (1985), who explain that a competency-based pay structure is associated with the skills of individuals, whereby pay rates are reflect the value assigned to the demonstrated skills of employees and not the value affixed to their job or task (p. 383). In article by Sriyan De Silva (1998) for the International Labour Office, competency-based pay or skill-based pay refers to a pay system

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which is linked to the depth of skills an employee acquires and applies. De Silva further adds that competency-based pay is a person-based pay system and not a job-based pay system. It rewards an employee for what the employee is worth - it rewards a broad range of skills which encourages the employee to be multi-skilled and flexible (excerpt from <http://www.ilo.org>).

2. 2 Why Adopt A Competency-based Pay Scheme?

Caruth and Handlogten (2001) suggest that the competency-based pay schemes are a result of organisational downsizing and restructuring. As organisations become leaner and more cost conscious, it is crucial for employees to be able to perform multiple tasks. (p. 146). Kusluvan (2003) states that competency-based pay systems motivate employees to develop and apply their agility and initiative when performing their duties or servicing customers (p. 795). This is a kind of incentive to draw more hidden talents out of employees and harness their hidden potential. In today's materialistic world, as much as it may sound decadent, money is the highest motivating factor for workers. Employees who were once redundant and unproductive can be actually change to be more innovative, contribute more productively and achieve performance excellence by way of monetary incentives. This, of course, may not work for certain groups of people who are not motivated by money however, the majority seems to jump with the sight of monetary-based incentives.

Robbins, Odendaal and Roodt (2003) suggest that competency-based pay offers flexibility from a management perspective (p. 161). Filling vacancies is easier when employee skills are interchangeable - this is especially true in today's context whereby organisations are downsizing and cutting the size of

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their workforces. The authors state that downsized organisations require more generalists as compared to specialists (p. 161). With competency-based pay schemes employers are less likely to encounter self-centeredness amongst employees and the attitude of "It's not my job". Another aspect that Robbins, Odendaal and Roodt (2003) raise is that competency-based pay schemes help meet the needs of ambitious employees who confront minimal advancement opportunities (p. 161). These employees are able to increase their earning capacity and knowledge without a promotion in job title or role. Competency-based pay is also able drive performance excellence and improvements. Robbins, Odendaal and Roodt quote survey of Fortune 1000 companies which found that 60 per cent of those on a competency-based pay scheme indicated higher success rates in increasing organisational performance, whilst only 6 per cent considered this approach unsuccessful (p. 161).

In today's business environment, where productivity is number one, competency-based pay systems offer employers an edge to garner more productivity from their employees, resulting in better business performance and more improvements.

2.3 The Advantages and Disadvantages of Competency-based Pay

Advantages

Disadvantages

According to Messmer (2007), competency-based pay schemes create incentives for sustained improved performance (p. 174). This approach

appeals to high performers who prefer to be paid on the basis of what they contribute and not on seniority (p. 174).

According to Messmer (2007), competencies must be outlined carefully to avoid potential discrimination charges. Messmer also suggests that it may be incompatible with labour contracts associated with unionised workers (p. 174).

Competency-based pay schemes helps employees grow in place and provides them the guidance for closing knowledge gaps required for lateral moves within the organisation (Arthur, 2001, p. 67).

Competency-based pay schemes can lead to employees being “ topped-out”, which means they can learn all the skills the programme calls for them to learn, which in turn will frustrate employees after they have become challenged by an environment of learning, growth and continual pay raises (Robbins, 2003, p. 179).

It reduces the need for promotion in order to earn higher wages and offers employees the opportunity earn higher wages through skills enhancement (DeSilva, 1998, [www. ilo. org](http://www.ilo.org)).

Competency-based pay schemes do not address the level of performance, instead it only deals with whether an employee can perform the skill (Robbins, 2003, p. 179).

The broadening of skills results in employees developing a better perspective of operations in its entirety (DeSilva, 1998, [www. ilo. org](http://www.ilo.org)).

Associating competency to pay requires substantial investments in training and development facilities as well as competence assessment systems, in order to provide all employees the opportunity to increase competency and pay levels (White, Druker, 2000, p. 88).

Competency-based pay schemes break down narrow job classifications and enlarges job roles (DeSilva, 1998, www.ilo.org).

Can be tedious and challenging to manage as pay has to be constantly calculated based on the set formula and criteria.

2. 4 How To Conduct An Effective Competency-based Pay Scheme For Middle Managers in the Marketing Department

It is crucial for an organisation to constantly evaluate and review their total pay structure in order to remain relevant in the ever-evolving business environment and to retain critical talents. In order to drive performance and maximise value, it is crucial to remunerate employees based on their competence levels, skills sets, capabilities, contributions and result-based performance.

Competency-based Pay for Campap's Middle Management

This study will analyse competency-based pay scheme to be implemented for CheeWah Corporation Berhad - a stationary solutions provider in Malaysia operating with the brand name Campap (excerpt from www.campap.com). The company has outlets located in major cities in Malaysia and has a marketing department comprising of 55 employees. The marketing department comprises the following organisational structure:

Diagram 2. 1: CheeWah Corporation's Marketing Department Organisation Chart

In the case of CheeWah, the competency-based pay scheme will be introduced first to middle managers in the marketing department, which are the Senior Marketing Managers. The competency-based pay scheme will need to take into account the company's vision which is " We aspire to be the LEADING supplier that commits to meet and exceed our customer's expectations" (excerpt from www.campap.com). Their human resource management is aligned around the theme " Developing our people to drive corporate growth". Before this study delves into CheeWah's competency-based pay model, other pay models will be discussed for comparison.

Competency-based Pay Models

Kusluvan (2003) describes a competency-based pay model whereby it is a process identical to a selection strategy where traits most valued by the organisation are identified and ways to embed these traits into the employees' competencies and performance goals are derived (p. 795).

Heneman (2002) describes a competency-based pay model whereby compensation is adjusted when an employee demonstrates with knowledge and performance tests that he or she has the required skills to reach the next level (p. 160).

Wright (2004) describes a competency-based pay model that takes into account innovation, quality enhancement and cost reduction aside from the employee's skills and competencies (p. 4).

In the case of CheeWah, the competency-based pay model for middle managers will take the following approach:

CheeWah Corporation's Competency-based Pay Model for the Marketing Department

Organisational Vision, Business Strategy and Human Resource Mandate

Required Employee Behaviour

HR and Reward Policies

Industry Leadership

Proactive and constantly seeking to expand their areas of coverage.

Regular association and engagement with industry leaders and leadership platforms.

Pay raise based on annual achievements of industry engagement opportunities.

Financial remuneration for each leadership platform penetrated on an annual basis.

Corporate Growth

The ability to establish new business opportunities and penetrate new markets.

A 2 percent commission on each new business gained and 10% increment per annum for the total number of new business gained per annum.

The opportunity for an all-paid overseas trip for the achievement of industry awards for performance excellence.

Cost Reduction/ Minimisation

The strategic ability t