

Succession planning: some lessons

From time immemorial, human societies have had some system or another to organise themselves so as to live happily with minimum conflicts. These organisational arrangements have been at various levels like a nation, a state, a district or a town, a village, etc. Before the modern democratic systems came into existence, there was a system of kings and their representatives down the line from macro to micro levels who took decisions in their respectively assigned territory and the population would follow these kings or king's representatives. Kings or rulers had their respective councils to advise them on various matters to run the system efficiently. In normal course, the eldest son or some other worthy member of the ruler's family would succeed the ruler. With the passage of time, in a large measure, democratic systems have replaced the system of kings and rulers, nominated by kings. In democratic system, the succession happens through electoral process. Most of the collectives – whether at the level of a country or a state or any other defined territorial level – change their rulers/governments by voting in favour of those whom they want to be governed by.

Business organisations also have a defined structure. But the issue of succession is not well defined. How does a succession happen in business companies? Nowadays, many corporate groups are big in size and their activities are spread across many countries. On the other hand, there are also small companies whose business interests may be limited both in geographical spread as well as asset/revenue size. Small companies are generally managed by a family and the succession happens within the family when the need arises due to retirement, death, ill-health, etc. of the incumbent. For the big corporate, the issue is not so simple. Some of them are family managed while others are professionally managed. All important decisions are taken by the board of directors (BOD), which consists of chairman and directors. Some of the directors are known as independent directors. It is the responsibility of the board to not only direct and guide the business of the company in the interest of shareholders as well as all other stakeholders, but also find a successor to chairman and chief executive officer (CEO) as and when the occasion for doing so arises.

In the recent past, one of the well-known business giants from India, known as Tata Group, has been in news on the issue of succession planning. The group has many companies with its revenue in the range of \$100 billion and about 150 years of history behind it. Mr Ratan Tata, a well-known and highly respected business leader, was the Chairman of Tata Sons, the holding company of the Tata Group. Mr Ratan Tata did not retire at the age of 65 years, which is the age of retirement in many organisations. The company wanted that he continue to guide the company affairs till the age of 75 years, which he did remarkably well until 2012.

Before his retirement, a search committee, chaired by him, selected Mr Cyrus Mistry as his successor. Mr Mistry became the Chairman of Tata Sons in 2012. Things seemed to be going on well but suddenly in 2016, less than four years of his appointment, Mr Mistry was voted out from the position of Chairman by the BOD. He was replaced by none other than Mr Ratan Tata himself, as Interim Chairman. The exchange of communication that was widely reported in the press indicated that, among other things, Mr Mistry could not earn the trust and goodwill of outgoing or Emeritus Chairman, that is, Mr Ratan Tata. Mr Mistry was, perhaps, trying to change some of the decisions of his predecessor or was not willing to fully respect the commitments which his predecessor had made in the past. Though the businesses of the Tata Group companies were not declining in any spectacular manner,



yet the decision was taken to replace him. It is to be noted that the majority holding of Tata Sons is in the hands of Tata Trusts whose chief is Mr Ratan Tata himself. So it was expected that the Chairman of Tata Sons, Mr Mistry, would have to enjoy the goodwill of Tata Trusts and their chief. Be that as it may, the sudden exit of Mr Cyrus Mistry has given some food for thought for corporate academics on the issue of succession planning.

Of course, the issue of the succession planning at Tata Sons is not an isolated case. There have been instances of conflicts between the successor and predecessor in some other companies too. In some cases, the differences of opinions are expressed and the successor (who is actively in charge is to take action or ignore the view of predecessor) takes them in his/her stride. In other cases, differences may lead to problems. For example, Mr Douglas Ivester resigned suddenly, from the leadership role of Coke in USA, some years back, perhaps, taking cues from the board of the company. Ivester had been a long-time CFO of the company and was appointed as the CEO in 1997 after the death of his predecessor, Robert Goizueta. He was asked to leave within less than three years of his appointment because of his poor handling of product contamination scare in Europe. There have been other cases, less serious in nature, such as Jack Welch, the former Chairman of General Electric, commenting on his successor, Jeft Immelt, or former Chairman of Infosys, Mr Narayanmurthy commenting on the current leadership of Infosys.

Such instances raise several questions relating to succession planning. What are the governance issues in succession planning? How should succession be done? Who are responsible for a successful succession? Are these issues of organisational culture or individual personalities? Should the supposed successor be guided by hand holding before he/she actually succeeds?

I hope the academic researchers will develop the case studies on some of the issues which are intimately linked with succession planning and successful succession in corporate firms.

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