

**A STUDY OF
SUCCESSION PLANNING IMPLEMENTATION
IN MALAYSIA**

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ABSTRAK

Pelaksanaan perancangan penggantian telah mendapat tumpuan hebat daripada firma peniagaan global terutamanya selepas tragedi September 11, 2001. Semakin banyak firma mengikhtiraf bahawa pelaksanaan perancangan penggantian pada tahap tinggi adalah satu kemestian. Justeru itu, adalah keperluan untuk menyiasat and memahami bagaimana faktor-faktor seperti pengurus bersedia mengundurkan diri dan kemunculan pengganti yang bijak dapat menyokong pelaksanaan rancangan penggantian. Kajian ini menyelidik perhubungan di antara kesediaan pengurus mengundur diri dan kemunculan pengganti yang bijak dengan pelaksanaan rancangan penggantian dari segi formalisasi, penilaian prestasi dan pelan peningkatan persendirian. Data penyelidikan ini dikumpulkan melalui soal-selidik yang telah diedarkan kepada industri pengilangan dan pembuatan yang terletak di Pulau Pinang dan negeri Kedah. Sebanyak 102 soal-selidik sudah dipulangkan pada masa yang ditetapkan dan hanya 96 soal-selidik yang boleh dipakai dalam kajian ini sahaja. Keputusan penyelidikan ini menunjukkan tiada perhubungan di antara persediaan pengurus mengundur diri dan kemunculan pengganti yang bijak dengan pelaksanaan rancangan. Pada kesimpulannya, process pelaksanaan rancangan penggantian secara formal seperti yang dicadangkan tidak dapat ditentukan oleh persediaan mengundur diri dan kemunculan pengganti yang bijak.

ABSTRACT

The implementation of succession planning has drawn significant attention from the global business firms especially after the September 11 tragedy. More firms acknowledge that there is a must to get successors ready to replenish top position when they are gone. There is a need also to develop a better understanding of how the incumbent's propensity to step aside and the presence of competent successor in influencing the implementation of succession planning in Malaysia context despite many researches have been done in foreign countries. This study investigates the relationship between propensity to step aside, existence of competent successors and succession planning implementation from the perspective of formality, performance evaluation and individual development plan. The data were collected by means of questionnaire survey distributed to manufacturing firms located in Penang and Kedah. A total of 102 responded of which 96 are usable for data analysis. The results revealed that there was no significant correlation between propensity to step aside, existence of competent successors and succession planning implementation. In conclusion, formal succession planning process as suggested through literature review is not significantly supported by propensity to step aside or existence of competent successors.

Chapter 1

INTRODUCTION

1.1 Introduction

Leadership is a clear priority for today's top organizations. Succession planning is all about ensuring that organizations have identified and developed short-term and often long-term skilled and knowledgeable leaders ready to execute business strategies now and in the future. It has long been advocated as good practice to have some form of succession planning process. Over the years, there have been several exemplary reviews of research on succession (Brady and Helmich, 1984; Gordon and Rosen, 1981; Handler, 1994). Research tells us that it takes years to develop a high-potential individual to the point that they are capable of taking on a senior leadership position. A failure to appropriately prepare for succession has been cited as a major impediment to survival (Beckhard and Dyer, 1983; Handler, 1988) or business threat.

In addition, the world today is increasingly fraught with evolving risks and uncertainty. Majority of companies today do a haphazard job of identifying, developing and grooming successors for key positions. The fact is, not preparing for the inevitable exposes a company to significant risk. Furthermore, every employee will eventually leave a job or change to other departments, whether through natural progression or unusual occurrence. Succession planning, therefore, should be systematic, ongoing and practiced strategic management throughout the company, from critical senior management positions down to shop floor worker.

1.2 Background of the Study

According to Hirsh (1998), succession planning is defined as a process by which one or more successors are identified for key posts (or groups of similar key posts), and career moves and/or development activities are planned for these successors. The purpose of succession planning is to help management build the organizational capability necessary to achieve business results and also to translate business strategies into organizational capabilities that will enable the organization to be successful in the future.

Many organizations are challenged by ever evolving work environments and the concomitant to deal with rapid change, risk and uncertainty, therefore succession planning is seen as a crucial process by most organizations nowadays to ensure the continuity and prosperity of the business. While many organizations have had backup and recovery or contingency plans as well as business continuation plans, they have been focused on business and technical recovery. Few have addressed succession planning, and those who have, only for the top executives (Ong, 2002).

There is empirical evidence that succession planning and management development can and do contribute to extraordinary business success. In the book *Built to Last*, Jim Collins and Jerry Porras (cr: Hagberg Consulting Group, 2001; http://w3.hcgnet.com/succplan_benefits.html) identified 18 companies that have been leaders in their industries for at least 50 to 100 years. They found that one of the key variables enabling these visionary companies to be outstandingly successful over long periods of time was their very strong focus on succession planning and management development.

In the past, succession planning typically focuses on replacements for the most senior jobs in the organization (the top two or three tiers) plus short and long-term

successors for these posts. In the US there is a vast literature about CEO succession, and the terms there often seems to imply succession to the most important job in the organization. In the UK, succession concerns still focus on the pinnacle of the organization, but the term 'succession planning' usually implies a broader process for examining a range of senior jobs, not just the CEO (Hirsh, 1998). However, inherent in the arguments of Brady and Helmich (1984) was the idea that succession is a traumatic event for any organization. It affects not only the members of the organization but the firm's economic and political climate as well. Therefore, today many large organizations are learning that the focus must not be only on top positions and adopt a 'devolved' model where the same processes' philosophies are applied to a much larger population. It has become more flexible and less bureaucratic. It is seen more as a management process, led by the line and supported by HR. With the potential shortage of leadership at all levels, the succession planning process should be implemented throughout the entire organization which covers at all levels of supervisors, managers and executives. Thus, in this study, we study the perception of succession implementation from the perspective of both managers and employees as well.

Succession planning is a very challenging and important undertaking especially in today's business environment where globalization creates ever-increasing competitiveness and also high risk of unusual occurrence. A lack of succession planning can lead to business failure and loss of jobs (File and Prince, 1996). Without appropriate succession planning, difficulties in these firms could produce a cascading effect on our economy. Thus, it is important to gain a better understanding of the succession planning used in the organizations. It is also important to understand the factors that influence the approach taken to succession

planning. Such knowledge help to provide clues about why succession planning is attempted or not, why particular approaches are favored or not, and the perspectives of the stakeholders in the organization.

This study adopts the conceptual model of Sharma, Chua and Chrisman (2000) and Deegan II (1986). Sharma et al. (2000) studied the perceptions of managers and employees towards succession planning implementation in family business in Canada. The author examined the influence of individual (e.g. CEO characteristic, individual relationship), organization (e.g. incumbent's propensity to step aside, existence of competent successor, active advisory board) and environmental factors (e.g. business competitiveness) on succession planning implementation. Deegan II described the formal process of succession planning implementation through formality, performance evaluation and individual development plan. In this study, we examine only two organizational factors (incumbent's propensity to step aside and existence of competent successor) on succession planning implementation in multinational companies (MNC) in Malaysia. We felt that these two factors are most salient in the Malaysia context.

1.3 Problem Statement

In the past, succession planning is a clear priority of family business and typically focuses only on top management positions. Today, it is not just the concern of small family businesses, but it is also the concern of small or medium sized businesses to large conglomerates as evidenced in the growing interest of research on succession planning in all businesses (Cannella and Wei Shen, 2001; Vancil, 1987). In Malaysia, we are yet to explore to what extent succession planning is practiced in the Malaysia manufacturing companies and what organizational factors (incumbent's propensity to

step aside and existence of competent successor) have significant relationship with succession planning implementation. Therefore, this study is conducted to investigate whether two of the organizational factors underlined in the succession planning literature (e.g. incumbent's propensity to step aside and existence of competent successors) have significant impact on succession planning implementation.

1.4 Research Objectives

Researchers have long emphasized succession planning's importance in ensuring the continuity and prosperity of a business (e.g., Christensen, 1953; Trow, 1961; Ward, 1987). Succession planning affects all types of constituents at virtually every level of the organization and this makes succession planning a defining event for virtually every organization. Even though succession planning is a key topic in the literature, there has been relatively little effort done by researchers in Malaysia that address the issues of succession. The focus is extending from top management level down to low management level, like supervisors or group leaders. This study aims to explore two organizational factors (e.g. incumbent's propensity to step aside and existence of competent successors) whether have significant relationship with the succession planning implementation in manufacturing companies located in the Northern region of Malaysia.

1.5 Research Questions

The research questions in this study consist of the following:

- 1) To what extent the succession planning practiced in Malaysia manufacturing companies?

- 2) Does the propensity of the incumbent to step aside relate to succession planning implementation?
- 3) Does the existence of a competent successor relate to succession planning implementation?

1.6 Significance of the Study

According to the survey conducted by global human resources consulting firm Development Dimensions International (DDI), Malaysian companies recognize the need and value for proper succession management procedures to sharpen business and organizational performance. DDI also pointed out that the new KLSE ruling also pushes for the importance of succession planning implementation as one of the listing requirement. Taken together, the trends point toward the growing importance of succession planning as a daily activity to be undertaken by companies.

The critical scarce resource in today's competitive world is talented people. Finding and keeping the people needed to succeed is the biggest challenge facing businesses today. Furthermore, globalization and intensified international competition has led to drastic changes in labor market coordinated with economic and industrial policies and aimed at increasing the supply and demand for skilled labor.

According to a survey of MNC operating throughout Peninsular Malaysia by Kanapathy (2001), the manufacturing sector was the most dynamic sector in terms of employment creation. Between 1990 and 1997, out of the 2.1 million jobs created, about half were in manufacturing. Furthermore manufacturing sector is also an important economic sector in Penang state. Therefore we choose the employees of manufacturing companies in Penang and Kedah states as our targeted respondent.

The survey result also indicated that the manufacturing sector was the hardest hit by skill scarcity and skill deficiencies. The firm-level analysis further shows that the Malaysian labor market is plagued by skills as well as labor shortages. With respect to skills shortages, the majority of firms complained of difficulties in recruiting professionals (1995 New IMP Survey). More than 80 per cent of the 248 manufacturing firms covered in the survey reported difficulties recruiting skilled engineers (IMP 1995, p. 50). The difficulty in attracting and retaining personnel who are adequately qualified by technical education and experience to provide the kind of management, direction and guidance essential to business success increases the concern for today organization to implement succession planning to achieve the highest standards of technical/engineering excellence.

Succession planning implementation helps to ensure that the organization has the right talent in the right place, at the right time, to meet organizational needs. In view of the increasing importance of technical staff in the organizations in ensuring competitiveness and effectiveness, it justifies for further empirical study on the succession planning implementation within Malaysia's local context.

1.7 Definition of Terms

Below are the definitions of the key terms used in this study:

Succession Planning. According to Sharma et al. (2000), succession planning is a management planning tool to evaluate the current and future human capital needs of an organization. It is used to identify the replacement strength of the organization. In other words, it reveals the number of internal personnel who could replace key personnel in the organization and also reveals those positions without replacements which usually leads to the development of a recruitment and/or transfer plan.

Propensity to Step Aside. In this study, propensity to step aside refers to the willingness of the incumbent to initiate succession planning and requires incumbents to coach and plan instead of doing the job themselves and to accept others to do things differently. If an incumbent decides to step aside, the likelihood of succession planning to be implemented is also higher. (Beckhard and Dyer, 1983; Dyer, 1986; Lansberg, 1988).

Existence of Competent Sussessor. Mayer, Davis and Schoorman (1995) defined a competent successor as a person who is highly trusted and who has the capability or can develop the attributes needed to manage the job. Presence of the competent successor is necessary, but not sufficient for succession planning to occur.

Multinational Companies (MNC). Based on Thompson and Strickland's (1998, p. 198) definition, MNC are companies employing multi-currency strategies to build their international sales revenue; the strategic intent of such companies is usually to expand sales in foreign markets at a fast enough pace to produce respectable revenue and profit growth.

Formality. Formality in this study refers to proper communication and cascade down of the succession planning implementation plan. This includes adoption of policy statement, formation of committee or task force and top-down communication.

Performance Evaluation. According to Deegan II, (1986), this is an integrated process whereby a superior (usually higher level e.g. manager in this context) and each key

direct reports agree on what is expected from them and make a justification on how well the commitments were achieved. The process consists of 5 elements: (a) agree on responsibilities, functions and authority, (b) establish expected results, (c) write the agreement, (d) periodic performance review and plan revision, and (e) document final performance evaluation (p. 56).

Individual Development Plan (IDP). Deegan II (1986) defined that IDP as a tool used to record the agreement each individual works out with their immediate superior about the knowledge, skills and behavioral change needed to improve performance in the present job or get ready to occupy higher level positions. Both parties agree on the appropriate action plan to achieve the goal. (p. 43).

1.8 Organization of This Dissertation

This report has been organized into five chapters summarized as below:

Chapter 1, the current chapter introduces the background of the study and its context, the research's problem and objectives and the significance of the study. Chapter 2 summarized the literature review of the main variables in this study. Theoretical framework and also relevant hypothesis are also included in this chapter. This follows by chapter 3 which outlined research design and methodology including research variables design, sampling, questionnaire, data collection and data analysis. Chapter 4 presents the results of the analysis and the findings. Hypothesis is validated in this chapter. Lastly, chapter 5 concludes with the discussion of the results, its implication, limitation of the study and areas for future research.

Chapter 2

LITERATURE REVIEW

2.1 Introduction

The literature on succession planning generally falls into two categories. One category studies the succession process and on the consequences of that succession. The second category focuses on the determinant factors of succession planning which offer the tenable proposition that some factors such as organizational, environmental as well as individual characteristics are significant to the implementation of succession planning. In this study, the literature will focus on the second category, which is the determinant factor of succession planning implementation. The main emphasis of this chapter is to understand the concept and knowledge on this topic and to review the facts and findings from previous study.

2.2 Literature Review

Succession planning has received considerable interest in the recent past. Between the 1970s and 1990s, the strategic management literature shows a 250% increase in the number of succession articles (Sharma et al., 2001).

A large portion of the literature (Crosby, 1998; Motwani and Schwarz, 1999; Sharma et al., 2000) is devoted to family business succession and other issues related to family members because family businesses represent a significant portion of the world economy (Sharma et al., 2001). In the family business literature, considerable research and work on succession planning issues has been undertaken in the United States, Europe, Australia, Canada, Asia and elsewhere mainly focused only on top positions such as the CEO, treasurer etc.

Today with the growing competitive of organizational environment and the incremental trend towards globalization, application of succession planning needs to be done in small and medium-sized businesses to large conglomerates (e.g. Cannella and Wei Shen, 2001; Vancil, 1987) as much as it needs to be done in family-owned companies. In fact, succession planning should be a part of every company's strategic plan - the vision of where the company will be going in the future.

The widespread downsizing of the late 1980s and 1990s depleted middle management ranks and making traditional modes of recruitment less effective. Structural change, demographic trends towards leaner times for recruiter and the increasing importance of making investments to grow talent from within reflects the importance of the inevitability of succession planning for all level of people in the organization. The fact is that nowadays succession planning means more than replacement planning. It can also mean a proactive strategy for developing, or cultivating, people for the future. It needs to be done continuously for all levels of an organization, from CEO down to shop floor worker (Rothwell and Prescott, 2000).

Most of the research on executive succession uses the role of the CEO as its theoretical base. This is understandable because the succession of a CEO is a traumatic and highly visible event, implying a substantive or symbolic change of major proportion of companies (Hofer, 1980). The focus on the family business and CEO role in the extant literature may provide us limited understanding of the succession planning implementation and the causes among other types of business or executive roles. When succession among other executive roles is studied, it is usually cast as a result of, or related to CEO succession (Boeker, 1992). As a result of this singular and limited focus, we know little about succession non-family business as well as in executive roles other than the CEO. In addition, CEO succession is

relatively rare. According to Vancil (1987), the tenure of a CEO averages more than 14 years whereas Eitzen and Yetman (1972) found that the average tenure of middle management in their study is about 5.9 years. These imply that succession rate in other executive positions is higher and it is important to understand from different point of view besides CEO succession. According to one of the research conducted in semiconductor multinational companies in Bayan Lepas Penang, the leadership in focus group, task forces, review forum etc are having severe resource replacement problem once the key person(s) moves due to departmental change and resource leaving or dies due to natural disaster and terminal illness etc. Some companies even take proactive action to identify additional co-leader to ensure once leader is leaving and the co-leader still able to steer the focus group, task forces, review forum etc towards right direction.

2.2.1 Definitions of Succession Planning

Based on past research, there are two main types of succession planning: relay succession (Vancil, 1987) and 'horse race' (Naveen, 2000). Vancil (1987) pointed out that the most common type of succession in firms, which he terms as relay succession, involves the identification and selection of a successor, or an 'heir apparent', a few years before the CEO steps down. The heir apparent and the incumbent CEO then work together until the incumbent CEO steps down (usually to become the Chairman of the board) and the heir apparent takes over. Typically, the incumbent CEO will still remain as the Chairman of the company for 1 or 2 years, in order to give the successor time to make the transition from heir apparent to the CEO. According to Naveen (2000), the "horse race" is succession process where two or more top executives compete for the CEO post. Besides these two major types of succession planning, a

firm could also have a more 'ad-hoc' type of succession plan or a firm could have no succession plan at all, in which case there is no clearly identified successor before the CEO turnover, and the firm initiates the search for the successor only after the CEO turnover. Brickley, Coles and Jarrell (1997) found that relay succession is by far the most common type of succession process in firms.

Several research studies provides comprehensive of the term succession planning. According to Christensen (1953), as part of succession planning, the firm must identify the pool of potential successors, specify the criteria, designate the successor, and communicate the decision to the successor designate and all other stakeholders. Lansberg (1988) and Ward (1987) added successor training and formulation of a post-succession business strategy to the list by Christensen.

Sharma, Chrisman, Pablo and Chua (2001) defined the succession planning as the actions and events that lead to the transition of leadership from one member to others in the firms. The two members may be part of the nuclear or extended member, and may or may not belong to the same generation. According to Sharma et al. (2001), in order for the succession process to occur, there must be three components: a leader who hands over the leadership role, a successor who takes over the role, and a mechanism by which the transition take place.

In Handler (1994) study, he defined that in order to have effective succession the following elements must exist: selecting and grooming successor; match between business requirement and heir's personal, career and life stage needs; mentoring; link between strategic and succession planning; models of business, family and governance conditions that favor transition; and active involvement of the owner in the succession process.

In summary, succession planning consists of:

- (i) Selecting the successor, which includes identify potential successor, developing selection criteria, designating the successor(s) and communicating the decision and defining departing leaders' role after succession.
- (ii) Developing performance evaluation, feedback and requirement fine-tuning.
- (iii) Developing individual development training program, mentoring and grooming the successor(s)

Sharma et al. (2000) indicate that all these elements in succession planning process are not necessarily in sequential; some can be performed simultaneously.

The literature suggests that the extent to which a firm engages in succession planning implementation is affected by internal and external factors. Once the firm decided to implement succession planning, it must then decide which combination of the three major elements in succession planning would be undertaken.

2.2.2 Determinant Factors

An extensive review of the literature reveals that there are many variables to have been conjecturally or empirically related to succession planning. Handler's (1988) theoretical model of succession in family business studies factors at individual (e.g., demographics), interpersonal and group level as well as organizational (e.g., structure and size) and environmental level that have significant impact on succession planning. Sharma et al. (2000) and Sharma et al. (2001) suggested that there are three factors (the incumbent propensity's to step aside, the presence of a competent successor, and the presence of an active advisory board), internal to the firm that has identified as influencing succession planning.

A firm's decision to implement succession planning is in fact influenced by more factors such as CEO's characteristics (Datta and Rajagopalan, 1998), board size variation (Helmich, 1980), gender (Naveen, 2000), ethnicity (Janjuha-Jivraj and Woods, 2002) and external factors such as structure of the industry. Given the intent of the study, the focus of literature review was on internal factors covers: (i) the incumbent's propensity to step aside and (ii) the presence of competent successor(s). The third factor (presence of active advisory board) was also mentioned by Deegan II (1986) in formality of succession planning process which will be explained later as dependent variable.

2.2.2.1 The Incumbent's Propensity to Step Aside

Given the widespread belief that the firm's top officer has a substantial control over the management process of the firm, their influencing power and controlling of ownership, the incumbents are in pivotal position to delay succession planning (Christensen, 1953). Using survey data from 1484 corporate presidents, Brady, Fulmur and Helmich (1982) observed that fewer than 50% of responding firms engaged in succession planning implementation. Vancil (1987) also pointed out that little planning did occur often rested in the hands of the incumbent CEO. Family business researchers believe that succession planning implementation is largely dependent upon the active support of the incumbent leader (Lansberg, 1988; Malone, 1989; Rubenson and Gupta, 1996).

Studies on executive turnover (e.g. Boeker, 1982, Sonnenfeld, 1988) has pointed out that incumbent are often reluctant to give up their position. Incumbents may resist succession planning due to lifestyle, psychological, or behavioral reasons. From the perspective of the incumbent, this is in effect anticipating the cessation of

his/her leadership role with the company and planning for his own replacement. From the perspective of human nature to inevitably take actions to secure our own continuity, it is not surprising that most leaders avoid succession planning. Few incumbents seem eager to relinquish their power although succession provides incumbent an opportunity to shape their own legacies. This is because initiating the process confronts them with their own mortality and the prospect of changes in their lives after succession (Beckhard and Dyer, 1983; Dyer, 1986; Lansberg, 1988; Levinson, 1974). In addition, implementing succession also requires incumbent to coach, train and groom the successor(s) instead of doing the jobs themselves. Incumbent(s) have to let successor(s) make mistakes so that they can learn from the mistake and this indirectly means that they need to accept that others can do things differently but still be effective (Firnsthahl, 1986).

A research conducted by Cannella and Wei Shen (2001) using 168 publicly traded U.S. manufacturing firms found that the incumbents would be highly influential in a relay succession. The results of the study show that there is strongly negative association between CEO power and promotion and this suggests that powerful CEOs are reluctant to relinquish their power and thus may strive to delay the heir apparent promotion.

Sharma et al. (2000) and Sharma et al.(2001) study of 604 members of the Canadian Association of Enterprise shows that the incumbents believed strongly that they were willing to step aside. The results show a statistically significant relationship between perceptions about the extent to which a family firm engages in succession planning and the perceptions about the propensity of the incumbent to step aside.

In most previous research, the incumbents have been treated as the key forces influencing the choice of successor(s) and succession planning implementation. If

incumbent decides and willing to step aside, the likelihood that he/she would start planning for succession should be higher. This leads to the argument that the propensity of the incumbent to step aside will lead to higher extent of succession planning implementation.

2.2.2.2 Existence of Competent Successor(s)

A firm that has decided to keep the management under control possibly can be achieved by having heir apparent(s) or successor(s) who are trusted by the incumbent. Mayer, Davis and Schoorman (1995) have defined that trust is based on both ability and intention. In this study, we focus only ability. If there is availability of suitable replacement to perform an incumbent's task, then succession is more likely to occur; conversely if there is no potential substitute, the hazard of succession is reduced.

The incumbent's confidence in the abilities of a potential successor will affect the extent to which a firm engages in succession planning implementation. As mentioned before, incumbents are often reluctant to give up their positions due to lifestyle, psychological and behavioral reasons. These barriers can begin to overcome only with the acknowledgement and confidence that there is a competent successor available to take over the running of the company (Hollander and Elman, 1988; Rubenson and Gupta, 1996).

The study conducted by Sharma et al. (2000) and Sharma et al. (2001) pointed out that there is a statistically significant relationship between the extent to which a firm plans succession is positively affected by the presence of a competent successor. In the study, they also found that the presence of a competent successor have the greater impact than the propensity to step aside. They suggest that this may imply that

the presence of a competent successor is more important, or it may also imply that the incumbent does not initiate the succession until the potential successor exists.

An empirical analysis by Motwani and Tom (1999) provides further support and identified that presence of a competent successor as one of the factors influencing business succession planning. Competent successor(s) have the skills and talents, which can help them to be moved easily between line and staff, division to division, and to position with greater responsibilities. This suggests that with qualified and experienced potential successor(s) in place, the likelihood of succession implementation is higher when necessary (Dalton and Kesner, 1983).

As a summary, the presence of a competent successor may either drive the process or alternatively, be a necessary but not sufficient condition for succession planning implementation. (Sharma et al., 2000; Sharma et al., 2001). In other words, it means that it has both direct and indirect impact on succession planning implementation.

2.2.3 Dependent Variables

Deegan II (1986) has pointed out that succession planning is a dynamic and systematic process, gears towards personal growth to ensure that employees can be developed to effectively take on increased responsibilities to assure future internal availability of highly qualified individuals to fill management and other key positions. Deegan II (1986) has identified seven steps that need to be done to accomplish succession planning implementation as follow (p. 46):

Step 1 Complete *performance evaluation* of key persons

Step 2 Complete *potential evaluation* of key persons

Step 3 Complete *other factor evaluation* by reviewing *individual history preference record* and the *organization chart* in the light of the updated strategic plan and the *annual business plan* and make decisions on key positions needed to carry out the plans

Step 4 Complete *promotability evaluation* of key persons

Step 5 Complete *succession planning chart* to summarize present picture of your organization, to include identification of high potential persons

Step 6 Complete *individual development plan* for key persons

Step 7 Furnish documentation to *succession planning board* at division or corporate level

Prior to implementation of the above-mentioned 7 steps, formality also plays a role in succession planning implementation to ensure its effectiveness. Formality includes adoption of a company-wide policy statement which highlights the importance of succession planning and establishes proper priority of it at the highest level, formation of a committee or task force and proper communication of the plan to respective levels.

Based on literature review, different researchers have differing kinds of procedures involved in succession planning implementation. Based on the experience and exposure to the succession planning implementation in my current company, in this study we adopted Deegan (1986) concept of succession planning implementation and selected only 3 most commonly used items i.e. formality, performance evaluation and individual development plan as the proxies of measure of succession planning implementation. The operational definition chosen for succession planning implementation is not necessarily of the best in literature review but rather for the

purpose of understanding the intent and interrelationship of the major elements in the formal approach to succession planning.

As a conclusion, an examination of the past research literature support has showed that succession has long been the central issues to organization and continue to be focus of today researchers looking at its growing importance. A recent telephone survey by HRM Software covers 279 UK organizations found that over 70% of respondents said that their company had a formal succession planning policy, and 7% planning to introduce one. In a nationwide survey conducted by RHI Management Resources, 100 percent of executives confirmed the value of identifying and grooming a successor. The majority (72 percent) of those polled said they are currently preparing someone to take their place. Survey by DDI in Malaysia also showed that Malaysia companies recognize and support the needs of thorough succession planning as an important factor to business success. The survey targeted at senior management of 41 companies in Malaysia pointed out that 66% of the respondents has leadership succession planning programs in place but the respondents were dissatisfied with the pace and effectiveness in identifying the appropriate successor(s). Unfortunately, there are not many similar research been conducted in Malaysia to study the factors that affect the succession planning implementation in Malaysia context. This paper is a step toward understanding this important decision made by Malaysia companies and to examine whether the determinants studied have the same impact in Malaysia companies.

2.3 Theoretical Framework

The primary interest in this study is the factors that affect the implementation of succession planning. There is only one dependent variable in this study, “implementation of succession planning”. Succession planning implementation consists of 3 proxy of measure i.e. formality, performance evaluation and individual development plan based on conceptual model by Deegan (1986). The independent variables – propensity to step aside and existence of competent successor were believed to be among the predictors of succession planning implementation. See figure 1 for overall theoretical framework.

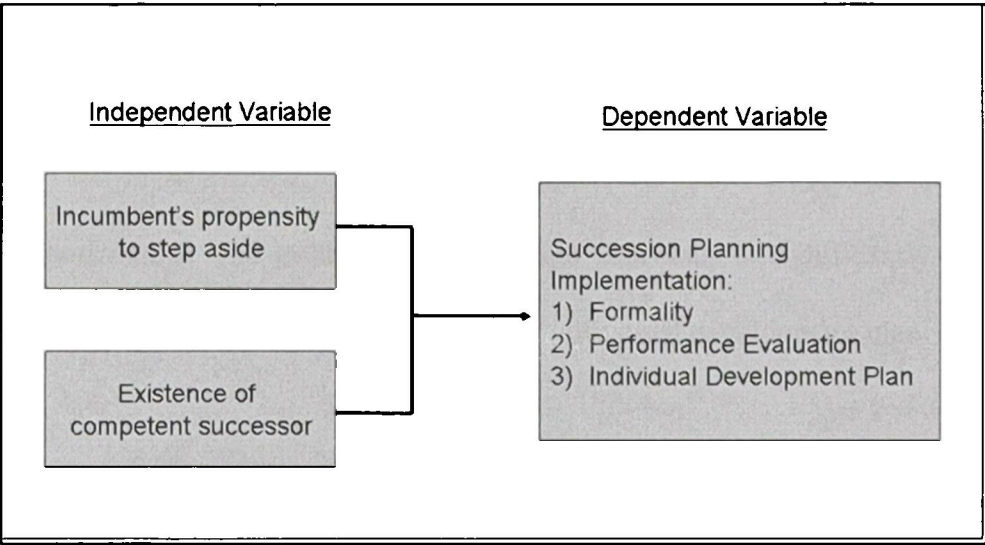


Figure 1: Theoretical Framework

2.4 Development of Hypothesis

Based on the theoretical framework provided above, several hypotheses were formulated for empirical verifications.

Hypothesis 1: The propensity to step aside is significantly related to the implementation of succession planning in formality

Hypothesis 2: The propensity to step aside is significantly related to the implementation of succession planning in performance evaluation

Hypothesis 3: The propensity to step aside is significantly related to the implementation of succession planning in individual development plan

Hypothesis 4: The existence of competent successor has significant relationship to the implementation of succession planning in formality

Hypothesis 5: The existence of competent successor is significantly related to the implementation of succession planning in performance evaluation

Hypothesis 6: The existence of competent successor is significantly related to the implementation of succession planning in individual development plan

Chapter 3

METHODOLOGY

3.1 Introduction

This research aims to study the practices of succession planning implementation in manufacturing companies located in Penang and Kedah states. If the companies practice succession planning, in particular this study also seeks to examine the relationship between two determinant factors (propensity to step aside and existence of competent successor) and succession planning implementation as dependent variables. Besides that this research will also study the moderating effect of firm size in relation to the relationship between succession planning implementation and its determinant factors.

This chapter in particular documented the research methodology including population and sample, questionnaire design, data collection, measurement instrument and data analysis techniques.

3.2 Research Variables Design

In this study, 3 proxies of measure i.e. formality, performance evaluation and individual development plan were used to measure succession planning implementation based on conceptual model by Deegan II, (1986). For independent variables, propensity to step aside and existence of competent successor, the measurement was developed based on the conceptual model of Sharma et al. (2000). 10 indicators were developed to measure each independent variable. A 7-point Likert-like scale is used to measure the dependent and independent variables.

3.3 Population and Sample

The selected population for this study consists of the semiconductor multinational companies (MNC) located in the states of Penang and Kedah such as Intel, Agilent, Motorola, AMD, Sanyo, Hitachi etc. We chose the MNC as the sampling because most of the selected companies are well-established companies with more than 10 years operation and usually followed their strong human resource management system besides having bigger pool of successor availability. Nevertheless, this also to support student's interest in studying similar business firm in succession planning implementation. These characteristics make them ideal for studying the succession planning implementation because they have more experience than the average small family firm with the succession process.

The targeted respondents are individuals at the top, middle and lower management levels i.e. President, Vice President, Director, senior manager and managers who are in the best position to provide information required and have some experience undertaking succession planning implementation. Monthly income is used to classify the management into different level of management. Lower management salary ranges from RM4,000 to RM6,000, while middle management ranges from RM6,000 to RM10,000, and top management from RM10,000 onwards. The unit of analysis is the individual manager.

3.4 Questionnaire

There are 2 types of variables being studied in this research:

- (a) Independent variables – Manager's propensity to step aside and presence of competent successor.