Chapter 5

HRD Aspects of Corporate Governance

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Cornerstone of corporate governance is not merely structure but equally important is the development of people in and outside the organization including the boardrooms. It is human development that provides a soul and meaning to any governance system. Unfortunately, development of people for board positions has been as illusive as light at the base of the lamp itself. Though, HRD departments have been instituted in most of the companies by the board itself, but seldom boards have thought to design strategy for developing the future directors needed by the organization and training of existing board members. Against this backdrop, the chapter seeks to examine a few aspects related to orientation, development and succession planning of board members. Accordingly, the chapter is divided into three parts. Section one attempts to enquire into system of orientation by which information about the organization and board members is communicated to the new directors. Section two highlights various elements of training and development of existing and future board members within the organization and section three explores the existence of CEO succession planning in Indian corporates.

5.1 Orientation of New Board Members

Orientation of new directors is as important as the orientation of any other employee joining the company. The board of directors should ensure that responsibilities of directors are wel-defined and every director should be familiarised on the functioning of the company during his induction. In order to familiarise the independent /non-executive directors with the environment of the company, the company may circulate among the new directors a brief note on the profile of the company, the sub committees of the board, their role, details on delegation of powers, the profiles of the top executives etc. Orientation is beneficial for both the organization and the new person. The existing directors come to know about their new fellow-director and his areas of expertise, and vice-a-verse. They can also realize the potential of a new director, by knowing about his strengths, areas of expertise and leadership qualities so that they can appreciate the role of new member. The new director comes to know about the company's vision and mission, policies and functions, appreciation of rights and obligations enshrined in the law, meeting procedures, etc. Most boards have no formal orientation programme for new directors, preferring new members to learn as they go. Little support is demonstrated for external education programmes. Either the need is not recognized or such programmes have failed to date to prove their value. Not only orientation but also the reorientation is equally important in the ever-changing environment of business and its effects.

New directors with limited or no board experience should receive such trainings without fail. According to TSE guidelines "every corporation, as an integral element of the process for appointing new directors, should provide an orientation and education programme for new recruits to the board". To find out what is the system prevalent in Indian corporates for the orientation of new directors the question was asked 'who carries the responsibility of orienting the outside directors while joining the board?' The responses to the said question are tabulated in table 5.1.

Table 5.1 : Sectorwise Frequency Distribution For Orientation of New Directors

Orientation by	Sector			Total Cos.	% of Total
	Joint	Private	Public		
Chairman	-	19	-	19	21.1
Chairman with CS	-	5	1	6	6.7
Chairman with MD	-	8	1	9	10 0
Chairman with others	-	2	-	2	2 2
CMD	-	17	8	25	27 8
CS	-	-	2	2	2 2
MD	2	6	1	9	10 0
Nomination Committee/ HR Dir.	-	4	-	4	4.4
Other*	1	4	-	5	5.6
None	-	7	2	9	10 0
Total Cos	3	72	15	90	100

* Others means Sr. most executive director, representative of promoters, any Board member, or Sr. Management team.

Table 5.1 shows that 10% companies did not have any formal or informal orientation programme for the newly inducted director/s and the directors were left of their own to gather the information as they go along. In majority of companies, i.e., in 67.8% (i.e., about 2/3rd of companies) chairman/ CMD, in 20% of companies MD, and in 8.9% companies company secretary were involved in orientation of the new directors. However, orientation by nomination committee member or HR Director took place only in 4.4% (i.e., 4 out of 90) companies. The sectorwise analysis shows that in majority of private sector companies, i.e., 70.8% the chairman led the orientation process, in majority public sector companies (i.e., 53.3%) it was the CMD who oriented the new director whereas in majority of joint sector (i.e., 66.7%) companies the MD played the role of mentor to the new director. The person who played an important role in orientation was the company secretary of the company since he has to be always in contact with directors for the purposes of agenda, meetings, and other procedural and legal aspects. The concept behind formation of nomination committee is to nominate, select, orient and train the directors of the board. However, in reality the nomination committee was not found to be playing any such role.

During the course of interviews, the respondents revealed that the majority of companies did not have any formal orientation programme or say did not have any orientation programme in place. In response to the question 'who introduces a new director to the other Board members or how he satisfies his queries?' respondents reported that in majority of the cases, the chairman or the CMD introduced the new members to the other board members and also answers the queries raised by them. Majority of the respondents were of the opinion that when a new member was appointed, his appointment was done on the basis of his experience and expertise and that they were well-known and prominent personalities and hence they did not require any formal orientation.

It would be useful should companies deem it proper to document their board procedure in the form of a 'manual' which can be used as guide to answer questions related to board process, committees, meetings and their rights and duties.

Manual for directors

Manual for directors plays an important role for directors to know about the procedure at the board meetings, their rights, liabilities and procedural know-how of the working of directors individually and the board as a whole. Manual also helps in orienting a new director. However, manual for directors has not been regarded as important since it is always assumed by the company secretaries and management that persons appointed on the board member's position are very experienced and that they knew everything related to their function, board meeting procedures, AGM, etc. However, documentation of company policy, decision-making process, boardroom practices, attendance, participation, agenda, minutes of meeting, time for AGM and EGM, number of board members, performance appraisal, training and development, etc. is a must in the form of a manual that can guide the director – new or old in an organization. It was attempted to find out the number of companies where the manual for directors was present and therefore the answer was sought to the question 'Is there a manual for board of directors?' Responses for the said question are presented in table 5.2.

Table 5.2 : Sectorwise Frequency Distribution For Manual For Directors

Responses	Sector			Total Cos.	Total %
	Joint	Private	Public		
Yes	-	9	1	10	10.8
No	3	65	15	83	89.2
Total Cos.	3	74	16	93	100

The above table shows that, only in 10.8% surveyed companies the manual was present and in 89.2% companies it was not there. The above results show that the companies were not very serious about having a manual for directors as part of source of procedural information.

5.2 Training and Development of Future Board Members

It's not only the CEO but also the other board members who come from within the company by their experience and potentials. It's the executive director or WTDs category that are being filled-in from within an organization. Directors (ED/ NED) could be made more responsible to their organizations by exposing them to need-based training programmes/ seminars / workshops to acquaint them with the emerging developments/ challenges facing a particular industry[1]. Training facilities should be provided to the directors in terms of money, time and coverage of subjects, etc. It is widely accepted that the responsibility for ensuring that all directors receive the required training and continuous education to effectively assume and fulfill their responsibilities rests with the board.

Given the varying backgrounds, qualifications and experience of directors, it is highly desirable that they should all undertake some form of internal and/or external training. This is particularly important for directors, whether executive or non-executive, with no previous board experience. Newly appointed board members are also entitled to expect a proper process of induction into the company's affairs. It is then up to individual directors to keep abreast of their legislative and broader responsibilities. For that it is necessary that the executives be groomed for assuming the role of the directors. The question 'Are executives groomed for assuming the role of the director?' was asked to find out whether companies in India did have the process of grooming the executives for future roles as 'directors'. Analysis of 93 responses is as shown in table 5.3.

Table 5.3 : Sectorwise Frequency Distribution of Presence of System For Grooming Executives

Responses	Sector			Total Cos	% of Total
	Joint	Private	Public		
Yes	1	53	12	66	71 0
No	2	21	4	27	29.0
Total Cos.	3	74	16	93	100

[1] Realising that trained nominee directors of RBI and government on PSBs Board can add value, finance minister decided to hire consultants to train the nominee directors in the art of risk management and evaluation of proposals[1].

The above table shows that in 71% companies executives were groomed for assuming the role of a director. 29% answered in negative because of the reasons of either having single executive director, on the job continuous training, EDs coming from outside the company or in PSUs the PESB decided the course of training and development of the future directors.

5.2.1 Type of Training Programmes

Grooming of potential candidates for directors takes place via training and development programmes. Therefore, it was attempted to analyse types of training given to executives of those 71% companies responded positive for the above question and the remaining 29% companies were considered as 'Not Applicable' for further analysis henceforth (i.e., from table nos. 5.4 to 5.8). Firstly, the respondents were asked to mention, "Types of training programme for executives" and they have been provided with 3 options. The responses of 93 respondents were analysed as shown in table 5.4 which shows that executives were imparted training 'in house' in 55.9% companies, 46.2% companies were sending their executives with India and 39.8% companies were sending their executives for training 'abroad'.

Table 5.4 : Sectorwise Frequency Distribution of Types Of Training Programme For Executives

Type of Training Programmes	Sector			Total	% of Total
	Joint	Private	Public		
In-House	1	40	11	52	55.9
In India	1	32	10	43	46 2
Abroad	1	28	8	37	39.8
Sub-total	1	53	12	66	71 0
Not Applicable	2	21	4	27	29 0
Total Cos	3	74	16	93	100

Companies imparted training by either of the three or in combination of the three types of programme i.e., in-house, in India and/or abroad. However, majority of companies imparted 'in-house' training to their executives. The table also shows that majority of the public sector (75%), private sector (71.62%) companies paid attention in imparting training to their executives. However, only 33.33% joint sector companies imparted such training.

While administering the schedule the respondents also revealed some more information about place for imparting training. Almost all respondent companies also relied upon outside seminar and conferences as one of the way to impart training to the executives. One PSU had send its executives abroad to take further training after they become General Manager, one private sector company responded that they had formal training programmes for executives for their group companies and one company had its own training institute for management development programme for executives, one company had continuous management programmes in all disciplines like human resource development, finance, marketing, etc.

5.2.2 Duration of Training Programmes

Not only type of training programme but also the duration of training programme is equally important. Duration of training programme reveals the fact that how seriously the company views grooming of their executives. If the company spends more time on training for their executives it is a clear indication of their concern and commitment for the development of executives. For finding out the duration of training programme 93 responses were received. Analysis of 93 responses for the duration of training programmes is shown in table 5.5.

Table 5.5 : Sectorwise Frequency Distribution of Duration of Training Programmes

Duration of training programme	Sector			Total	% of Total
	Joint	Private	Public		
A week	1	24	8	33	35 5
Fortnight	1	21	5	27	29 0
A month	1	11	4	16	17.2
Three months	-	11	2	13	14.0
Seminars & Conferences	1	16	2	19	20.4
Other	-	13	3	16	17.2
Not Applicable	2	21	4	27	29 0
Total Cos.	3	74	16	93	100

* Other – i.e., Less than one week or more than 3 months programmes

The table shows that out of 93 companies, 35.5% companies had training programmes of one-week duration, followed by fortnight programmes (i.e., 29% companies). 20.4% of total companies relied upon seminars and conferences for training purpose. Majority of companies had training duration mostly a combination of various duration for the training of their executives.

During discussions, respondents revealed that some companies had various duration of training programmes such as 3 months that included ERP training, sending to Harvard School, IIMs, ASCII-Hydrabad, 3 years M.B.A. Programmes, Management Development Programme, some companies did not have any formal training programme and they relied on 'on the job ongoing process' that included nominating a person as a director on the board of smaller group companies, presentations, continuous training to senior managers, presentation before board members, etc.

Apart from short duration programmes, companies sent their executives for long duration programmes. It was attempted to find how many companies sent their executives for long duration progammes. Analysis of the responses of 93 companies are presented in table 5.6.

Table 5 6 : Sectorwise Frequency Distribution For Sending Executives on Long Duration Training Programmes

Sent for long duration programme	Sector			Total	% of Total
	Joint	Private	Public		
Yes	-	15	4	19	20.4
No	1	32	6	39	41.9
No Response	-	6	2	8	8.6
Not Applicable	2	21	4	27	29 0
Total	3	74	16	93	100

The table shows that only 20.4% companies (i.e., $1/5^{th}$ of the total number of companies) sent their directors for long duration training programme and that 41.9% companies provided only short duration training and not the long duration training. Various types of leaves granted to directors for long duration training programme shows the seriousness of an organization towards training and development of an executive to become a director. In response to the question of type of leave granted to directors for long duration training programmes, the analysis of responses is given at table 5.7.

Table 5.7 : Sectorwise Frequency Distribution of Types of Leave Granted to the Directors For Long Duration Training Programmes

Responses	Sector			Total Cos	% of Total
	Joint	Private	Public		
Sabbatical leave with reimbursement	-	14	3	17	18.3
Sabbatical leave without reimbursement	-	1	-	1	1 1
Study leave is granted and for that they are paid half (50%) salary	-	-	1	1	1.1
No Response	-	6	1	7	7.5
Not Applicable	3	53	11	67	72.0
Total No. of Cos.	3	74	16	93	100

The table reveals that 18.3% companies (i.e., 17 out of 93 companies) grant sabbatical leave with reimbursement. In one public sector company the study leave was granted with 50% salary and 1.4% private sector company (i.e., 1 out of 74 companies) grant sabbatical leave without reimbursement.

5.2.3 Subjects Covered in Training Programmes

Globalisation has put the Indian companies in fierce competition with their global competitors and in such situation person who thinks local and acts global will not be able to give best stewardship to the company. In Management Development Programmes its always about the decision making and leadership which is paid more attention. To become a director a person needs more than these two attributes. They should know about strategy development, global culture, corporate laws (atleast bear minimum to understand their rights and more often their liabilities and duties), leadership qualities (for stewardship of the company resources and manpower), etc. Therefore, it was attempted to know whether the companies really put thrust on these areas to develop their executives to a director.

Basically, 4 choices of subjects viz., leadership, corporate laws, global culture and business strategy were given to the respondents. Analysis of 93 responses (at table 5.8) shows that the majority of companies (i.e., 53.8%) put highest priority on training of directors on business strategy followed by leadership (i.e., 49.5% companies) and global culture (i.e., 35.5% companies).

Table 5.8: Sectorwise Frequency Distribution of Subjects Covered in Training Programme

Subjects covered	Sector			Total Cos	% of Total
	Joint	Private	Public		
Business Strategy	1	40	9	50	53.8
Leadership	1	36	9	46	49.5
Global Culture	1	28	4	33	35.5
Corporate Law	1	18	4	23	24.7
Other*	-	11	5	16	17.2
No Response	-	6	2	8	8.6
Not Applicable	2	21	4	27	29.0
Total Cos.	3	74	16	93	

* Other – General management, Overall development, No formal programme, Business excellence model, Core business of the company, corporate governance, Functional (HR, technical, finance, IT), product strategy, technology upgradation, and on vision and mission of the company.

However, in public sector companies training on leadership and business strategy was given equal importance with 56.3% responses each and corporate law and global culture as the second priority with 25% each. One company put stress on overall development and in another company there was no formal programme. Other subjects covered include core business of the company, corporate governance, functional areas e.g. HR, law, technical, finance, IT, general management, product strategy, technology upgradation, vision and mission.

5.3 CEO Succession

"The decline or collapse of one of our large corporation would threaten the stability of the entire economy. Even greater is the danger inherent in a haphazard or arbitrary scheme of succession...." – Peter F. Drucker (1946)[2].

'King is dead, Long Live the King' is an old saying which reflects the importance of succession planning. The State exists in perpetuity so as the company. The head of the state is a symbol of existence of a state and therefore as soon as the King/Head of the state dies, another person takes over as head immediately symbolizing perpetual succession. The same is true in case of a corporation.

[2] Drucker, Peter F. (1946), Concept of the Corporation, The John Day Company, New York, p.211.

A wel-defined succession planning increases the board's faith in continued leadership. A corporation without a proper succession planning finds itself in real mess and loss making corporation as an end result[3]. When the leadership at top is about to change suddenly, the so called robust direction is shaken and the company tries to seek alternatives for the same[4]. Therefore, it is quite necessary to make the second position prepared for taking the top position in the event of need arises which is possible through the proper succession planning. 'Succession planning' may include training and development, monitoring by predecessor, and job rotation. In Tata group of companies an initiative was taken to identify and advancing managerial talent within the group and setting up succession programmes through HRD by appointing an expert to head the group HR function[5].

TSE guidelines stated that boards should assume responsibility for succession planning for senior management of the corporation. Curiously, boards are more likely to plan for the succession of executives reporting directly to the CEO than for the CEO himself or herself. As per Bossidy (2001), those who can not execute ideas can be given generous severance package, however, one can understand / estimate how good the company is by looking at whether most of the executives and the CEO are coming from within. The company which has no option but to recruit executives/ CEO from outside means that the company either lacks planning of developing talented personnel or the insiders are not allowed to develop themselves. Therefore, board's most important task must be to develop and nurture talent that could fill CEO/ executive positions from within, if the need arises.

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[3] No better example than the Thermax Ltd. can be quoted here. After the demise of the chairman Mr. Aga, the company found itself with out a leader in the absence of a proper succession planning. When the company started incurring heavy losses, it had to close down one of its subsidiary with a foreign collaboration and then on the advise of the consultants, the chairperson Ms. Anu Aga asked the whole Board to resign as a part of the total restructuring process. Mr. Prakash Kulkarni took over as the M.D. in the process as a strategy of top-level overhauling.

[4] GTB (Global Trust Bank) decided to set up Interim Management Committee of the Board comprising four Board members till a successor to its outgoing chairman and managing director was found – (2001), *The Financial Express*, Mumbai, December 12th, p.2.

[5] (2001), *The Economic Times*, Ahmedabad, February 5th, p.14.

As far as succession planning of the President, CEO and other members of the board are concerned the board can decide such an issue and shall have proper planning for finding and training suitable person from within for the future position for ensuring the operation of legal entity in perpetuity. An ideal board consisting of proportionate insiders & outsiders do a particularly good job of replacing management because that allows for superior training of the inside directors and better evaluation of them by outside directors (Weisbach, 1988). However, someone new at CEO position is preferred when the past CEO was involved in the accounting scandals, frauds and misdeeds so that the new CEO be able to provide seamless leadership that benefits the stakeholders. Succession Planning is a must for a smooth change in an organization or in a family[6]. If one fails to do a succession planning before hand it may lead to the disaster of a company[7].

In Family Run Businesses, after the death or retirement of the "Karta"/ "business head", family feuds could lead to destruction of the business empire and affect the reputation in the market[8]. It is the responsibility of "Karta" to pass the control of the business to the younger generation by analyzing the aptitude, inclination and ideas to make the business a profitable enterprise[9]. In family run business it is always the eldest son/ daughter or very close relative takes over as the successor of the leader. Many a times, even this eldest son/ daughter or close relative is not given a proper training for a smooth take over after the leader[10]. In India most of the companies are run like family owned businesses even though the public at large has a stake in the company and in such companies the successor belongs to the family of the

[6] CEO turnover is issue which creates the crisis of an effective and efficient person. It is a problem that needs to be addressed on a long term basis.

[7] At the sudden demise of the Chairman of Thermax Ltd., a Pune Based engineering company created a vaccum with out a proper succession planning and the appointment of M.D. was done in a hurry which lead the profit making company to loss making entity.

[8] Case of family feuds in Bajaj group i.e., between Rahul Bajaj and Shishir Bajaj attracted attention of many and that may lead to division of the entire empire.

[9] Gabriel R Dias Azedo (2001), India Inc., *The Financial Express*, Mumbai, July 9th, p. III.

[10] In Tata group no family member has been groomed for the succession.- (2002), "Ratan Tata May Not Say Goodbye", *The Economic Times*, Ahmedabad, May 17th, p.1, Similarly, Shaw Wallace of Jumbo group had no succession planning since after the death of Mr. Chhabaria his wife Ms. Vidya Chhabaria was named as chairman.

promoter[11]. The successor is made deputy MD[12] first to give him on the job training and it is mostly the family member leading to family fiefdoms (see appendix-5.1) where professional managers play second rung. However, professionals with proven commitment and integrity with successful stories are required to be inducted to fit in the shoes of a CEO for a long-term success[13]. The professional management talents can never make it to the top in family owned entity due to the relative dominance of family upmanship[14]. Corporates do not require clones of previous CEO but what is required is that the new/ upcoming CEO must provide the leadership to suit the changing business environment and needs. He should be visionary.

In Foreign or multi-national companies the succession planning becomes much handy because of availability of professionals in their group companies all over the world[15]. The foregoing theoretical milieu leads us to explore the existing overall trends of CEO succession existing in Indian corporates.

5.3.1 Type of CEO the Company Needs

The first step to any CEO succession is to visualize the type of CEO the company needs. Then follows the succession planning. Since the primary responsibility of the CEO succession lies with the board they must visualize the future of the company and the type of

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11 Mr. Dhirubhai Ambani gave different educational qualifications to his two sons so that they can cover up almost every aspect to run the business. Wadia group's succession planning is done with a view to divide the whole business of the group between two sons and made them deputy CEO. Thapar group chairman LM Thapar made his nephew his successor, by inducting him as Vice-chairman and managing director. Also see (2002), " Bilt will go to Gautam: LM Thapar", *The Financial Express*, Mumbai, October 16th, p.1. Dabur India Chairman VC Burman step down as a chairman of the company paving the way for his brother Mr. Gyan C. Burman, the present vice-chairman and managing director of the company, to take charge as the chairman keeping the Burman family tradition. – *The Financial Express*, Mumbai, August 14th, 2001, p. 14.

12 Chairman of Wadia group, Mr. Nusli Wadia, divided the group business into two groups and his two sons were made deputy MDs to train them and make them independent slowly. – (2002), "Nusli Wadia Carves Wadia Future in two for sons, Bombay Dyeing and Realty for Ness", *The Economics Times*, Ahmedabad, November 11th, p.1.

13 (2002), "Balancing Act is About Long-Term Success", eFE, *The Financial Express*, Mumbai, October 3rd, p.IV.

14 Stated by Dr. Omkar Goswami in a Seminar in the year 2002.

15 When the MD and Chief Executive of Dewoo Motors India (DMIL) resigned, he handed over charge to his successor who was called from Daewoo's Poland establishment. – (2001), *The Financial Express*, Mumbai, June 20th, p.13.

CEO the company needs. Thus, the answer was sought to the question 'whether the board has clear definition of the type of CEO the company needs?' Table 5.9 presents the analysis of the responses of surveyed 90 companies.

Table 5.9 : Sectorwise Frequency Distribution of 'The Board Having Clear Definition of the Type of CEO the Company Needs'

Board has clear definition of the type of CEO	Sector			Total Cos.	Total %
	Joint	Private	Public		
Yes	3	69	8	80	88.9
No	-	2	8	10	11.1
Total Cos.	3	71	16	90	100

The table shows that 88.9% corporate boards had a clear definition of the type of CEO the company needs. It is interesting to note that in public sector companies 50% companies'[16] board had the clear definition of the type of CEO the company needs whereas 50% do not have such clarity[17]. Most of the private sector companies' (i.e., 97.2%) and in joint sector all (i.e., 100%) companies' boards had clear definition of the type of CEO the company needs.

In private sector companies because many companies were run like family businesses the succession planning was done within the family and the outsiders were not succeeding the helm of the companies. In public sector companies the appointment was decided by the government therefore in-house succession planning did not take place. One company did not have any CEO but had the 'Manager' under the Companies Act therefore, there was no question of having the definition of CEO[18]. In surveyed 25% companies (i.e., 1/4th of total companies) there was presence of Co-CEO structure (i.e., more than one deputy MDs, one of whom is promoted to the MD's position).

5.3.2 Opportunities To Develop Managers in to Directors/ Leaders

Planning for the departure of a director is essential for the perpetual succession of a position. The board should establish procedures for the retirement or replacement of board members.

16 e.g. Banks
17 e.g. Other PSUs.
18 And since the promoter group is in control of the company.

Such procedures may, for example, include a mandatory retirement age, a term limit, providing an opportunity for the corporate governance committee to consider the desirability of their continued service on the board.

Organizations not only provided opportunities to help develop managers into directors but also leaders. Analysis of responses of 90 companies for the question 'Does the process provide opportunities to help develop managers into directors/leaders?' is given in table 5.10.

Table 5.10: Sectorwise Frequency Distribution of 'Opportunities to Develop Managers into Directors/ Leaders'

Response	Sector			Total Cos.	Total %
	Joint	Private	Public		
Yes	1	45	6	52	57.8
No	-	5	-	5	5.6
No Response	-	2	-	2	2 2
Sub-Total	1	52	6	59	65.6
Not Applicable	2	19	10	31	34.4
Total Cos.	3	71	16	90	100

The table shows that 57.8% of surveyed companies gave opportunities to develop present managers in to future directors/ leaders. However, the private sector companies (with 63.4%) lead in providing opportunities to develop present managers into future directors/ leaders than their joint sector (with 33.3%) and public sector (with 37.5%) counterparts.

5.3.3 Process of Identifying and Developing Talent For Future CEO

Though 88.9% companies (table 5.9) claim that they have clear definition of the type of CEO the company needs, we attempted to analyse various aspects of CEO succession planning in those 80 out of 90 companies. With a view to know the presence of process of training and development activities within an organization to develop a present executive for a post of CEO an answer was sought to the question, "Is there a process of mentoring, identifying, moulding and nurturing for future CEO?" Table 5.11 presents the responses of 90 companies.

Table 5.11 : Sectorwise Frequency Distribution of Presence of a Process of Mentoring, Identifying, Moulding and Nurturing Talent for Future CEO

Responses	Sector			Total Cos	Total %
	Joint	Private	Public		
Yes	1	52	6	59	65.6
No	2	19	10	31	34.4
Total Cos	3	71	16	90	100

The tabulated data reveals that 65.6% (i.e., 2/3rd of total companies) companies had a process of mentoring, identifying, moulding and nurturing talent for future CEO. In private sector, majority companies (i.e., 73.2%) had such processes whereas in majority of joint and public sector companies (i.e., 66.7% and 62.5% respectively) such process was absent within the company since and the same was looked after by the PESB for all PSUs.

In 34.4% companies the process of mentoring, identifying, moulding and nurturing talent for future CEO did not take place therefore, those responses were considered as 'Not Applicable'. Henceforth, 65.6% positive responses were only considered for the further analysis of various aspects of the CEO succession planning (from table nos. 5.12 to 5.18).

5.3.4 Job Rotation of Potential Candidate for Future CEO

One of the ways to develop a person for a future role is to give him on the job training to make him the feel of future role and let him understand the responsibilities that he has to undertake in future. Therefore, it is necessary that the companies must have the process of rotating the potential candidates to handle multiple functions in order to afford them hands on experience. It is very important for future CEO to get hands on experience of all activity run in the organization for better control and effective monitoring. For the said purpose the question was asked to the respondents - 'Are potential candidates for the post of CEO, rotated to handle multiple functions in order to afford them hands on experience?' Analysis of 90 responses at table 5.12 shows that in 57.8% companies the potential candidates for the post of CEO were rotated to handle multiple functions in order to afford them hands on experience.

Table 5.12 : Sectorwise Frequency Distribution for Job Rotation of Potential Candidate for Future CEO

Responses	Sector			Total Cos.	Total %
	Joint	Private	Public		
Yes	1	45	6	52	57.8
No	-	7	-	7	7 8
Sub-total	1	52	6	59	65.6
Not Applicable	2	19	10	31	34.4
Total Cos.	3	71	16	90	100

Majority of public and joint sector companies (i.e., 62.5% and 66.7% respectively) responded that the question was 'not applicable' to them since they did not have any process of mentoring, identifying, moulding and nurturing talent for future CEO.

5.3.5 Mentoring the Potential Candidates for Future CEO

It is not enough to rotate a potential candidate for the post of CEO to handle multiple functions in order to afford them hands on experience, but equally important is that such potential candidates are guided properly and let them understand their mistakes and good performance. For such reasons mentors can be nominated formally or informally so that the potential candidate will be developed under the experienced guidance and develop confidence in decision-making. Therefore, the answer was sought for question 'How many mentors are working for the same?' The analysis of 90 responses for the said question is given in table 5.13.

The table shows that 32.2% of surveyed companies had a system of mentoring the potential candidates. Also, in case of private sector companies the promoters of joint venture and promoters of multinational companies did the mentoring of potential candidates for CEO. The number of mentors varied in the respondent companies from 1 to 5 (see table 5.13). The mentors were chairman, CMD, vice-chairman, all or 2-3 WTDs, officers of training department, full Board, group executive office, and the supervisory board members.

Table 5.13 : Sectorwise Frequency Distribution of Number of Mentors Working for Mentoring and Guiding the Future CEO

Responses	Sector			Total Cos	Total %
	Joint	Private	Public		
1	-	9	-	9	10 0
2	1	5	-	6	6.7
4	-	2	-	2	2.2
More than 4	-	9	3	12	13 3
Not Specified	-	12	2	14	15.6
None	-	15	1	16	17.8
Sub-Total	1	52	6	59	65.6
Not Applicable	2	19	10	31	34 4
Total No. of Cos	3	71	16	90	100

One company reported that there existed executive development programmes run on a regular basis and one company responded that the programme of training is structured. However, it is required to have a structured mentoring framework to guide all the potential candidates by the experienced senior directors of the company.

5.3.6 Basis of Identifying Candidate For Future CEO

For any succession planning, the success depends on the time frame that is considered to inculcate the necessary training and develop a person over a period of time to the desired level. Success of succession planning lies in the chosen timeframe for developing a future CEO. Ideally, a person should be identified on the basis of his potential for future roles. However, there are very few people who can reach the top most level in the company. It depends on the succession planning of any organization that how smoothly the function is carried out or whether the position is filled in a hurriedly manner from whomsoever is available. For finding out the basis and time frame of the succession planning, the question was posed to the respondents that 'How early in the day, the process of identifying, moulding, nurturing, and developing future CEO begin?' Analysis of 90 responses are given in table 5.14 which shows that the basis of identifying the future CEOs was decided on factors such as: On the basis of seniority (25.6%), on the basis of potential of the candidate

(6.7%) and on the basis of time left for the retirement of present CEO (12.2%), and in family fiefdoms the family member is groomed for the position (3.3%).

Table 5.14 : Sectorwise Frequency Distribution of the Basis of Identifying Candidate For Future CEO

Responses	Joint	Private	Public	Total Cos.	Total %
On the basis of Seniority	1	18	4	23	25.6
On the basis of present CEOs retirement	-	10	1	11	12.2
On the basis of potential of the candidate	-	6	-	6	6.7
Not in advance	-	4	-	4	4 4
Family member is groomed for the position	-	3	-	3	3.3
No Response	-	11	1	12	13.3
Sub-Total	1	52	6	59	65 6
Not Applicable	2	19	10	31	34.4
Total	3	71	16	90	100

However, in 4.4% companies there was no time frame decided for identifying, moulding, nurturing and developing future CEO. It was interesting to note that in public as well as in joint sector companies, there was no scope for potential candidate to rise up to the position of CEO rather it was seniority which counted to reach the position of a CEO. In joint sector the 'not applicable' answer indicated that the company did not develop future CEOs within the company as they come either from the private partner or the government nominates them. 18 private sector companies' 'no response' means these companies either were family run organizations therefore, CEO was mostly the son or daughter of the promoter or in case of a joint venture company the CEO came from the joint venture or parent company. In case of multinational company the CEO was appointed by the parent company. In 10 public sector companies the response 'not applicable' implied the appointment of CEO was done by the PESB and the company did not make any effort to identify and develop future CEO. The next CEO was appointed by PESB just before the previous CEO retires or quite often after many days/ months the previous CEO had already retired. However, in 5 private companies the time period was not specified but it was reported that the right candidate was given due recognition. The above responses were further classified for the timeframe for identifying and developing future CEO as follows:

On the basis of duration left for the retirement of present CEO

11 respondents identified the future CEOs when the present CEO was about to retire. The duration left for retirement of the present CEO ranged from 6 months to 10 years.

On the basis of the number of experience and position of a person

23 respondents identified the future CEO when the person either joined the executive category or became an executive board member or reached one level below the CEO's position[19] and/ or they must had put in certain number of years in an organization. The number of years in an organization varied from 2 years to 10 years. After meeting the criteria of number of years and/ or position reached, the seniority also played an important role in PSUs. Sometimes, in PSBs, CMD was appointed keeping in view the sufficiency of time before his retirement to work on the position[20] and lead the organization.

On the basis of the potentials of the future candidates

Apart from above two criteria it was also found that in 6 companies the person was identified right from his arrival in an organization or atleast when he attained an age of 35-40 years. In family run organizations the son in the promoter's family was groomed for taking CEOs position right from his education time.

There were 2 companies that did not lay down such procedures because they were in their nascent stage or the MD was very young person.

5.3.7 Interaction Between Future CEO and Top Management Team

In companies where the succession planning was in existence the potential candidates were given different types of tasks and also afforded opportunity to know the company's top management team. In organizations the potential candidates like V.P., President, executive

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19 e.g. Deputy MD, President, GM, VP

20 In the year 2000 when Mr. Janki Vallabh was appointed as the chairman of Bank by superceding his seniors who had less tenure before retirement. – (2000), "Top Level Changes And Image Problems", *The Hindu*, November 6th, p.15.

directors, or an executive interacted with each other during the board meetings or presentations or management teams' meetings. They interacted with each other and if they were longer in an organization they were bound to know each other without any formalities involved in it. However, an answer was sought to the question, 'Does the process of succession includes a vehicle to provide the CEO and the board with a comprehensive picture of the company's top management team?' Table 5.15 presents the analysis of responses of 90 companies for the said question.

Table 5 15 · Sectorwise Frequency Distribution of Interaction Between Future CEO and Top Management Team

Responses	Sector			Total Cos.	Total %
	Joint	Private	Public		
Yes	1	44	4	49	54.4
No	-	6	-	6	6.7
No Response	-	2	2	4	4.4
Sub-Total	1	52	6	59	65 6
Not Applicable	2	19	10	31	34.4
Total Cos.	3	71	16	90	100

The table shows that in 54.4% of surveyed companies the process of succession included a vehicle to provide the CEO and the board with a comprehensive picture of the company's top management team that includes 33.33% joint sector companies, 62.0% private and 25% public sector companies. Only in 8.5% private sector companies the process of succession did not include a mechanism to provide the CEO and the board with a comprehensive picture of the company's top management team.

5.3.8 Continuous Attention Paid for CEO Succession

Though, the companies claim that they had succession planning in place, proper procedures and system of succession planning require lot of attention and it becomes necessary when the candidates for future CEO are promoted from within the organization. In many professionally managed companies the performance appraisal or performance feed back system was in place, however, the optimum use of such system demands a greater attention as far as succession for CEO is concerned. The potential candidates must be evaluated continuously. Many companies do claim the existence of proper performance appraisal system for executive directors but, the formal appraisal of non-executive directors was not done by any of the companies albeit in 1 or 2 cases as exceptions. Nevertheless, responses of 90 respondents to the question 'Does the process entail that continuous attention is paid to CEO succession?' were as follows:

Table 5.16 : Sectorwise Frequency Distribution of System of Continuous Attention For CEO Succession Is Paid

Responses	Sector			Total Cos.	Total %
	Joint	Private	Public		
Yes	1	40	4	45	50.0
No	-	10	-	10	11.1
No Response	-	2	2	4	4.4
Sub-total	1	52	6	59	65 6
Not Applicable	2	19	10	31	34.4
Total Cos.	3	71	16	90	100

Table 5.16 shows that in 50% respondents companies the CEO succession process entailed that a continuous attention was paid to CEO succession. In 14.1% private sector companies continuous attention was not paid to the evaluation of future candidate for the position of the CEO though there existed CEO succession planning as claimed by the respondents.

5.3.9 Institutionalised Process to Develop Future CEO

The process of succession needs a well defined and structural approach to develop the future CEO. For that it is necessary to train and assess immediate candidates for CEO in a structured manner. In this regard, 90 companies responded to the question 'Does the process includes institutionalised structures to train and assess immediate candidates for CEO?' and the analysis of responses is given in table 5.17. The table reveals that the institutionalized structures to train and assess immediate candidates for CEO was present only in 34.4% surveyed companies that included 33.33% joint sector, 38% private and 18.8% public sector companies.

Table 5.17: Sectorwise Frequency Distribution System of Institutionalised Process to Develop Future CEO

Responses	Sector			Total Cos.	Total %
	Joint	Private	Public		
Yes	1	27	3	31	34.4
No	-	22	2	24	26 7
No Response	-	3	1	4	4.4
Sub-Total	1	52	6	59	65.6
Not Applicable	2	19	10	31	34 4
Total	3	71	16	90	100.0

26.7% companies (including 31% private and 12.5% public sector companies) did not have institutionalized structures to train and assess immediate candidates for future CEO.

5.3.10 Benchmarking CEO Succession:

Another aspect of succession includes benchmarking of the type of CEO the company needs. Benchmarking guides the long-term goals to be achieved. The succession planning, thus, if benchmarked will make it easier to decide upon the mechanism to achieve the goals. 'Does the process of succession benchmark itself with other top companies?' was the question posed to assess the presence of the system of benchmarking the CEO succession. This question was responded by 90 corporates whose analysis is presented in table 5.18. Analysis of data shows that the 46.7% respondent companies benchmarked their CEO succession with other top companies. However, 16.9% private sector and 6.3% public sector companies did not do such benchmarking.

Table 5.18 : Sectorwise Frequency Distribution of Benchmarking of CEO Succession

Responses	Sector			Total Cos.	Total %
	Joint	Private	Public		
Yes	1	38	3	42	46.7
No	-	12	1	13	14.4
No Response	-	2	2	4	4.4
Sub-total	1	52	6	59	65.6
Not Applicable	2	19	10	31	34 4
Total Cos	3	71	16	90	100

The benchmarking was not only with respect to the other Indian companies but also with global corporates, some companies benchmarked within the group companies, some looked for benchmarking within a type of industry and the banking industry benchmarked their CEO succession with RBI.

Conclusion

Corporate governance debates spurted the board restructuring, more disclosure and formation of various board committees. However, HRD aspects for the board members have been slipped from the boardrooms owing to the absence of orientation, development and succession planning. Orientation programme for the directors was regarded 'below the status' because of their age and experience. Moreover, formal documentation of board procedure in the form of a manual was conspicuous by its absence. In majority of companies where the system of grooming of executives for the position of the director was in existence, it resembled with 'in house' exercise. 4 out of 10 companies had sent their executives abroad for the training. Seminars and conferences were the most preferred mode of the executives grooming. These programmes varied in duration ranging from weekly, fortnightly, monthly to three months and in few case long duration programmes too. Besides, presentations before the board was yet another way of grooming practices for the executives. The subjects preferred for these programmes were 'business strategy' and 'leadership'.

CEO succession appeared to be a planned affair in case of family runs private sector companies while in case of joint and public sector CEO succession was missing due to the philosophy of the appointments. The grooming and mentoring took place by family patriarch who controlled the reins of Business Empire who in turn acted as a mentor and the identification process began around the time when the present CEO was about to retire. The grooming was through the process of formal interaction with the board members, through presentations and through board and project meetings. For building up confidence of employees, investors and market and providing continuity to the leadership succession planning should be part of the strategic planning and therefore the corporates of tomorrow will have to consider this as a important item of their HRD strategy agenda.

Appendix – 5.1

SUCCESSION PLANNING AT FAMILY BUSINESSES

Company Name	Name of present CEO/ Leader	Position of leader	Name of Successor/s	Relation with the present leader/ CEO	Position given at present (for succession)
Apollo Tyres	Raunaq Singh	Chairman	Onkar	Son	Vice-Chairman
Reliance	Dhirubhai Ambani	Chairman	1. Mukesh 2. Anil	Son Son	Vice-Chairman MD
Bilts	LM Thapar	Chairman	Gautam	Nephew	MD
Wadia Group	Nusli Wadia	MD	1. Ness 2. Jeh	Son Son	Deputy MD Deputy MD
Bajaj Group	Rahul Bajaj	CMD	1. Rajiv 2. Sanjiv	Son Son	Joint MD VP-Finance
Hinduja Group			1. Sanjay, 2. Ajay, 3. Dheeraj, 4. Remy	Sons	
Jumbo group	MR Chhabaria[21]	Chairman	Vidya Chhabaria	Wife	Chairman
Tata Group	Ratan Tata	At present no succession planning			

[21] Ms. Vidya Chhabaria was named chairman after the Demise of Mr. MR Chhabaria otherwise in his presence no succession planning was done.