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**AN INVESTIGATION
OF CORPORATE LEADERSHIP
SUCCESSION PLANNING
AND IMPLEMENTATION:
THE MALAYSIAN EXPERIENCE**

By

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ABSTRACT

Leadership succession, and especially that of the CEO, has attracted considerable interest amongst management and social researchers. Most of the research has been conducted in Western organisations and from specific vantage points such as understanding the financial impact of CEO succession and successor origins. However, there is currently little research on the actual process of leadership succession, and especially so in the Malaysian context.

This research uses qualitative research methods to investigate leadership succession (which in this thesis means both CEO and upper-echelon managerial succession) in Malaysian organisations. The research reveals that most Malaysian companies are not engaged in leadership succession planning and implementation and the few that have such processes report low success rates. The research shows that leadership succession planning and implementation is in its infancy among Malaysian companies. Where upper-echelon manager succession is concerned, companies commonly practise leadership replacement rather than succession. However, with family-controlled publicly listed companies – and such companies constitute the majority of publicly listed companies in Malaysia and in most of Asia – dynastic succession is the predominant form of CEO succession and the CEO's position is the preserve of members of the founding family.

In investigating the factors that either enhance or inhibit leadership succession processes, a form of inhibitor that this thesis calls *organisationally generated entrenchment* was identified.

Organisationally generated entrenchment appears to be common in Malaysian companies and has the effect of stifling smooth leadership succession.

This research also shows that leadership succession processes are greatly influenced by cultural factors and that leadership succession models must take into account cultural effects.

This thesis offers the Succession Development Pathway model as a means of facilitating leadership succession in organisations in Malaysia.

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I remember, when as a young boy, I would eagerly wait for the Rolf Harris show on our black-and-white television. I was especially enthralled by the artist's painting sessions. He would take a paint brush and apply dabs of paint here and there in what seemed to be a rather haphazard manner. Initially, the canvass would appear to be little more than a chaotic mess of paint and members of my family would debate what the artist was painting. Then, with a few finishing strokes, Rolf would transform the disarray into order and the end result was a beautiful painting. Harris then rendered a song about the story behind the painting and we, the audience, were left in awe of the manner in which he had brought order to the disorder and meaning to the picture he had created.

While researching this topic, there were many times when I felt that all that I had was a disarray of data and that my metaphorical doctoral canvass would never be able to convey any meaningful story. Unfortunately, I do not have the artistic talents of a Rolf Harris but fortunately, I did have the help of two master advisers whose advice and guidance helped me see the meanings hiding behind the data that I had collected. From these master advisers, I have not only learned to conduct research and to write a thesis but I have also gone on to enjoy the process of investigating, analysing, theorising and bringing meaning to the research. I, therefore, wish to bring special honour and thanks to the two persons who have made such a difference to this research.

The first person that I want to thank is my supervisor, Dr Anthony Shome. Tony widened my perspectives in this research and helped me see that

there was more to leadership succession than I had originally envisaged. I enjoyed our frequent discussions over the subject matter and I have benefited enormously from them. I am very grateful for the way that he generously shared his knowledge of the subject matter with me and his guidance was, indeed, invaluable. He saw the potential in my study long before I realised it myself. I am very thankful to Tony, who started as my advisor but who has become my friend.

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To Drs Shome and Bathurst I extend my sincerest thanks. Returning to my metaphor of painting a doctoral canvass, the master strokes were truly only possible with their help. Any blemishes in the final painting are all mine.

I also wish to thank Professor Dr John Monin for his confidence, support and interest throughout the research.

I gratefully acknowledge and thank all the participants who took time from their busy schedules to discuss the matter of leadership succession in

their organisations with me. The hospitality that they accorded me during the research went far beyond my expectations.

In my family we often tease each other about saving the best for last, especially where food is concerned. In acknowledging this last group of people, I can truly say that I have indeed saved the best for last. I thank my wonderful wife, Alice, and my three children, Brendan, Erin and Shannon, for all their prayers and support as I undertook this journey. Their love, concern and understanding helped me through many difficult patches during the research. I had to spend a lot of time alone writing this thesis, but I never once felt lonely because they were always with me, physically or in spirit, encouraging me on. I am very proud to have completed this thesis, but my true pride and joy lie in having been blessed with such a lovely wife and such wonderful children. It is to my family that I dedicate this thesis.

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Chapter 1

MALAYSIAN LEADERSHIP SUCCESSION PROCESSES AS THE FOCUS OF THE RESEARCH

- **Introduction**
- **Reasons for the research**
- **Scope of the research**
- **Research areas**
- **Structure of the thesis**

Introduction

This chapter introduces the research topic and defines its direction and scope. The reasons for undertaking the research are also explained.

Reasons for the research

My interest in the area of corporate leadership succession grew from a discussion that I had with one of my clients during the time I had a leadership training business in Malaysia. My client voiced concerns that his company's second-tier managers had not been sufficiently prepared to take over the responsibilities and positions of the first- (or top-) tier managers. The majority of those in the first tier were rapidly approaching the age of 55 years, the age at which most Malaysian employees are contractually required to retire, while the younger managers in the second tier had not been sufficiently groomed for succession. Although the company had put into place training programmes to ensure that staff members received training, most of the training was in the area of the technical skills required in running a production line and little had been done to prepare them to be the next generation of leaders and managers. He also expressed anxiety over what he called 'blockages' to the upward mobility of those who were being prepared and felt that, because of these impediments, a number of second-tier managers had become frustrated and had left the company. He stated that signs of restlessness could be observed in those who were still in the company and that the situation

overall did not bode well for the organisation in terms of strategic leadership continuity. Following this encounter with the client, I approached other clients and found evidence of similar situations in their organisations. This led to my interest in the research of leadership succession in Malaysian companies and in understanding the factors that are either inhibiting or enhancing corporate leadership succession processes.

Leadership succession is the proactive identification and development of subordinates for future managerial and leadership positions at all levels of the organisation and can be contrasted to leadership replacement which is the reactive initiation of efforts to find a replacement for a retiring or resigning manager.

Literature on leadership succession asserts that it is of strategic management importance that organisations ensure a ready pool of adequately prepared employees who are able to take on higher responsibilities and positions as and when required. Charan, Drotter and Noel (2001) argue that companies need to develop a 'leadership pipeline' to allow for the orderly succession of leaders at all levels and that the entire length of the pipeline should be kept 'fully primed' – that is to say, that there should always be sufficient numbers of adequately groomed employees to take on higher responsibilities as and when required. Researchers such as Cannella and Lubatkin (1993), Kets de Vries (1995), Manz and Sims (2001), Huang (2001), Hill (2005) and Greer and Virick (2008) suggest that leadership succession is crucial in enhancing the ability

of an organisation to minimise the potential loss of critical dimensions of the organisation's competitive strategy and for ensuring strategic continuity. A detailed consideration of the importance of leadership succession is elaborated in Chapter 2 of this thesis.

The literature, however, also reveals that for various reasons, leadership succession development and implementation processes often fail to meet their desired results (Santora, Clemens & Sarros, 1997; Conger & Fulmer, 2003; Conger & Nadler, 2004). One reason for this failure is the inability or unwillingness of many organisations to implement formal succession planning programmes. Santora, Clemens and Sarros (1997) report that many organisations do not progress beyond talking about leadership succession and these authors assert that many organisations fail to invest in such a process despite acknowledging its strategic importance. Another reason offered is the demonstration of entrenchment tendencies on the part of the Chief Executive Officer (hereinafter referred to as the CEO). Entrenchment can be defined as the reluctance of the CEO to vacate his or her position in favour of his or her successor or heir apparent. Sonnenfeld (1988), Cannella and Shen (2001) and others (Jennings, 1971; Vancil, 1987; Walsh & Seward, 1990; Boeker, 1992), in researching CEO succession, record many incidences where incumbent CEOs have been reluctant to make way for the very heirs apparent they had groomed when it was time for the incumbents to step down; this was despite the fact that many of the organisations investigated had formal succession plans and systems in place. The demonstration of CEO entrenchment has resulted, in some cases, in the resignation of the heir apparent (Kets de Vries, 1988; Cannella

& Shen, 2001). The loss of such high-level talent has often been interpreted by shareholders as a sign of internal discord and has been known to reduce shareholder confidence in the organisation (Shen & Cannella, 2003). I thus became interested in investigating whether Malaysian companies encountered entrenchment problems similar to the ones reported by the above researchers.

In my interactions with Malaysian companies, I noticed another form of entrenchment that demonstrated itself at managerial levels below that of the CEO. I have coined a phrase for this form of entrenchment and will refer to it as *organisationally generated entrenchment*. Organisationally generated entrenchment occurs when organisations are unwilling or unable to replace, remove or retire managers who, for various reasons, have been deemed by management to be no longer suitable for the company. My observations indicate that instead of dismissing such employees, many organisations prefer to transfer them to other divisions or to reassign them as managers of some special project. The designating of an employee as 'Manager: Special Projects' is widely perceived in Malaysia to be the equivalent of that particular person being placed in 'cold storage' by the organisation. In other situations, some companies have preferred to maintain the *status quo*. The end result of any of the above three actions is that the employee in question remains in a position that could have been made available for another, more capable, employee. Such practices might subsequently be misconstrued by other staff members as an indication of the lack of organisational courage to remove these unsuitable employees. This could ultimately frustrate the process of

leadership succession as ambitious and talented employees might see this as an impediment to their own career advancement. It is possible that these employees might then become de-motivated and leave the company, thereby shrinking the talent pool from which the company might draw for leadership succession purposes. The possible effect of organisationally generated entrenchment on leadership succession was therefore included for investigation in this thesis.

Another reason for the failure of leadership succession planning and implementation is the inherent weaknesses found in formally instituted succession models. These weaknesses can hinder the smooth transition of the actual succession process at all levels and especially so at CEO level. Many of the models – for example, those proposed by Cashman (2001) and Chung-Herrera, Enz and Lankau (2003) – tend to take a rather general approach to leadership succession and are centred on checklists for the evaluation of possible leadership shortages, on the identification of required executive competencies and appropriate staff members, and on the subsequent training and development of the selected individuals in the areas of the required competencies. While these steps are necessary, many of these models appear to be more appropriate for the management of personnel replacement rather than for leadership succession systems. Other shortcomings of these models include the lack of mechanisms to address the problem of entrenchment, either CEO-entrenchment or organisationally generated entrenchment, and the lack of specifics in their approach to leadership succession. For example, most of the models make no mention of timeframes or when succession processes should

commence. To overcome some of these deficiencies in the generic models, Friedman (1986) and Charan, Drotter and Noel (2001) propose alternatives that are more specific in their treatment of the process of leadership succession. Nonetheless, even these more structured processes do not adequately address the challenges linked to CEO-entrenchment and organisationally generated entrenchment. These models do not take into consideration any possible impact that culture might have on leadership succession planning and implementation, indeed the proponents of these models appear to suggest that their models can be universally applied. A fuller consideration of these models can be found in Chapter 2. I, therefore, became interested in exploring various succession models and to evaluate the applicability of Western leadership succession models in Malaysian organisations. This understanding would be beneficial in designing a succession model that could contribute positively towards the effective management of leadership succession in commercial organisations in Malaysia.

While reviewing the literature, it became evident that most of the research on leadership succession focused on organisations in the United States of America (USA) or in Europe. There is little information about leadership succession planning and implementation among Malaysian companies. As mentioned earlier, also lacking was information on the effect that national culture might have on succession practices. As I have worked in Malaysian companies for over 20 years – 13 of them as an employee in positions ranging from sales representative to general manager and nine years interacting with numerous Malaysian companies as a leadership

trainer – I became convinced that it would be interesting and important to examine the applicability and appropriateness of what is in the literature to Malaysian companies.

Another characteristic of the literature on leadership succession is the strong emphasis on CEO succession. In this research, however, I made the decision to broaden the scope of the investigation to include all managers of the organisation rather than to maintain a narrow CEO-succession focus. This would provide a more holistic perspective of the subject of leadership succession in Malaysian organisations. As such, in this thesis, the term *leadership succession* is taken to include all managers in the company. However, in situations where succession is solely focused on the CEO, the term *CEO succession* will be employed. At this juncture, it should be noted that the words ‘leader’ and ‘manager’ are used interchangeably in this thesis.

Having considered the above, this investigation examines whether Malaysian companies are engaged in leadership succession planning and implementation or are instead practising leadership replacement and will investigate the factors that either enhance or inhibit leadership succession. Additionally, this thesis will test two theoretical propositions that have arisen from the perusal of the situation in Malaysia. Firstly, this thesis posits that organisationally generated entrenchment is demonstrated in Malaysian companies and that organisationally generated entrenchment has the effect of reducing the overall effectiveness of leadership succession management. Secondly, this investigation postulates that organisationally

generated entrenchment arises from the influence of national culture on management practices and as a result generalised leadership succession models (such as the Leadership Pipeline model and the Acceleration Pools model) offered by leadership succession practitioners may not be useful for the management of leadership succession in Malaysian organisations. Any model will need to take into account the impact that culture will have on the process of leadership succession.

Scope of the research

There are many areas that can be considered when investigating leadership succession. These areas include the organisational levels at which succession events occur, the psychology of succession events, and the application of leadership theories such as stewardship theory and transformational leadership theory. Of interest to this research are reports from Davis and Harveston (1998) and Dyck, Mauws, Starke and Mischke (2002) who assert that there are currently little empirical data on the actual process of leadership succession in organisations. The primary objective of this research is therefore to examine current leadership succession processes in Malaysian companies. In investigating the way that leadership succession is practised, possible inhibitors and enhancers within these processes will be identified.

The second objective of this thesis is to examine entrenchment – be it CEO entrenchment or organisationally generated entrenchment – in

organisations so as to understand the reasons for and the impact of such demonstrations of entrenchment. This research will also investigate the influence that national culture might have on management practices that are involved in the organisationally generated entrenchment.

The third objective of this thesis is to explore the models Malaysian organisations employ in leadership succession processes and to investigate the effectiveness of such models in effecting succession transitions in Malaysian companies. Consequently, this will lead to designing strategies to help overcome the obstacles that impeded smooth leadership transitions.

In order to achieve the above objectives, this research investigated nine Malaysian organisations. Eight of the nine companies are publicly listed firms – seven are listed on the Kuala Lumpur Stock Exchange and one is listed on the Nikkei Stock Exchange in Japan – while the remaining is a privately owned company. None of the companies involved in this research are family-owned although five are family-controlled. Nine participants – three CEO/MD and six senior managers – were interviewed to obtain the necessary data to address the objectives above. Data was also obtained from an investigation of company records, company publications such as annual reports and press releases and newspaper articles. At this point it should be noted that it is a common practice for CEOs to also be known as Managing Directors (MD) and this explains the CEO/MD designation above. Eight of the organisations researched are publicly listed while one is privately owned. A description of these

companies and the industries they represented can be found in Chapter 4 and in Appendix D.

Research areas

In order to address the three objectives set out above, the following key areas were investigated during the research.

The investigation firstly determines the level of importance that Malaysian companies place on leadership succession planning and implementation. The veracity of the answers to this question is analysed against their responses pertaining to processes of and models employed for leadership succession. In the area of CEO succession, the phenomenon of dynastic succession in family-controlled publicly listed companies is also scrutinised.

Following the above, the research examines the manifestation and impact of two forms of entrenchment: CEO entrenchment and organisationally generated entrenchment in leadership succession.

Finally, the research identifies a list of factors that enhance or inhibit leadership succession.

Structure of the thesis

The thesis is structured in the following manner:

Chapter 1 introduces the subject matter and states the reasons for the research.

Chapter 2 reviews the literature and discusses the importance of leadership succession and the issue of entrenchment. Additionally, the models involved in leadership succession, market reactions to leadership succession events and a number of relevant succession theories are also considered.

Chapter 3 concentrates on understanding the influence of cultures on the practice of leadership succession. Cultural values of Malaysia, Taiwan, Japan, the United States of America and the United Kingdom which directly impact on leadership succession are compared and contrasted to ascertain their effect on the manner in which leadership succession is managed in these countries.

Chapter 4 considers the research paradigm and the methods that are used to collect the data required to address the research objectives. It explains the methods that are employed to analyse the data collected.

Chapter 5 discusses the analysis of the data and paints a holistic picture of leadership succession practices in Malaysia. The data is compared against

the literature so as to ascertain the appropriateness and applicability of the current body of literature on the management of leadership succession in Malaysia.

Chapter 6 is the conclusion of the research. It includes an introduction of a succession model that can be employed for effective leadership succession planning. The chapter also lists areas for possible future research.

Chapter 2

A REVIEW OF THE LITERATURE SURROUNDING LEADERSHIP SUCCESSION

- Preamble
- Leaders and leadership succession
- The importance of leadership succession
- The financial impact of leadership succession
- The origin of successors in the leadership succession process
- The question of Founder-CEO succession and succession in family-controlled publicly listed companies
- The impact of organisational size on succession rates
- The theories surrounding leadership succession
- The demonstration of entrenchment tendencies in leadership succession
- Organisationally generated entrenchment and its effect on leadership succession planning
- The models employed in leadership succession
- The practicality of co-leadership in leadership succession
- The leaders who exited smoothly
- Gaps in the literature on leadership succession

Preamble

Literature has been published on various aspects and perspectives of leadership succession, such as the importance of succession management to companies (Taylor & McGraw, 2004; Huang, 2001), succession rates (Dalton & Dalton, 2007; Brant, Dooley & Iman, 2008), successor origins (Agrawal, Knoeber & Tsoulouhas, 2006; Kesner & Dalton, 1994; Worschel, Jenner & Hebl, 1998), the financial impact of succession events (Shen & Cannella, 2002; Khanna & Poulsen, 1995; Zajac, 1990), CEO compensation (Johnston, 2005) and succession theories (Kesner & Dalton, 1994). While all the areas investigated relate to the broader issues of leadership succession, and in particular that of CEO succession, there is a paucity of literature on the study of leadership succession in relation to organisational strategy. This is supported by two authoritative Hewitt Associates reports released in 2005 and 2007. These reports by the Hewitt Associates, one of the world's largest human resources outsourcing and consulting firms, show that there is a systemic lack of formalised succession processes in the majority of Fortune 500 companies in the USA. The reports also show that when comparing the top-performing 20 companies with over 350 other companies, the one distinguishing feature that separates them is the rigour with which these high-achieving 20 companies employ in developing their future leaders (the full list of the companies in the Global Top 20 can be found in Appendix F). Parry and Mason (2006) of FutureSense, Inc., cite the example of how McDonald's

Corporation, which is on the Global Top 20 list, is able to put together a series of smooth leadership succession transitions. The authors say,

One of the most successful (yet tragic) CEO succession plan implementations in recent history occurred at McDonald's Corporation. In early 2004 then CEO Jim Cantalupo had begun to steer the strategic direction of the company towards more healthy offerings in the face of harsh criticism from public health officials. In April, Cantalupo died suddenly while attending an employee convention in Orlando. Within hours then President and COO Charlie Bell was appointed CEO by the Board of Directors. A day later, Bell gave the same keynote address that Cantalupo was scheduled to deliver at the convention. Just seven months later, when Bell resigned from his post due to health problems, the Board did not hesitate in appointing Vice Chairman James Skinner to CEO and promoting Michael Roberts to president and COO, making him next in line for the CEO position. In another seamless transition Skinner and Roberts continued to carry out the strategic initiatives that Cantalupo and Bell had championed. This was a remarkable feat, considering that most companies are not prepared to replace one CEO, let alone a second only seven months later. Companies should strive to have a plan in place where several qualified, prepared successors exist internally.

(Parry & Mason, 2006)

In order to have several qualified and prepared successors internally, it would be reasonable to conclude that a company's leadership succession processes must go beyond the CEO and include managers who constitute what Hambrick and Mason (1984) call the 'upper-echelons' or what Smith, Houghton, Hood, and Ryman (2006) term as the 'top management team' of an organisation's management hierarchy. Hambrick and Mason (1984) define the upper-echelons as the senior management team who are involved in the strategic vision and direction of an organisation.

Despite the fact that the knowledge contained in the Hewitt Associates' Reports (2005, 2007) is widely available, the Hewitt Associates asserts that the majority of Fortune 500 companies in the USA continue to neglect this important element of organisational strategy as concurred by earlier conclusions reached by Santora, Clemens and Sarros (1997). Furthermore, even in companies which claim to have succession planning systems, the treatment of these issues is often not a matter of priority. It is usually handled in an *ad-hoc* fashion or in a manner which is more akin to leadership replacement, which is about replacing leaders who have left the company, rather than leadership succession management, which is more concerned with the development of leadership readiness to take on organisational responsibilities (Hardy, 2004).

It is therefore reasonable to argue that the matter of leadership succession is of importance to any organisation and that the factors hindering or enhancing succession should be investigated, understood and, where appropriate, either avoided or applied. This research addresses these concerns and highlights the importance of leadership succession planning in the context of corporate Malaysia.

This research seeks to look at leadership succession holistically and from a total corporation perspective, and beyond CEO succession which much of the literature seem to focus on. Researchers such as Hambrick and Mason (1984), Smith et al. (2006) and Mackey (2008) argue that in considering organisational performance there is a need to include upper-echelon managers. Their argument is that members of the upper-echelons work as

a coalition of managers involved in policy development, strategy planning and implementation, and therefore influence organisational performance. For example, Mackey (2008) suggests that top management teams are better predictors of firm outcomes than individual executives. These assertions support earlier work by Norburn and Birley (1988) who theorise that the characteristics of a company's top management team can be used as a predictor of organisational performance. This, along with Parry and Mason's (2006) earlier assertion of the importance of including the upper-echelons when considering organisational performance, contributed considerably to the decision to expand the investigation of leadership succession to include members of the upper-echelons. Charan, Drotter and Noel (2001) assert that leadership succession should be undertaken at every level of management since it is a dynamic, rather than a static, process. For this reason, the decision was made in this thesis to include all managers where succession is concerned. The review of the relevant literature will take into consideration succession perspectives involving CEOs and managers. As the research is focused on Malaysian companies, appropriate literature will be reviewed on current succession practices in the context of corporate Malaysia.

In order to facilitate clarity in the discussion on leadership succession, a number of areas have been selected for consideration. Included are reviews on the level of importance that companies ascribe to leadership succession and the financial impact of leadership succession. Consideration is also given to the current level of research on this subject matter and on the theories surrounding leadership succession, the impact

of organisational size on succession rates, the relationship between successor origins and performance, entrenchment tendencies and organisationally generated entrenchment tendencies. The various succession models that have been proposed by academics and management practitioners and those employed by companies are also perused. In addition, areas such as the feasibility of co-leadership in enhancing leadership succession and examples of leaders who have exited gracefully will be considered.

Leaders and leadership succession

Before proceeding further with leadership succession planning and implementation, a short consideration of leadership paradigm is necessary. A leader who has no desire to advance the interests of his or her followers in the organisation and whose only interest is to bring about follower compliance for the achievement of organisational goals, is unlikely to invest time and effort in leadership succession planning. Leaders with such a paradigm are unlikely to generate much commitment and enthusiasm among their followers (Yukl, 2006, p. 249–253). On the other hand, there are leaders who believe that, in addition to achieving follower compliance and organisational goals, they need to transform and develop their followers for further responsibilities and higher positions. Such leaders believe that leadership replication and rejuvenation are necessary elements in leading their subordinates and are more likely to

put in place processes they can utilise to develop and groom their followers.

The theory of transformational leadership espoused by Bass (1985) offers a means of understanding the transformational leadership paradigm necessary for leadership succession planning. Bass (1985) theorises that transformational leaders are able to motivate their followers more than transactional leaders and that they do this by enhancing the awareness of their followers to the importance of their jobs, by inducing their followers to subsume their self-interests under the interests of the organisation and by activating the higher-order needs of their subordinates. Of interest in this discussion is the activation of the subordinate's higher-order needs. One of the higher-order needs of ambitious employees would be to self-actualise, that is to say, to be able to fully exploit or be given the opportunity to take advantage of their own talents, capacities and potentialities (Maslow, 1954) and in an organisational context, to be able to attain positions of higher responsibilities and stature. Subordinates who work under leaders who are willing to invest time, money and effort to transform and develop them would be more likely to believe that their higher-order needs are being met. This would, in turn, lead to greater levels of employee commitment and enthusiasm. From a leadership succession planning perspective, the continued development of new leaders is helpful to the incumbent leader as well. The grooming of new leaders allows the incumbent the opportunity to progress further within the organisation as there are successors ready to take over the incumbent's position as he or she is promoted. Similarly, the presence of ready

successors can help to bring about smooth leadership transitions when the incumbent resigns or retires.

Having considered the necessity of having a transformational leadership paradigm, attention is now given to the question of whether companies consider leadership succession to be an important organisational activity.

The importance of leadership succession

There are a number of persuasive arguments as to why leadership succession is of paramount importance to all organisations – be they large, public corporations or small family-owned enterprises. Cannella and Shen (2001) assert that the most important leadership topic for any organisation is an effective succession plan that promotes an orderly succession of leaders, especially that of leaders at CEO and senior management levels. There is ample evidence in the literature to demonstrate that the lack of leadership planning can be a costly experience as there are obvious flow-on effects on board stability (Hermalin & Weisbach, 1988; Ward, Bishop & Sonnenfeld, 1999), corporate performance (Adams, Almeida & Ferreira, 2005; Hill, 2005; Jacobstein, 2008), strategic vision (Lorange, 1980; Beatty & Zajac, 1987) and market certainty (Carroll, 1984). In this section, four aspects of why leadership succession is important are considered. These are that CEO succession can impact on the strategic vision and direction of

a company through its effect on the composition of the upper-echelons; the need for companies to avoid leadership vacuums; the minimisation of dislocation of critical dimensions of organisational competitive strategy, and the use of succession as a means of rejuvenating leadership.

One of the reasons that leadership succession at the CEO level has been cited as being of importance to organisations is its effect on the composition and the dynamics of the upper-echelons and its subsequent impact on the strategic vision and direction of the organisation. The significance of this reason becomes clearer through a consideration of the upper-echelons theory (Hambrick & Mason, 1984). Proponents of this theory assert that whilst the CEO may be the main architect of the company's strategies, senior managers comprising the upper-echelons also influence and shape strategic decisions (Hambrick & Mason, 1984; Norburn & Birley, 1988; Virany, Tushman & Romanelli, 1992, Hambrick, Cho & Chen, 1996; Finkelstein & Hambrick, 1996; Dooley & Fryxell, 1999, Smith et al., 2006; Miles & Watkins, 2007). Therefore, any change in the composition of the upper-echelons would be linked to variations in the company's strategic decision-making processes and ultimately, to the performance of the organisation. A consequence of alterations in the composition of the upper-echelons is that power distribution within the organisation can be modified (Pfeffer & Salancik, 1977; Smith et al, 2006; Mackey, 2008). For example, dual-CEOs (CEOs who are concurrently Chairman of the Board) could replace outgoing board members with new members who are supportive of their positions. Such changes would naturally affect the way in which strategic decisions are conceived and

implemented. The impact of such changes on the strategic vision and direction of the organisation will be addressed in the next section. Before that, attention is given to the level of change that can occur as a result of transitions in organisational leadership.

Evidence of changes in the upper-echelons as a result of CEO succession has been reported by a number of researchers. For example, Wagner, Pfeffer and O'Reilly (1984) and Wiersema (1995) show that new CEOs, especially dual CEOs often made changes to the membership of the board as well the management team. They cite examples of situations where incoming CEOs had replaced existing managers with others with whom they felt more comfortable. Other investigations by Tushman and Keck (1993), Tushman and Rosenkopf (1996) and Ward, Bishop and Sonnenfeld (1999) confirm that CEO successions result in increased changes in the membership of the top echelon. For example, Ward, Bishop and Sonnenfeld (1999) in their investigation to quantify changes in the membership of the upper-echelon, report that different types of CEO succession events affected the rate of board member attrition. Where there was no CEO succession event, Ward, Bishop and Sonnenfeld (1999) report that an 11 percent board member attrition rate over a two-year period was common. This attrition rate increased dramatically if a CEO succession event had occurred during that two-year time period. For instance, where CEO retirements had been planned, the mean turnover rate amongst board members increased from 11 percent to 22.3 percent; this corroborated with earlier findings by Hermalin and Weisbach (1988).

The study by Ward, Bishop and Sonnenfeld (1999) also demonstrates that the rate of turnover for board members was influenced by successor origins. Their study shows that where routine CEO retirements were accompanied by outsider succession, the mean turnover rate for board members over a two-year period was higher (35.5 percent) than it would have been if insider succession had taken place (24.5 percent). The higher turnover rate could reflect the widely held perception that outsider successors, in order to bring about the changes that they wish to implement, are often not as willing as insider successors to maintain the *status quo* when they assume the leadership role (Ward, Bishop & Sonnenfeld, 1999).

In circumstances where the CEO was forced to vacate, the levels of disruption in the composition of the board and the senior management team was even greater. Ward, Bishop and Sonnenfeld (1999) found that a forced CEO resignation which was accompanied by outsider succession resulted in a 37.3 percent turnover rate in board membership. In situations where insider succession followed the forced exit of the incumbent, two other factors had to be considered. Where board members felt that they had been diligent in their tasks, the forced CEO departure resulted in a 25.4 percent rate of turnover at the board level. This level was not deemed by Ward, Bishop and Sonnenfeld (1999) to be significantly different from that of routine succession. Where board members felt that they had failed in their diligence, the mean turnover rate increased to 40.5 percent. A summary of the findings on the effect of CEO change on board member turnover rates can be found on Table 2.1.

Table 2.1: The effect of leadership succession events on the turnover rates of board members (according to Ward, Bishop and Sonnenfeld, 1999)

| Event | Mean turnover rate for board members over a two-year period after event |
|---|---|
| No succession | 11% |
| Routine CEO exit | 22.3% |
| Outsider succession following routine CEO exit | 35.5% |
| Insider succession following routine CEO exit | 24.5% |
| Forced CEO exit | 33.1% |
| Outsider succession following forced CEO exit | 37.3% |
| Insider succession following forced CEO exit where the board felt it had failed in monitoring and diligence | 40.5% |
| Insider succession following forced CEO exit where the board felt that it had been diligent | 25.4% |

As shown by Ward, Bishop and Sonnenfeld (1999) and Hermalin and Weisbach (1988), in the absence of any CEO transitions, the turnover rate of the board members was 11 percent. Where planned CEO departures had occurred, the rate rose to 22.3 percent. Therefore, the 22.3 percent (rather than the 11 percent) is a more appropriate benchmark (or 'normal' rate) to use when considering changes in the composition of the upper-echelons following CEO succession. Thus, in circumstances where

strategic continuity is desired, the level of change in the upper-echelons should be as close to this normal rate as possible. As stated earlier, only in two situations did upper-echelon turnover rates approximate the normal rate. These were (a) when insider succession following planned CEO departure, and (b) when the incumbent CEO had been forced out by board members who felt that they had been diligent in their duties. Both of these situations involve insider successors taking over. Effective succession planning and implementation, therefore, is required, and especially so during periods where strategic continuity was desired, to ensure that an insider successor is ready to take over.

The studies conducted by the researchers above do not correlate changes at the upper-echelons with subsequent changes in the strategic vision and direction and long-term performance of the company. Rather, they establish that succession events are accompanied by changes at the strategic decision-making levels of the organisation. Indeed, one can argue that strategically, change in the composition of members of the upper-echelons could be good for the company, especially where strategic modifications or alterations are required. It is noted that what the researchers above have done is to quantify the rates of change in the upper-echelons. However, earlier research by Lorange (1980), Beatty and Zajac (1987) and Miller (1993) have examined the impact of board composition change on the strategic vision and direction of an organisation, and this impact is considered next.

The impact of leadership succession on the strategic vision and direction of the organisation will be investigated in greater detail here because of its effect on the orderly management of the organisation. Strategic vision and direction are crafted and provided by the CEO and those in the upper-echelons (Miller, 1993) and changes in the membership and dynamics of the upper-echelons resulting from CEO transitions have been demonstrated to alter the strategic vision and direction of organisations (Lorange, 1980; Beatty & Zajac, 1987; Bennis & O'Toole, 2000). The question is whether such a change would be in the company's best interest.

It can be argued that shifts in the strategic direction of a company may actually be beneficial to the organisation. For example, in cases of organisational inertia or stagnation, continuity (or a 'steady-as-she-goes' paradigm) can be a bane to the organisation. In such situations, the changes in the upper-echelons that arise from leadership succession (in particular where there has been outsider succession) may be just what that organisation needs to break out of its stagnation (Tushman & Romanelli, 1985). Conversely, where continuity and stability are required, effective management of the leadership succession process would do much to minimise the rate of change in the composition of the upper-echelons and thus promote a greater sense of organisational certainty.

Shen and Cannella (2002) note that heir-apparent succession normally emphasises leadership continuity and consequentially, continuity in strategic vision and direction. This supports Friedman and Singh's (1989)

earlier assertions that where the transitions of heirs apparent to CEOs are smooth, the disruption to the organisation's strategic vision, direction and performance is minimal. This would be expected as heirs apparent (or insider successors) are often groomed by the incumbent CEO to be committed to the strategies and ideals of the organisation and this can only come about as a result of leadership succession planning processes.

The second reason for the importance of leadership succession is the need to avoid the leadership vacuum that may be created by unexpected departures. As these departures are obviously unpredictable, it is only prudent that organisations have in place a succession plan that can be quickly implemented to avoid leadership vacuums (Leading in unnerving times, 2001). The case of McDonald's Corporation mentioned earlier (Parry & Mason, 2006) is an example of how leadership vacuums can be avoided by having a succession plan.

Another example of how succession planning helped to avert a succession crisis is seen in the case of Michelin, the world's leading manufacturer of automobile tyres. Michelin's unique organisational structure calls for a co-CEO arrangement. When the company was struck by the premature death of its CEO, Edouard Michelin, at the age of 42, his cousin, Michel Rollier, who was the co-CEO, immediately assumed the position of the CEO thus ensuring what many saw as a continuity of Edouard Michelin's vision (Kanter, 2006).

The third reason offered for the importance of leadership succession planning is the need to minimise any possible dislocation of critical dimensions of the organisation's competitive strategy. As Burdett (1993) says,

The net result is that an organisation without succession cover is at risk every time an executive travels, or an aggressive search consultant targets the organisation.

(Burdett, 1993)

In 2000, Edson Mitchell, an influential manager who headed the global markets and equities divisions of Deutsche Bank died in a plane crash. He was a healthy 47 years of age and at the time of his demise was a key architect of ongoing company reorganisation. Because of his age, no one had thought that succession planning was necessary (Mandaro, 2000). Although Mitchell was not the CEO of the company, his demise nonetheless was reported to have greatly disrupted the company's reorganisation process. This example underlines the importance of having effective succession planning at every level of the organisation.

Another example of unexpected departures comes in the form of Harvey Pitt, who was the chairman of the Securities and Exchange Commission in the USA in 2002. He created a succession crisis with his sudden resignation that left the Commission leaderless at a time when investors were looking to the Commission to provide the leadership needed to restore stability in the USA stock markets in the aftermath of the Enron scandal (Maiden, 2002).

In turbulent business environments, a disruption of a company's competitive strategy, however temporary, can have disruptive consequences for a company (Romanelli & Tushman, 1988) as it can negatively affect the maintenance of the organisation's strategic fit within its industry. It is thus prudent for companies to take steps to ensure that any possible leadership gaps, especially at the CEO level, be kept at a minimum. Sheibar (1986), Friedman (1990) and Leibman, Bruer and Maki (1996) argue that organisations view the succession process as a means to continually regenerate corporate leadership at all levels, and to building strong leadership teams but note that the number of organisations taking a proactive approach in this matter is still in the minority. According to Kur and Bunning (2002), only 30 percent of the organisations surveyed employed a systematic development approach towards the process of leadership regeneration. Further, they report that the organisations that had a systematic development approach to succession were, for the most part, able to avoid the problem of leadership vacuum development. Their report also suggests that the remaining 70 percent of the companies surveyed that did not employ systematic leadership succession planning were open to succession risks like the creation of a leadership vacuum.

The fourth reason for the importance of succession planning is the need to rejuvenate leadership (Kesler, 2002). While many companies have a layer of top-echelon leaders and CEOs who are fast approaching retirement age, their second-tier leaders are often not ready to take over when the top-tier leaders retire. Such a situation has been reported, for example, in Cleveland-Cliffs, Inc., a large iron-mining company in Cleveland, Ohio

which had an aging leadership but which found itself with a group of managers too young and inexperienced to replace the retirees (Greengard, 2001).

The Succession-Crisis and the Succession-Adaptation Hypotheses

Arguments for the necessity of having effective leadership succession processes have come from two hypotheses known in the literature as the Succession-Crisis Hypothesis and the Succession-Adaptation Hypothesis. These hypotheses argue that leadership vacuums can be avoided.

The Succession-Crisis Hypothesis (Allen, Panian & Lotz, 1979; Haveman, 1993; Parker, Peters & Turetsky, 2002) postulates that a succession crisis could reduce organisational performance, resulting in greater employee insecurity and higher levels of work disruptions and that it could increase the risk of higher level of employee resignations. The Succession-Adaptation Hypothesis argues that properly managed succession could lead to performance improvement, conflict reduction and greater employee security (Carroll, 1984; Singh, House & Tucker, 1986; Parker, Peters & Turetsky, 2002). From an organisational productivity perspective, succession-adaptation would be preferable to succession-crisis as it enhances the creation of better working environments, staff

morale and productivity. It is noted that in order to bring about succession-adaptation, organisations need to have formalised systems in place for leadership succession but this still does not appear to be the norm in many organisations. For example, Charan (2005) reveals that few large organisations (those with annual revenues in excess of US\$500 million) have meaningful succession systems and models in place.

In the light of the two hypotheses above and reports from Charan (2005) and human resource management consultancies like the Hewitt Associates (2005) and Burson-Marsteller (2006), a leading global public relations and communications firm, it can be inferred that many organisations (at least those in the USA where most of the research has been conducted) are ill-prepared for succession adaptation.

The impact of leadership succession in managing increasing business complexities

Increasing business complexity has made succession planning even more crucial for organisations. Business complexity is affected by forces such as environmental munificence, environmental instability and environmental complexity (Dess & Beard, 1984; Keats & Hitt, 1988; Sharfman & Dean, 1991). Briefly, environmental munificence is the capacity of the environment to allow for organisational growth (Starbuck, 1976) and includes factors such as favourable government policies and rapidly

growing markets. Environmental instability is the rate of unpredictable change in the environmental factors that affect strategic decision making (Sharfman & Dean, 1991). Environmental complexity refers to the heterogeneity of the range of environmental factors that those involved in corporate strategic decision making will need to consider (Duncan, 1972).

Business complexity increases as organisations expand their markets, cover diverse international markets and increase their product range and market activities. In so doing, organisations are exposed to varying degrees of environmental turbulence in competitive and environmentally complex marketplaces. Wiersema and Bantel (1993) report that CEO turnover rates often increase as a result of reduced environmental munificence or increased environmental instability and complexity. Such turnover may actually be a boon for some organisations as poorly performing CEOs are replaced by more competent ones. Nevertheless, even in situations where there are increased environmental turbulence and complexity and high CEO attrition rates, organisations could minimise disruption to their need to manage business complexities through effective succession planning and implementation.

Business complexity also increases when organisations undergo periods of change such as when organisational convergence or organisational reorientation occur. Organisations are said to be undergoing periods of convergence when the strategies and activities of the organisation proceed in a coherent and efficient manner. Conversely, they also experience periods of reorientation when fundamental system-wide shifts in

operating modes and paradigms are undertaken (Miller & Friesen, 1984; Tushman & Romanelli, 1985; Romanelli & Tushman, 1994).

During convergence, the CEO's task is to ensure continuity of strategies and activities (Pfeffer, 1981). However, Romanelli and Tushman (1988) and Miller (1991) argue that, during periods of reorientation, CEOs and senior managers need to initiate substantively new directions and strategies. During such times business complexity increases because of changes arising from technological discontinuities and advancements (Hughes, 1983; Tushman & Anderson, 1986), changes in regulations and regulatory processes (Miles, 1982) as well as changes and upheavals in the marketplace (Lawrence & Dyer, 1983). It is not surprising that such periods of reorientation would result in increased CEO and senior management resignations and this is supported by reports from Miles (1982) and Lant, Milliken and Batra (1992). The presence of an effective succession plan could therefore help in minimising such disruptions during periods of organisational reorientation as organisations are able to draw from their existing talent pool to replace departing employees (Ancona, 1989; Milliken & Lant, 1991; Fulmer, Gibbs & Goldsmith, 2000).

The literature shows that succession planning is an important event for any organisation and that it is in the best interest of an organisation to have an effective succession plan in place. While many companies agree that leadership succession planning is important, there is, however, little to demonstrate that companies are taking a strategic or formalised approach to the matter of leadership succession. Having considered why

leadership succession is important, attention is now turned to the financial impact of leadership succession.

The financial impact of leadership succession

It is argued that the financial impact of succession is critical during CEO succession events. Shareholders react to such changes by either pushing share prices up, signalling their confidence in the new CEO, or by depressing the market value of the shares if they are uncomfortable with the transition (Wasserman, 2003). This section will focus on the reactions of the organisation's shareholders to various CEO succession transitions.

There is little reported about the financial impact of succession occurrences in the senior management team below that of the CEO and for this reason the focus in this section is on CEO succession. Early research into the area employs the reactions of shareholders as a means of investigating the impact of leadership succession on the company (Bonnier & Bruner, 1989; Friedman & Singh, 1989; Lubatkin, Chung, Rogers & Owens, 1989). Some of the early studies (Worrell, Davidson, Chandy and Garrison (1986), Warner, Watts and Wruck (1988), and Bonnier and Brunner (1989)) show that there were generally no reactions of the company's stock values following CEO changes. Others like Beatty and Zajac (1987), Johnson, Magee, Nagarajan, Newman and Schwert

(1985), disagree and have cited abnormal share movements during CEO succession events. Although the question of succession and the company's financial performance has undergone a good measure of scrutiny over the years, the results of the investigations conducted have been somewhat varied as the following examples illustrate.

Beatty and Zajac's (1987) survey of 209 large corporations came to the conclusion that succession announcements tend to produce overall negative shareholder reactions. In contrast, Furtado and Rozeff (1987) are of the opinion that markets react positively to reports of succession and especially so to board-initiated insider succession. Similarly, Friedman and Singh (1989) report overall positive shareholder reactions to board-initiated successions when the companies involved were performing poorly prior to the succession event but that they react negatively to board-initiated succession when the organisations were performing well. In the former situation, shareholders felt that the new CEO would bring about change for the better (this was in effect a demonstration of the common-sense theory of succession which will be discussed later in this chapter) while in the latter situation, they feared that the company was replacing a good CEO with one they perceived to be less able. There appears to be differences in the answers to the question of CEO successions and market reactions. Because of the variability of the results, researchers set about identifying a set of contingencies (such as the death of the CEO and board-initiated succession) to explain the variances in the performance of the company's post-succession stock prices and these factors have added a level of consistency to market reactions to CEO

succession events. The financial consequences that these contingencies have on succession are examined by looking at areas such as market reactions to succession due to the sudden loss of the CEO, board-initiated successions, successions during bankruptcy, and heir-apparent promotion or exit.

Market reactions to succession because of the sudden loss of the CEO

Sudden loss is taken to mean, usually, the unexpected death of the CEO. Worrell, Davidson, Chandy and Garrison, (1986) studying the deaths of 127 key executives, found that there were contingencies in the event of the death of the CEO. The authors place the executives investigated into three categories, namely, chairman of the board but not also the CEO, CEOs only and those who were dual CEOs. Their research suggests that when considered as a whole (that is, without the three distinct categories) the deaths of these people did not significantly affect market reactions. If the three groups were considered separately, a different picture emerged. The death of the chairman is often met with somewhat positive market reactions while the deaths of those who were CEOs only and those who were dual CEOs resulted in negative market reactions in the short term. Their research suggests that the more recognised and esteemed the CEO, the greater the negative market reaction and the greater the magnitude of negative adjustments in stock prices. These observations are not

surprising as investors tend to view the CEO as the person driving the company.

In addition to the above, Johnson, Magee, Nagarajan, Newman and Schwert (1985) noted that there were other factors to be considered as well in the event of the death of the incumbent CEO and the subsequent succession event. Johnson and colleagues report that factors like the death of an extremely competent Founder-CEO (that is, the CEO who was also the founder of the company) had a larger impact on market reaction than did the death of a non-Founder-CEO or the death of a Founder-CEO who had less well-perceived leadership abilities. The sudden loss of a CEO is obviously not predictable; however, the presence of a prepared and ready heir apparent can help to reduce possible negative reactions (short-term or otherwise) from the market.

Market reactions to board-initiated succession

Furtado and Rozeff (1987), and Friedman and Singh (1989) report that market reactions to board-initiated successions in the USA tend to be positive. Furtado and Rozeff (1987) assert that there were positive market reactions to the elevation of insiders through board-initiated succession events. They also state that there were no reactions of significance from the market to board-initiated succession events that involved outsider successors. Board-initiated successions are often viewed by shareholders

and interested members of the public as an indicator towards improved future leadership and that by initiating leadership succession, those at the top leadership levels were seen as being proactive about the future of the company (CEO successions impact the value of a company's stock, 1994). An example of this occurred when Carly Fiorina was ousted as Chairman and CEO of Hewlett-Packard. Her removal was greeted with heavy trading on the New York Stock Exchange, with the stock rising at one point by as much as 10.5 percent over the previous day. Overall, the news of her dismissal resulted in a 5 percent rise in the value of the stocks traded on the New York Stock Exchange. The rise in the value of the stocks appears to indicate that most shareholders approved of her ouster. Hewlett Packard's Chief Financial Officer, Robert Wayman, was then named as interim CEO and market sentiments remained favourable towards the company (La Monica, 2005).

Positive shareholder reactions are also noted to be especially true of successful board-initiated insider CEO transitions where the boards are either mixed or consist mainly of directors who are from outside the company (Weisbach, 1988). The market also reacts positively to board-initiated outsider succession, particularly when the outsider is from a related industry (Davidson, Nemec, Worrell & Lin, 2002; Shen & Cannella, 2003). An earlier and rather extensive study that looked at 14 years of evidence (between 1982 and 1995), conducted by Sridharan and St John (1998), came to the conclusion that planned and smoothly implemented successions generated more positive market reactions than successions brought about by sudden deaths, CEO dismissals or unexpected

resignations. This being so, the evidence of positive market reactions towards board-initiated successions could be used to neutralise resistance against entrenchment tendencies.

The reactions to board-initiated succession, though, have not always been positive. In situations where the board had deemed itself to be less diligent than it should have been, board-initiated CEO dismissals resulted in a 40.5 percent turnover of board members (Ward, Bishop & Sonnenfeld, 1999). It is possible that a board-initiated CEO dismissal that accompanies dramatic change in the membership of the board could also trigger negative reactions from shareholders. Such situations are often viewed by shareholders as indications of management failure at the highest levels of the organisation and are usually followed by negative responses in the company's share prices. Such negative reactions would then drive share prices down. As with other aspects on the financial impact of leadership succession, it can be seen that succession is a rather complicated event that defies a 'one-size-fits-all' approach (Kesner & Sebor, 1994).

Market reactions to succession during bankruptcies

With companies in the USA that were on the brink of bankruptcy, Davidson, Worrell and Dutia (1993) find that successions announced prior to bankruptcy declarations are often met with positive market returns. This is especially so in the event of outsider succession, since it is

perceived that the outsider successor would be more motivated to turn the company around (Davidson, Worrell & Dutia, 1993). This supports earlier findings by Carlson (1962) who reports that outsider successors were less hesitant about changing and breaking traditional patterns than were insider successors. Outsiders are often brought in to replace insiders who were unable to get the job done (Wiersema, 1995) as outsiders are viewed as people who have the ability to bring in new and more creative perspectives (Helmich & Brown, 1972; Kesner & Dalton, 1994; Wiersema, 1995) and more capable to rise to the desired level of corporate transformation (Guest, 1962; Lewin & Wolf, 1974; Pfeffer, 1981b; Dalton & Kesner, 1983). As outsiders are often not encumbered by relationships to existing personnel, they are unlikely to be constrained by internal influence. As such, they are also usually expected to take quick action (Friedman & Saul, 1991).

Market reactions to heir-apparent promotion or exit

In studying relay succession, which Vancil (1987) defines as the unimpeded transfer of position and power from the outgoing CEO to the heir apparent at the designated times, Shen and Cannella (2003) note that investors generally react positively to the promotion of the heir apparent. Investor reactions to heir-apparent departure were, however, negative. Investors often view the initiation of the relay succession, especially in a successful company, as a sign of proactive leadership (Beatty & Zajac,

1987; Furtado & Rozeff, 1987). The company, by doing so, is merely taking steps to ensure continued performance. If in the midst of the succession process the heir apparent leaves, especially one who had been heir apparent for a number of years, investors' suspicions could be aroused as heir-apparent departures are often viewed as events portending trouble in the company (Shen & Cannella, 2003).

Summary of the financial impact of leadership succession

Depending on organisational context and circumstances, succession events can have an impact on the organisation in the short, and to some extent, in the medium term. While there are some inconsistencies in the literature, it appears that properly implemented succession events, especially the ones where the board demonstrates foresight and control, are often seen as positive by shareholders. Such succession events are then positively rewarded by shareholders by way of increased confidence in the company. The following table (Table 2.2) summarises the reactions of the market to the various situations that may arise during leadership succession events.

Table 2.2: Summary of market reactions to CEO succession

| Event | Contingency | Market reactions: CEO | Market reactions: Dual CEO | Market reactions: Chairman | Reference |
|------------------------------|---|--|---|-------------------------------|--|
| Sudden loss | | Negative Especially if the CEO was very competent | Negative Especially if the dual CEO was very competent | Positive | Worrell et.al., 1986 Johnson et.al., 1985 |
| Board initiated succession | Insider succession | Positive | Positive | | Furtado & Rozeff, 1987 |
| | Outsider succession (from related industries) | Positive | Positive | | Shen & Cannella, 2003 Wallace et.al., 2002 Sridharan & St.John, 1998 |
| | Forced CEO exit | Negative | Negative | | Ward et.al, 1999. |
| Succession during bankruptcy | Insider succession | Weakly positive | Weakly positive | | Davidson et.al., 1993 |
| | Outsider succession | Positive | Positive | | Davidson et.al., 1993 Carlson, 1962 |

| | | | | | |
|-------------------------|--------------------------------|----------|--|--|-----------------------|
| Heir-apparent promotion | Promotion of the heir apparent | Positive | | | Shen & Cannella, 2003 |
| | Promotion of non-heir insider | Negative | | | Shen & Cannella, 2003 |
| | Outsider promotion | Positive | | | Shen & Cannella, 2003 |
| Heir-apparent exit | Exit of the heir apparent | Negative | | | Shen & Cannella, 2003 |

Having established the importance and the financial impact of leadership succession on organisations, consideration is turned to the question of the origins of successors in the leadership process.

The origin of successors in the leadership succession process

Some of the earliest studies in leadership succession, especially on CEO succession, were centred on the origin of successors. For example, Carlson (1961) and Grusky (1964) posit that the origin of the successor – whether the successor was an insider or an outsider – is a critical factor in leadership succession. Insider successors make fewer changes to existing organisational structures than outsider successors (Carlson, 1961) and this was subsequently supported by Helmich and Brown (1972). Carlson (1961) also notes that the origin of the successors often had an effect on the financial compensation accorded to the successor; insider successors are often not as well compensated as are outsiders. Despite the fact that outsider successors are often better compensated, companies that had insider successions generally demonstrated better organisational performance than those that had outsider succession (Grusky, 1964; Shetty & Perry, 1976). This suggests that insider succession is preferable to outsider succession. That insider succession is preferable to outsider succession is supported by more recent research conducted by Agrawal, Knoeber and Tsoulouhas (2006) who report that companies tend to promote from within. In their study of CEO succession between 1974 and 1995 in USA companies, they conclude that insiders are preferred to outsiders in the CEO selection process. Outsider successors are often at a disadvantage and are only chosen as CEOs if they are markedly more competent than the insider. This is confirmed by work by Carey, Pelan

and Useem (2009) who report that more than 80 percent of current Fortune 100 CEOs are insider successors.

Another argument proffered in support of insider successions is that it increases employee morale (Bieschke, 2006; Reid, 2005; Chung et al., 1987). Employees would view insider events as an indication of the company's willingness to promote from within. For example, the CEO of Procter & Gamble, A. G. Lafley, states that three potential candidates are groomed and developed for each of the top 50 jobs in the company. He asserts that this has increased loyalty towards the company (Kimes, 2009). Nevertheless, insider succession is not without its problems; some insider-succession events have also been shown to demoralise employees who are vying for the same position. For instance, when Jeffrey Immelt was appointed to the position of CEO of General Electric in 2000, the two other contenders for the position, James McNerney and Robert Nardelli resigned soon thereafter (Isidore, 2000).

Research by Zhang and Rajagopalan (2004) supports the notion that relay succession, as defined by Vancil (1987) to be the smooth, unimpeded transfer of power from the incumbent to the heir apparent, is linked with strong organisational performance and strategic continuity whereas Lewin and Wolf (1974) argue that in situations where strategic discontinuity – that is, a strategic break from the organisation's extant strategic direction – was needed, outsider successors often brought about greater levels of organisational performance. They argue that this is because outsider successors are generally more willing and better at designing and

implementing a higher level of change than would be their insider successor counterparts. This is expected as strategic discontinuity is often undertaken by organisations to rectify existing poor organisational performance. Lewin and Wolf's (1974) observations have been supported by Lubatkin, Chung, Rogers and Owens (1986), Chung, Lubatkin, Rogers and Owens (1987), Wiersema (1992) and Davidson, Worrell and Dutia (1993) who also agree that an insider succession is more appropriate for situations where strategic continuity is preferred while outsider succession is more suitable when a great level of change is needed.

In considering the origins of successors, variations and inconsistencies can be seen in the nomenclature and definitions employed in the research as well as in the results generated from such research. An example of such inconsistency lies in the way that the two types of successor, insider successor and outsider successor, have been defined. The definition of the insider successor has been kept fairly consistent; an insider successor is generally regarded as someone who has been in the company for at least three to four years prior to being appointed as the CEO but there is less clarity on how an outsider successor is defined. Wiersema (1992) and Dalton and Kesner (1983) define an outside successor as someone who is outside the company until his or her appointment as the CEO. Others like Cannella and Lubatkin (1993) employ a broader definition and describe an outsider successor as someone who has been in the company for a period of no more than four years before his or her elevation as CEO; in Dalton and Kesner's (1983) view, such a person would be regarded as an insider successor, since the person has already been inside the company for the

last four years. Burson-Marsteller, a company that studies CEO transitions in the USA, makes the situation even murkier. It defines an insider successor as someone with at least three years' experience within the organisation before becoming the CEO of the company and an outsider successor as someone who had worked either outside the organisation or within the organisation for less than three years before being appointed as CEO (Burson-Marsteller, 2006).

This lack of clarity in terminology is not helpful for a definitive investigation in this area of leadership succession and has placed doubts in the conclusions derived by the above researchers. For the purpose of this research and for greater consistency, the definition of an outsider successor employed in this thesis mirrors that of Dalton and Kesner (1983) and Wiersema (1992), which is to say that an outsider successor is someone from outside the company.

The question of Founder-CEO succession and succession in family-controlled publicly listed companies

In terms of CEO transitions, successors can come from a number of sources. In addition to the two broad categories (insiders and outsiders) discussed above, there is the need to consider the question of succession in family-controlled publicly listed companies and that of Founder-CEO successions. The rationale for this consideration is explained below.

Succession events in family-controlled publicly listed companies are of particular importance in this research as family control is a distinguishing feature of many of the companies listed on the Kuala Lumpur Stock Exchange (KLSE), and most of the companies that this research investigates are listed on the KLSE. Claessens, Djankov and Lang's (1999) World Bank paper on 'Who controls East Asian Corporations' notes that, unlike many Western organisations where ownership of the firm is based on the notion of widely dispersed ownership (Berle & Means, 1932; La Porta, Lopez-de-Silanes & Schleifer, 1999), over half of the East Asian corporations that they investigated were in family control. Examples of such companies include companies held by Li Ka-Shing or his family in Hong Kong (Hutchison Whampao and Cheung Kong), those controlled by the Ayala family in the Philippines (Ayala Corp., Globe Telecom) and those of the Kyuk Ho Shin family in South Korea (the Lotte Group). In

Malaysia, examples of family-controlled companies include YTL, TanChong Holdings, Lam Soon and the Kuok Group.

In these companies, the founder of the company, who is also often the CEO and chairman, owns controlling interests in the company either directly or indirectly through members of his or her family. CEO succession and very senior positions in the upper-echelons are kept within the family because there is little or no separation between ownership and control of the organisation. Many of the CEOs were also found to be either Founder-CEOs or the children of the founders of the companies.

A further characteristic of companies in countries like Malaysia, Singapore, Thailand, Indonesia and South Korea is that a large percentage of such publicly listed companies are also state-controlled (these are known as government-linked companies in Malaysia; an example of a government-linked company is the Malayan Banking Berhad, or Maybank, the country's largest commercial bank). In such companies, leadership succession is even more fluid as the succession process needs to be approved by the government. Although there is little published about the succession practices in government-linked companies, anecdotal evidence suggests that in Maybank there have been cases where the heir apparent does not get to occupy the position that he or she has been groomed for because of political intrusions in the succession process.

Wasserman (2003) notes that Founder-CEOs are often substantial owners of the company and that, in such organisations, succession is likely to be

controlled and kept within the family. This would be understandable from the perspective of Agency Theory (Jensen & Meckling, 1976) which argues that since hired professional managers own little of the company in which they serve, their interests could easily diverge from those of the owners. It follows that the owners would want to take action to ensure that the interests of the company are kept aligned with their own. Such considerations are likely to influence succession practices in the companies that have been investigated in this research and would lead to the practice of dynastic succession where successions for top positions and key positions would be kept within the family.

The impact of organisational size on succession rates

Having considered the origin of successors, attention is now turned to the area of succession rates and organisational size. From this perspective, Trow (1961), Kriesberg (1962), Grusky (1964) and Finkelstein and Hambrick (1996) note that larger organisations tend to have higher rates of succession events than smaller ones. They postulate that the more bureaucratic nature of the large corporations and the greater levels of

stress that can be found in them are responsible for the increased rate in CEO succession.

As there is little literature on the impact of organisational size on succession rates among Asian companies, attention is turned to research published on Western companies. Recent reports on publicly listed corporations in the USA confirm that there has been an increase in the rate of CEO departures. According to Burson-Marsteller's 2006 report, from 2000 to 2005, almost half of the US Fortune 1000 companies had new CEOs (insider and outsider successors). Their findings reveal that during this period, CEO departures increased by 126 percent (or a 32 percent year-on-year increase). Burson-Marsteller presumes that at the current rate of increase, 'there would be a CEO departure every hour of the work week by 2015' (Burson-Marsteller, 2006). Since publicly listed companies are generally large, it can be said that leadership succession planning and implementation should be a matter of concern to them, especially at this rate of increase of CEO turnovers. The matter of leadership succession has had a greater level of corporate awareness as much has been written and published in academic and business journals (Carlson, 1962; Grusky, 1964, Allen, Panian & Lotz, 1979; Sonnenfeld, 1986; Byham, 1999; Cashman, 2001; Kesler, 2002) since the 1960s. Despite increased awareness, the Hewitt Associates Report (2005) concludes that fewer than 60 percent of the 350 American companies they surveyed had formalised succession planning systems in place. This suggests that the state of preparedness for leadership succession among large corporations in the USA is still low.

Although it has been stated earlier that there is little in the academic literature about leadership succession planning in Asian companies, some information can be gleaned from two articles released by Development Dimensions International (DDI) on succession practices in Malaysian companies. DDI is a global human resources and leadership development organisation which conducted a survey of 41 Malaysian companies. The survey determined that 66 percent of Malaysian companies practised some form of leadership succession planning (Chong, n.d. http://www.ddiworld.com/pdf/ddi_malaysia_news.pdf) but did not specify the specific nature of these succession processes. In another article, entitled 'DDI urges Malaysian business to address leadership gap to ensure business continuity' (DDI, 2005), the company states that as Malaysian organisations grow in size, they are, like many of their global counterparts, finding it increasingly difficult to fill in senior leadership positions. These companies are increasingly reliant on internal promotions to address these gaps. DDI suggests that Malaysian companies consider leadership succession planning seriously. However, care is taken when reviewing data from leadership development organisations like DDI as the data might be commercially inclined and lacking in research objectivity and rigour.

The impact of contingencies on the rate of succession

In addition to organisation size, a number of other factors or contingencies also affect the rate of succession events. For example, succession occurs more frequently in companies that are performing poorly (James & Soref, 1980; Coughlin & Schmidt, 1985; Morck, Schleifer & Vishny, 1988; Warner, Watts & Wruck, 1988). Other organisational contingencies associated with higher rates of succession events were bankruptcies (Ang & Chua, 1981; Schwartz & Menon, 1985), takeover bids (Jauch, Martin and Osborn, 1980) and acquisitions (Walsh, 1988).

In other circumstances, such as when the CEO is also the owner (Salancik & Pfeffer, 1980), or where the CEO has a lot of power to manipulate the process (Allen & Panian, 1982), the rate of succession was found to be low. Against this background, Miller (1993), studying 95 small companies, reports that where CEO successions are infrequent, the organisations in question eventually experienced adverse declines in organisational performance. To rectify the drop in organisational performance, some companies resort to the 'common-sense' theory of leadership succession (Guest, 1962; Helmich, 1974; Pfeffer, 1977) and employ succession as a means of reversing the decline. In essence, leadership succession is taken by some companies to be a form of organisational renewal and rejuvenation. Whatever the contingency may be, leadership succession is a part of organisational life and the process surrounding this aspect of the corporation requires careful planning and implementation whether it is to effect insider or outsider succession.

The bureaucratisation of leadership succession

Mahler (1980), studying the bureaucratisation or formalisation of leadership succession processes in organisations, concludes that companies have much to improve regarding the bureaucratisation of leadership succession planning processes. This observation is strengthened by Brady, Fulmer and Helmich (1982) who report that fewer than 50 percent of the companies studied engaged in formalised succession planning. When Brady, Fulmer and Helmich's study, which was published in 1982, is placed alongside the 2005 report by Hewitt Associates, it appears that the percentage of companies that do not practise formalised succession planning has remained essentially unchanged in the 23 intervening years.

Further to the study by Brady, Fulmer and Helmich (1982), Rhodes and Walker (1984) report that companies that did practise leadership succession often deployed one of four approaches – the informal approach, the decentralised approach, the centralised approach or the integrated approach. The informal and decentralised approaches are in reality leadership replacement management processes rather than leadership succession planning and implementation. In leadership replacement, companies react to a resignation by selecting and appointing a new leader after the resignation of the incumbent has been announced or after the incumbent had exited the organisation. Leadership succession planning is a proactive paradigm that endeavours to ensure that employees are groomed to take over higher positions and responsibilities

as they become vacant, and in the process of doing so it ensures continuity.

Taken with the observations of Brady, Fulmer and Helmich (1982), the findings of Rhodes and Walker (1984) suggest that the number of companies practising leadership succession could be even lower than the 50 percent reported by Brady, Fulmer and Helmich (1982). As mentioned earlier, one might be tempted to assume that the publication of such research findings and the ongoing nature of research on leadership succession would have by now resulted in more organisations adopting leadership succession processes but reports by Santora, Clemens and Sarros (1997), McKinsey & Co., (1997) and more recently by Hewitt Associates (2005) reveal that the adoption of leadership succession planning and implementation among companies remains low. The current practice is likely to result in corporations having to contend with insufficient numbers of capable people to replace top-level leaders who are near retirement age. This is mirrored by a study in Australian organisations by Taylor and McGraw (2004) which concludes that less than 50 percent of the companies they surveyed had any form of formalised succession plans. Taylor and McGraw also reveal that even in those organisations that had succession planning processes, these programmes had only been in place for about five years. In an environment like Malaysia, where so little is written or publicised about leadership successions, DDI's claims that 66 percent of Malaysian companies practise leadership succession in one form or another would appear to be somewhat specious.

The match between succession and successor characteristics

Research into the area of successor characteristics in the 1960s and 1970s focused on leadership styles and the suitability of such leadership styles to the needs of the organisation. The conclusions drawn from the research conducted during that period are that the different conditions that organisations were undergoing required leaders with different leadership styles (Helmich & Brown, 1972; Helmich, 1975; Koch 1978) and that the goal is to attain a 'good fit' between the organisation and the leadership style of the incoming CEO. The good-fit approach is where the organisation tries to match the most suitable candidate based on his or her characteristics and leadership style to the requirements of the position. Subsequent work in the area of matching the characteristics of the CEO with the competitive needs of the organisation were conducted by Wissema, Van Der Pol and Messer (1980), Hambrick and Mason (1984) and others (see also Gupta & Govindarajan, 1984; Szilagyi & Schweiger, 1984). They postulate that the match between new managers and the company's strategic needs is crucial for effective executive transitions and that a good match is linked with superior performance on the part of the successors. This gives grounds for the argument that it would be better to either promote from within the company (insider succession) or to recruit from within the industry to ensure this good fit, especially in the event that business complexity increases. The achievement of such good fit, through insider succession, would require a robust leadership succession planning and implementation process where potential candidates are

identified and trained well before the need for such competencies arise as a result of staff attrition. The studies above do not specify how such matching processes might be implemented. Even more intriguing from the perspective of this research is how the concept of good fit might be applied to the case of successions involving Founder-CEOs and in dynastic succession in family-controlled companies such as those commonly found in Malaysia.

Gupta and Govindarajan (1984) postulate that there are times when a mismatch is preferable and could, in fact, enhance the performance of the organisation. This is demonstrated in situations where the new outsider CEOs have come from unrelated industries or when strategic discontinuity is required. Examples of such situations include the appointment of John Sculley, former CEO of Apple Computer Inc. who was recruited from PepsiCo; and of Lou Gerstner, former CEO of IBM who was recruited from RJR Nabisco Inc. While such exceptions are noted, most high-level transitions involve insider successors rather than outsiders (Govindarajan, 1989).

Although companies invest time and effort into achieving the required good fit, such attempts have not always been successful. An example of a CEO who was ousted as a result of a perceived lack of good fit was Jill Barad, former CEO of Mattel, who was forced out after only three years at the helm of the organisation (Murphy, 2002). Other CEOs who had short CEO-tenures include Robert Annunziata who had to leave Global Crossing after only 53 weeks in his position; Robert Ayling who was

forced out of British Airways after four years at the top; Dale Morrison who left Campbell Soup before completing his third year as CEO (Charan & Colvin, 2000); Douglas Ivester who resigned as CEO of Coca-Cola after two and a half years (Hartley, 2006, p. 43); and Carly Fiorina, former CEO of HP-Compaq who was ousted after six years at the helm (Hartley, 2006, pp. 145–155). While the good-fit approach appears to be a logical one, its implementations can be fraught with problems and misjudgements. In the Malaysian context this might be even more problematic. Dismissing family members in an Asian family-owned company can be difficult due to the cultural factors such as family honour and the need for ‘face saving’ (Kim & Nam, 1998).

The theories surrounding leadership succession

Arising from the studies on the consequences of succession events, three leadership succession-specific theories have emerged. These are the common-sense theory of leadership succession, the vicious-cycle theory of leadership succession and the ritual-scapegoating theory of leadership succession and each will be considered in the following sections.

The common-sense theory of leadership succession

The first of these is the 'common-sense theory' of succession (Guest, 1962; Helmich, 1974; Pfeffer & Salancik, 1977). Proponents of this theory argue that companies undertake leadership succession planning because they are looking to improve their organisational performance. That being the case, it is only common sense that those with the authority to effect top level leadership succession choose a person with the relevant expertise and experience to bring about the desired organisational performance. An example of the common-sense theory was seen in September 2006 when the Ford Motor Company replaced Bill Ford with Alan Mulally as the CEO of the company (although Ford remained as chairman of the board). The Ford Motor Company had been undergoing difficulties for a number of years and Mulally was appointed to implement a wide range of organisational restructuring activities that the company required ('Ford names new CEO', 2006). Bill Ford had been under pressure to bring in additional leadership in order to halt the company's decline in market share and the company was practising common sense in replacing the CEO as it was in need of better leadership.

Common-sense theorists view leadership succession planning and implementation as an organisational norm rather than an exception and expect all parties involved to do what is necessary to ensure smooth leadership transitions. It is possible that these common-sense expectations can be limited by the demonstration of entrenchment tendencies by some incumbents.

The vicious-cycle theory of leadership succession

Critics of the common-sense theory of succession contend that leadership succession events are really not in the best interest of the company (Grusky, 1963). This has given rise to the 'vicious-cycle theory' of leadership succession. This theory suggests that leadership successions, especially where they occur frequently, are disruptive to organisational performance and tend to lead to further declines in performance (Gouldner, 1954; Grusky, 1963; Allen, Panian & Lotz, 1979) thus setting into motion a vicious downward spiral. The vicious-cycle theory holds that a company seeking new CEOs does so because of the company's poor performance, that is, if the new CEO does not deliver the expected outcomes then that new CEO will also be replaced. The repetitive nature of the vicious cycle has the effect of reducing staff morale and the aspirations of potential CEO candidates. This continuing cycle could negatively impact on the strategic direction of the company, leading to possible declining performance. The vicious-cycle theory has attracted its fair share of criticisms and critics argue that not every succession outcome is negative, nor is it related to organisational performance. This gives rise to the third theory of leadership succession – ritual scapegoating (Gamson & Scotch, 1964).

The ritual-scapegoating theory of leadership succession

Gamson and Scotch (1964) and Boeker (1992) assert that leadership succession has little causal effect on organisational performance and that powerful CEOs are less likely to be dismissed than less powerful CEOs, even during periods of poor organisational performance. Powerful top executives are more likely instead to find a scapegoat and displace the blame for the poor organisational performance onto their subordinates. Arguing against Grusky's (1963) investigations, Gamson and Scotch (1964) contend that organisational performance depends on factors such as the ability to attract critical talent and that its success is a function of organisational processes rather than of leadership. Other researchers such as Lieberman and O'Connor (1972) and Brown (1982) have come out in support of Gamson and Scotch's (1964) views on ritual scapegoating. They argue that there are no significant links between company performance and leadership succession events from data collected from over a 20-year period amongst 167 large companies. In their view, the real value of leadership succession rests in succession events informing shareholders of the change taking place and that this change portends better organisational performance. But the data on whether leadership succession affects organisational performance is far from absolute. For example, studies by Furtado and Rozeff (1987), Weisbach (1988) and Davidson, Worrell and Dutia (1993) report a positive link between leadership succession and company stock performance. Nonetheless, these studies have been disputed by Beatty and Zajac (1987) and Lubatkin, Chung, Rogers and Owens (1989) who report negative relationships

between leadership succession events and company stock performance. The outlook on the theories of leadership succession is still hazy despite the fact that shareholders view succession events as important company milestones that should be carefully managed.

Although the three theories were proposed in the early 1960's a recent study was conducted on the relevance and impact of these three succession theories on organisational performance. Rowe, Cannella, Rankin and Gorman (2005) provide evidence that demonstrate that organisations engage in all three forms of leadership succession. They conclude that organisations used the common-sense theory of succession to improve future performance; that those who engaged in the vicious cycle theory of succession saw reduced performance; and that ritual scapegoating had no effect on overall performance. Their investigation confirms that leadership change does affect organisational performance and that the way in which this change is brought about is important.

The demonstration of entrenchment tendencies in leadership succession

From a consideration of the theories pertinent to leadership succession, focus is now turned to the matter of entrenchment. The following sections will consider CEO entrenchment and what this research calls 'organisationally generated entrenchment'.

CEO entrenchment tendencies

In some organisations, leadership succession planning and development processes appear to be firmly in place and supported by top-echelon leaders. These processes are meant to enhance leadership transition. However, CEOs demonstrating entrenchment tendencies have been shown to impede the transition processes. Incidences of CEOs refusing to vacate their positions at the appointed times for their successors have been widely reported (Jennings, 1971; Levinson, 1974; Vancil, 1987; Sonnenfeld, 1988; Fredrickson, Hambrick & Baumrin, 1988; Kets de Vries, 1988; Boeker, 1992; Hemalin & Weisbach, 1998; Bickford, 2001; Cannella & Shen, 2001; Shen & Cannella, 2003, Faleye, 2007a; Faleye, 2007b). In some cases, powerful CEOs have deliberately delayed the promotion of the heirs apparent that they themselves had selected. Such actions have been shown to increase the likelihood of heir-apparent departure (Cannella &

Shen, 2001). An example of a CEO displaying such entrenchment tendencies was Armand Hammer who, at 90 years of age, insisted on being at the helm of Occidental Petroleum when it was suggested that he should retire given his advanced years. He retorted that he was in excellent health and that there was no reason for him to retire (Toy, Norman & Thompson, 1986; Sonnenfeld, 1988, p. 32). Hammer saw retirement as a loss of power, position and life mission and was therefore reluctant to make way for his successor (Sonnenfeld, 1988, p. 33). Because of the power that Hammer wielded in the board, there was little that it could do in this situation.

Another example is the late Peter Grace of W R Grace who appointed many successors only to subsequently dismiss them all (Quickel, 1988). In response to critics of his entrenchment tendency, Grace remarked that he knew more and worked harder than any other person in his organisation and since there was a dearth of good talent, he had no plans to retire. Vlastic (2002) reports that in the case of Henry Ford II, Ford groomed Lee Iacocca as his heir apparent but then refused to vacate the position for Iacocca. Instead, he chose to dismiss Iacocca who subsequently went over to Chrysler (Vlastic, 2002). For these leaders, the appointment of an heir apparent did not seem to be a problem, but the actual act of being replaced by someone else, even by someone they had handpicked, appeared abhorrent to them, according to the entrenchment theory.

Other examples include Ben Heineman of Northwest Industries who at the age of 70 postponed his initial plans to retire and opted instead for a

restructuring of the organisation (Johnson, 1983). More recent examples include Jack Welch of General Electric (Skapinker, 2000) and Rupert Murdoch of News Corp (Gibson, 2003). In 2003, Murdoch, who was then 72 years of age, announced his intention to 'die' in office. Similarly, Justin W. Dart, CEO of United-Rexall Drugs announced at the age of 72 that he wanted his death and his retirement to be simultaneous events (Sonnenfeld, 1986). Another example of entrenchment tendency can be seen in the founder and former CEO, and the largest shareholder, of Nike Inc., Philip Knight who recruited William Perez from S.C. Johnson & Sons, Inc., to replace him in November 2004. On January 20, 2005, Perez was removed on the insistence of Knight (Holmes, 2006). While Knight did not actually retain the CEO's position for himself, as he replaced Perez with Mark Parker, a Nike insider; it was his third attempt at giving up his control.

Another example is Robert Schoellhorn, CEO and chairman of Abbott Laboratories. Schoellhorn was ousted from both positions by the board and replaced by Duane Burnham. One of the reasons cited at the time of his removal was his refusal to vacate his position for his heirs apparent and this entrenchment had eventually led to the resignations of three potential successors (Cuff, 1990).

Where entrenchment tendencies have been exhibited, the rate of heir-apparent departures has been high. Of 152 heirs apparent studied, 43 percent were promoted to the CEO positions, while 20 percent resigned from their respective organisations without having received any

promotions (Cannella & Shen, 2001). The remaining 37 percent were found to have been kept in waiting. It is conceivable that, over time, some in the 37 percent group would eventually leave the company as well, since their patience would wear thin. Waiting, or resigning, according to Cannella and Shen (2001), is something that heirs apparent are quite accustomed to as the gap between the desire for effective succession planning and its actual implementation is often quite large (Hall, 1989). There is no doubt that heirs apparent would be more predisposed to a succession system that offered them a time frame for the waiting period but such a system or model could be frustrated by entrenched incumbents.

A reason offered to explain CEO entrenchments is the reluctance of many CEOs to face up to their limitations and to their own mortality as leaders (Santora & Sarros, 1995). Leadership mortality, according to Santora and Sarros (1995), is about the 'death' or the cessation of the incumbent's leadership powers and privileges and this appears to be something that many CEOs find difficult to come to terms with. The corollary of the above is the reluctance to execute succession plans which then results in a succession impasse (Kets de Vries, 1988).

This reluctance is evident even in the face of poor organisational performance when the leader's inability to lead effectively is demonstrated (Goodstein & Boeker, 1991; Boeker, 1992). Miller (1991) reports that the reluctance in some CEOs to relinquish their positions is so great that even in situations of poor organisational performance, powerful CEOs preferred to replace top-echelon managers and placed the blame on

them for the organisation's poor performance, rather than face up to the prospect of their own replacement. With less powerful CEOs, scapegoating is more difficult to execute and in such situations, boards have been found to be powerful enough to execute the incumbent's dismissal (Gamson & Scotch, 1964; Friedman & Singh, 1989; Boeker, 1992).

One of the reasons for the practice of scapegoating may lie in the fact that many CEOs aspire to move to the higher office of Chairman of the Board (dual CEO) as a condition for becoming the CEO of the company (Khurana, 2002). While it is the duty and responsibility of the board to select and monitor the performance of the CEO (Khurana, 2002), CEO transitions often result in changes in the composition of the board. New CEOs often nominate new members to the board and they are inclined to fill up board membership positions with those subservient to their interests. This strengthens the power of the incumbent while diluting the ability of the board to curtail the powers of the incumbent. This, however, may change somewhat as large portions of corporate stocks are controlled, for example, by institutional investors who, unlike individual investors, have more shareholding power to express their dissatisfaction with the performance of the company or its CEO (Pearlstein, 2001) and vote for the ouster of such poor-performing CEOs.

Other factors that contribute towards CEO-entrenchment include the sense of deprivation of power and the feeling of anxiety which is attached to a feeling of loss of direction and control. There is often an overarching desire to leave behind a legacy coupled with the feeling that more time is

needed for the incumbent to build that legacy (Kets de Vries, 1988). For example, displaying a combination of these three factors mentioned above, Jack Welch asserted that GE's performance was dependent on his leadership and that without his leadership GE's stock prices would tumble and that merger talks with Honeywell would collapse (Skapinker, 2000). The Honeywell merger was ultimately unsuccessful (http://money.cnn.com/2001/07/03/europe/ge_eu/) as it was blocked by the European Commission. However, what is of interest to this investigation is that GE is widely recognised as a company with a robust leadership succession planning and implementation system but that although the company had earlier announced that Jeffrey Immelt would take over from Welch in April 2000, GE's company records show that Immelt had to wait until September 2001 before becoming the CEO of the company (<http://www.ge.com/company/leadership/ceo/html>).

Whatever the reasons for reluctance on the part of CEOs to depart, research from the perspective of heir-apparent tenures shows that as many as 33 percent of heirs apparent do not make it to the CEO's position (Cannella & Shen, 2001). The loss of such a large number of corporate talent can have detrimental effects on an organisation and Cannella and Shen's research shows the more successful the incumbent CEO, the greater the reluctance to leave, thus increasing the likelihood of heir-apparent resignations.

Most of the research discussed above has concentrated on a Western perspective of CEO entrenchment. Huang (2001) concurs with Cannella

and Shen (2001) but adds an East Asian cultural perspective to the matter of CEO entrenchment. Huang's research, set in Taiwan, explains how CEO exit-reluctance impeded heir-apparent accession even though some of the Asian CEOs involved in the study had succession planning in place. Huang found that these CEOs understood that effective succession planning was, in theory, about minimising disruptions and dislocations arising from high-level personnel change but nonetheless remain intransigent where their own succession was concerned. From a cultural perspective, discussion of succession in Asian leadership is often viewed as suggestions of the imminent demise of the incumbent and such talk is deemed to be deeply disrespectful to him or her. It is discomfiting for anyone to talk about his or her own demise or relegation from high office and typical in the Asian traditions, and especially so of the Chinese, the spirit of loyalty has a constraining effect on such talk. Furthermore, the pre-eminence of respect for authority means that there it is even distasteful to discuss the boss's departure. Succession discussions would typically be responded to with silence or a remark if there was some effort being undertaken to 'hasten that eventuality'.

Huang's earlier study (1999) notes that one of the reasons for the failure of Asian companies to implement leadership succession planning was concerns about possible unfavourable side effects such as the dilution of the traditional top-down decision-making process and power structure. These reasons may help to explain why many Asian companies do not announce successors or succession plans. There appears to be a trend among Asian companies to keep old leaders. For example, Hutchison

Whampoa and Cheung Keong Holdings, both controlled by Li Ka-Shing, have made little mention of succession planning although many expect that his son, Richard Li, would be his successor. Li senior, who at the time of writing this thesis was aged 76, still maintains an active role at the helm of the company. Other elderly Chinese industrialists who have yet to announce succession plans include Wang Yung-Ching, 87, who heads the Formosa Plastic Group, Taiwan's largest industrial conglomerate and Stanley Ho, 84, CEO of STDM, one of Asia's largest gambling corporations operating in Macao (McBride, 2003).

Sonnenfeld postulates that exit reluctance is also affected by individual factors that Sonnenfeld terms the CEO's 'heroic self-concept' (Sonnenfeld, 1988, pp. 60–68). This is the CEO's perception of the importance of his or her performance records. For example, successful leaders are seen to have high levels of ambition and energy, with a proclivity for their own advancement. As most corporations reward leaders for their individual performance, this perpetuates the practice of self-advancement among these leaders. Sonnenfeld (1988, p. 272) contends that the degree of leadership entrenchment depends on the degree of the leader's heroic self-concept perception or the extent to which the leader identifies with his or her leadership stature and his or her quests for immortality and that this greatly influences his or her departure from (or reluctance to leave) the organisation. Sonnenfeld suggests that CEOs are often enamoured by public exposure and the limelight inherent in their jobs and relish the recognition bestowed on them by society. The greater the level of adulation, the stronger their heroic stature and self-concept and this

contributes to their belief that their companies' performance is entirely dependent on their leadership. It is noted that the heroic self-concept or self-interest is not necessarily bad in itself. Indeed, without this heroic self-concept, one could argue that the leader would not be as driven as he or she might or should have been. Sonnenfeld's concern could have perhaps been better argued in terms of selfishness or ruthless ambitions on the part of the incumbent.

Organisationally generated entrenchment and its effect on leadership succession planning

Organisationally generated entrenchment is a phrase coined for this research to describe entrenchment that arises from the unwillingness or the inability of companies to replace or retire employees who, for various reasons such as underperformance, gender and racial bias, are deemed by the organisation to be no longer suitable for the company. This research will principally consider organisationally generated entrenchment arising from the way in which companies deal with managers who are considered unfavourable or unsuitable for succession in their respective organisations for reasons of underperformance. Because the research is about leadership succession planning, consideration will only be given such employees if they are in managerial positions.

As mentioned in Chapter 1, many Malaysian companies commonly resort to three ways of addressing the problem of removing such managers. These are to assign them as managers of some special projects, to transfer underperformers to other divisions or to maintain the *status quo*; that is to say, do nothing and hope that the problem will somehow resolve itself. The designating of someone as 'Manager: Special Projects' is a relatively common practice in Malaysia. In discussing the use of the 'Manager: Special Project' designation, it is noted that there are two possible interpretations to the term. In some organisations, being designated as a manager of a special project is a sign of recognition of special skills and talents by a company while in others it is a sign of being placed into 'cold-storage'. The precise interpretation would depend on the culture of the organisation. In the context of this thesis, the term 'Manager: Special Projects' is taken to mean being placed in cold storage by the company. As a result of such actions, such employees remain in or occupy positions that might have been made available to more competent and ambitious employees. This has caused the resignations of talented employees who believe that their career advancement has become blocked or delayed by such people in cold storage. This resignation shrinks the overall size of the talent pool from which the organisation can draw for its succession processes.

Perusal of the literature on organisationally generated entrenchment reveals that in the Western context, employees who are no longer deemed suitable or who are underperformers are punished through informal warnings, formal warnings, probations, suspensions, the withholding of

pay increments or bonuses and finally dismissal (O'Reilly & Weitz, 1980; Trevino, 1992; Challagalla & Shervani, 1996). There seems to be little in the literature about the practice of dealing with senior employees, especially those in management positions, by laterally moving them to other positions with no loss of seniority or remuneration. Yet this appears to be a commonly observed practice in corporate Malaysia. One reason that has been often heard for taking this course of action is that it is contrary to Malaysian culture to break the other person's rice bowl or to deprive the person his or her financial livelihood. What needs to be addressed is whether such practices, compassionate as they might appear, would impede leadership succession processes.

To aid in addressing the question above, consideration is given to the matter of organisational culture and cultural values. Sheridan (1992) asserts that organisational culture and values are key factors in employee retention or employee exit. Kopelman, Brief and Guzzo (1990, pp. 282–318) suggest that cultural values ultimately impact on organisational effectiveness through the enhancement of output quality or by the reduction of labour costs. If this is so, the reverse can also be argued – that some cultural values and practices of the organisation could hinder organisational effectiveness; for example, through the production of organisationally generated entrenchment, and subsequently lead to the erosion of staff morale and performance and even increases in employee resignations. This would, in turn, have a deleterious effect on leadership succession planning.

As there is little literature on the effects of organisationally generated entrenchment on leadership succession processes in the published literature, this is an intriguing area to investigate. There is no doubt that organisationally generated entrenchment is detrimental to the overall process of leadership succession and management rejuvenation in organisations especially since the syndrome is embedded in the tradition and cultural mores of organisations.

Having considered the state of research and the theories surrounding leadership succession as well as entrenchment tendencies, this thesis will now consider the different types of model or process involved in leadership succession and in Malaysian leadership succession processes.

The models employed in leadership succession

Leadership succession has been looked at largely in terms of the antecedents and consequences of the event. Little attention was given in earlier research to the processes involved in the actual succession event or to the models of leadership succession that companies employed (Friedman, 1986). Most of the early succession models presented in the literature, a number of which will be discussed, are more appropriate for levels below the CEO and do not address the often unique challenges of CEO succession, such as entrenchment tendencies. This does not negate

the useful, albeit limited, application of such models for succession at the upper-echelons. After all, with the exception of outsider CEO successions, any new insider CEO can be assumed to be experienced enough to know the company's succession processes.

The systems and models used in leadership succession processes are designed for the best possible fit of personnel and organisation, and they offer the impression of a company well organised in matters of succession planning and implementation. This is not always true, as the case of the Disney Corporation shows. When the company's CEO Michael Eisner had to undergo urgent open-heart surgery, one of the concerns was the company's lack of a successor despite having a succession plan. Realising how precarious the situation might be, Eisner appointed Michael Ovitz. Ovitz, who was a well-known agent in Hollywood, was perceived by many in the organisation to be undeserving of the appointment and this led to much unhappiness among senior managers in the company. The ensuing turmoil resulted in Ovitz leaving the company within the year (Olson & Halloran, 1997).

Succession models can be used by organisations to assess their current level of skills (skills that are required for various levels of management), to evaluate the abilities of the current CEO and to identify potential insider successors, and the modes through which such potential successors can be developed. Naveen (2006) suggests that companies that have succession plans have a higher probability of insider-succession events. This is especially so in companies with high levels of operational

complexity and the greater the level of complexity, the greater the cost of transferring company-specific knowledge and skills to outsider successors.

Consideration is now given to some of the models that are employed in leadership succession. The models that are investigated have various levels of complexity and specificity for organisational use. They range from 'generic' or rather simple succession systems to those that have somewhat greater levels of sophistication such as Charan's Leadership Pipeline model.

The study of succession processes and models may reveal what could be done to facilitate and enhance the commencement and successful completion of the succession process at the CEO and upper-echelon levels.

Generic succession systems

A number of successions systems have been suggested by researchers such as Gratton and Syrett (1990), Nowack (1994), Cohen and Tichy (1997), Cashman (2001), Rothwell (2002), and Chung-Herrera, Enz and Lankau (2003). Many of these systems are more applicable to the development of second-tier leaders (that is, management development) rather than to the development of the upper-echelons. Nevertheless, their discussion here is necessary as companies have viewed them as part and

parcel of their leadership succession planning process. However, the usefulness of these generic systems at the CEO or upper-echelon level may be limited especially in instances of entrenchments.

One such generic system is proposed by Friedman (1986) who looks at how contextual conditions affect succession and how they then influence the outcomes of the company in terms of reputation, financial performance, turnover rates and the effectiveness of the succession system. Friedman suggests that succession is a process that starts with organisations recognising that they need formalised succession plans. Once this has been established, these organisations could determine and set up the appropriate criteria required for the selection of candidates for training and development. Friedman suggests that organisations need sufficient resources and development programmes as well as a system of checks and balances to ensure that only those with the best fit are selected. Friedman's system is described below.

Friedman (1986) suggests that contextual conditions like the size and the age of the company affect the characteristics of the company's succession system. For example, the degree of formalisation of a particular succession model or process is lower in a small company than in a large firm. These two factors – the contextual conditions and the succession system characteristics – ultimately affect the outcomes of the succession process. Friedman (1986) asserts that highly successful companies tend to have formalised procedures for leadership succession. The General Electric Company (GE) has been cited as an example of an organisation

that uses formalised succession procedures to ensure there is a pool of potential candidates ready to fill various leadership positions including that of the CEO (Friedman & LeVino, 1984).

Another example of a company that uses formalised succession procedures is Intel (Zachary, 2004). Intel has a history of developing its own pool of senior managers and leaders and eventual CEOs (Crum, 2004). For example, CEO Paul Otellini was announced as heir apparent two and a half years before his actual appointment to the position. One of the factors that have motivated Intel's succession planning and implementation is the fact that Intel's board mandates that all CEOs step down upon reaching 65 years of age and that each new CEO has to begin the process of preparing a new set of possible candidates early on in his or her tenure. Using its own formalised succession system, Intel has been able to effect four insider CEO successions consecutively. While Intel and GE have been cited as examples, it is reasonable to assume that the models that these companies engage in are more sophisticated than the generic model that Friedman (1986) offers.

Chung-Herrera, Enz and Lankau (2003) recommend the inclusion of a competency model in the leadership succession process, arguing that such a model would help the organisation identify the skills, abilities, attitudes and behaviours that would be needed to help it perform more effectively. They contend that such an inclusion keeps the leadership slate filled with potential leaders. Similarly, Conger and Benjamin (1999) suggest that companies need to include three processes in succession planning. The

first of these is that companies need to initiate the development of individual skills. This is done to build a pool of well-rounded high-potential individuals; that is, employees who demonstrate high aptitude and capability and who are trained to take over greater levels of responsibilities when required. The goal here is to make companies ready for both planned and sudden or unplanned successions. The second process involves the socialisation of corporate leadership values through the process of mentoring. The third process suggested by Conger and Benjamin is that companies need to design initiatives to help leaders think and plan critically and strategically so as to meet the demands of operating in an increasingly turbulent market environment. This is envisaged to help organisations build greater sources of critical dimensions for the organisation's competitive strategy and ability.

The suggestions offered above by Friedman (1986), Chung-Herrera, Enz and Lankau (2003) and Conger and Benjamin (1999) appear to be more 'sound' advice that every company should observe rather than actual succession models. Their generic nature suggests that they are more appropriate for low- to middle-level managerial replacement events than for succession at the highest levels of the organisation.

Another model offered to meet the challenges of succession planning is the Three Track Leadership model proposed by Kur and Bunning (1996). The Three Track Leadership model attempts to integrate three elements of leadership development. The first element is that of developing potential leaders to understand the various business units, functions and

geographical markets in which the organisation operates. The objective of this is to enable future leaders to develop a holistic and detailed perspective of the organisation and its operations and be able to handle increasing business complexity. The second element requires developing these selected candidates in areas such as managing change, people and structures. The aim of this developmental track is to offer potential leaders the opportunity to become change leaders within the day-to-day functioning of the firm. The third part of the Three Track Leadership model calls for the inculcation of continuous personal development, enabling potential leaders to better understand and subsequently rectify their own weaknesses and limitations.

While the Three Track Leadership model plays an important role in leadership succession planning, it has a number of limitations in terms of succession implementation. The Three Track Leadership model assumes that succession events would proceed as planned and appears not to have mechanisms to deal with the possibility of entrenchment tendency especially when applied to CEO succession. Another limitation is that the Three Track Leadership model, like the other generic systems, is more suited to developing middle managers than those at the highest levels of an organisation. Leaders at the top of the organisation understandably require more skills (conceptual, technical and human) than those at lower levels (Katz, 1974; Boyatzis, 1982). The Three Track Leadership model approach does not appear to handle this requirement specifically.

The advantage of these generic systems is that they are easy to implement and thus offer organisations a simple, user-friendly approach to succession planning. Their simplicity may even encourage more organisations to be involved in the formalisation of succession planning and implementation. However, these systems tend to adopt a 'one-size-fits-all' approach. This simplistic approach will be unlikely to be of much use for larger organisations which have greater levels of variations in organisational complexities, culture and management practices. For this reasons, modifications and refinements have to be made to these generic systems to achieve better organisational fit. Another shortcoming of these models is that they tend to be more appropriate for the development of mid-level leaders and are questionable for leadership succession in the case of the CEO and those in the upper-echelons. Even if these models are applicable to CEO successions, the question of how to overcome problems of leadership entrenchment is not addressed. The broad approach of these generic models limits their overall usefulness and areas such as time frames, the development of potential leaders, exit strategies and smooth leadership transitions will need to be considered.

The Leadership Pipeline model

The Leadership Pipeline model proposed by Charan, Drotter and Noel (2001) is more sophisticated than the generic models as it examines the development of leaders at every level. Charan, Drotter and Noel (2001) argue for a 'leadership pipeline' that should be kept 'fully primed' at all times, to avoid any possible shortage of managerial talent in the event of management positions becoming vacant. Keeping the leadership pipeline primed is only one aspect of the model; the model professes a system that allows aspiring executives the means of climbing the corporate ladder. The core principle of the Leadership Pipeline model is that executives must successfully pass through a number of stages of development and be continually developed and trained to move from one level to the next and, in so doing, assume higher positions and greater responsibilities along the way.

The Leadership Pipeline model creates opportunities for employees to manage themselves and allows them to progress through various stages where they learn to manage others, manage managers, manage businesses and finally to manage the corporation as CEO.

Charan and his colleagues envisioned that completing each part of the pipeline would take an employee approximately three years. By this reckoning, it would take between 15 and 18 years for someone starting off at the bottom to become CEO of the company. This might appear to be a long time for an ambitious person to wait but the model does not suggest

that a person had to start at the bottom. It is often the case that managers are recruited into high-level positions and, depending on where they entered the Leadership Pipeline model, they might only take, for example, six years before becoming a member of the upper-echelons or even the CEO. Charan, Drotter and Noel (2001) are not in favour of accelerating potential candidates through the Leadership Pipeline model for fear that doing so might result in the deficiency of certain fundamental skills that require the rigours of time for inculcation. The sophistication of the Leadership Pipeline model lies in the fact that it lays out the diagnostic tools needed to identify the gaps in the skills of the executives selected and suggests strategies such as employee role clarification, performance standards development and assessment, coaching and mentoring. The Leadership Pipeline model therefore suggests that there is a high element of internal training and preparation required for leadership succession. The model calls for the development of suitably qualified managers at every level of the pipeline and the model envisages that, eventually, one of these managers could become CEO. The maintenance of this model ensures that the company always has candidates of CEO and senior management potential in the pipeline ready to step up as and when required. The idea of this model is attractive to organisations as it provides a user-friendly basis for a succession plan. In New Zealand, for example, the ANZ Bank's leadership succession development plan for their junior, middle and senior is based on Charan, Drotter and Noel's (2001) Leadership Pipeline model (personal observation when I conducted training for the bank in 2006) although CEO succession decisions would likely to be made in its parent company in Australia.

General Electric, or GE, is a well-known example of a company that has adapted and employed the Leadership Pipeline model for its own leadership succession programme (Charan, 2005). Indeed, Tichy (1989) suggests that the Leadership Pipeline model is actually based on GE's own work on leadership succession in the 1970's. In GE's case development starts with junior managers and the company provides the necessary development and training tools to help candidates progress. Tichy (1989) asserts that the one of the key success factors of GE's programme is the full engagement and commitment of the CEO to the development process.

While the Leadership Pipeline model is presented as a sophisticated user-friendly model, it has its limitations. An obvious characteristic of the Leadership Pipeline model is that it is a model suited for companies with deep financial and human resource pockets and its applicability to smaller companies is questionable. Nevertheless, Charan, Drotter and Noel (2001) have suggested that the Leadership Pipeline model could be employed by small companies as well by simply shortening the pipelines or by removing some of the stages in the model altogether, but it is assumed that any shortening of the passages could compromise the rigour needed to ensure that the managers nurtured through the pipeline model have all the skills necessary to eventually lead the company. The Leadership Pipeline model does not address the problem of entrenchment tendency as no strategies are provided to facilitate the CEO's passage out of the system since incidences of CEO entrenchment are well documented.

The Leadership Pipeline model appears to advocate that anyone in the company, even those at entry level, can potentially become a CEO if they have the drive and determination to persevere through all the stages. No evidence was offered by Charan and his colleagues to substantiate this. Another shortcoming of the model is the lengthy time that it would take for someone to move up all the six career passages if that person had to start right at the bottom. The 15 to 18 years that it could potentially take to go through the entire pipeline could wear down the determination of someone who started at the very bottom. Besides, successful passage through the various stages of the pipeline is not itself a guarantee for consideration for the CEO's position.

The Acceleration Pools model

The Acceleration Pools model under consideration here is propounded by Byham (2002). Essentially, the Acceleration Pools model calls for the identification of a pool of high-calibre candidates who are selected and assigned into 'stretch jobs' by what Byham calls the 'Executive Resource Board' which is made up of the CEO and other senior managers. Stretch jobs are defined as jobs that extend the candidate beyond his or her usual level of capabilities and responsibilities so that he or she can acquire higher levels of skills. The objective of the Acceleration Pools model is to enable selected candidates to receive cross-functional training in an accelerated manner. Candidates selected for inclusion into the

acceleration pools are coached, mentored and trained more rigorously than the average candidate. The progress of these candidates is carefully monitored and tracked by senior management and those who display promise for further development are stretched even further with more challenging jobs while those who do not are dropped out of the pool. Theoretically, the Acceleration Pools model would ensure that the Executive Resource Board has a pool of people to choose from rather than being limited to one or two possible candidates. The Acceleration Pools model is geared towards obtaining an accurate diagnosis of the training and developmental needs of the candidates and then placing them in an environment that motivates, or in some cases, forces them to change.

According to Byham (2002), while not formally called acceleration pools, programmes started by Hewlett-Packard (called the HP Accelerated Development Programmes), Shell's Leadership and Performance (LEAP) programme and even GE's Change Acceleration Process (CAP) are examples of the Acceleration Pools model. GE appears to have incorporated elements of both the Acceleration Pools and the Leadership Pipeline models.

Like Charan, Drotter and Noel's (2001) Leadership Pipeline model, the Acceleration Pools model is about keeping the leadership pool at optimal levels. The Acceleration Pools model, like the Leadership Pipeline model, does not take into consideration entrenchment tendencies. The model works best in large companies that have vast financial and human resources and will require a leadership paradigm that sees the ongoing

development of new leaders as an important business priority. A shortcoming of the Acceleration Pools model is that it does not outline any developmental time frames for potential heirs apparent. The use of the word 'accelerated' might give potential heirs apparent the impression that the process would be relatively short when, in reality, it can be lengthy, especially in instances where the incumbent CEO displays entrenchment tendencies.

Summary of the succession models

A number of succession models have been considered: generic succession models, the Leadership Pipeline Model and the Acceleration Pools Model. Most of the generic succession models that appear in the literature can be encapsulated in Friedman's (1986) system. The shortcomings of the generic forms of succession models have to some degree been addressed by the more detailed models provided by Charan, Drotter and Noel (2001) and Byham (2002). Nevertheless, a clear observation of the models available is that the majority of them provide little information on how to enhance the incumbent's exit – that is, how to address entrenchment tendencies. The provision of exit strategies for the outgoing CEO in succession models, along with entry strategies for the incoming CEO could be advantageous to succession planning and implementation in corporations as they can be a means for addressing the problem of entrenchment.

The practicality of co-leadership in leadership succession

Heenan and Bennis (2003) suggest that every successful organisation has, at its heart, a cadre of co-leaders. These are key company personnel who work alongside their managers even though they seldom receive much of the recognition afforded to other managers.

Drawing on the experiences of leadership transitions involving well-known CEOs like the late Roberto Goizueta, CEO of Coca-Cola; Bill Gates, former CEO of Microsoft; Intel's Andy Grove and others, Heenan and Bennis (2003) argue that co-leadership should permeate every organisation at every level. They define co-leadership as a tough-minded inclusive strategy that is used to develop and unleash the talents of leaders at every level of the company and by which power and responsibility are dispersed and credit is shared. In their view, co-leadership is a commitment of exceptional deputies to serve the constantly changing needs and nature of businesses. They cite Warren Buffett's view that Roberto Goizueta's greatest legacy to the Coca-Cola Company was the careful selection and nurturing of the company's future leadership. Co-leadership, in the eyes of Heenan and Bennis (2003), therefore enhances the leadership succession process.

While the concept of co-leadership is appealing, its practicality needs to be addressed. The successful implementation of the co-leadership concept requires the adoption of a serving, transformational leadership paradigm

by the incumbent. At the same time, the deputies need to display high levels of talent and capability in order to make decisions as and when necessary. Such a mature and dynamic leader-co-leader combination may indeed be difficult to find, and even if it can be found, there are a number of risks involved in the very concept (Baxter & Baxter, 1989). A commonly perceived risk is that managers might feel threatened by the presence of a co-leader. This would be the case if the co-leader proves to be even more capable than the leader. Nonetheless, the idea that co-leadership might be a possible enhancer in the leadership succession process is intriguing and this research will investigate the practicality of co-leadership in leadership succession processes in Malaysian organisations.

Having considered Malaysian succession practices, the final section of the literature review will focus attention on a number of leaders who were able to bring about smooth leadership transitions in their companies. These examples are all from Western companies.

The leaders who exited smoothly

The process of leadership succession can be costly and time consuming when confronted with the problem of an intransigent incumbent. But that is not unexpected, as essentially CEOs and other upper-echelon managers are asked to expend their time and efforts in an activity that would eventually relieve them of the power and the prestige of their positions. Difficult as this may be for some, there are those who have been able to make smooth transitions. This section now considers examples of leaders who have brought about such a transition in an effort to uncover possible enhancers for the leadership succession process.

Randall Tobias (Tobias & Tobias, 2003, pp. 222–226; Wall, 2007) a former CEO of Eli Lilly and Company is an example of a leader who was able to bring about a smooth succession transition and who exited willingly because of his belief that leadership succession began from the moment that a leader assumed his or her position. Leadership succession events were put into place one year into his tenure as CEO. In January 1998, Tobias announced to the board his intention to execute a two-stage exit from the company; he was to retire as CEO within six months and as chairman within 12 months of his announcement. His heir apparent, Sidney Taurel, has continued this practice of succession planning since taking over (Wall, 2007).

A possible enhancer of Tobias's exit may be found in his statement that he wanted the success of his stewardship of Eli Lilly to be measured not only

by the results he had achieved while he was there but also by his legacy (Tobias & Tobias, 2003, pp. 232–234). Another possible factor that aided his departure from the company was his strategy of a graduated exit. By using the partial-exit approach, he was able to bring about a smoother, less onerous transition for himself.

In the case of Randall Tobias, his egress appears to be intrinsically motivated as well as aided by the provision of a graduated exit strategy. This also appears to be the case with Herb Kelleher, former CEO of Southwest Airlines. Kelleher effected smooth leadership succession by relinquishing his CEO position and appointing James Parker into that position while retaining the position of chairman of the board (Dearlove & Crainer, 2002). In both these situations, the presence of partial-exit strategies enhanced the leadership transition process.

In Ralston Purina, CEO succession was motivated through extrinsic factors. In 1996, Ralston Purina's Board of Directors offered then-CEO William P. Stirtz 600,000 shares to ensure that the company had a greater focus on the matter of succession planning (Lublin, 1997). Ralston Purina also offered other incentives for finding the right candidate to fill Stirtz's position and for the successful implementation of the transition. What motivated Stirtz, who was 63 when he retired after almost 17 years at the helm, were the financial incentives and the sense of achievement of a board-sanctioned directive. The situation was made possible because of the presence of an assertive and influential board (Carey, Ogden & Roland, 2000). The motivators in this situation appear to be a combination

of the right level of financial incentives and a strong board that was willing to follow through on a process it had started.

In summary, CEOs who have effected smooth transitions seem to have been aided by a number of enhancers. These include a sense of desire to create a continuing legacy, a strong intrinsic sense of responsibility, the presence of a strong board, strong financial incentives and/or the provision of partial-exit strategies. The combination of these factors that enhanced succession and an acceptable succession model might therefore be a key to smooth CEO succession.

Summary of the literature on leadership succession

Leadership succession is a significant organisational activity that is necessary to ensure leadership continuity. CEO succession has been shown to impact on the perceptions of shareholders and employees and smooth transitions generate positive reactions. Leadership change events can be impeded by expressions of entrenchment tendencies on the part of powerful CEOs. Such entrenchments are displayed not only by CEOs but also by managers in the upper-echelons, although this is generated by the culture of the organisation.

A number of theories have been propounded to explain leadership succession. Some of the theories explain why there are so many

contradictions in succession practice. Studies analysing leadership succession from various perspectives, such as successor origins, successor match and rate of succession, have also been conducted. The results of the studies and theories suggest that much is now known about specific areas of leadership succession. Despite this, the information gathered has done little to encourage the actual process of planning and implementing leadership succession systems in organisations.

To overcome some of the problems encountered in the actual process of implementing succession, researchers have offered a number of models such as the Leadership Pipeline Model and the Accelerated Pools Model. Although these models offer some measure of sophistication in executing leadership succession programmes, they do little to minimise or remove problems of entrenchment.

The literature also reveals that smooth leadership transitions are dependent on a number of factors; some of these factors are intrinsic while others are extrinsic. Intrinsic factors like the incumbent's disposition and personality work alongside extrinsic factors like the succession model employed; possible power shifts in the ranks of the decision makers, or, rewards to either make leadership succession smoother or more difficult.

Most of the research on leadership succession has been done in Western organisations and has focused on the outcomes of leadership succession – for example, on the financial impact of succession. What is clear is that

there is currently little research on leadership succession processes in the Malaysian context.

Gaps in the literature on leadership succession

In perusing the literature on leadership succession, this thesis identified a number of gaps, especially where leadership succession processes in the Malaysian context are concerned.

The first area of concern is that most of the literature is based on research conducted in Western countries; there has been little published about leadership succession practices in Malaysia. Much of Western leadership succession planning and implementation practices could be applied, with due cross-cultural considerations, to organisations across geographical boundaries, but one needs to be mindful that such literature would not have taken into account the nuances or peculiarities that are found in Malaysian organisations (Chew, 2005b; Bruton & Lau, 2008). Where information on leadership succession practice in Malaysia is available, much of the information appears in the form of quantitative reports from consultancy companies involved in leadership training. Examples include two reports by Development Dimensions International (DDI) – Rioux,

Bernthal and Wellins' (2001) report entitled 'The Malaysian leadership forecast: A benchmarking study' and an article by Chong (n.d., http://www.ddiworld.com/pdf/ddi_malaysia_news.pdf) entitled 'Proper succession procedures needed to sharpen performance'. Both of the articles were commissioned by DDI to gauge the incidence of Malaysian companies that had some form of leadership succession planning and implementation systems and have been discussed earlier.

The second aspect in the literature that is unsatisfactory is that, while there are many published reported on matters such as the financial implications of succession, the antecedents and consequences of succession, and the impact of successor origins, to name a few, there is little in the literature on the actual succession process. For example, research that investigated the financial implications of succession (Worrel, Davidson, Chandy & Garrison, 1986). While it is important that organisations understand the way that markets react to various types of succession events, such analysis is done from a narrow vantage point that does not explain how organisations can actually manage their succession events. Organisations that want to plan and implement leadership succession are left with information which is important in itself but which does not help them in their efforts to make leadership succession more practical and implementable. Research findings of this nature, many of which have been considered in the preceding chapter, prompted Tranfield and Starkey (1998) to argue that there exists a large measure of disconnect between management research and the interests of management practitioners. They argue that there should be a synergistic relationship

between the two areas. It should be also noted that there are others like Hinnings and Greenwood (2002) who contend that research should not be subject to the dictates of business but be led by theoretical constructs. This dichotomy of ideology has unfortunately led to a situation which has been well summed up by Gummesson (2000) who states that consultants contribute to practice armed only with fragments of theory whilst scholars contribute to theory supported by small pieces of practice.

This thesis's dissatisfaction with the value and the purpose of the current level of research in this area is further supported by findings from Giambatista, Rowe and Riaz (2005). They state that, with a few exceptions (such as the research done by Friedman (1990), Zajac (1990) and Wills (1992)), most of the research conducted is based on archival field studies (identified through succession announcements in publications such as *The Wall Street Journal* and other reputable publications) and relies on quantitative analyses (for example Kesner & Sebor, 1994; Cannella & Rowe, 1995; Ocasio & Kim, 1999). Giambatista, Rowe and Riaz (2005) observe that there is a lack of a holistic approach to the research of what would help in successful or effective succession planning and implementation. This reinforced the assertion that Kesner and Sebor (1994) made in their rather extensive review of the literature on succession that there has been little or no research done on the process of succession events. The approach taken by various researchers to investigate leadership succession from their own particular vantage points has resulted in, to use a metaphor, small individual pieces of a large leadership succession jigsaw puzzle, with each piece of the jigsaw holding

its own unique interpretation of leadership succession. A holistic picture of the entire succession process has yet to emerge. Indeed, the heavy reliance on quantitative analysis, which is more useful for theory testing, has enabled researchers to test and prove various hypotheses from their specific perspectives but not to develop theory as to what corporations actually want or need in the management of succession planning and in the implementation of such plans. It is therefore the intention of this thesis to contribute to the practice and the process of leadership succession as holistically as possible as the factors that either inhibit or enhance leadership succession using Malaysian companies for the investigation.

Another gap in the literature is the consideration of the effect that cultural differences have on leadership succession practices. For example, it is beneficial to explore whether models and explanations which apply in a Western context might be useful for succession planning in Malaysia. Most of the investigations on leadership succession have been conducted from a Western perspective. Attention is therefore given, in the next chapter, to the matter of the influence of culture on leadership succession planning and implementation.

Chapter 3

THE INFLUENCE OF CULTURE ON LEADERSHIP SUCCESSION

- **The influence of culture on leadership succession**
- **The practice of leadership succession in the Malaysian context**
- **The practice of leadership succession in Japan**
- **The practice of leadership succession in Taiwan**
- **The practice of leadership succession in the United States of America and the United Kingdom**

The influence of culture on leadership succession

In exploring the practice of leadership succession in the Malaysian context, a consideration of the culture of the country and the influence that such cultural factors might have on succession is in order. This chapter considers elements of the Malaysian culture and their influence on the practice of leadership succession in Malaysian companies.

Additionally, the impact of culture on leadership succession practices in Japan, Taiwan, the UK and the USA will also be reviewed to compare and contrast leadership succession practices in these countries. This will then allow for a consideration of whether succession models such as the Leadership Pipeline (Charan, Drotter & Noel, 2001) and the Acceleration Pools (Byham, 2002) can be applied universally to businesses across these cultures or if location-specific cultural factors would necessitate change in these models.

There are a number of large-scale culture studies that this thesis can refer to in investigating the influence of culture on leadership succession. These include the works of Hofstede (1980a, 1991), Trompenaars and Hampden-Turner (1993), the Global Leadership and Organisational Effectiveness (GLOBE) research program (House, Hanges, Javidan, Dorfman & Gupta, 2004), and Kluckhohn and Strodtbeck (1961). Hofstede, along with Bond (Hofstede & Bond, 1988) added the dimension of 'Confucian Dynamism' to investigate East and South East Asian

leadership in particular. Because of the influence of Confucian teaching in many East and South East Asian countries, this thesis chose to use Hofstede's cultural dimensions for its investigation into the influence of culture on leadership succession. Furthermore, Hofstede's cultural dimensions were derived from a very large scale study that spanned fifty cultures and is recognised as one of the largest and most definitive work on cross cultural studies (Griffin & Pustay, 2005; Ferraro, 2005). In order to ensure consistencies in comparison, Hofstede's cultural dimensions are applied to all the countries reviewed in this thesis. Reference is also made, where appropriate, the works of others such as Trompernaars and Hampden-Turner.

Definition of Culture

The term culture has been defined in a great number of ways and there is as yet no one single definition that is agreed upon by researchers. For ease of understanding, this thesis will consider definitions provided by Hofstede and Ferraro.

Hofstede defines culture as the collective programming of the mind which then causes members of a particular group or category to behave in a manner that distinguishes them from other groups. In the context of national culture, Hofstede suggests that the words group or category be taken to mean an entire country, or a specific ethnic group within that

nation (Hofstede, 1991a, 1991b). By this definition, Hofstede suggests that people in a particular country can be expected to think and behave in ways that would be different from those in other countries. This is in line with Ferraro's (2005, p. 19) description of culture as everything that people have, think, and do as members of their society. Ferraro elaborates the three major components of his definition in the following manner. He argues that for a person to *have*, something material must be present; when people *think*, ideas, values, attitudes and beliefs are in attendance and that when people *do*, they behave in certain socially prescribed manner. The latter two factors will, in turn, influence the things that people choose to have. If Hofstede's and Ferraro's definitions are juxtaposed, the result suggests that people of a certain culture would have, think and do things in ways that are different from those from other cultures. If that is so, it can be argued, in the context of this thesis, that cultural differences could affect the manner in which leadership succession is planned and implemented and that leadership succession in corporate Malaysia might exhibit differences from those practised in other countries. This then questions the wisdom of using a universal approach or model for corporate leadership succession across diverse cultures. As mentioned earlier, this section of the literature review will make a comparison of leadership succession practices in Japan, Taiwan, the UK and the USA in order to help shed light into the similarities and differences in leadership succession in these countries.

The following table is a summary of Hofstede and Bond's (1988) measurement of cultural scores and will form the basis of the discussion

on how the culture of the five countries might affect leadership succession planning and implementation. Included in this table is the 'Confucian Dynamism' dimension that Hofstede used to investigate connection between East and South East Asian cultural roots and economic growth.

Table 3.1: Hofstede's cultural scores

(Sourced from Hofstede (1991) and Hofstede and Bond (1988))

| Cultural Dimension | Malaysia | Japan | Taiwan | United States | United Kingdom | Mean |
|-----------------------|------------|-------|--------|---------------|----------------|------|
| Individualism | 26 | 46 | 17 | 91 | 89 | 51 |
| Power distance | 104 | 54 | 58 | 40 | 35 | 51 |
| Uncertainty Avoidance | 36 | 92 | 69 | 46 | 35 | 64 |
| Masculinity | 50 | 95 | 45 | 62 | 66 | 51 |
| Confucian Dynamism | Not stated | 80 | 87 | 29 | Not stated | 46 |

It is noted that the table above does not specifically measure the level of Confucian Dynamism in Malaysia and the UK. Nevertheless, it would be reasonable to assume that Confucian Dynamism would be moderately high in Malaysia as a sizeable portion (26 percent) of the population is ethnically Chinese. Conversely, the influence of this cultural dimension would be likely to be low in the UK.

Briefly, the five cultural dimensions can be explained as follows (Hofstede, 1991b, 2001; Hofstede & Bond, 1988): The first element, individualism versus collectivism, can be explained as the relative importance of the

interests of the individual in comparison with the interests of the group. People in cultures that have high individualism scores on Hofstede's scale (such as the USA and the UK) would be expected to be more inclined to look after personal interests. The second factor, power distance, has to do with the beliefs that people have about the appropriateness of power and authority differences in social and business hierarchies. For instance, in high power distance cultures subordinates would be more likely to respect their superiors because of the status and positions that these power holders have, and to, therefore, comply with their orders. The third element, uncertainty avoidance refers to the feelings that people have towards uncertain and ambiguous situations. Hofstede argues that people in the USA and the UK would be more willing to accept situations of uncertainty while the Japanese, by comparison, would prefer a greater sense of structure and routine. The fourth cultural dimension, masculinity versus femininity, has to do with how success is defined. People in high masculinity cultures like Japan identify success in terms of material achievement, ambition and goal attainment while those cultures which score higher in femininity tend to be more concerned with social relationships, nurturing and caring. It is noted that there have been apprehension over the genderising of this cultural dimension and researchers like Kluckhohn and Strodtbeck (1961) who had looked at this dimension before Hofstede, and others like Brake, Walker and Walker (1995) who considered this area later, prefer to use the terms 'tough-tender' rather than 'masculine versus feminine'.

The fifth dimension is about the influence and the involvement of Confucian teaching in the culture of a country. Hofstede included this element when investigating the influence of cultural roots on the emergence of East Asian economies (Hofstede & Bond, 1988). This dimension is added in this discussion as this is an area of similarity among the East and South East Asian cultures, and a point of dissimilarity between them and those of the USA and the UK. Hofstede registers a low level of Confucian dynamism in the USA but did not include the UK in his study. While there are sizeable East and South East Asian communities in both the USA and the UK, their influence in the British workforce, in terms of top management positions is very low (Kerr, 2009) and this is mirrored in the USA where Curry (2006) reports a very low 1.2 percent representation of Asian Americans, specifically Chinese Asian Americans, in top positions in Fortune 500 board seats. This could account for the low score for this dimension in the USA. In Japan and Taiwan, Hofstede reports a high level of Confucian dynamism. Although he did not include Malaysia in his study, the level of Confucian dynamism can reasonably be expected to be at least moderately high in Malaysia, where a large proportion of publicly listed companies are in the hands of the local ethnic Chinese. This dissimilarity between the East and South East Asian and Western cultures could, therefore, be a key factor in understanding differences in the way that leadership succession is planned and implemented in these various countries.

The practice of leadership succession in Malaysia

Given that a complete consideration of cultural factors in the country is beyond the scope of this investigation, social cultural factors are only briefly investigated with a specific focus on the effect of Malaysian culture on leadership succession planning and implementation.

An understanding of the Malaysian culture and its influence on leadership succession

The Malaysian population consists of three main ethnic groups; the Malays (65 percent of the population), the Chinese (26 percent) and the Indians (8 percent) (Department of Statistics Malaysia, 2008). One of the concerns that the ruling government had in the early years after gaining independence in 1957 was how the multi-ethnic profile of the country would affect national culture. To address this anxiety the government released The National Culture Policy of Malaysia in 1971, which stated that the national culture had to be based on the indigenous Malay culture, advised that Islam would be an important component in the shaping of the national culture and that elements of other cultures could be incorporated into the national culture so long as these did not contradict Islamic ideology in any way. This policy has been the guiding principle in the development of what is known in Malaysia as the *Bangsa Malaysia* or

the 'Malaysian race'. The resulting culture of Malaysia is, therefore, one which is predominantly Malay but in which elements of the two other major ethnic groups can be observed.

The development of a Malaysian culture has not meant that all the three major races subscribe to a uniform mode of thinking and doing, to use Ferraro's (2005) definition, but the national culture has done much to create a degree of 'Malaysian-ness' which distinguishes Malaysians as a national group or category. While each racial group has its own set of social and religious customs, similarities can be seen in the ways that the three major ethnic groups behave socially, and in the ways that they manage and conduct business. For example, in the social context, there has been a degree of cultural assimilation and adaptation over the years. This can be seen in the adoption of the Chinese practice of the giving of *hung-bao* (or 'lucky money' in red envelopes) by the Malay community. Traditionally, Chinese parents distribute *hung-bao* to their children and to visitors (on the condition that recipients are unmarried) during Chinese New Year festivities. While the Malays had given money (known as *duit raya*) to young children for their *Hari Raya* (the Muslim New Year) celebrations they had customarily not enclosed the money in envelopes. The Malays have since adopted and adapted the Chinese practice of the *hung-bao* and it is now common to see them distributing money during *Hari Raya* celebrations in green envelopes (Kaledaiculture, n.d.). This reminded me of how, as a product manager in a pharmaceutical company in Malaysia, I would print and provide red *hung-bao* envelopes to the company's Chinese clients and green *Hari Raya* envelopes for Malay clients

at the appropriate times of the year. In the food industry, a growing number of Chinese restaurateurs have decided to not handle or sell pork and pig products and many have gone as far as obtaining *halal* (or kosher) certification from the appropriate Muslim authorities even though they are not of the Islamic faith. By doing so, they have widened their appeal to both Malays and non-Malays. In similar fashion, many Malay restaurants in Malaysia sell halal Chinese and Indian food as well.

In the business context, regardless of race, Malaysian employees exhibit a high level of respect and deference to their superiors and are accepting of status and power hierarchies (Ferraro, 2006, p. 107). Decisions made by senior management are seldom challenged and compliance is expected and received. In some business practices however, because the three main ethnic groups have distinct religious alignments – the Malays are largely Muslims, the majority of the Chinese are either Taoist or Buddhist while most Indians are Hindus – differences are inevitable. For example, many in the Chinese community believe in *feng-shui* or geomancy and avoid inauspicious numbers such as the number ‘four’. In Mandarin and dialects like Cantonese and Hokkien the number sounds similar to the word ‘die’. Most Chinese businesspeople who subscribe to the practice of *feng-shui* avoid operating from business premises that contain the number ‘four’. They also go out of their way to ensure that the number does not appear on the number plates of their vehicles. In some high-rise buildings, the fourth floor is conspicuous by its absence and the number four button does not exist in the lifts of a large number of buildings in the country. This number, however, has no significance to the Malays and the

Indians. Whether or not such beliefs influence leadership succession practices is unclear as there is little in the literature on this matter.

Because the three major ethnic groups can be found in the majority of organisations in Malaysia, much of the early literature on culture in the context of Malaysian business has focussed on cross-cultural management issues (see Abdullah, 1992; Dahlan, 1991). Such studies are useful in that they explain the reasons for the differences and how managers might be better able to manage cross-culturally in Malaysian businesses. Storz (1999) argues that it would also be beneficial to investigate business beliefs and practices and asserts that understanding these would offer a more developed explanation of existing intercultural differences. Storz reasons that this will then bring about greater effectiveness in the education and practice of cross-cultural business management. In focusing on these fundamental belief systems in Malaysia, Storz (1999) writes that Malay culture is derived from the *budi* complex while the Chinese culture is principally based on Confucianism but she also argues that these two seemingly divergent philosophies have a number of similarities which explains parallels in Chinese and Malay business practices. Two such practices are the reluctance among Malaysian managers of all races to dismiss their subordinates and their desire to seek face-saving solutions. The implicit values in these two beliefs systems create and construct certain social and business attitudes and behaviours and Storz (1999) argues that corresponding values in these two philosophies have resulted in parallels in business behaviour on the part of the Malays and the

Chinese. At this juncture, a brief explanation of the *budi* complex and Confucianism would be beneficial.

The *budi* complex is defined by Dahlan (1991) as a belief structure that is made up of virtuous qualities such as *murah hati* (generosity), *hormat* (respect), *ikhlas* (being sincere), *mulia* (righteousness), *timbang-rasa* (consideration) and *halus* (being polished and refined). These are counterbalanced by other less desirable ones such as *kasar* (being crude and unrefined), *malu* (feelings of shame at a collective level) and *seگان* (a sense of shame at the individual level). Dahlan further goes on to say that *budi* is a reciprocal relationship between the donor (the helper) and the recipient (the person who has been helped). The *budi* complex is tightly interwoven with the Islamic beliefs of the Malays, where a core belief is that one's destiny is not so much in one's own hands as it is in Allah's. Dahlan (1991) and Storz (1999) argue that these factors interact in such a way so as to produce a group of people who are typified by refinement, politeness, consideration for others, concern for the community and society, and self-effacement. To behave in a manner contrary to the above would render the Malay as a person who is *kasar* – or crude and unrefined – and this would be socially unacceptable. Interestingly, Dahlan (1991) states that the *budi* complex teaches that while it was important to see things from the perspective of the *small man* – that is to say that important people should be prepared to reach down and work hand-in-hand with those from lower ranks and classes – the system nonetheless recognises that there is a social hierarchy. This hierarchy is indeed enshrined in the concept of the *rukun* (hierarchical order) which is an important component

of the *budi* complex. Dahlan (1991) asserts that respect for the order is imperative and has to be adhered to closely. This suggests that in addition to being refined, polite, considerate of others and self-effacing, the Malay is also expected to be compliant and to understand, accept and to observe the realities of a high power distance structure.

The Chinese belief system in Malaysia is influenced largely by Confucianism as well as by Buddhist and Taoist religious beliefs, and to a smaller extent by Christian values. This thesis will briefly examine Confucianism to demonstrate the core values that are held by the Chinese in Malaysia. Tu (1979, 1987) explains Confucianism in terms of the concept of *ren* (humanity and goodness) which speaks about the social and moral process of becoming a human or the unending process of attaining 'selfhood' through moral cultivation. Confucian teaching does not isolate the 'self' but interweaves it tightly with the five social spheres of family, neighbourhood, community, society and the cosmos (Tu, 1987). The self is, therefore, contained in the total of these relationships. An important element of achieving selfhood is the development of one's place in relation to differential status, authority and power. Followers of Confucian teaching are therefore expected to submit to their superiors and elders and to demonstrate compliant responsibility and responsiveness. Indeed, Confucius envisaged the ideal society as hierarchical, where everyone knew and accepted his or her place and duties in that hierarchy (Tu, 1987). Like the Malays, self-effacement is taught to be a virtue to be desired. The influence of Confucianism is far reaching in the Chinese community. Yan and Sorenson (2006) report that Confucianism underlies, pervades and

guides Chinese culture and that even amongst the ethnic Chinese diasporic population it prescribes proper conduct within the local society and family.

The above two philosophical systems, while seemingly divergent, do have similarities that, in some ways, help to explain why Malaysian managers (principally Malay and Chinese managers) have similar views and practices in a number of areas. For instance, both the *budi* complex and Confucianism teach that a person should not view himself or herself from an individualistic perspective but in the context of how others regard him or her. As such, the definitions, approvals and acceptance of the collective are of utmost importance, and commonality and connectedness with the group are to be preferred over individualistic desires (Schweder & Bourne, 1982; Hofstede, 2001). This similarity in both races can be seen in the way that Chinese and Malay managers in Malaysia handle business transactions. For example, reciprocity and mutuality are important components of business practice in Malaysia. The party who receives a gift from another person is expected to return the favour, whether immediately or at a later time. In the area of negotiation, the ideal business arrangement is one where every party in the negotiation wins and this is applicable in the Malaysian context but what distinguishes the Malaysian 'win-win' from a Western perspective (see for example Fisher, Ury & Patton (1999)) is that for Malaysians it is more important that both sides gain in terms of continued, long-term business and social relationships, as these lead to a greater level of connectedness and continued commonality, rather than merely in terms of the conditions of

the immediate transaction. In this sense, for Malaysian businesses, focusing on the social and relational aspects of a business transaction is more important than merely paying attention to the facts of the business.

Another similarity can be seen in the area of decision making. Both the *budi* complex and Confucianism place a high level of value in the importance of *rasa* (feeling) and 'heart' respectively. In this instance, the heart is not just about feelings on a human level but also in terms of being at one with the cosmos. Storz (1999) argues that this, in contrast with the Western emphasis on objectivity, is about making decisions not only with the head but also with the heart and that this then causes many Malaysians to seek help from a higher spiritual authority. This can be seen in the manner in which Malays refer to fate or to the will of Allah and in the way in which the Chinese employ *feng shui* (or geomancy) to increase their likelihood of business success. This may result in a tendency to take problem solving at a slower pace.

This slowness is reflected in Hofstede's (1984) study on differences in managerial values across various countries. Hofstede ranks Malaysian managers as low in anxiety in the face of uncertainty and states that they are able to tolerate more uncertainty than managers from USA or the UK. He postulates that a possible interpretation for this is that Malaysian managers view decision making not only from the rational logical deductive perspective but also from a cosmological/spiritual angle and

that recourse to higher authorities, especially spiritual ones, is often chosen. That this is so was demonstrated in my efforts to sell my house before migrating to New Zealand in 2002. The street number of my house was 49 and as a Christian the number had no significance whatsoever for me. Although the real estate market was at that time relatively buoyant, I found it difficult to sell the house. Many prospective Chinese buyers came with their geomancers in tow. While they liked the house and lavished praise on it, the 'four' in the number 49 proved to be an impediment for many of the Chinese. On the other hand, none of the Malay or Indian house viewers had any concerns with the number of the house, although they were fewer than Chinese house viewers. The house was eventually sold to a Chinese businessman who had no religious inclinations or regards for *feng-shui*.

An understanding of the elements of *malu* and *segan* – or feelings of shame at the collective and individual levels respectively – from the Malay *budi* complex (Dahlan, 1991), along with the Confucian philosophy of interweaving self with family, neighbourhood, community, society and the cosmos (Tu, 1987) may also shed light in the way Malaysian organisations address the matter of underperformance which is one of the areas this research investigates. These concepts imply that the disciplining of an employee carries with it a level of shame that extends beyond the individual and to the underperformer's family. As such, it is possible that organisations might choose to address problems of underperformers by providing a face-saving way to the employee in question. Dismissing a person, in the Malaysian context, would bring shame not only to the

individual but would also have far-reaching consequences on the person's family. As such, it is likely that other more palatable, face-saving methods of disciplining an underperformer might be chosen. Indeed, the matter of face-saving is an important issue in the country and Malaysians are more likely to say 'I will try' rather than to give a direct 'no' to a request for help. The purpose for doing so is to 'save face' for both the person asking for help, in that, the person has not been rejected outright, and for the respondent, in that, he or she had not been rude or *kasar* to the other party. Along such lines of reasoning, an organisation might feel that it would be better to place an underperforming employee in a position that would allow that person to resign, or hopefully improve over time, rather than be dismissed. This aspect of organisational practice, and its effect on leadership succession, will be explored further in this research.

Hofstede (1988) finds Malaysians to be high in power distance and low in the other dimensions. This suggests that Malaysians generally accept that there is unequal power distribution in organisations, prefer stability and predictability and tend to consider group preference to individual decision-making. Hofstede's findings are in line with the Equality-Hierarchy dimension suggested by Trompenaars and Hampden-Turner (1993). They identify Malaysia as a very hierarchy oriented society where high status differences are understood and accepted and where power is concentrated in the hands of a few. In such societies, deference for superiors is very high and the questioning of decisions made by those in positions of power is discouraged. These, as discussed earlier, are characteristics that arise from adherence to the *budi* complex and to

Confucian teachings. Kennedy (2002) found that Malaysians, on the whole, place a very high emphasis on the well-being of the collective and had a strong sense of respect for differences in the hierarchy and asserts that the Malaysian culture did not encourage assertive, confrontational behaviour and that the preservation of harmony was of high priority.

When the above observations by Kennedy (2002), Hofstede (2001) and Trompenaars and Hampden-Turner (1993) are applied to leadership succession, it can be argued that Malaysian employees would be unlikely to challenge leadership succession decisions, and more so in companies that are family-controlled and the reason for this is explored further in the concept of 'father leadership' below. Supporting such a likelihood is the work of Johnson, Kulesa, Cho and Shavitt (2003) which reports that in high power distance societies, conformity is stressed and submission is expected. There is currently little in the literature about the effect of culture on employee response to leadership succession decisions in the Malaysian context. For instance, would candidates who were not successful in a leadership succession exercise remain with the company or would they choose to leave the company altogether? This is an area that is explored further in this investigation. Reporting on countries that exhibit low power distance such as the USA or the UK, Johnson et al. (2003) suggest that because power is diffused to more people in these countries decisions made the superiors are more likely to be challenged. This might explain why Robert Nardelli and James McNerney, the two unsuccessful candidates who had been vying for General Electric's CEO position, resigned from General Electric within five days of the announcement that

Jeffrey Immelt would replace the incumbent Jack Welch (Sellers, 2002; Pascual, Moore & Byrnes, 2000). There is currently little research in this area in the Malaysian context but it can be argued that resignations of the nature described in the GE case would be less likely in Malaysia as the preservation of harmony and submission to the wisdom of the leader's decision are important in Malaysian businesses. In such situations, it would be likely that unsuccessful candidates be asked to look at the 'big picture' from a family point of view and thus remain in their positions. This is explored further in the section on 'father leadership' below.

‘Father Leadership’ and its implications on Malaysian leadership succession

Drawing from research conducted in Taiwan, Huang (1999) links the culture in Chinese business organisations to traditional Chinese cultural practices. Huang writes that Chinese organisations are noted for their informal organisational structures, strong top-down decision making processes and a high level of emphasis on personal ties and relationships. Huang notes that Chinese companies in Taiwan have, however, been slow in adopting business practices such as leadership succession planning. A possible reason for this may be found in the concept of ‘father leadership’ (Low, 2006) that is observed in many East and South East Asian companies.

In a corporate setting, father leadership is expressed through the leader’s commitment to look after the welfare of the staff members, much as a responsible father would in his own family. In return, the father leader would expect reciprocity in the form of commitment and loyalty to the firm and to himself as the leader of the company. Furthermore, in situations where father leadership is practised, the father-leader, is regarded as someone who is more knowledgeable and more experienced than the others in the company and should therefore be obeyed. Low (2006) argues that father leadership is common in many East and South East Asian countries such as Indonesia, Malaysia, Taiwan, Bangladesh and Singapore. He includes the Japanese practice of *oyabun* – Japanese for ‘supervisor’, although the word is also used to mean ‘the father’ or the

'absolute father' in a Yakuza clan (Hanada & Yoshikawa, 1991) – as an example of father leadership. Under such a leadership practice, employees are treated as part of the family where good relationships and informality are important (Adler, 2002; Sheh, 2001).

However, while employees are viewed as part of the family, there appears to be a distinction between the immediate family, that is, the family of the founder and leader of the company, and hired employees. Because of this, it is not surprising that succession to top positions is reserved only for members of the immediate family. Those who are not part of the leader's immediate family would be expected to accept this as a reality of business practice and to continue to remain loyal to the company. This agrees with the notion of *rukun* (or the Malay concept of hierarchical order) and the Confucian teaching of everyone knowing their place, order, station in life and duty. Nevertheless, while high power distance might explain why employed staff might accept dynastic succession in family-controlled publicly listed companies, an intriguing question is whether their desire to maintain commonality and connectedness to their business 'family' is strong enough to retain them in the company. This has not been addressed by Low.

Another aspect of father leadership which was not explored by Low (2006) is on how the family inheritance is parcelled out to the children. This would be of interest as there could be parallels in the distribution of the family inheritance and in leadership succession, as top leadership positions are often viewed as part of the family's legacy. Zheng's (2002)

work has shed some light on this issue. Zheng notes that a common approach to family-owned businesses is the assignment of important management positions only to family members, first to immediate family members and then, to extended family members. This supports Freedman's earlier (1979) findings that in many families, especially in Chinese ones, power is normally passed on to the eldest son although Handler (1990) adds that favouritism has been observed to get in the way of this practice from time-to-time. As such, under father leadership, personal relationships outweigh qualification and performance and outsider professionals are unlikely to be asked to be part of this 'inheritance', that is to say, a place in the upper echelons.

An interesting feature of this approach to leadership succession is that the power to appoint is almost totally in the hands of the 'father leader'. This is echoed in the words of Hong Kong billionaire Eric Hotung who stated 'In my generation, a father's wish was a command' (Parry, 2005). Parry cites Phil Neilson, managing director of ING Financial Planning, who estimates that more than 50 percent of wealthy East and South East Asian families do not have any inheritance or succession planning in place because it is the father's prerogative to decide who would receive what. The reasons suggested by Parry (2005) for the lack of such plans included the belief amongst Chinese families that talking about succession is akin to discussing the death of the father-leader, that there is an unwillingness to share personal information about personal wealth and that there is a belief that inheritance planning could lead to disruptions in running the family and the business. Such attitudes are often reflected in succession practices

in many East and South East Asian companies ('The family connection', 1996; Parry, 2005). Since CEO and top management positions are often viewed as positions to be inherited by family members, the father leader would have the final say on who would succeed him.

Yan and Sorenson (2006) support this likelihood when they investigated the impact of Confucianism on succession in Chinese family business. They argue that the tradition of submission to the father leader occurs because of the influence of five cultural dimensions on succession practices in Chinese family businesses. The first of these five elements is that the family is the basic unit of society, that is to say that the family is more important than any individual member and thus family values are to be maintained in high esteem at all times, even at the expense of individualism. The second, third and fourth elements have to do with relationships and appear in the form of parent-child relationships, relationships with other members of the family and social relationships respectively. The parent-child relationship is demonstrated by high levels of devotion, respect, duty and obedience to the parents while in the other two areas of relationships, respect for elders and adherence to hierarchy are mandated. These four elements call for the unquestioning subsuming of one's interest to that of the father leader.

The final aspect has to do with the inheritance of family property. While older and younger brothers are not equal in status, coparcenary is espoused in Confucian teaching and the family equally divides or shares the inheritance among all male siblings (Chau, 1991). A rationale for this

is that this would then ensure that all family members will work together for the greater, and continued, good of the family (Yeung & Tung, 1996). However, as companies can only have one leader at a time, coparcenary will give way to the practice of allowing the eldest – and traditionally it would be the eldest son – the right to take over the helm of the company. Since the family and preservation of family values and reputation are of utmost importance, it is not surprising that succession will be dynastic as family members will be trusted more than outsiders to safeguard and build the family fortunes.

In summary, although the literature does not specifically discuss succession practice in Malaysia for those of Malay and Chinese ethnicities, the works of the researchers reviewed suggest that leadership succession in Malaysia would be characterised by dynastic succession in family-owned and family-controlled publicly listed companies and that the actual process of top management succession would be relatively unclear as it is the sole prerogative of the father-leader. Furthermore, challenges to succession decisions made by the leader would be unlikely and unwelcomed as they would be deemed to be an infringement on the preservation of social harmony and hierarchy. Indeed, any dispute of the decision would be taken as an affront that not only disrupts the social hierarchy but which could damage the face or reputation of all involved, and this was to be avoided.

Having considered the cultural context of Malaysia, attention is turned to issues pertaining to corporate structures and governance in Malaysia as even here, cultural effects can be observed.

Corporate structures and governance in Malaysian companies

In order to provide a more holistic picture of leadership succession practices in Malaysia, consideration is now given to company structures in the country. Business organisations in Malaysia fall into three main categories, namely, government linked companies, publicly listed enterprises and privately owned organisations. Government-linked companies are business concerns where the government has a significant shareholding interest; examples include the Malayan Banking Berhad and Malaysia Airlines Berhad. Privately owned companies are usually family-owned businesses while publicly listed companies may or may not be family-controlled. It is noted that a main feature of publicly listed companies in Malaysia, and indeed in many publicly listed companies found in East and South East Asian countries, is that there is a very high level of ownership concentration, cross-holdings and participation of owners in management resulting in a very high percentage of family-controlled publicly listed companies (Liew, 2007). In terms of control, many of these publicly listed companies demonstrate a complex system of interlocking share ownership and this, according to Liew (2007), has

allowed a few individuals and entities to control the companies in question. For example, La Porta, Lopez-de-Silanes, Shleifer and Vishny (1998) report that there is a very high degree of ownership concentration in Malaysia – in ten of the largest companies in the country, an average of 54 percent of common equity shares are owned by the largest three shareholders as compared with 19 and 20 percent in the UK and the USA respectively. Zhuang, Edwards, Webb and Capulong (2000) conclude that such a situation provides controlling shareholders with excessive powers. Given the high power distance culture prevalent in the country, along with the fact that 67.2 percent of Malaysian companies are family-controlled (Claessens, Djankov & Lang, 1999), and the observation by Zhuang et al. (2000) that most shareholders in Malaysia tend to be passive, it is likely that the scope of control will extend towards ensuring dynastic succession in such companies.

Most publicly listed companies in Malaysia are in the hands of the ethnic Chinese and this can be seen in the following discussion. In an effort to increase Malay participation in the corporate sector, the Malaysian government incorporated what is commonly known as the New Economic Policy under the Second Malaysia Plan in 1971. One of the goals of this policy was that the Malays achieved 30 percent of the country's corporate wealth by 1990. The Malaysian government has officially reported that as of 2006, about 19 percent of corporate equity is owned by the Malays (Corporate Equity Distribution Study, 2006) and that the date for the attainment of the 30 percent target is now 2020 (Ninth Malaysia Plan, 2006). Although there has been some debate over the actual percentage of

Malay equity distribution, it can be seen that the majority of corporate equity remains in the hands of the ethnic Chinese as foreign equity ownership is capped at 30 percent. The level of ethnic Indian equity continues to be very small and is expected to reach 3 percent in 2020 (Ninth Malaysia Plan, 2006).

It should be noted that there have been some revisions to the 30 percent Malay equity condition. Three weeks into his term as leader of the country, Prime Minister Datuk Seri Najib Tun Razak lifted the rule for 27 services sub-sectors. These subsectors involved the health and social services, tourism and transport services and computer and computer-related services (Ritikos, 2009). Although Prime Minister Najib has announced the liberalization of these sub-sectors, the aim to achieve an overall 30 percent Malay equity requirement remains unchanged. The liberalization of the equity conditions in the services sub-sector was made ostensibly to create a business environment that would attract more investment as the Malay equity requirements have been a contentious issue among investors.

In addition to the above, the policy also requires companies to make employment positions at all levels of the company available to Malays. Companies in Malaysia have been requested by the government to submit plans to ensure that Malay employees account for 40 percent of their workforce and that these companies make provisions to train and promote Malay employees to all corporate levels. Because of the impracticality of this directive – companies often argue that there were not

enough suitably qualified Malay candidates – and perhaps more importantly, the lack of effective monitoring on the part of the government, most companies have chosen to ignore this part of the policy. Foreign companies, however, are not afforded much leeway to manoeuvre around this policy, as obtaining their licenses and tax concessions from the government are dependent on adherence to this policy (Shome, 2002, p. 98–101). An unfortunate outcome of the policy has been that there is an overrepresentation of Malay workers at the bottom half of the organisational ladder while they remain under-represented in middle and senior management positions in many publicly listed companies, especially in those that are ethnic Chinese family-controlled publicly listed companies. On the other hand, it is not surprising to find that the Malays constitute the majority of employees in government linked companies.

In the area of leadership succession, publicly listed companies in Malaysia are required by the Malaysian Securities Commission's Code on Corporate Governance (2000, 2007) – henceforth referred to as the 'Code' – to have succession planning processes in place. For example, Part 2 of the revised Code (2007) states that boards of directors are required to put into place succession planning, including appointing, training, fixing the compensation of and where appropriate, replacing senior management. The Code, which appears to be peculiar to Malaysia, does not go into any detail on how this should be done and allows companies to interpret and implement this as they see appropriate. Like the policy on having a 40 percent Malay workforce, monitoring this clause in the Code has not been efficient and it is common for companies to merely state that it has

'applied the principles of good governance and complied with the best practices set out in the Malaysian Code on Corporate Governance throughout the financial year'. For example, a perusal of the PPB Group Berhad (2004, 2005 and 2006) will show that the above statement had been repeated in all three annual reports without any elaboration. Such statements, or variations of them, can be frequently seen in the annual reports that publicly listed companies publish, suggesting that there is a level of imprecision in the manner in which this requirement in the Code is to be addressed. It seems that as long as a statement appears in the annual reports that the Code has been complied with and that succession requirements have been met. Whether this is the case remains to be investigated and this thesis hopes to shed some light into this area of consideration.

Demonstration of cultural influence on leadership succession practices in Malaysia

As mentioned earlier, there is evidence of dynastic CEO succession in the Malaysian context in family-controlled publicly listed companies. Claessens, Djankov and Lang's (1999) report suggests that 67.2 percent of Malaysian publicly listed corporations are family-controlled. While Claessens et al. (1999), Liew (2007) and Zhuang et al. (2000) suggest that there is the possibility of dynastic succession, there is little reported in the literature about this practice specifically in Malaysia. Nevertheless, a

perusal of the organisational charts of Malaysian companies, company reports and newspaper articles will quickly reveal that the observations of Claessens, Djankov and Lang (1999) apply to Malaysian companies. CEO and key positions in many of these companies are occupied by – and indeed reserved for – immediate and extended family members. For example, when Lim Goh-Tong, the Founder-CEO and chairman of Genting Berhad died in 2007, his successor was his son, Lim Kok-Thay ('Genting calm despite founder's demise', 2007). The so-called clear succession plan that the founder put into place was essentially one of preventing any family struggles for the position. Another example is that of Robert Kuok, who controls over a hundred interlocking medium to large companies. Kuok ceded the control of his business empire to his son Kuok Khoon Ean when he officially retired. In line with Chinese tradition, he maintains a close eye on the business on a regular basis (Weidenbaum & Hughes, 1996). YTL, the third largest company in terms of market capitalisation on the Kuala Lumpur Stock Exchange (at the point of writing this thesis) and which is founded by Yeoh Tiong Lay, is currently headed by his son, Francis Yeoh who, in turn, is developing his own children to take over the helm some time in the future. Such a practice can be seen in other well known family-controlled publicly listed companies in Malaysia like the Hong Leong Group, TanChong, Selangor Properties Berhad and Johan Holdings Berhad. Nevertheless, not all Malaysian companies subscribe to dynastic succession. Companies like the Malayan Banking Berhad (or Maybank) and other government-linked companies, as mentioned earlier, have to accommodate the dictates of their political

masters when planning and implementing CEO and senior-managerial succession events in their companies.

There is currently little literature on leadership succession processes in Malaysian companies. Most of the literature considers subject matters such as comparative human resources management system studies (Chew & Takeuchi, 2005; Chew, 2005a), employee motivation and employee retention (Chew, 2005b) and work culture (Lim, 2001). Some of these reports (Lim, 2001; Chew 2005b) express concerns that the average tenure of Malaysian managers is about three years. A report by Rioux and Bernthal (1999) estimate the turnover rate of top and middle management positions in Malaysia to be 21 percent and 24 percent respectively. The relatively high rates of executive turnover are indicative of the need for effective leadership succession management in the country.

Of interest is the report by Yong (1996) which shows that many of the Malaysian companies Yong investigated concur that training, which is an integral part of leadership-succession development, is not an organisational priority; the main concern is to meet business and profit goals. Yong (1996) reports that Malaysian companies perceive training to be a costly exercise and that many Malaysian companies expect employees to cover the cost of their own career development. When these considerations are juxtaposed with Sheppard's (2001, pp. 71–80) research, it appears that Malaysian companies believe that Malaysian executives are money-oriented and would therefore be happy to move on to better-paying jobs. It is therefore not surprising to find that there is little

incentive for Malaysian businesses to train and develop their managers as this is often perceived as preparing these employees for the next employer rather than reaping the benefits of that training for themselves. Chew (2005b) reports that many Malaysian companies consider training and development beyond the technical skills required to get the job done as superfluous. That being the case, one can infer that Malaysian companies tend not to actively engage in leadership succession processes since succession necessitates training and development beyond basic skills. It can also be surmised that Malaysian companies are more inclined towards leadership replacement than leadership succession. This might, however, change over time. As Chew (2005b) explains, the presence of Western-based multinational companies in Malaysia has had a positive influence on corporate Malaysia as a whole, in that issues like succession planning and the need for sophisticated developmental training have surfaced in recent times.

Retirement age and leadership succession practice in Malaysia

Unlike companies in the USA and the UK, Malaysian employees are expected to retire once they reach 55 years of age. The fact that employees are contractually required to retire at this age would surely put some pressure on the need to ensure smooth succession planning and implementation processes. A little background on the age-of-retirement

practice in Malaysia is useful at this juncture. This retirement age affects two categories of employees, namely, civil servants and those employed in the private sector in the following manner. Government employees in Malaysia are statutorily required to retire at the age of 55 (although this was revised to 56 years in 2007). There is, however, no statutory requirement for the private sector to apply this retirement age on its employees. Nevertheless, it is common practice in private companies to contractually require employees to retire at 55 years of age. A clause requiring would-be employees to retire at 55 is frequently inserted into hiring contracts and new recruits have accepted this as a part and parcel of corporate life in Malaysia. Thus far, there have been no moves to challenge such a practice. It is also noted that owners of businesses do not have any fixed time for retirement and CEOs of family-controlled publicly listed companies are not subject to having to retire at a predetermined age.

There are a number of reasons for private companies to contractually require employees to retire at 55. One is that it is in line with the retirement age set out for those in the government sector. The other, and perhaps more important reason, is that private-sector employees are allowed to withdraw their entire compulsory superannuation savings from the Employees Provident Fund upon attaining the age of 55. Government servants are not party to the Employees Provident Fund as they have their own pension fund. The Employees Provident Fund was set up by the government as a superannuation fund for workers in the private sector and it is mandatory for all company employees to contribute towards this fund. A total of 20 percent of an employee's monthly salary

is automatically credited to his or her account in the fund with 9 percent coming from the employee and a further 11 percent contributed by the employer. An employee can only withdraw his or her entire savings upon attaining the age of 55 (Mula Bekerja, n.d.). As such, most private enterprises feel justified to ask an employee to retire at this age.

Thus, while there are no statutory laws mandating private-sector employees to retire at 55, it is common practice in the private sector to insist that potential employees sign a contract binding them to retiring at that age. When the employee attains the age of 55, companies may chose to employ what is known in Malaysia as 'organisational flexibility'. It is common to see companies extending the tenure of retiring employees by offering them continuing employment but on a year-to-year basis through the use of annually renewable contracts. Employees who are asked to remain in employment usually do not suffer any loss of seniority or salary but the decision to renew or not to re-hire the employee is solely at the discretion of the company. There is currently no literature on how this practice impacts the effectiveness of leadership succession processes in Malaysian companies. It is conceivable that such a practice could have a negative effect on leadership succession as the heir-apparent could be made to wait indefinitely if the incumbent is able to continue working for several more years beyond retirement age. Furthermore, it can be argued that by not preparing a successor, the incumbent would increase the likelihood of being retained after he or she reaches 55 years of age. The effects of this practice on leadership succession will be investigated in this research.

Having considered the Malaysian culture and its possible impact on succession practices in the country, focus is now given to the effect of culture on the practice of leadership succession in Japan, Taiwan, the UK and the USA.

The practice of leadership succession in Japan

An understanding of Japanese culture and its influence on leadership succession

Hofstede (1980b) categorised Japan as a collectivistic society where there is a high level of respect for power and a high dislike for ambiguity. In order to understand the influence of Japanese culture on business practices better, Griffin and Pustay (2005, p. 87) suggest that four important cultural elements need to be considered. The first element is that of the hierarchical structure of Japanese society. This hierarchy defines how people at various level of the social ladder relate to each other, and is similar to the Malay notion of *rukun* and the Confucian understanding of order, place and duty. The second component is referred to as *groupism* or the identification of oneself as a member of a group or collective rather than as an individual. This has led to the Japanese emphasis of developing group identify over individual identity. The third element is that of *wa* – social harmony or consensus within the

group – which is often achieved through extensive socialising after work. A feature of the desire to preserve *wa* has been the practice of compensating employees based on seniority rather than on individual performance and the maintaining of good relationships despite personal differences. The fourth factor described has to do with obligation or duty. When an employee is hired, he or she becomes indebted to the company and must place his or her interests below those of the company. In return, the company is expected to provide lifetime employment, until the age of 55, for the employee. These cultural elements bear much similarity to those espoused by the *budi* complex and by Confucian teaching and it is thus not surprising that the Japanese culture allows for the practice of father leadership as described by Low (2006).

In addition to the cultural factors mentioned above, Casse (1982) lists a number of important Japanese cultural elements that may have implications on leadership succession practices. These include the need to be emotionally sensitive to others and to hide one's own emotions, the need to be conciliatory rather than confrontational and to allow others to save face wherever possible. Indeed, Casse suggests that face-saving, also known as the practice of *kao* (literally 'face') is crucial in Japanese culture. In Japan decisions are often made on the basis of allowing others to save face so as to preserve social harmony. The interplay of the element of face-saving and obligation could influence the way in which Japanese companies address the problem of underperformers. Instead of firing such staff members, Japanese employers often feel that they need to preserve the dignity of their employees and so tend to provide face-saving

means to allow underperformers to remain in the company or to exit voluntarily.

For example, Itami (1995) reports situations where instead of dismissing an incompetent CEO or *shacho* (literally 'the leader of the firm') some company boards have preferred the more face-saving method of moving the CEO to a less prestigious office. Another dignity preserving manner in which a CEO might exit is what Mroczkowski and Hanaoka (1997) call voluntary resignation. This is typically done after a company undergoes major restructuring and downsizing but wants to maintain the image that the organisation had not dismissed anyone. The underperforming manager is given time to prepare an exit which does not appear to be too closely linked to the restructuring. In this way, both parties, that is, the company and the person resigning, are seen to be saving face; the company is able to maintain its reputation of caring for its employees, and the employee has not been subjected to a humiliating dismissal.

In this respect, Japanese practice differs from that found in the USA or the UK where board-initiated CEO dismissal is practised (Mroczkowski & Hanaoka, 1997). This is reflected in the observation that while Japanese CEO turnover rate has been on the increase – it reached a record high of 19.8 percent in 2006 (Amble, 2006) – only 12 percent was involuntary turnover as compared to 35 percent and 42 percent in the USA and Europe respectively. This does not mean that face-saving is unimportant in Western societies but that it is of greater significance in high-context, hierarchical cultures where the concepts of shame and honour are

paramount. As Cohen (1997, p. 133) writes, being humiliated before a group can be seen as a fate worse than death in societies such as Japan.

Ferraro (2005, p. 110) cites Japan as an example of a strictly hierarchical society where social rank is important and social order is maintained by everyone knowing their relative positions in society. This bears resemblance to Confucian teaching and the Malay *budi* complex. Children are expected to defer to their parents, younger people to older ones, women to men and employees to their employers. This social deference is also observed in business organisations and can be seen in the relationships between parent companies and their subsidiaries (Ito & Rose, 1994; Ito, 1995). Ito and Rose (1994) observed that Japanese subsidiaries and spin-off companies, known as *kogaisha* (literally 'child company'), look to their parent companies for instructions when faced with a situation such as leadership succession. In leadership succession, there is little autonomy for the subsidiaries and their practices essentially reflect those of the parent company. This is not surprising in a hierarchical society where the people in authority are expected to know more than those lower down in the social order.

In the majority of Japanese companies the board of directors are characterised by the fact that they are composed primarily of executives and former executives of the company – outside directors are seldom found in the boards of Japanese companies (Sakano & Lewin, 1999; Lazonik, 1991). Sakano and Lewin report that in most Japanese organisations, board members are active senior managers in the company.

Because of this structure, CEO succession events are largely initiated and determined by the incumbent CEO, and board members tend to allow the CEO full discretion on this matter. That this is so is a reflection of the fact that they are, after all, still reporting to the CEO. Itami (1995) confirms that because of this structure, Japanese boards tend to have little control over the timing of succession events or the selection of prospective candidates. This, arguably, makes conditions ripe for CEO entrenchment but the Japanese appear to have designed a way to overcome this.

Kaplan (1994) and Itami (1995) argue that many companies, especially non-family controlled ones, have implicit and explicit rules and regulations about CEO tenure and interestingly, it is the implicit, unwritten rules that appear to have somewhat addressed the issue of CEO entrenchment. As an example, Itami (1995) discusses how in many companies, CEO tenures are informally predetermined and remain as *hubunritsu* (or 'unwritten rules'). In *hubunritsu* terms, CEO tenures are often set in blocks of two-year terms. Itami (1995) writes that two- and three- terms blocks – that is to say, four and six year terms as CEO – have become increasingly popular in many Japanese companies. While these informal rules have not removed the problem of entrenchment entirely – for instance, former CEOs such as Miyazak of Asahi Chemicals, Oya of Teijin stayed in their positions for 24 years each while Kawai of Komatsu remained as CEO for 18 years – they have helped to reduce CEO entrenchment. Another example of how such unwritten rules, sometimes also referred to as *naiki* (or 'internal rules' which are not meant for public consumption) have helped to address the matter of CEO entrenchment is

that the CEO are exhorted to contemplate retiring not only in situations where he or she had performed poorly but also to ponder leaving the company after having performed particularly well (Itami, 1995).

Like companies in other parts of the world, dynastic succession is practised in family-owned companies in Japan and where dynastic succession is not observed, insider succession is preferred for CEO and top management team succession. The insider successor would be an employee who has spent most of his or her career inside the organisation. The argument is that insider succession proves that a company is able to nurture its own people to the point of taking over important positions. In family-controlled companies, and especially so in family-owned businesses, family members are identified early and then trained to become potential heirs. For example, the Kikkoman Corporation, which is reputed to be Japan's oldest continuously running business, has a tradition of placing one member per generation from each of the eight founding member families (made up of six Mogi families, one Takanashi and one Horikiri family) as CEO of the company. In an interview with *Power Magazine*, Yuzaburo Mogi, CEO of Kikkoman Corporation stated that while the founding companies had been at the helm of the company since its inception, the firm had begun to bring non-family employees into top management positions adding that in the future the president may or may not be a family member (Krisher, 2009). Nevertheless, Yuzaburo Mogi concedes that his son is already working his way up the corporate ladder in the company. He notes that although the founding members now only have a small percentage of total corporate equity in the

company they nonetheless maintain a continuing influence in the company through the 'company creed', which although was adopted in 1926, is still currently used to formalise the traditions and practices observed by the founding members. This creed articulates ideals such as peaceful behaviour, mutual respect, discipline and social order and they are still employed in the company today. The continued utilisation of this creed has led some to comment that while Kikkoman employs over 4000 employees and its soy products are marketed in over 100 countries, the company is essentially a family affair (Ross, 1999).

Morikawa (1996) describes an intriguing feature of CEO succession in family-controlled organisations which appears in the form of the interim *shacho* (or interim CEO). There may be situations where family members are not ready to take over an exiting CEO's position for reasons such as being too young or because of the lack of experience. Morikawa reports that in such situations, an interim CEO, who is a professional manager, is appointed to lead the company. The interim CEO is tasked with preparing the family member to eventually take on the role of the CEO. In such a case, the hired professional manager is honoured to be given the opportunity to train the eventual successor and his or her loyalty to the family is sufficiently rewarded.

In Japanese culture, decisions are made with the achievement of goals that are in the interest of the group as the ultimate aim (Casse 1982; Sakano & Lewin, 1999). Such decision making often requires a long-term orientation and this can be seen in the concepts of loyalty to the company and lifetime

employment. Employees are expected to be loyal to the company and the firm, in return, is trusted by the employees to provide them lifetime employment – although such expectations have been changing in recent years – indeed there is now a small but slowly increasing number of young Japanese who disdain the work habits of their parents. These are known as ‘freeters’ (Fujioka, 2005) who are young and idle and who prefer to frequently move from one low-paying job to another. The emergence of this group of workers has given cause for some concern for Japanese companies but a full discussion of this area is beyond the scope of this thesis. This provision of lifetime employment, and the top-down, hierarchical structure of the Japanese company suggest that there are parallels between Japanese leadership and what Low (2006) calls father leadership, and other management practices, in South East Asian countries like Malaysia and Singapore. For example, in the area of CEO and top management team succession, the following similarities, such as dynastic succession in family-controlled publicly listed companies, the reluctance to dismiss employees, the desire to save face for all parties involved and deference to those in authority, can be observed.

In recent years, a number of Japanese companies have made changes to their traditionally ethnocentric approach to top management positions and have begun to appoint non-Japanese executives to top positions. For example, Sony’s CEO, Sir Howard Stringer is British while Nissan’s Carlos Ghosn is French, although in the case of Nissan, Ghosn was appointed as Renault has substantial ownership of the Japanese company. This could be the beginning of a wider adoption, albeit at a slow pace, of a geocentric

leadership succession paradigm (Pustay & Griffin, 2005, p. 581) and if this is so, formalised leadership succession planning and implementation would become even more important for Japanese companies. It is still too early to decide if these are exceptions to the rule or if these events are indicative of the inculcation of Western methods into Japanese succession and is an area that could be investigated further.

Having considered the situation in Japan, I now turn my attention to CEO and upper echelon succession practices in Taiwan.

The practice of leadership succession in Taiwan

An understanding of Taiwanese culture and its influence on leadership succession

Taiwan is a country which is heavily influenced by Confucian teachings. Huang (1999) argues that Taiwan's culture is very much a reflection of traditional Chinese culture. This is in agreement with Low (2006) who asserts that practice of father leadership is common in both mainland and diasporic Chinese cultures. That this is so is reflected in the top-down decision making processes that are commonly found in Chinese

companies. For instance, Leung (1995) states that traditional Chinese companies tend to lack structure and are governed almost completely by a patriarch who has full control to decide the timing and direction of any succession events in the organisation. Taiwanese culture is also strongly reliant on the building of *guanxi* or mutual trust which is based on interpersonal relationships. The term *guanxi* is used to describe the dynamics that are involved in a complex network of personal and social relationships and influence and is central to human interactions in Chinese society (Yeung & Tung, 1996). Interwoven into *guanxi* are the concepts of *ganqing* (feelings between people within an interpersonal relationship), *renqing* (the importance of maintaining the relationship), *mianzi* (face or social status and prestige) and *lian* (being perceived as a morally upright person in society). Since the closest interpersonal relationships are with members of the same biological family, it is reasonable to expect that only family members would be entrusted with the family inheritance and in this case, the inheritance includes the top positions in the company. Family members would be more likely to work on maintaining relationships among themselves and, therefore, can be expected to rigorously uphold the reputation of the company. Nevertheless, *guanxi* cannot be merely confined to the family and is naturally extended to those outside of the family to include extended family members, distant relatives, friends and business associates.

In studying leadership succession in Taiwanese companies Huang (1999) writes that many Taiwanese companies do not have succession plans in place. The lack of such plans is due largely to the fact that succession in

Taiwanese companies tends to be based on relationships and is thus reserved, wherever possible, for family members. Another reason for not having succession plans is that Taiwanese-owned companies often view managerial succession planning as an unnecessary expense in that employees groomed for advancement often leave their jobs for more attractive offers elsewhere. These reasons agree with earlier observations on succession practices in Malaysia by Yong (1996) and Sheppard (2001) that Malaysian employers reason that managerial succession planning is costly and unnecessary in that it benefited other companies as Malaysian employees are money-minded and are easily lured to other companies by increased salaries despite having been groomed to take over higher responsibilities and positions. Huang (1999) infers that the traditional Chinese management style does not encourage the adoption and implementation of new management practices, such as leadership succession for fear that these practices might result in the weakening of paternalistic authority.

Having considered leadership succession practices in Taiwan, focus is now given to the influence of culture on leadership succession processes in the UK and the USA.

The practice of leadership succession in the United States of America and the United Kingdom

An understanding of USA and UK cultures and their influence on leadership succession

Much of the literature on leadership succession in the previous chapter is from the USA and the UK perspectives as most of the work on leadership and leadership theories are derived from studies in these two countries. There are arguments that what works in the USA would also apply in the UK and vice versa (Olie, 1995; Stewart, Barsoux, Kieser, Ganter & Walgenbach, 1994; Lawrence & Edwards, 2000). Indeed, looking at Table 3.1, one might be tempted to think that the two countries are similar as Hofstede's scores for both countries are very close. While the raw scores for the two countries are close, they do not suggest that there are no cultural differences between the two countries – indeed there are many. Nevertheless, in the area of corporate governance, leadership succession practice and culture, there are a number of similarities between the two countries to allow for their joint consideration; after all, the review undertaken here is not about social culture *per se*. Indeed, executive search consultants Heidrick & Struggles (2001) assert that the USA and the UK have made the largest strides in the development of corporate governance and leadership succession. Both countries have similarities in their wide distribution of corporate equity which reduces the concentration of power in the hands of a few as well as in matters on

corporate governance. Another important aspect of leadership succession practice in these two countries is the willingness to bring issues, for example on the paucity of ethnic minorities in top management position, to the fore. Before, delving further into the practice of leadership succession in these two countries, it would be beneficial to consider the cultures of the UK and the USA using Hofstede's cultural dimensions.

Ferraro (2005, p. 103) lists both the USA and the UK as being high on individualism and egalitarianism and describes the following parallels in the business cultures of the two countries; he states that both cultures are low on status differences, high on the diffusion of power, and that both cultures minimise deference to superiors and allow for the questioning of decisions made by superiors. Hofstede (1980) places both countries in the same categories (along with New Zealand, Australia and Canada). The two countries are described as being alike in that they are both high on individualism, that managers in such societies are expected to be competent and able to assess the effects of their own actions on the companies that they lead and, therefore, to be individually responsible for the outcomes. Indeed, in both countries CEOs are often expected to make organisational changes and significant succession consequences are expected to be observed early in the tenure of the new CEO. This is unlike the slow, evolutionary changes that often accompany Japanese leadership transitions (Sakano & Lewin, 1999). Managers in both the UK and USA are expected to attribute success to their own abilities as individuals, and conversely to take responsibility for their own failures, to place personal goals over group goals, to value autonomy and independence and are

encouraged to be fully self-actualised. This may explain why unsuccessful candidates for top management positions like that of the CEO tend to leave rather than remain in the employ of the company. The example of the exit of GE's unsuccessful contenders for Welch's CEO position has been mentioned earlier. In the case of UK-based GlaxoSmithKline, there were also two unsuccessful contenders for the CEO's position. In an effort to retain them, GlaxoSmithKline offered them substantial amounts of company shares and seats on the board but both left within a year of their failure to become the CEO (Carey, Phelan & Useem, 2009). This is not unexpected as in a highly individualistic culture candidates who fail to achieve the positions they were aspiring towards would view themselves as being the vanquished and thus prefer to work elsewhere rather than under the victor. These values and beliefs are very different from those espoused by Confucianism, the *budi* complex and by the tenets of Japanese culture where individual interests are to be made subordinate to group goals. In the first place, in East and South East Asian cultures, there is the question of whether there would be even more than one identified candidate especially in the case of dynastic succession. Members of the family are expected to respect and comply with the decisions of the father leader, and in the context of preserving the honour, reputation and dignity of the family, debates over succession matters are often suppressed. In the unlikely event that there are two or more candidates, unsuccessful employees would be counselled, much like a father would advise his children in times of failure, to subsume their personal needs to the overall goals of the company and to be patient and wait for other opportunities within the company.

Another similarity in the UK and the USA systems is in the fact that in both countries publicly listed companies have highly diversified ownership (La Porta, Lopez-de-Silanes & Schleifer, 1999). The boards of directors in both countries include outside directors and as a board are responsible to shareholders. In USA and UK companies, employment, even for the CEO, is on a needs basis (rather than for a lifetime in Japanese organisations) and top management team managers can be removed and dismissed as and when appropriate. The capital markets of both countries also bear many similarities in that they are sophisticated, large-scale and generally have much more liquid markets than East and South East Asian capital markets (Sakano & Lewin, 1999). Furthermore, USA and UK CEOs are better compensated than their East and South East Asian counterparts and so, in turn, face higher levels of expectations from their shareholders. As mentioned earlier, the level of involuntarily CEO exits in both the USA and the UK are highest in the world at 35 percent and 42 percent respectively (Amble, 2006) compared with 12 percent for Japan. Amble cites a report from Booz Allen Hamilton, a global consultant firm, which says that Western CEOs are becoming increasingly cognisant of the fact that they will remain in office for only as long as their performance is accepted by shareholders. This has been supported by evidence from Challenger Gray & Christmas, the Chicago-based executive recruitment company, who estimate that in 2008 there were six CEO resignations for every working day in the USA alone (Paton, 2009).

In the UK and the USA, board-initiated CEO dismissals are common, in contrast to the practice in Japan, Taiwan and Malaysia, and examples of

both USA dismissals (Carly Fiorina of HP-Compaq and Jill Barad of Mattel) and UK dismissals (Robert Ayling of British Airways) have been presented in the previous chapter. Given the cultures of the two countries, it is unlikely that the concept of father leadership as espoused by Low (2006) will be adopted to any degree in the USA or the UK. Along with the fact that nepotism is generally frowned upon in individualistic societies, and the wider distribution of corporate equity, it is more likely that people outside of the founding family would be considered for top management team positions rather than reserving such positions for the family in publicly listed companies.

Another feature of CEO succession in the UK and in the USA is that in both these countries, there is a greater level of diversity in top management positions in recent years than in East and South East Asian countries. Although it can be argued that the representation of ethnic minorities in top management positions is still small and that the rate of change is at best slow, a growing number of companies in both the USA and the UK have opened their doors to the top executive suite to women and to ethnic minorities. For instance, the CEO of American Express, Ken Chennault is an African-American, the CEO of Citigroup, Vikram Pandit is Indian and PepsiCo's CEO, Indra Nooyi, is an Indian woman. Xerox is currently led by a white American woman, Anne Mulcahy who is preparing Ursula Burns as her successor; Burns is an African-American lady (Morris, 2007). This transition will be the first time that will see a female CEO of a Fortune 500 company being succeeded by another woman. In the USA, Asian-Americans of Chinese descent have also made

some, albeit limited, headway in top management positions. These include Avon CEO Andrea Jung, former president of Old Navy North America Jenny Ming, and former vice-chairman of Johnson & Johnson Christine Poon, who was also the first female vice-chairman of the company. In the UK, on March 19, 2009, Tidjane Thiam was announced as successor to Mark Tucker, the incumbent CEO of Prudential (UK). Thiam will become the first black African CEO of a Financial Times Stock Index (FTSE) 100 company on October 1, 2009 (Skinner, 2009). This is more likely to happen when company ownership is not in the hands of a few shareholders but are widely distributed. Furthermore, according to Heidrick & Struggles (2001), board members in publicly listed companies in the UK, and to a greater extent in the USA, are expected to be involved in leadership succession planning and implementation processes not only for the CEO but also for the top management team.

In the area of managerial succession – that is, leadership succession at the top management team – companies in the UK and USA have also made progress. For example, in Xerox, Human Resource Manager Douglas Pelino claims that the company has identified about 100 next-generation leaders who are currently in middle-management positions and that they have been individually informed that they have been earmarked for future grooming and development (Armour, 2003). Armour reports that organisations like Deloitte & Touche have also instituted mechanisms to ensure that women and minorities are given a greater representation in top management positions; they do this by having a group of top national

leaders select the final candidate rather than leaving the decision to the departing manager.

While there is debate about the level of effectiveness in leadership succession planning in the UK and in the USA, it is clear that these two countries have gone some ways in increasing knowledge of its value to organisations and to enhancing process transparency. There appears to be a larger emphasis on leadership succession planning and implementation in publicly listed companies in both countries and efforts can be seen to have been taken to make the process one that is based on the candidate's abilities rather than on personal connections and family lineage. This is in contrast to the situation in East and South East Asian companies where the preservation of top management positions for family members is still deemed to be of utmost importance.

Implications of the influence of culture on leadership succession practice

The study of leadership succession processes have been aided by models proposed by researchers and practitioners like Friedman (1986), Kur and Bunning (1996), Charan, Drotter and Noel (2001) and Byham (2002). Although each new model increases in application sophistication, one aspect appears to be lacking. None of the models appear to have

considered the impact that country-specific culture has on the succession process itself.

The discussion above demonstrates that culture does influence the way in which leadership succession planning is undertaken and then implemented in countries like Japan, Taiwan, the USA and the UK. There is reason to believe that culture would play its own defining role in succession planning in Malaysia as well. As such, attention should be given to understanding where culture becomes a hindrance or assists leadership succession practices. Questions should be asked as to how, for instance, the practice of face-saving might hinder succession planning. The universal application of a model such as Charan, Drotter and Noel's (2001) Leadership Pipeline model, attractive as it appears, is likely to be less effective than a model that takes country-specific cultural effects into consideration. It is with this understanding and reasoning that this thesis investigates the Malaysian experience in leadership succession planning and implementation.

Chapter 4

METHOD

- **Introduction**
- **Reasons for choosing Malaysian companies**
- **Research paradigm and strategy**
- **The rationale for using multiple-case study approach**
- **Sampling and participants**
- **Research objective**
- **The nature of qualitative research**
- **Coding and data analysis**
- **Ensuring research validity**
- **Ethical considerations**
- **Summary of the chapter**

Introduction

This chapter describes the reason for the investigation as well as the design of the research methods employed to collect and analyse the data required for this thesis.

Reasons for choosing Malaysian companies

Malaysian companies were selected for the research for a number of reasons. Firstly, there is little literature on Malaysian corporate leadership succession practices. The opportunity to contribute to this very small body of knowledge is intriguing as is the potential prospect of offering a means of making a positive difference to leadership succession practices in the country.

Secondly, Malaysia has a robust and growing economy which relies heavily on the private sector. There are many large multinational and domestic companies operating in the country. The robustness and resilience of the economy means that organisations require a pool of skilled employees from which future leaders can be drawn but retirement age conditions have made this challenging. As mentioned in the previous chapter, a compulsory retirement age is not imposed by the government on the private sector but it is common practice for private companies to

require those who wish to be hired to contractually agree to stop working and to resign from the company upon reaching 55 years of age as employees can access their superannuation funds at this age. Continued employment of the employee in the same organisation would require the establishment of a new employment contract and the common practice is for such employees to be placed on employment contracts which are renegotiated annually. Because employees are contractually obliged to retire at 55 years of age, this presents an interesting variable in the study of leadership succession as such a practice would put pressure on Malaysian organisations to have proactive and effective leadership succession planning. It should be noted that such contractual retirements applies only to hired employees and not to CEOs in family-controlled companies or their children as there is no statutory requirement for retirement in the private sector. CEOs in family-controlled organisations and business owners can choose to retire at a time of their own choosing.

The third reason is the access that I have to some of the CEOs and senior managers of a number of companies with which I have networked while providing training for these companies. This would facilitate the data collection needs of this thesis.

Research paradigm and strategy

As is the case with most investigations, a number of possible research paradigms and strategies could be adopted to gather the required data for analysis. The suitability of any research method is largely dependent on the objective of the investigation. If the purpose of this investigation had been to determine the rate of leadership succession adoption among Malaysian organisations, a quantitative research method would have been fitting – but this is not the goal of this research. The objective of the research is to ascertain the use of leadership succession processes in Malaysian organisations and to identify the factors that either enhance or inhibit these events. The need to clarify some of the questions posed was only to be expected. Some concepts – for example, co-leadership – had to be explained before questions could be posed to the interviewees and this explanation would not be readily available to the respondents if quantitative survey instruments were used. Therefore, the adoption of a quantitative research strategy was deemed inappropriate because quantification, while important, will not provide rich insights into the practice of leadership succession in the companies that have agreed to participate in the research. Consequently, this investigation chose to adopt a qualitative, multiple-case study method utilising a semi-structured interview strategy, to gain deeper insights into leadership succession practices in Malaysian organisations. This method was deemed to be more appropriate as it provided latitude to ask further questions and to delve further into some of the responses from the survey participants. However, in order to verify and to triangulate the

information acquired from the respondents, other forms of data were also looked into. Data was also obtained from an investigation of company records, such as human resource policies, leadership succession plans, training and development programmes as well as from company publications such as annual reports, in-company newsletters, press releases and newspaper articles. For example, newspaper articles on succession events in publicly listed companies in Malaysia in general, and in the companies investigated in particular, for the past ten years were obtained from the country's two main English newspapers – *The Star* and *The New Straits Times*. Most of the information published in the English newspaper sources was about political leadership succession rather than corporate succession. The annual reports of each of the companies were examined to determine what these companies had reported on management development and leadership training. The exception was FineAds Berhad which, as a privately-owned company, did not publish any annual reports.

In the area of leadership succession planning, wherever possible, information about how succession was managed in the subsidiaries of the companies interviewed was also perused. In some cases, such as in AmSure, Berani, Cilicon, DesignerPens and Ellaconstruct, human resource management documents were made available at the time of the interviews. Apart from the published annual reports, most of the information offered were deemed by the companies to be not for public consumption and could not be removed from the company premises. The perusal of these documents was done outside of the interview times and I

was able to obtain clarification from the respondents as I remained within their premises. However, it was noted that these documents were not substantive in the manner in which leadership succession was treated or documented. The most comprehensive record was produced by AmSure. AmSure had documented a management development and leadership succession programme for itself as the parent company and had essentially utilised the same programme for its subsidiaries. In Cilicon Berhad, the leadership succession plan was essentially the company's Management Development Programme which, as will be discussed later, was a range of training sessions that selected employees had to undergo but which were conducted by training consultants in an *ad-hoc* manner. Documentation of the progress of the selected employees after the training was not available as the company did not track the development of these employees.

The other companies did not have any formalised leadership succession policies and the company documents provided were organisational charts and human resource management manuals. In the case of the manuals, the sections pertaining to leadership succession were investigated and in all cases, with the exception of AmSure Berhad, there was little information apart from statements that the company had to take steps to ensure that there were no leadership gaps in the company. Notable by the absence in all the records sighted was the mention of how CEO succession might be implemented in their companies.

The research population consists of participants who are either CEOs or senior managers involved in leadership succession planning and implementation in their respective companies. It is noted here that none of the CEO-participants were in family-controlled publicly listed companies. None of the CEOs in family-controlled publicly listed companies agreed to take part in the investigation. Nevertheless, the participants selected were involved in policy making and were in positions where they had to work towards ensuring that there would be no leadership gaps in their respective organisations. In order to gain insights into the steps that they might take to ensure succession, and because it was reasonable to assume that each company would have a different approach to succession, semi-structured interviews were employed as it was deemed to be the most appropriate method to gather data. Their senior status in their companies meant that these participants may have special insights that they might wish to disclose during the course of the interview and the flexibility of the semi-structured interview would offer them the opportunity to share these opinions. Conversely, there might be views that these participants would prefer to conceal and the only way to uncover them was through gentle probing, while, of course, being mindful of the rights of the respondents to withhold whatever information they wished to. A structured interview does not offer this level of flexibility and might therefore restrict the sharing of these extra insights (Bryman & Bell, 2007, pp. 234–236). The semi-structured interview, on the other hand, offers interviewees a great deal of leeway in how they choose to reply to a given question (Bryman & Bell, 2003, pp. 341–343). This often results in a richness of data that would not

have been possible with either a structured interview or a quantitative survey. Indeed, it may be difficult to follow a set pattern of questioning with respondents at this level of seniority as they might have certain views of their organisations and could wish to bring in materials that they deem to be relevant to the question posed. This semi-structured interview method allows respondents to refer to a range of issues surrounding succession planning and implementation that they might consider relevant and the interpretation of these opinions often can provide a wealth of information that would have been missed if either a structured interview or a quantitative approach were employed. The flexibility of the semi-structured interview method also allows respondents to relate critical incidents as they see fit (Leidner, 1993, p. 238; Milkman, 1997, p. 197). Nevertheless, when using the semi-structured interview method, care had to be taken to ensure that the specific topics that need to be covered are addressed even if a predetermined structured manner is not followed.

As stated above, secondary data was obtained from an extensive review of the literature surrounding leadership succession. These were sources from scholarly academic journals, books, magazine and newspaper articles, annual reports, company documents and from reputable Internet sources.

The rationale for using the multiple-case study approach

The multiple-case study approach was employed for this research. Before, explaining the rationale for the multiple-case approach, it is useful to consider the case study approach in general.

Yin (2003, pp. 1–2) suggests that the case study approach is preferable when conducting research where the investigator has little control over events or the way that they transpire, when the main purpose of the investigation is to look at how and why things occur and when the focus is on a contemporary phenomenon within some real-life context. Yin contends that the case study approach “allows investigators to retain the holistic and meaningful characteristics of real-life events – such as individual life cycles, organisational and managerial processes, neighbourhood change, international relations, and the maturation of industries” (Yin, 2003, p. 2). In essence, the central tendency of the case study approach is to shed light on a decision or a set of decisions and to elucidate the reasons for why these decisions were taken, how they were implemented and what the results were. This dovetails with the objectives of this investigation and was the reason that the case study approach was undertaken as the means to collect data for this research.

The case study approach has been used to examine single organisations (Born, 2004), single locations (Pollert, 1981; Milkman, 1997), a person (Marshall, 1995) and even a single event (Gephart, 1993). Unfortunately,

the use of single companies and locations has resulted in a number of prejudices against the case study approach. It has been argued that a single case does not allow for a broader generalisation of the findings (Kennedy, 1976) although Kanter (1997) explains that her use of the case study approach affords her a means to generate concepts and sense to abstract propositions which she was subsequently able to test on other large companies. This is in agreement with earlier work by Eisenhardt (1984) who reasons that theories can indeed be built from case study research. This is backed by Knights and McCabe (1997) who argue that data, which was gathered using semi-structured interviewing method, was valid and reliable as the data was supported by documentary data from company reports and published articles from sources such as reputable trade journals, management guides and newsletters.

Bryman and Bell (2007, p. 64) report that the use of multiple-case study designs has been on the increase as this allows for the comparing and contrasting of findings derived from the cases examined. Researchers are then able to generate theoretical reflections and propositions having considered what might be unique or common across the cases explored. Thus the multiple-case study approach, combining the use of data derived from documentary sources such as company documents, annual reports and articles from appropriate and reputable sources would produce valid, reliable and valuable information on the subject being considered.

The aims of this thesis were to understand how Malaysian organisations plan and implement leadership succession processes and to investigate the

possibility of organisationally generated entrenchment arising from management practices involved in leadership succession. Comprehension of these will elucidate why these companies take the decisions that they did in leadership succession management, how they implemented them and what were the results of the decisions taken. As such, it was deemed that the multiple-case study would be an appropriate approach to the study of leadership succession practices in Malaysian organisations.

Where data collection is concerned, Yin (2003, pp. 85–96) suggests that data can be collected from sources such as company documentation, archival records, interviews, direct observations, participant-observations and physical artefacts. In this study, data was collected using all these sources with the exception of direct observations and physical artefacts. Company documentation and archival records in the form of annual reports, human resource management documents pertaining to succession and articles from reputable published sources were examined. Much of the data collected came from the semi-structured interviews that were conducted. Because I have resided, worked and trained companies in Malaysia for over 20 years, a measure of participant-observation was possible especially in areas pertaining to national culture and its influence on management practices. It was deemed that this combination of evidence would result in reliable and valid data.

Because a large portion of the data would originate from the interviews, it was essential that the interview guide be pre-tested to determine its

feasibility as a data collection instrument. The next section discusses how pilot testing was conducted for this research.

Sampling and participants

Pilot study

Prior to the actual commencement of the research-proper, a pilot study was conducted. Bryman and Bell (2007, pp. 273–274) suggest that pilot studies are important in that they help researchers to test the integrity and acceptance of their line of questioning with respondents. Offending or sensitive questions can be removed by observing participant responses to such questions while questions that are ambiguous can be further refined for greater clarity. Pilot studies also allow for the detection of any tendency for respondents' interest to be lost at certain junctures. Practices and strategies that would help in maximising data collection can also be generated from the pilot study (Glock, 1988; Bryman & Bell, 2003, p. 170). In order to distinguish the final ten participants from the respondents in the pilot study, the people involved in the pilot study are henceforth referred to as 'pilot participants'.

There were ten pilot participants in the project; five were people who are currently residing in Auckland and the other five were human resource managers currently working in Malaysia whom I had contacted by telephone from New Zealand. The reactions and the outcomes that arose

from these discussions are explored below. It should be noted that all of the pilot participants are Malaysian of Chinese extraction and the implications of this are also examined below. At this point, it should be pointed out that there was no intention on the part of the researcher to specifically seek out pilot participants who are ethnically Chinese.

The five Malaysians in Auckland were formerly managers in Malaysian companies. Two of the participants are personal friends who then referred the other three persons to me. All pilot participants contacted appeared to be very willing to be part of this research and this was possibly because of the connection that they had felt for a fellow Malaysian immigrant in New Zealand. A demonstration of the snowball sampling technique was also seen here when the five pilot participants suggested that another six Malaysian immigrants who might be considered for the study. Although the six persons were contacted, they were not included in the pilot study because they declined the invitation to be included in the pilot study.

The five pilot participants were informed of the nature of the research and assurances of confidentiality were given to them. The interviews were conducted in the participants' residences after office hours and lasted an average of one hour each. The interview guide that had been originally designed was utilised in these interviews and the reactions of the pilot participants to the questions posed were observed. Additionally, at the end of these interviews, the pilot participants were asked which, if any, of the questions they felt were inappropriate or were uncomfortable with.

The main concerns expressed from the pilot participants were on questions that had to do with how their companies dealt with Malay workers. For example, when they were asked if there was any difference in the way that their companies had dealt with underperforming Malay and non-Malay workers, I observed that each of the five pilot participants became more animated, some more visibly so than the others. Their answers included suggestions that I, as a Chinese-Malaysian, should realise the differences without having to inquire. They also became more vigorous in their answers at this point and in the case of one participant, anger was clearly visible on his face as he related the disparity in which underperforming Malay and non-Malay workers were managed. This confirmed my earlier concerns of the sensitive nature of questions that had racial connotations. That this was so was confirmed by the reactions of the other five pilot participants contacted in Malaysia. All of the people contacted for the pilot studies were ethnically Chinese but it should be noted that there was no effort made by this research to exclude Malaysians of other ethnicities.

A total of fifteen human resource managers residing and working in Malaysian at the time of this research were contacted by telephone but only five were willing to be included in the pilot study. The telephone interviews were substantially shorter than the face-to-face interviews held with those residing in Auckland. None of the interviews went beyond 20 minutes – whether this was a result of the perception that overseas telephone calls were expensive or because they felt uncomfortable with a telephone interview was unclear. However, when posed with the

question on how their companies dealt with underperformers and with Malay workers, the common answer received was that they preferred not to discuss such matters and that I should seek the views of those more highly placed in their organisations. One of the interviews lasted only ten minutes and the participant was clearly uncomfortable with answering the questions posed over the telephone. It is possible that this particular pilot participant was answering the questions in an open area, rather than in an enclosed office, as I could hear background office noise. Nevertheless, these interviews confirmed the sensitive nature of questions that have to do with ethnicity.

None of these responses received from the participants residing in Auckland were included in the final data as they had left their companies for a number of years. The responses of those contacted by telephone were also not included as they were not deemed to be substantial. Nevertheless, their inputs were appreciated as they helped me to identify which type of question might be considered to be sensitive as far as each of their organisations was concerned. While the participants residing in Auckland had little reservations in discussing the matter of how their companies addressed the issue of underperforming managers, and in particular where Malay managers were concerned, none of the telephone pilot respondents would make substantive comments on the matter. It is reasonable to assume that the respondents from Malaysia were not willing to answer any questions on this issue as they were still residing and working in Malaysia and were concerned that their answers might somehow be detrimental to them. As mentioned in chapter three,

Malaysia practices a form of affirmative action which favours the Malays and non-Malays have been reminded, time and again by Malay politicians to not question the government on this practice. This observation suggested that any approach to this issue would have to be very carefully made. As a result of the pilot study, I was able to refine the interview guide so that questions which might be deemed to be sensitive or which might cause discomfort to participants were better composed. For example, instead of posing a question that dealt with ethnicity issues directly, participants were presented with a more general and less threatening question of what they did with their underperformers, without any reference to ethnicity. Questions about any differences there might be in the way that employees of different ethnic groups were treated were posed as if they arose from their answers rather than as something that was predetermined in the interview guide. This was subsequently found to be useful as during my interviews with the final ten participants, response hesitation was observed whenever issues pertaining Malay workers were engaged. Reassurances of confidentiality had to be made, along with offers to temporarily suspend audio recording and in many situations, audio recording was halted although I was allowed to make notes.

Four other interesting elements arose from the pilot study. Firstly, the study revealed that almost all pilot participants equated leadership replacement with leadership succession. This alerted me to the need to clearly state the differences between leadership replacement and

leadership succession when conducting the interviews with the final ten participants who formed the sample for this research.

Secondly, some concepts, the most obvious one of which was that of co-leadership, had to be explained as many of the pilot participants were not familiar with the concepts – indeed none of the pilot participants had heard of the notion of co-leadership. As a result of the pilot study, I was able to refine the interview guide so that ambiguity was reduced.

Thirdly, while all the respondents were able to comment on managerial succession, they were not able to say much about CEO succession. The most common response from the five pilot respondents residing in Auckland was that CEO succession was the prerogative of the CEO or of the board. As all these respondents had worked in family-controlled publicly listed companies, their responses invariably pointed towards the practice of dynastic succession. It was this response that led this investigation to broaden its focus to include managerial succession.

Fourthly, every one of the five respondents in Auckland mentioned that their former companies were reluctant to dismiss underperforming managers. Three of the five interviewed stated that it was not in the culture of their company to 'break the other person's rice bowl' while the other two said that it was not 'the Malaysian thing to simply fire employees'. The commonality of their responses indicated that this was possibly a widespread practice in Malaysian organisations and increased my desire to study the effects of organisationally-generated entrenchment

on leadership succession and to investigate the possible influence of national culture on such management practices.

Formal approval for the interview process had been obtained from Massey University's Human Ethics Committee and all ethical considerations and procedures were adhered to in the pilot study.

Snowball sampling, participant selection and rationale for sample size

Snowball sampling (Frankwick, Ward, Hutt & Reingen, 1994; Bryman, 1999; Salganik & Heckathorn, 2004) was employed to solicit participation in the research. A discussion of the merits and demerits of the snowball sampling technique is considered before describing the process by which snowball sampling was employed in this investigation.

Snowball sampling is essentially a technique for finding research subjects through those who have already been recruited for the research (Atkinson & Flint, 2001; Heckathorn, 2002). Snowball sampling is applied primarily for explorative, qualitative and descriptive research (Hendricks, Blanken & Adriaans, 1992) and for making inferences about a population of individuals (Faugier & Sergeant, 1997; Frankwick et al., 1994). Atkinson and Flint (2001) argue that snowball sampling is an economical, efficient

and effective method for qualitative studies. For example, Franwick et al's. (1994) study of strategic decision making employed this technique to identify members of the company who were involved in the decision-making network and processes that were linked with the introduction of core technology in the organisation. In the context of this research, senior managers and CEOs were asked to refer other senior managers and CEOs so that these can then be contacted to ascertain their interest and availability for this investigation. It can be argued that such respondent-driven sampling in a corporate environment would allow for a better sample selection in that it narrows the focus only to those who are likely to be engaged in leadership succession.

Nevertheless, there is argument that snowball sampling is subject to a number of biases. For example, in snowball sampling, it is possible that sample members might not be selected from a sampling frame; a respondent with many friends would be more likely to be recruited into the sample than another person with few friends. Furthermore, a snowball sample is not strictly random and therefore has limited use in quantitative studies but Bryman and Bell (2003, p. 107) argue that this is not a large or intractable problem where qualitative research is concerned. Another disadvantage associated with finding respondents and with initiating the chain of referrals is the matter of gatekeeper bias (Groger, Mayberry & Straker, 1999). In Groger, Mayberry and Straker's (1999) research, data collection was hampered by nursing home staff through whom they were trying to obtain consent and access to their sample population. These staff acted as gatekeepers who often impeded access to

their intended respondents. In this research, this was also experienced in the form of secretaries and personal assistants to CEOs in family-controlled publicly listed companies who often appear to this researcher to make unilateral decisions that their CEOs would not be interested in this research. In a number of cases, these secretaries did not even suggest that they would ask their CEOs of their possible interest in this research. This could have been because these CEOs had been asked to participate in research but had given some form of 'standing orders' to their secretaries to not entertain such requests.

As the participants had to be senior managers who were involved in either the planning and/or the implementation of leadership succession processes, only those who were in appropriate senior management positions and above were contacted. The process is described below.

The CEOs and senior managers in ten Malaysian companies were selected from the network that I had previously established and were initially contacted by telephone and formally invited to participate in this research. The purpose of the research was explained and their voluntary participation was then solicited. Of the ten contacted, three responded positively while the rest indicated that they were not able to participate in the research for various reasons, chief of which was the problem of confidentiality. The three who responded positively were then sent complete details of the research along with the appropriate consent forms. They were also subsequently asked for the names of industry colleagues who they felt might be interested in participating in this research. From

these three, another 20 potential participants, including their own CEOs, were obtained and they attempts to contact them by telephone were made. Not all could be reached and of those who were contacted only two indicated their willingness to participate in the research. Using the snowball sampling technique a total of 65 potential respondents were contacted. In every case of a CEO in a family-controlled company, the invitation to be a part of the research was politely declined by the CEO's secretary or personal assistant. The process of asking for referrals resulted in a total of 12 participants from a number of industry sectors. However, one of the 12, who was coincidentally the only female CEO who had agreed to participate in the research, subsequently declined to participate when I arrived at Kuala Lumpur. Of the remaining 11 participants, one was subsequently omitted from the sample pool due to the fact that although he had been identified using the snowball sampling technique, and he was highly placed in his company, the interview revealed that he was more appropriate for a marketing-oriented research topic than for this investigation. This is one of the weaknesses of snowball sampling as there can be control slippage over the precise nature of the population from which participants would be drawn (Frankwick, Ward, Hutt & Reingen, 1994; Bryman & Bell, 2003).

As a result, a total of ten participants, representing nine companies, were recruited for the research. There were two participants from one of the companies contacted who were both senior managers in the company in question and had heard about the research and had requested to be

included in the study. As this was a company for which I had provided training in the past, I welcomed the inclusion of both participants.

Of the ten participants, four carried one or more of the following titles: CEO, Managing Director or Executive Director – indeed, two of the four had the dual title of CEO/MD. The remaining six were senior managers in their respective organisations who were involved in policy and corporate strategy development and implementation. The participant list, along with a brief description of each company, is shown below in Table 4.1. A full description can be found in Appendix D.

In terms of market capitalisation, two of the nine companies involved in the research can be found in the top ten positions in terms of market capitalisation in the Kuala Lumpur Stock Exchange. It should also be noted seven of the nine companies are parent companies for a total of 450 subsidiaries – the exceptions being Cilicon Berhad and FineAds Berhad. Perusal of the annual reports published by the seven parent companies will reveal that this is so. It is therefore possible that the leadership succession practices of these parent companies will be adopted by these ‘child companies’ (the Malaysian equivalent of the Japanese *kogaisha*) which would be in keeping with the practice of ‘father leadership’ in East and South East Asian companies.

Table 4.1: Participant list and company description

| Company description and pseudonym | Participant code (pseudonym) | Number of participants from the company and status |
|--|---------------------------------|--|
| <p>Company A:</p> <p>Pseudonym: AmSure Berhad</p> <p>Number of employees: Over 20,000</p> <p>Industry sectors: Finance, banking and insurance</p> <p>Listed on the Kuala Lumpur Stock Exchange (hereinafter known as the KLSE)</p> <p>Status: Government-linked Company</p> | Amar Singh | 1 (Senior manager) |
| <p>Company B</p> <p>Pseudonym: Berani Berhad</p> <p>Number of employees: Over 2,000</p> <p>Industry sectors: Manufacturer of industrial products, health foods, hotel development and management, construction</p> <p>Listed on the KLSE</p> <p>Status: Family-controlled publicly listed company</p> | Bernard | 1 (Managing Director) |
| <p>Company C</p> <p>Pseudonym: Cilicon Berhad</p> <p>Number of employees: Approximately 2,000</p> <p>Industry sectors: Manufacturer of components for the electronic industry</p> <p>Listed on the Nikkei Stock Exchange</p> <p>Status: Non-family-controlled publicly listed company</p> | Charles and Chester | 2 (Human Resource Director and a senior manager). |

| | | |
|--|-----------|--|
| <p>Company D</p> <p>Pseudonym: DesignerPens Berhad</p> <p>Number of employees: Approximately 500 (in Malaysia)</p> <p>Industry sectors: Manufacturer of stationery and writing instruments</p> <p>Listed on the KLSE</p> <p>Status: Family-controlled publicly listed company</p> | Daniel | 1 – (Human Resource Director). In addition to providing views on DesignerPens Berhad, this participant was also able to give views on Cilicon Berhad as he had recently resigned from Cilicon Berhad |
| <p>Company E</p> <p>Pseudonym: Ellaconstruct Berhad</p> <p>Number of employees: Approximately 1,000</p> <p>Industry sectors: Manufacturer of construction materials and construction and development</p> <p>Listed on the KLSE</p> <p>Status: Non-family-controlled publicly listed company</p> | Ezra | 1 (CEO/MD). The respondent carries both the CEO and MD titles. |
| <p>Company F</p> <p>Pseudonym: FineAds Berhad</p> <p>Number of employees: Approximately 100</p> <p>Industry sectors: Advertising</p> <p>Status: Privately owned company</p> | Frederick | 1 (CEO/Executive Director). Like Ezra, Frederick carries two titles. |
| <p>Company G</p> <p>Pseudonym: Great Flours Berhad</p> <p>Number of employees: Over 2,500</p> <p>Industry sectors: Flour milling, manufacturer of animal feed, fast-moving consumer products</p> <p>Listed on the KLSE</p> <p>Status: Family-controlled publicly listed company</p> | Gary | 1 (MD) |

| | | |
|---|--------|-----------------------------|
| <p>Company H</p> <p>Pseudonym: HanSoon Berhad</p> <p>Number of employees: Over 1,500</p> <p>Industry sectors: Manufacturer of fast-moving consumer good</p> <p>Listed on the KLSE</p> <p>Status: Family-controlled publicly listed company</p> | Henry | 1 (Senior Regional Manager) |
| <p>Company J</p> <p>Pseudonym: J-Power Berhad</p> <p>Number of employees: Over 5,000</p> <p>Industry sectors: Construction, property development, water treatment, power generation</p> <p>Listed on the KLSE</p> <p>Status: Family-controlled publicly listed company</p> | Jeremy | 1 (Senior Division Manager) |

In order to maintain confidentiality, pseudonyms were employed for the companies and for the participants involved in the research. The word ‘Berhad’ that follows each company pseudonym is the Malaysian equivalent of ‘Limited Company’; for the sake of brevity, the word ‘Berhad’ may not always be included when discussing the companies in this thesis. Furthermore, the pseudonyms are cross-referenced and the identities of the participants are maintained under lock and key.

Of the ten participants, nine offered opinions on their current companies while one, Daniel, was able to offer opinions about two companies as he had resigned from Cilicon to join DesignerPens between the time when he was first contacted and the time when the interview actually took place.

Eight of the participating companies are very large publicly listed companies – seven of these are large conglomerates in Malaysia while one, Cilicon, is listed on the Nikkei Stock Exchange in Japan. Only one of the participating companies, FineAds, is a privately owned company. A number of privately owned companies were contacted but apart from FineAds, they all declined participation in the research, ostensibly for confidentiality reasons. It might be argued that the inclusion of only one privately owned company is unrealistic in that it gives only a narrow perspective of how CEO succession is implemented in one, rather than in a number of privately owned companies. When FineAds agreed to be part of the research, I considered that it would be advantageous to include it in order to compare and contrast the way in which a privately owned company implemented CEO succession with the methods used by publicly listed companies.

The collective views of all the participants reflected succession practices of the organisations that they were leading (that is, the parent companies) as well the practices of their subsidiaries. As mentioned earlier, seven of the nine organisations involved in this research have subsidiaries akin to what the Japanese call *kogaisha* or child companies. For example, Gary who is the managing directors of Great Flours is a director in the holding

company which has approximately 140 subsidiary companies involved in the following sectors: manufacturing, entertainment and hospitality, property development, shipping, commodity trading and waste management. Another organisation, AmSure Berhad is the parent company of about 150 subsidiaries while J-Power has approximately 90 subsidiaries. Approximately 40 percent of these subsidiaries are publicly listed companies. Berani, Ellaconsruct and HanSoon have a total of 70 subsidiaries among them. In total, the views and opinions gathered from these ten participants would be representative of leadership succession practices in the more than 450 Malaysian subsidiary companies that they collectively represented. As can be seen in the findings, like their Japanese counterparts, the Malaysian version of the Japanese *kogaisha* looked to their parent companies for instructions in strategic areas such as leadership succession planning and implementation.

There were two reasons for using the ten participants selected. Firstly, they represent a broad spectrum of Malaysian businesses spanning the following sectors: finance, electronic manufacturing, consumer products manufacturing and sales, advertising, power generation, property development, construction and construction materials and pharmaceuticals. Furthermore, as mentioned above, with the exception of Cilicon Berhad and FineAds Berhad, the other seven companies are parent companies that collectively have 450 subsidiaries. That these subsidiaries emulate the leadership succession practices of their parent companies was confirmed during the interviews with the respondents. As such, it is reasonable to argue that the opinions of the respondents in this

investigation represent the leadership succession practices of their subsidiaries. That this is so can be seen in a perusal of company documents from, for example, AmSure Berhad. The leadership succession planning processes of two of the largest subsidiaries in this company were made available to this research. For confidentiality reasons, while I was allowed to study the documents, photocopies were not allowed. Nevertheless, it could be seen that the documents were essentially the same and that the practices in these subsidiaries mirrored those of the parent company. Secondly, securing the participation of senior managers for research of this nature was not an easy task due to their extremely busy schedules.

Having secured the consent of these ten senior managers to participate in the research, appointments to interview them were made and I then flew to Kuala Lumpur to conduct the interviews. The actual interviews were spaced over a one-month period (between June 10 and July 10, 2007) in order to accommodate the schedules of the ten participants. A 90-minute interview was negotiated with each participant. In retrospect, I am very grateful to each of the participants as most of them actually allowed for a two-hour interview. During these interviews, many of the respondents made available pertinent company documents such as annual reports, human resource management policies, leadership development training programmes, organisational charts, press releases and leadership succession policies for closer scrutiny. While these documents were made available for perusal, only copies of press releases and annual reports were allowed to be taken out. Additionally, published annual reports for

the past ten years, and magazine, trade journal and newspaper reports pertaining to these companies had been scrutinised.

Each interview was audio-taped as consent was obtained from the participants to do so. The audio-taping of interviews has been cited by Heritage (1984, p. 238) as being advantageous in that it provides an accurate record of what had been said and helps to correct the natural limitations of our minds and memories. The accurate transcription of such recordings allow for a more thorough examination of the responses provided. Personally I found that recording the interviews allowed me to concentrate on asking questions and avoid having to spend time taking notes. The participants were informed that each audio-tape would be securely stored and would be destroyed upon the completion and acceptance of the thesis. Each of the interviews was then personally transcribed by me as there are many nuances and peculiarities in Malaysian conversation that I did not want to lose during transcription. Three participants were contacted during and after the transcription process in order to obtain more information or clarification of the points they had made. Permission to do this had been obtained during the interview sessions. A copy of the consent form used to solicit their involvement can be found in Appendix C.

Participants' gender

It was by chance that all the participants were men. There was no concerted effort on my part to make this research male-centric. Indeed, it would have been helpful to obtain the views of both male and female managers as possible differences between the way in which men and women look at the matter of leadership succession could be interesting and accordingly identified. It is a reality that the upper-echelons of most Malaysian companies are represented by men. Only two of CEO/managing directors contacted were females. Of these two, the sole female CEO who had agreed to be part of the research subsequently withdrew from the research when I arrived in Kuala Lumpur. A number of female Human Resource directors were contacted using the snowball sampling technique but all declined participation and referred me to their CEO or managing directors instead.

Research objective

There were three objectives to this research. These were (a) to examine leadership succession practices and to investigate the inhibitors and enhancers of such processes in Malaysian companies; (b) to examine the impact of entrenchment, be it CEO entrenchment or organisationally generated entrenchment, on the process of leadership succession; and (c)

to explore the succession models that are currently used by Malaysian companies and to design strategies that will allow Malaysian companies to bring about more efficient and effective leadership succession transitions.

As mentioned earlier in chapter one, the two theoretical propositions that have led to the multiple-case study approach of this investigation are as follows: that some management practices in Malaysian companies have resulted in organisationally generated entrenchment which has the overall effect of impeding smooth leadership succession; and that organisationally generated entrenchment arises from the influence of national culture on management practices. This thesis therefore argues that generalised leadership succession models (such as the Leadership Pipeline model and the Acceleration Pools model) offered by leadership succession practitioners would not be useful for the management of leadership succession in Malaysian organisations and that any model would need to take into account the impact that Malaysian culture has on the process of leadership succession.

Research design: Semi-structured interviews

One of the most widely used methods in gathering qualitative data is the interview (Bryman & Bell, 2003, p. 341). The semi-structured interview

method affords a greater level of flexibility than structured interviewing and allows the interviewee to pursue the areas that are of particular interest and importance to the interviewee within the framework of the questions being asked. It was anticipated that the participants would be less constrained if this method were used than they would be by a structured interview.

The following diagram (Figure 4.1) maps the research process that was employed in this investigation.

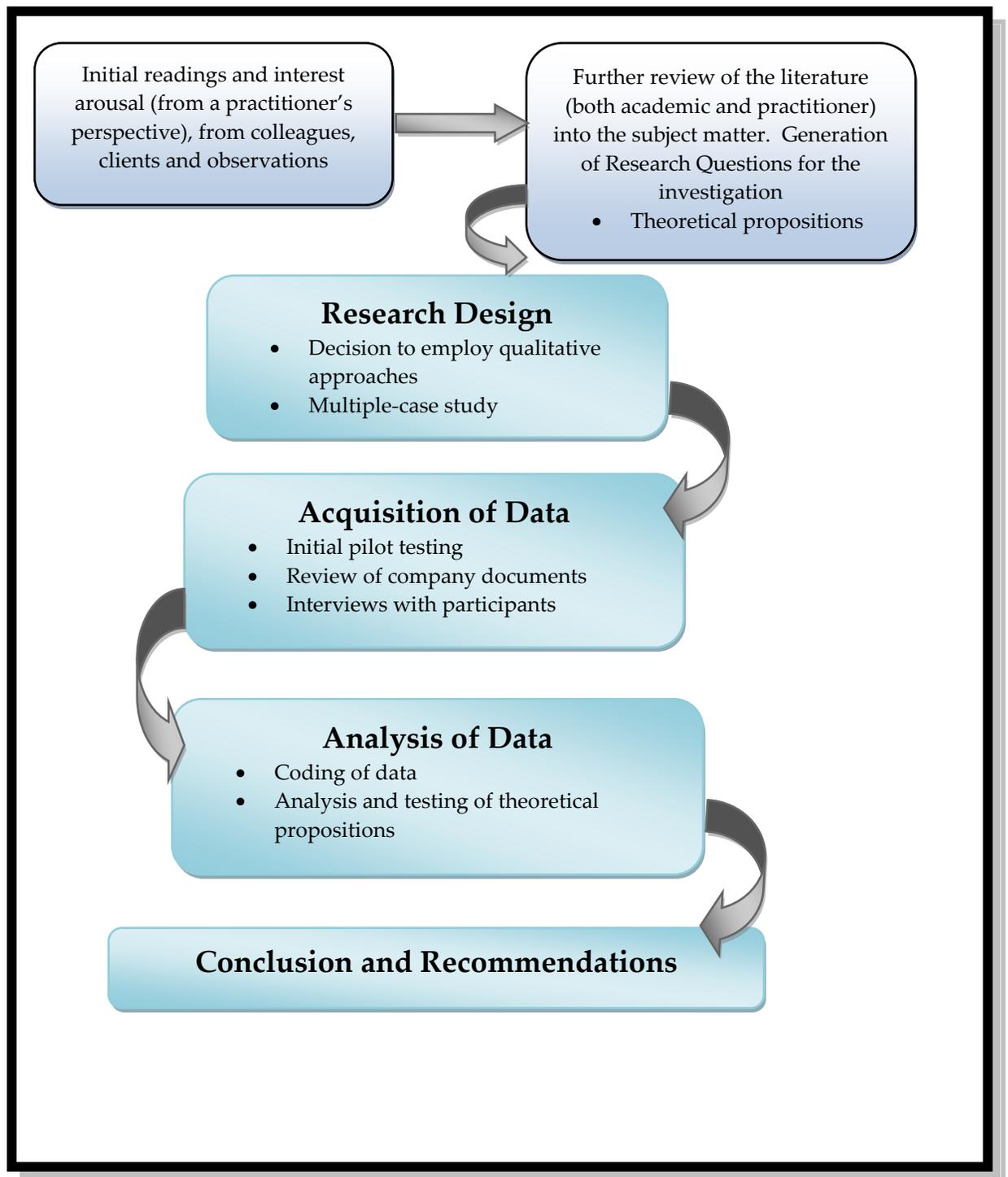


Figure 4.1: Research process mapping

The nature of qualitative research

In contrast to quantitative research, qualitative research is more concerned with obtaining in-depth data, which is not based on precise numerical measurements or quantifiable means. According to Gubrium and Holstein (1997), the data collected is then used for a number of purposes such as understanding social reality, determining the nuances of social construct and appreciating the sensitivities of humankind. Qualitative research is multi-method in focus and involves an interpretive and naturalistic approach. Qualitative researchers investigate things in their natural settings and attempt to interpret by making sense of phenomena in terms of the meanings that people bring to these events.

In this sense, qualitative research is employed more often to generate, rather than to test, theory. As Strauss and Corbin (1990, p. 23) suggest, the focus of qualitative research is to discover, to formulate and then to verify the theory that has been developed by systematically collecting and analysing data. The collection of data is often effected through the numerous methods (such as focus groups and qualitative interviews) that are found under the umbrella of the qualitative research paradigm.

Bryman and Bell (2003, p. 280) note that qualitative research methods allow for the inductive generation of theory through research. The use of multiple methods, along with the interpretive epistemological approach, allows for an understanding of the social world by examining the participants from various angles. The qualitative approach allows the

researcher the means to understand how participants perceive life and thus gain in-depth knowledge and data. The use of quantitative methods, which are numbers-centred, does not enable the researcher to gain such insights. Qualitative methods are therefore invaluable in uncovering how and what companies need to do to enhance the leadership succession process. The employment of the semi-structured interview method was done with the anticipation that the use of such a method with the participants – the CEOs and other senior managers – would facilitate this objective.

Semi-structured interviews offer a level of flexibility that structured interviews do not while retaining order and direction of flow that would be missing in unstructured interviews. Semi-structured interviews allow researchers to maintain a degree of structure and direction while allowing room for the researcher to explore areas of interest and concern the respondents might have. Indeed, interesting data are often obtained when respondents are allowed some leeway to go off on a tangent (Leidner, 1993, p. 328). Prasad (1993) lends weight to this when she asserts that semi-structured interviews gave her two types of data which she found invaluable: one set of data corroborated her own views and assessment of the subject matter while the other set of data gave her a different perspective and interpretation, thus helping her to take another look at the way she was analysing the situation. The semi-structured interview method allows researchers to pose similar questions in different forms and this may help to increase response accuracy. This method has other advantages as well; the most obvious is that the two-way dyad that is

employed in interviews makes it easier to reduce the possibility that respondents might misunderstand the questions posed. Because there is scope for freer communication during interviews, the method allows for in-depth questioning of the processes involved in leadership succession which can be expected at the top management levels. The interactive nature of interviews means that there is a lower likelihood of incomplete answers being given to the questions posed (Prasad, 1993).

Coding and data analysis

For qualitative analysis, coding is the starting point and the coding process began after the transcription of the interviews. In coding the data collected, this investigation considered the possibility of placing the collected data into general and, subsequently, into more specific categories. Two examples are provided here for discussion of how coding was implemented.

One of the questions posed to all respondents dealt with the importance of leadership succession to their organisations. The responses transcribed were initially coded under the general category 'IMPORTANCE OF SUCCESSION'. Once all the relevant responses of the participants had been placed under this code, the responses transcripts were further scrutinised and notes were made to see what themes might emerge from this broad category. For example, one of the themes came from the

responses of a number of respondents who mentioned that succession was a means of making sure that the company had enough people to take over from retiring managers. A new code, which I had labelled as 'IMPT: REPLACING RETIREES' was therefore created. All answers pertaining to succession as a means of replacing retiring managers were then placed under this category. Care was taken to ensure that the responses under this new code were linked to the particular respondent. Other codes that arose as a result of this process included succession as a means of ensuring continuity (IMPT: CONTINUITY) and succession as part of risk management and the corporate governance framework (IMPT: RISK & GOVERNANCE). It can be argued that the 'continuity' coding would have applied to both 'replacing retirees and 'ensuring continuity', since both situations were about making sure that someone would be ready when a vacancy arose, the differences in the reasons for vacancies were sufficiently different to require two separate codes. On the one hand, where 'replacing retirees' was concerned, job opportunities had arisen as a result of managers having reached 55 years of age and who had become contractually obliged to retire. 'Continuity', on the other hand, did not necessarily mean retirement on the part of the outgoing employee; the staff member could have resigned as a result of having found a higher paying job somewhere else. Once the responses had been so coded, they were reviewed once again to see if further coding categories were needed.

The second example on how coding was conducted has to do with the matter of organisationally generated entrenchment. The question that was posed to all respondents did not deal specifically with organisationally

generated entrenchment as this was the theoretical proposition arising from the observation of this phenomenon. The general code had to do with how organisations dealt with underperforming managers ('UNDER PERFORMERS'). Scrutiny of the responses under this heading revealed that there were three main mechanisms that organisations resorted to. These were assigning underperformers to manage special projects, laterally transferring them to other departments and maintaining the *status quo*. Appropriate codes were formed for these three new categories. While analysing these responses, it became clear that there were cultural reasons for the three forms of action mentioned above as replies like 'it is not the Malaysian thing to do' or 'we do not want to break the other person's rice bowl' came to the fore. The relevant data was then placed under a new category 'OGE: CULTURE' reflecting the effect of culture organisationally generated entrenchment. A further code, under the 'culture' code, was constructed to account for what the participants had said about the difficulties encountered when dealing with underperforming Malay managers.

The process of coding all relevant data was repeated and codes such as 'Enhancers', 'Inhibitors' and 'Dynastic Succession', to name a few, were designed for this research.

While constructing the codes, I was mindful of the problem of losing the context of what was said as I essentially took sections of respondent replies and placed them under their respective codes. A cross-referencing system that allowed me to return to the context of the reply was designed

to reduce out-of-context interpretation of the data. This system also ensured that I was able to reduce problems with possible disrupted narrative flows.

One of the strategies that Yin (2003, p. 111–114) suggests for the analysis of data derived from case studies is to follow the theoretical propositions that led to the case study. Such a strategy helps to focus attention on relevant data and help to build explanations as to why certain things are occurring within the organisations investigated – thereby addressing the ‘how’ and ‘why’ questions posed earlier – and thus test the propositions made.

Ensuring research validity

In any form of research, validity and reliability are important criteria in assessing the quality of such research. In qualitative research, validity has to do with the match between what was observed and what was described by the researcher. In order to ensure validity, a number of approaches have been described in the literature. For example, LeCompte and Goetz (1982) discuss the need for researchers to ensure internal reliability (that all researchers agree with what they have observed) and external reliability (or the degree to which a study can be replicated) as well as internal validity (the degree of match between what is observed and what

has been theorised) and external validity (the degree and extent to which the findings can be later generalised across various social situations).

This research subscribes to the alternative view of validity put forward by Guba and Lincoln (1994). They propose that the two main ways of assessing the quality of qualitative research lie in the trustworthiness and the authenticity of the results. In their discussion, they argue that trustworthiness is made up of four criteria, namely: credibility, transferability, dependability and confirmability. In Guba and Lincoln's view, authenticity is concerned with the fairness of the viewpoints represented and is linked with ontological, educative and tactical authenticity. In order to ensure credibility, it is important that the techniques and the methods that were utilised be fully explained and that there is transparency in the impact of the researcher's own experiences on the study.

The following methods were used to ensure credibility, integrity and validity during the research.

A Researcher's Journal was employed to record all data obtained and my own reflections on the data so obtained. All interviews were audio-recorded. All participants were assured that they had complete access to the transcripts of the interview to cross-check what they said with what was transcribed. The offer to read the thesis was extended to all participants.

An interview guide was employed during the interviews. This guide consisted of a list of areas that were to be explored during the interviews. These subject areas included the level of importance that the companies ascribed to leadership succession, their current succession processes, enhancers and inhibitors respondents could identify, entrenchment and organisationally generated entrenchment occurrences in their companies, and respondents' views on co-leadership. Care was taken to ensure that all the areas of interest were addressed by having a checklist present during the interviews. The interview guide is found in Appendix E.

As mentioned above, all interviews were audio-recorded but because of the nuances in Malaysian English – Malaysians quite commonly employ a mixture of English, Bahasa Malaysia and, where appropriate and possible, Cantonese when speaking – I transcribed the interviews. The transcriptions were then coded and categorised. Each category was then qualitatively analysed and the information that was offered in reply to my questions was interpreted.

There are criticisms that qualitative research is too subjective and too difficult to replicate since it lacks transparency. The steps taken and, which have been described above, were done to ensure the minimisation of such criticism and the maximisation of the validity and reliability of the research and the results derived from it.

Ethical considerations

Every effort was made to ensure that the highest level of ethical responsibility was employed in the research to safeguard the interests of the respondents and the researcher. As this research involved human participants, application for the relevant approvals for the research methods employed and the interview guide was made. These have been vetted and approved by Massey University's Ethics Committee (approval code MUHECN 07/020) and the approval can be found in Appendix A. None of the participants involved in the research has been identified in any way and they will remain anonymous. All participants have been guaranteed complete confidentiality and anonymity. I was mindful of the need for ethical integrity in the process of data collection involving human participants, and in this respect was guided by the four ethical considerations articulated by Diener and Crandall (1978) and set out below.

Ensuring that there is no harm to participants

The utmost care was taken in the designing of the interview questions to ensure that any and all possible risk of harm (bodily harm, detriment to the participant's self-esteem, mental stress or possible harm to the careers of the participants) was eliminated or minimised. This was achieved with the aid of the pilot study.

Ensuring that informed consent is obtained from all participants

All participants in the interviews were given as much information about the researcher as possible. This step was taken to ensure that there would be no allegation of covert observations involved. Potential participants were made to understand fully the purpose and the nature of the research in order to come to an informed decision as to whether or not to participate in the research.

Ensuring there is no invasion of privacy of the participants

It is important in an academic research setting that participants clearly understand that the objectives of the study is not a *carte blanche* for the researcher to infringe or intrude upon the privacy of the participants. While participants had provided informed consent for their participation in the research, they were also given the understanding that the provision of informed consent was not an abrogation of their privacy rights. It is acknowledged that it is impossible to guess what questions respondents might feel sensitive about. Care was, therefore, taken to ensure that each participant understood his or her right to withdraw from the interview at any time during the interview should such an occasion arise.

The participants were also assured about the confidentiality of the data collected. All data collected are accessible only by the participants, by me as the researcher and by my two supervisors. The responses have been coded to protect possible future identification of the participants involved in this research. All audio recordings and transcriptions of such recordings are kept secured under lock and key in the supervisor's office at Massey University and will be destroyed upon the completion and the acceptance of the thesis by Massey University.

Ensuring that no deception of any form is used to obtain the data sought

At no time was the reputation of Massey University, the researcher and the supervisors compromised through the practice of any form of deception for the purposes of obtaining research data. Respondents were informed of all techniques that will be utilised in the research.

Summary of the chapter

This chapter outlines the research question, the paradigm and methodology of the research and the way in which research data was collected and analysed. The chapter also discusses the steps that were taken in order to ensure that the data obtained and the concepts, models and theories generated from this research are valid, reliable and credible.

The next section of the thesis presents the results of the research.

Chapter 5

FINDINGS

- **The importance of leadership succession in Malaysian organisations**
- **The processes and models that are currently employed for CEO succession**
- **The processes that are currently employed in leadership succession for upper-echelon managers**
- **Organisationally generated entrenchment**
- **The feasibility of incorporating co-leadership into Malaysian leadership succession practices**
- **The factors that enhance leadership succession in Malaysian companies**
- **The factors that inhibit leadership succession in Malaysian companies**

Introduction

This chapter presents the findings on the processes that are employed in CEO and managerial leadership succession in Malaysian companies. It investigates the phenomenon of organisationally generated entrenchment as well as the feasibility of incorporating co-leadership into Malaysian leadership succession practices. The chapter also looks at the factors that either enhance or inhibit leadership succession in Malaysian companies.

Nine companies were involved in the research and the pseudonyms used in this research are reproduced below.

Table 5.1 Respondents

| Company (Pseudonym) | Respondent (Pseudonym) |
|----------------------|------------------------|
| AmSure Berhad | Amar Singh |
| Berani Berhad | Bernard |
| Cilicon Berhad | Charles and Chester |
| DesignerPens Berhad | Daniel |
| Ellaconstruct Berhad | Ezra |
| FineAds Berhad | Frederick |
| Great Flours Berhad | Gary |
| HanSoon Berhad | Henry |
| J-Power Berhad | Jeremy |

The importance of leadership succession in Malaysian organisations

Researchers such as Cannella and Lubatkin (1993), Kets de Vries (1995), Manz and Sims (2001), Charan, Drotter and Noel (2001) and Huang (2001) offer a variety of reasons as to why leadership succession is an important organisational task; these reasons have been considered earlier in the literature. The pronouncement of the importance of leadership succession does not guarantee its translation into organisational practice. Because the objective of the research was to determine how leadership succession processes are implemented in Malaysian companies and to identify possible enhancers and inhibitors of such processes, it appeared reasonable to start the research by getting a measure of the importance of leadership succession to the organisations being investigated.

This section begins with the analysis of the overall view of participant responses to the question of how important they considered leadership succession was for their own companies. This is then followed by a consideration of the reasons respondents offered to support their views. The section concludes with the implications of the findings and a summary.

Overview of responses on the importance of leadership succession

When asked to comment on the importance of leadership succession to their organisations, every one of the respondents stated that this was an important organisation issue. Such a unanimous response might make it tempting to conclude that each of the organisations investigated understood the importance of leadership succession but it is conceivable that, because the interviewees had agreed to participate in a research on leadership succession, their overwhelming affirmation to the question was only to be expected. It is plausible to assume that those who had declined to participate might have thought that the issue was unimportant. Nevertheless, the unanimous positive answer was no assurance that the companies represented by the respondents were not just paying lip service to the notion of leadership succession. Indeed, evidence of such lip service became clearer when the interviewees were asked to describe their succession practices. From their responses, it became evident that although all nine companies agreed that succession was of organisational importance, only two had any form of succession processes in place. This finding lends support to assertions by Santora, Clemens and Sarros (1997) that companies often do not go beyond acknowledging that leadership succession is necessary for a company's long-term well-being. In this respect, it appears that Malaysian companies are no different from their Western counterparts with regard to leadership succession practices.

The following section analyses the responses obtained from the respondents and evaluates whether the acknowledged importance of succession planning was supported by steps to ensure the effective implementation of such plans.

Reasons offered to support the view that succession was important

The respondents offered a number of reasons as to why they thought that succession was important. These reasons, such as the need to prepare successors for senior managers who were fast approaching retirement age; the necessity of developing employees to ensure management continuity; the importance of succession as part of risk management, and the corporate governance framework, are examined in the following paragraphs. Of the nine companies investigated, it was noted that only two organisations, Amsure and Cilicon, had formalised succession plans.

Succession as a means of preparing successors for retiring senior managers

Amar Singh of AmSure Berhad stated that, in the case of his company, the initiation of a leadership succession plan was prompted by the realisation that there was an aging senior management team. This awareness came about in 2000 when his company merged with two other local financial institutions. The merger necessitated the detailed analysis of the status of the company's post-merger human resource and it was during this exercise that his company realised that approximately 68 percent of its senior management team would be retiring within five years (that is, between 2003 and 2008) and that there was a shortage of suitably prepared successors to take over. Steps were therefore taken to address the lack of successors. Amar Singh claimed that 2003 was the start of a concerted organisational effort to put succession processes into place. He believed that his company might have remained unaware of the severity of this problem if the post-merger analysis had not been initiated. At the time of the interview (2007), Amar Singh's company had formalised its leadership succession processes, but he conceded that implementation had not been as smooth as planned. He also noted that the formalisation process was a reaction to an impending succession crisis rather than a proactive strategic approach on the part of the company.

Daniel, representing DesignerPens, was of the opinion that succession was important for replacing an aging senior management team. He acknowledged, however, that DesignerPens Berhad was currently more concerned about succession in the context of its overseas subsidiaries, as most of these subsidiaries were currently managed by employees who were between the ages of 55 and 65. The president of the company, a Malaysian who is also the chairman of the company, was at the time of the interview 52 years of age. He has a team of young executive managers who are in their mid-forties. Therefore, as far as the Malaysian entity was concerned, formalised succession planning was important but not urgent. Daniel stated that his company's current priorities were focused on recruiting the right people to fill newly created positions and that any embarkation on formalised succession planning was unlikely to take place within 24 months of the interview. The impression given by Daniel was that the company's highest level of management was youthful (by corporate standards) and that the company had the luxury of time to eventually consider the need for succession. Such a view is not unexpected as most CEOs in their 50s would not think of retiring or of dying. The upper-echelon management team members were in their mid-40s and this was a good ten years or so away from the common practice retirement age of 55 in Malaysia. The sudden death of Michelin's young CEO (Kanter, 2006) underpins the unpredictability of death and the preparation of contingency plans to deal with such possibilities would be prudent. DesignerPens was the only company to agree that succession was important in general but not urgent.

The above responses demonstrate that the two companies have undertaken some form of leadership succession in order to ensure a measure of what Kessler (2002) calls leadership rejuvenation in order to avoid possible leadership vacuum. This is therefore validation of one of the reasons that the literature cites for the importance of leadership succession. However, it is noted that AmSure's succession mechanisms were put into place not because the company had had well thought-out plans for succession but because of a realisation of possible leadership vacuums as a result of a post-merger human resource audit, that is to say, it was a reactive, rather than a strategic, proactive plan undertaken by the company.

Succession as a means of ensuring management continuity

Five respondents representing four companies cited the need to ensure management continuity as a reason for leadership succession. These respondents were Charles and Chester, Daniel, Henry and Jeremy and their views are analysed below.

Charles and Chester acknowledged that Cilicon had a formally implemented succession plan in place although they preferred to refer to it as a management development programme. In Cilicon Berhad, the management development programme was designed to ensure that the

company had sufficiently trained personnel to bring about management continuity. The company avoided the use of the words 'leadership succession' as it was concerned that it would introduce grandiose ideas into the minds of selected employees and thus give rise to problems if any unrealistic expectations were subsequently not fulfilled. Daniel, who had recently resigned from Cilicon but who was speaking on the situation in Cilicon, stated that 'Malaysian are not ready for this kind of big words' and that there were possible negative consequences if the term *succession* was applied. He claimed:

Yes, those people who are not in the team – alright, maybe you can call those selected the alpha team – those who are not in the team would feel so left out and that is where we see disgruntled employees ... And those who are in the alpha team, their heads will start to swell. We do not want that, we want to be fair to everybody.

The avoidance of the words 'leadership succession' does not negate the fact that this company had considered it important enough to have a formalised plan to train sufficient numbers of suitably prepared successors to ensure continuity in management.

A close inspection of the actual management development programme was afforded me by Charles during the interview process. The programme was essentially a series of training sessions aimed at developing the technical skills of selected employees. I noted that outside training consultants had been scheduled to conduct more than 80 percent of the management development programme. When delving into this,

Charles acknowledged that the external trainers were independent people whose job it was to provide the requisite training. There was no evidence of any co-ordination of the training programmes between the various external trainers and therefore, no collaboration of a training direction. The design and the delivery of the training programmes were left largely in the hands of the training providers. More importantly, there were no indications that the employees who had undergone training would receive any internal mentoring from their superiors. Essentially, the management development programme allowed selected employees a fair opportunity to receive training and development with little indication to show them where such training could lead them. This was confirmed by Chester who asserted that the training programmes were merely activities implemented to ensure the company's compliance with training requirement policies (as part of the company's ISO 9002 certification processes) and that the management development programme was not a co-ordinated, well-thought-out succession plan. He reasoned that top management had to play a leading role in setting the direction and pace of the succession processes rather than leave this largely to external trainers who might not fully understand the complexities of the company.

Another shortcoming of Cilicon Berhad's management development programme was that the programme could be changed, temporarily suspended, or even discarded by new incoming managing directors. The managing directors in Charles and Chester's organisation were, on average, replaced every four or five years and there had been a number of instances where the management development programme had been

adversely affected by the change of managing directors. This was especially so in the case of managing directors who were more stringent with the manner in which company finances were utilised. Chester and Daniel were of the opinion that the resulting lack of programme continuity, coupled with the volatility of top management support, did not augur well for the success of such a programme. Thus, while this company had a formalised process in place, there were a number of organisational factors – such as the lack of continued top management support – that prevented its possible success. During the interview, Chester made available records in which he had noted changes to the company's management development programme. The document detailed the changes that occurred each time a new managing director had been appointed. Chester indicated that every time a new person took over the helm of the company the management development programme either stalled or changed direction. He lamented the fact that this was happening and acknowledged that such occurrences did little to enhance the credibility of the development programme with staff members and ended this part of the discussion by stating that there was nothing that he could do about this as he was "only the hired hand". I was not able to obtain a copy of this document, ostensibly for confidentiality reasons.

Another respondent who cited management continuity as the reason for the significance of leadership succession was Henry of HanSoon Berhad. He said that the CEO:

... does look at this very seriously because running a business of this size means that he does need good people to

always stay with him. He doesn't just select any Tom, Dick and Harry. He usually promotes from within the company – those who have been with the company for many years and who know the company very well. So yes, he is definitely very concerned on this matter of succession planning.

While the statement above gives the appearance of a company that takes succession seriously and has some form of leadership succession planning in place, subsequent responses from Henry do more to suggest that the company was practising leadership replacement rather than succession. This was evident when he recounted the incident when a retiree, who was a marketing director, was asked to remain for an extended period of time after retirement. He said:

For example, we had a marketing director who had attained his retirement age of 55. The CEO could not find someone to replace him immediately so he kept him there for another five years on a year-to-year contract. At the same time, they looked at regional managers to see who might be eligible, to see who had the most years of service and who had proven that they could do well and handle the pressure.

The fact that the CEO could not find someone to succeed the retiree immediately and had to ask the retiring employee to remain for another five years was indicative of the absence of a succession plan. Further questioning also revealed that the above steps were only taken after the marketing director had attained retirement age. It would be reasonable to infer that Henry and his company, HanSoon, viewed leadership replacement as synonymous with leadership succession even though Henry was aware of the differences between succession and replacement,

and was able to explain these differences to me at the start of the interview.

In many ways, the situation in HanSoon is akin to a company that has become aware that it should be prepared for Succession-Adaptation (Carroll, 1984; Singh, House & Tucker, 1986) rather than Succession-Crisis (Allen, Panian & Lotz, 1979) but that this awareness was not accompanied with the knowledge of what had to be done, proactively, to overcome the problem. In this situation, HanSoon resorted to renewable contracts to overcome the problem.

The other respondent who viewed succession as a significant organisation activity that was needed to ensure management continuity was Jeremy. The manner in which Jeremy's company, J-Power, dealt with succession was different from that of the other companies, as his comments demonstrate. His reply to the question of how J-Power viewed succession is reproduced below:

On the operation level, I think they are very serious because they are a well-run company and they believe in management. They want the company to be able to be sustained and they want to give good value to the shareholders. So they really have to ensure that there is succession at the operation level.

For instance, they don't encourage retirement unless you have groomed somebody – otherwise they will not allow you to retire. You can resign but you can't retire. You can say that I am the first one in the company who has been allowed to retire.

'Retiring' in Jeremy's organisation meant that the retiree would receive a number of benefits from the company for the service rendered. For example, although Jeremy had retired from his company almost 12 months before the time of the interview, he was still in receipt of perks such as a fully maintained company car, membership to a recreational club and free use of mobile telephone services. These benefits would be provided for a long time although he declined to indicate its exact duration. In J-Power, a senior manager who had not prepared a successor but who had decided to retire would be asked to resign rather than be allowed to retire. In the case of a resignation the benefits mentioned above are withheld. In that sense, Jeremy's organisation, like Ralston Purina (Lublin, 1997), has placed a monetary value on succession but the fact that there are more managers who have had to resign rather than retire suggests that there is a need to make the practice of ensuring succession more consistent in the company. The assertion by Jeremy that he was the first and only person to have been allowed to retire thus far in J-Power's existence points to the lack of a formalised, strategic approach to the matter of succession in the company. This suggests that while it is possible to make leadership succession a key performance indicator for managers to work towards there is a need to educate and train managers in the area of leadership succession planning and implementation. Merely stating that managers had to meet this key performance indicator was not a good assurance of compliance as these managers may not be aware of the processes involved in bringing about effective leadership succession. Furthermore, it is possible that the value of the reward offered by J-Power was not sufficiently attractive as most senior managers in Malaysia would

have accumulated a sizeable superannuation fund in their Employee Provident Fund by the time they retire.

However, in J-Power's situation, there was the possibility that leadership succession planning was affected by another factor. Jeremy's former employer does not have a mandatory retirement age, unlike the other companies investigated. Retirement in Jeremy's company was therefore more a matter of choice on the part of the employee and of the employee's continued performance from the perspective of the employer, than a matter of having attained some 'biological milestone'. The absence of a retirement age could play a role in impeding any possible sense of urgency in the area of leadership succession. It was noted that even amongst companies that practised mandatory retirement, these organisations reserved the right to renew the contracts of 'retired' employees on a year-to-year basis. The lack of a retirement age, or in its place, the practice of a retirement age which can be overridden by the use of renewable contracts, appear to have given these companies a sense of complacency that succession issues were important but not urgent and that succession was something they could address at a later stage or on a piecemeal basis. The use of a mandatory age of retirement such as that reported by Zachary (2004) in Intel, along with sufficiently attractive financial incentives, could therefore be a more effective means of inducing managers to want to understand, and subsequently to implement, leadership succession.

Succession as part of risk management and corporate governance

Ezra claimed that his company recognised the importance of succession and had adopted a proactive approach to it. He stated that:

As part of the risk management and corporate governance framework, we look at succession planning throughout this company in a very organised manner. For every key position, every senior position, we have a structured plan to make sure that a department or an operating unit would not be greatly disadvantaged if someone was to leave.

By stating that succession was part of the corporate governance framework, Ezra was referring to the need imposed by the Malaysian Securities Commission's Code on Corporate Governance (2000, 2007) for publicly listed companies to have in place succession planning processes. He was of the opinion that his company had been able to comply with the Code on Corporate Governance (2000, 2007) as it looked at the question of succession in an organised manner.

When asked what the structured plan was, all that Ezra would venture was that it was something that he, as the CEO of the company, and his senior managers looked into. The structure of the actual plan was not forthcoming and I was not persuaded of the actual presence of any such plan. My scepticism on the lack of what Ezra had claimed was a very organised and structured plan was confirmed when, at a later point in the interview, he conceded that while he was grooming his chief operating

officer (COO) to take over his position, no action had been taken to identify or train possible candidates to take over the COO's position. This situation suggests that there were some gaps in his plan or that the structured plans were, in fact, not actually formalised plans at all. In fact, Ezra was not able to produce any documents to demonstrate how leadership succession was planned and implemented in his company. When asked if the Human Resource Director had any such documents, Ezra conceded that there had been no formalised succession plan. Nevertheless, the respondent had voiced his opinion that succession was important so as to reduce functional leadership vacuums in the event of managerial resignations or departures.

When documents such as the organisation's annual reports and its human resource management records pertaining to leadership succession specifically were perused, it was evident that Ellaconstruct had done little more than to make a statement in the annual reports that the company had taken the appropriate steps to ensure that the requirements of the Malaysian Securities Commission's Code on Corporate Governance was adhered to and that it had applied the principles of good governance and had complied with the best practices set out in the Malaysian Code on Corporate Governance throughout the financial year. This is in line with the observations made earlier where it was stated that the ambiguous nature of the requirements of the Malaysian Securities Commission's Code on Corporate Governance (2000, 2007) and the lack of monitoring on the part of the government has resulted in a high degree of imprecision in the way that the Code is addressed as far as leadership succession was

concerned. Although the 2000 Code was revised in 2007, no changes had been made to the area of leadership succession and the ambiguity in implementation remains.

Because of the sensitive nature of the information in the human resource management records, the access afforded to this investigation was kept to a minimum but I was able to note that the documentation were essentially letters accompanying pay reviews and promotions. The records did not demonstrate the presence of any formalised development plan and Ezra explained it by stating that this was something that he and his board looked into.

Implications of the findings on the importance of leadership succession

The findings above support the views of Santora, Clemens and Sarros (1997) and the Hewitt Associates (2005) that leadership succession is often oversubscribed in notion but undersubscribed in deed. From the responses of the interviewees, it can be concluded that the companies investigated were more concerned with leadership replacement than with leadership succession and that most of them viewed the two to be synonymous. There was also some evidence that training programmes, which form an important component of succession preparations, have been misconstrued to be the entire succession process itself. This was

demonstrated in the manner in which the company that Charles worked for had, in essence, outsourced its succession processes to external trainers. While external training providers offer an essential training service, it would be imprudent of the company to expect them to seriously contribute to the leadership succession process given the complexity involved.

The nine companies investigated, and by extrapolation, the 450 subsidiaries that they collectively represent, do not appear to have a proactive, strategic approach to leadership succession. CEO endorsement of the notion of succession is often not translated into practice and where it has been put into practice, there appears to be little by way of a systematic approach to the matter. That almost none of the companies investigated have any formalised plans is indicative of their *ad-hoc* approach to leadership succession. Of course, the mere presence of a formalised plan is not an assurance that the organisation has taken a strategic approach to succession but having such a plan is, at least, an important early step in effective leadership succession planning and implementation.

A factor that could contribute to the lack of urgency in addressing succession issues is the manner in which employees attaining retirement age is handled. The fact that some companies practise a contractually mandatory retirement age implies that retiring managers would have little to fear by way of being ousted by their heirs apparent. In most of the companies investigated, retirees do continue to work happily through

employment contracts renewals. From a management perspective the ability to secure the continuing service of the retirees minimises any urgency surrounding succession issues. From the employees' point of view, the possibility of employment extensions means that retiring managers might prefer not to have heirs apparent at the ready, or even to have any heirs apparent at all, so as to increase the possibility of their own employment extensions. From the perspective of potential heirs apparent, contract extensions might frustrate them as they perceive these contract renewals could result in an inordinately long wait for their own ascension. This investigation therefore theorises that the use of employment contract renewals and extensions inhibits leadership succession processes in that it (a) reduces organisational urgency to engage in leadership succession planning and that (b) it diminishes the size of the pool of potential successors by increasing staff attrition arising from frustrations accompanying delays in heir-apparent promotions. There is, therefore, room for debate on the wisdom of renewable contracts for employees who have reached retirement age. The views of a number of the participants on this matter will be considered in a later section.

Summary of the importance of leadership succession

Leadership succession in Malaysia is something that organisations are willing to agree to but not necessarily to act upon. There is also some confusion over leadership succession and leadership replacement. The findings lend credence to the concerns expressed by my former clients and peers that companies in Malaysia are not well poised for leadership succession and that they are exposed to the risk of not having an adequate pool of talents to succeed those retiring.

The processes and models that are currently employed for CEO succession

One of the objectives of the research was to determine the processes and models that Malaysian companies employ to bring about CEO succession. The varied nature of the companies, both in terms of the industries that they represent and their ownership structures, allows for a broad perspective of how CEO practices are implemented in Malaysia. Of the nine companies investigated, one company, AmSure, is linked to the Malaysian government; five are family-controlled publicly listed companies; two are non-family-controlled publicly listed companies and

one is a privately owned company. Similarities and differences in CEO succession practices among these four categories of companies are expected. The processes that are used for CEO succession are analysed in the order that these categories have been listed above. The table below, Table 5.2, summarises the nature of the respondents' companies in terms of ownership structures.

Table 5.2: Ownership nature of companies represented by the respondents

| Ownership nature | Respondents |
|---|--------------------------------------|
| Government-linked company: AmSure | Amar Singh |
| Family-controlled publicly listed companies: Berani, DesignerPens, Great Flours, HanSoon, J-Power | Bernard, Daniel, Gary, Henry, Jeremy |
| Non-family-controlled publicly listed companies: Cilicon, Ellaconstruct | Charles and Chester, Ezra |
| Privately owned company: FineAds | Frederick |

CEO succession in AmSure, a government-linked company

The company that Amar Singh represents is the sole government-linked company in this research. Because of the company's link to the government, Amar Singh asserted that a certain measure of government influence would be brought to bear upon important decisions such as on the appointment of the CEO. The respondent explained that the final decision on the ascension of the heir apparent to the position of the CEO is not in the jurisdiction of the company. This decision is controlled by two government entities, namely Bank Negara (the Malaysian Central Bank) and the Ministry of Finance. This was pointed out by Amar Singh, who said that:

In the local context, more often than not, the CEO is a political appointment. But that doesn't mean that because of this the company is not able to do anything. We do have our own person lined up but it is subject to approval by the central bank and, of course, the Ministry of Finance.

The above statement suggests that while the ultimate decision was outside of the company's authority, the company had some influence in the choice of the final candidate. This influence stopped short of the actual appointment of the CEO. There appears to be two elements to the CEO selection process. The first has to do with how the company chooses and prepares its own heir apparent. Once AmSure has identified and selected the heir apparent, the candidate would undergo extensive preparation and development for eventual elevation to the CEO's position. From Amar Singh's description of the process, the development period is

lengthy – usually between seven and ten years – and the heir apparent has to undertake training that involves the managing of a number of key business areas domestically and internationally (although the overseas posting is usually limited to one year). The successfully groomed heir apparent would, at the predetermined time, be elevated to the CEO's position. This, indeed, would be the company's objective after having invested a considerable amount of time and money on the grooming process but this is not necessarily always the case as can be seen from the example subsequent to the consideration of the second element in AmSure's CEO succession process.

This second element has to do with the need for the company to obtain the approval of the Central Bank and the Ministry of Finance to have the heir apparent elevated to the CEO's position. This approval, according to Amar Singh, is not always guaranteed.

Amar Singh emphasised that the company's choice of heir apparent usually met with the joint decisions of the Governor of Bank Negara and the Finance Minister, but said that there have been occasions when they have not. Amar Singh recounted the example of an heir apparent who, having undergone the lengthy preparation period, found his elevation to the CEO's position to be obstructed by at least one of the two government institutions mentioned above. This resulted in an impasse and the heir apparent subsequently resigned. He later became the CEO of a competitor organisation. This confirms what Amar Singh describes as the 'loose and informal' nature of the end process of the company's succession

planning as it was subject to the vagary of government influence. The identity of the heir apparent was a well-known fact in the rest of the company. When asked if there were any documents that had recorded the above, Amar Singh stated that apart from the resignation letter of the heir apparent, there was little else and appeared reluctant to reveal documents, if there were any, about this situation to me. He added:

With the current political situation in the country, with a lot of changes taking place in the financial sector, we [senior managers and board members] are not totally sure that the number two is going to be taking over. There is already word in the market that the current CEO is going to retire and that his contract will not be renewed. Somebody else from inside the group is going to take over but it is not necessarily the number two.

Although the two government bodies involved have generally accepted the company's recommendations for the elevation of the heir apparent to the CEO's position, Amar Singh argued that this method of CEO succession implementation was inefficient as it could discourage potential candidates for the position of the heir apparent. As the status of the heir apparent is common knowledge in the company and to rest of the industry, failure to ascend to the top position would tarnish the reputation of the heir apparent as the inability of the heir apparent to secure the CEO's position might be perceived by others as the lack of political clout and connection with the relevant authorities. Amar Singh recounted how the unsuccessful candidate resigned and subsequently took on a position at a less prestigious competitor company as the competitor organisation is

a much smaller organisation than AmSure. Amar Singh added that this practice of Bank Negara (Central Bank) and the Finance Ministry having the final say was something that was accepted by the industry as all appointments above the level of the general managers were subject to clearance by Bank Negara. This practice is ostensibly to ensure that the objectives of the government's affirmative action with regards to Malay quotas in top management positions are maintained; the Malays form the majority of the Malaysian population and are advantaged by a number of government policies (Koswanage, 2008; Fuller, 2001). Amar Singh voiced his opinion that an accepted practice is not necessarily a good practice and resentment of the government's influence in this process can be expected.

This presence of government influence in CEO succession in a commercial company demonstrates the challenges involved in using a 'one-size-fits-all' succession system. Supposedly sophisticated models such as the Leadership Pipeline model offered by Charan, Drotter and Noel (2001) and the Acceleration Pools model espoused by Byham (2002) may not be appropriate in all situations. Even in the United States of America, government influence on leadership succession, albeit to a lesser extent than the one seen in Malaysia, has been observed. For instance, Rick Wagoner, CEO of General Motors was asked by President Obama's Administration to resign as a condition of the bailout handed to the company by the government (General Motors CEO resigns as part of bailout deal, 2009).

Having considered how CEO succession is planned and implemented in a government-linked company, attention is now turned to the five family-controlled publicly listed companies.

CEO succession in family-controlled publicly listed companies

The five companies represented by Bernard, Daniel, Gary, Henry and Jeremy are family-controlled publicly listed companies and are analysed as a group. This decision was taken as a result of the similarities in the data that became apparent when analysing the responses of these participants. These similarities principally focused on the fact that CEO succession was reserved for the immediate members of the founder of the company and, where this was not possible, for the extended family members of the founder.

Bernard, who was employed in Berani Berhad, a company involved in the manufacturing of a range of industrial and health products, hotel development and management, and property development, stated unequivocally that CEO succession was the preserve of the founding family and that only family members qualified. His comments, which reflected similar sentiments from Daniel, Gary, Henry and Jeremy, are reproduced below:

A lot of public listed companies in Malaysia are very much under family control. To say that the chairman of the company does not have any succession planning would not be correct because he has a daughter and obviously he wants the daughter to succeed him as the chairman and the CEO of the company. But as I said, this does not only apply to this company. I know of so many other Malaysian public listed companies that are controlled by families and you know that the children will take over from the parents. So there is succession in the sense that it is a dynastic succession.

I think that what is happening is that most of them will find a successor in one of their children. However, there are some families who find this very difficult. So what they do is instead of bringing in their immediate children, they go a bit further and bring in their nieces and nephews. It is still within the family – a very good example is that of Tan Sri Robert Kuok. He has got a number of his nephews running the ship. In fact Shangri-La International is run by his nephew. Jernih Insurance, another part of Robert Kuok's conglomerate is also run by another nephew. So it is like this: they will try very hard to bring in their family members – if not their immediate kids, then it is their nieces and nephews. In our case, the CEO has only one daughter and the daughter is a bit young in terms of maturity. I suppose she still has a long way to go. But what they are trying to do is that they are trying to groom her as much as possible and for the last five years I think it has been so. She has been sent from one division to another, trying to pick up as much as possible. And in the five years ... well if she is still not ready, they will keep trying until one day, if that is not possible, then they will probably bring in another one of their family members.

Although Bernard was not able to clearly explain the CEO succession process, he stated that it was clear to those in the company that the CEO

was progressing his daughter (who is his only child) from one department to another to familiarise her with the operations of the company for eventual succession.

While writing this analysis, further contact was established with Bernard to clarify a point. This contact was made seven months after the interview and it was during this second communication that Bernard pointed out that a number of events had surfaced in his company and that, in his opinion, the CEO's daughter would 'never be ready' for the job. Since the interview with Bernard, there had been some breakdown in relationships and communication in the family and the daughter had made it increasingly difficult for her father to hand over the reins of the company to her. Bernard went on to say that the founder and his wife had tried to recruit members of their extended family for succession but had had no success thus far. He also informed me that the CEO had begun to consider the possibility of selling the company to interested parties if no family member could be found to succeed him. CEO succession efforts in Berani appear to have been fully focused on family members and no thought had been given to the possibility of a non-family CEO. Indeed, the idea of selling off the entire company appears to be preferable to having a non-family CEO. Whether such a preference is a strategic rationale or a cultural norm was not explored in this investigation but could be an area for further research. As continuity of family ownership seems important, it can be surmised that this preference is probably a cultural issue. This would be in agreement with what Yeung and Tung (1996) describe as the Confucian teaching on *ganjing* and *renqing* (feelings

between people within an interpersonal relationship and the importance of maintaining the relationship respectively) and *mianzi* (face or social status and prestige). *Ganjing* and *renqing* meant that only those with the closest interpersonal relationships, that is to say, those in the same biological family, would be allowed to take over the company. It was unthinkable to the founding member of the company that a non-family member would take over the helm of the company – this position was part of the family’s legacy and was to be inherited by family members. *Mianzi* dictated that allowing someone from outside of the family to be in that position would constitute an immense loss of one’s own social status as it demonstrated one’s inability to protect one’s interests in the company. In societies that practice father leadership (Low, 2006), the inability to provide a biological heir to the top position could be akin to loss of *mianzi* faced by childless couples in Chinese societies.

There is, of course, another possibility for the lack of succession planning in family-controlled publicly listed companies. Since many of these companies have been founded by members of the family and used to be family-owned, it is likely that there would be a sense of what Sonnenfeld (1988, pp. 62–68) calls *heroic stature* and *heroic mission* with the founding family. As Sonnenfeld explains, the heroic stature is a special distinction that a position of command allows a person to stand above the group and therefore, to occupy a unique role in that position. The heroic mission is the feeling that one has a unique role to fulfil and that only the person with a combination of the heroic mission and stature would be capable of carrying out the responsibilities of the job. These concepts could be

extended not only to the person leading to the company but also to the family members of the leader as well. This could help explain why the CEOs of family-controlled companies engage in dynastic succession; they feel that only family members are uniquely able to fulfil the mission. In the case of Berani Berhad, because the CEO was unable to either groom his only child or to secure the services of his extended family for the position, he decided that his heroic mission had come to an end and he, therefore, preferred to sell the company rather than let an outsider run it on his behalf.

During the interview Bernard noted that Asians generally did not like to talk about death and that discussion on succession was often perceived by the patriarch of the company as talk of his demise. When asked whether discussion on leadership succession that involved the CEO or founding member of the company was taboo, or if such discussion might be interpreted as talking about the CEO's impending demise, he stated emphatically:

Oh yes, it is true, it is true. It is very much taboo. I know so many companies personally. I have many good friends who are children of the CEOs. Whenever they gather to talk about succession planning, they would be told to be quiet by the elders.

It is unlikely that this discomfort about talking about death is solely an Asian, or a Malaysian, peculiarity, but there is a common perception among Malaysian Chinese that talk of succession equates the impending

demise or senility of the founder. The result is an avoidance of the subject matter and therefore, neglect of the necessity to plan for succession at the CEO level. Overcoming such an obstacle would not be an easy task by any means but this factor needs to be recognised as an important component of Asian leadership succession planning and implementation. The perceived connection between succession and death may also provide a rationale for keeping CEO succession within the family. It is customary for family fortunes to be inherited only by members of the family. As the company is viewed as belonging to the family, placing control of the family's fortune in the hands of someone outside of the family would generally be unacceptable.

Consideration is now given to the responses of Daniel who represented DesignerPens which is involved in the manufacturing and marketing of stationery and writing instruments. His company refers to the CEO as the president. The president of the company owns 35 percent of the company. Daniel revealed that the company's President has a daughter working in the company and who has been moved from department to department. Daniel, though, was not as unequivocal about dynastic succession in his company as Bernard had been. When asked if the President's daughter would succeed her father, Daniel said:

We are not sure, there is, there may be a possibility. His daughter is already an assistant vice-president here in corporate planning and he is exposing her to the business. She is a Cambridge graduate and she is here in the company.

The lack of certainty on the part of Daniel could be due to two factors; (a) Daniel was quite new to the company having joined it only six months earlier and (b) that his company's president was only 52 years of age at the time of the interview. The fact that his company's president had brought his daughter into the company and had orientated her by exposing her with the various departments would suggest a dynastic CEO succession was being planned. This mirrors the practice seen in Japanese companies such as the Kikkoman Corporation where the CEO of the company Mogi concedes that his son was working his way through the company in order to gain the experience necessary to take over the reins of the company (Krisher, 2009). In DesignerPens Berhad, the CEO was, presumably, mentoring his daughter to eventually take over as CEO. The reason for keeping it within the family has been explored from a cultural perspective above when considering the situation in Berani Berhad. But apart from cultural reasons, another possible motive for keeping top positions in the family is the theory of 'good fit' (Wissema, Van Der Pol & Messer, 1980; Hambrick & Mason, 1984) which states that there had to be a match between the new managers and the company's strategic needs, and that superior performance follows the establishment of a good match of the successor's characteristics and skills and the requirement of the job. From the examples seen above, it appears that as far as family-controlled publicly listed companies are concerned, the best fit would be family members, immediate or extended, as these were people that the CEO could trust, was in constant contact with, and who would understand and accept the concept and practice of father leadership unreservedly.

During the interview, Daniel made it clear that succession at the highest level was not a matter of urgency. He had this to say of his company's president:

It is not a priority with him at the moment. He does not see that because basically he has a relatively young team that he is leading and we are at the growing stage and everybody is kept busy in terms of growing the company. But in Europe, yes – in Europe, the CEO of the European operations is already 60 or so and has a good five more years to go. Even in Mexico, even the product development head, they are all reaching 65 so there is a concern, particularly with our Chief Financial Officer over there. They have started to sound the alarm there but the president has not really put this as part of the agenda here at this point in time.

The above suggests that the company viewed 65 as a suitable retirement age for CEOs and perhaps for the president. If this was the case, the President would have another 13 years before he retires (he was 52 at the time of the interview). For this reason, succession preparations at his level could be a low priority since he had a daughter who was also working in the company and who might eventually succeed him. The possibility of accidental incapacitation or death apparently does not register in his planning or it was a taboo subject to discuss.

The matter of succession being a taboo subject among Asians was raised by Huang (1999) who investigated succession in Taiwan. The findings of this investigation lend support to Huang's research and could be an area for further research. On a personal note, while writing this chapter, I

recalled how, as a 25 year old, I had discussed the importance of making a will with my mother. In my mind I thought that it would be prudent for her to ensure that her properties were adequately protected from unnecessary taxes in the event of her demise (she was 65 years of age at that time). Her immediate retort, which caught me by surprise, was a terse, 'Why are you in such a hurry to see me die?' This was followed by, 'Why are you in such an unholy haste to get hold of my property?' Although I had intended no harm or disrespect, none of my siblings came to my defence. Indeed, their reactions demonstrated their shock and disbelief that I could even broach such a subject and the conversation was immediately terminated. My apologies and explanations were not accepted and I was roundly reprimanded for being so insensitive of our culture and of not understanding what could or could not be discussed openly. In the organisational context, it is possible that the reluctance to discuss succession is due to the same superstitious fear that my family exhibited that the mere mention of the subject might be a bad omen for my mother.

Having considered what Daniel had said, the responses by Gary are now analysed.

Gary's company, Great Flours Berhad, is a fairly large company involved in flour milling and the manufacturing of animal feed, cooking oil and a large range of toiletry products. Great Flours Berhad is part of a holdings company that has over 100 companies globally. Gary was forceful in his

response when he said that his company believed in being professional and did not favour dynastic succession:

Though it is a family-owned organisation, the company believes in being professional. In fact, dynastic succession is something that we don't believe in. How can we believe that the boss will say, 'I am a smart man, I am a good businessman and my son will also automatically be smart and intelligent and also a fine manager'? It doesn't work that way. So, professional managers are engaged to run the organisation.

However, he contradicted this some ten minutes later when he was asked whether the founder of the company was still the CEO and chairman. He replied:

All has been passed down to his son – that's it. Once the owner, always the owner, isn't it? Like the cartoon strip in Singapore – one character said, 'how good it would be if I am the CEO of this organisation that belongs to [the father of the company]'. But the second cartoon [character] says, 'No, no, no, I don't want to lead this organisation, I would like rather to be his personal assistant'. Then the third cartoon [character] says, 'I don't want to be any of these – I only wish to be his son'. And right now the guy who heads the entire group is the eldest son of the founder.'

When Gary was asked what role the founder played since the positions of CEO and chairman have been passed down to his eldest son, he replied:

He is the owner – that is all he needs to say. He is the owner and the father of the group chief. He is the owner.

There is clear evidence here that, contrary to his earlier assertions, Gary was now confirming that the founder of the company, who was also the owner of the conglomerate, could do what he wanted and where CEO succession was concerned, what he wanted was that it be kept within the family. The desire to maintain the CEO's position and other key positions within the family was further reinforced by Gary's reply to the question of what had been planned for the next round of CEO succession. He said:

The son has a brother and cousins. And now it has come to the second generation and each one of them have cousins and sisters. This is all quite well planned. Well, we know, without a doubt, that the founder's son has cousins who head the operations in Malaysia and Singapore. Another one is heading China, one in hotel and one in media – every one of them is a CEO of a big conglomerate.

Gary was quick to add that although the position of the group's dual CEO and other key positions were reserved for family members, nonetheless these family members had to demonstrate their ability and competence. He was then posed the question on how he would react if he had to report to a family member who was less capable than him. His answer, which is reproduced below, bears similarities to the responses recorded from Bernard, Daniel, Henry and Jeremy who were all employed in family-controlled publicly listed companies:

Well, he is the boss, he owns the company and we cannot climb and say, 'I should be the one'. I mean, he started the company, it is his money and he has got the vision.

It can be surmised that, contrary to Gary's earlier assertions, the multi-billion dollar conglomerate controlled by the founder of the Great Flours employs dynastic succession practices for key positions and that the company will do so for as long as there are enough family descendants to draw from. Malaysian employees appear to understand and accept this as a cultural norm of organisational life in Asian companies and are unlikely to challenge this practice. This concurs with the findings of Johnson et al. (2003) who report that a high level of compliance and submission is to be expected in countries characterised by high power distance. This is reflected when Gary said "once the owner, always the owner" followed by "he is the owner – that is all he needs to say. He is the owner and the father of the group chief. He is the owner". The inclusion of "that is all he needs to say" is suggestive of the need for others to comply to the wishes and demands of the owner of the business, even though the entire holding company is a family-controlled publicly listed company rather than a family-owned organisation. Gary's subsequent comment about father-son hierarchy supports Low's (2006) assertions on father leadership and perhaps goes as far as to suggest that this might be more in line with Hanada and Yoshikawa's (1991) definition of *oyabun*, but in this case the word *oyabun* would be interpreted to mean the 'absolute father' who is to be obeyed and not just 'supervisor'. This is also reflected by Gary's confirmation that the owner of the group of companies could dictate the way in which succession is implemented in all the subsidiaries and this can be seen in the manner in which immediate and extended family members have been brought in to manage the various subsidiaries. Much like the Japanese form of *kogaisha* (or child company) reported by Ito

(1995), it would appear that subsidiary companies under this organisation are expected to look to their parent company for instructions when faced with situations such as leadership succession.

Consideration is now given to the companies represented by Henry and Jeremy. Henry is employed in a fairly large company, HanSoon Berhad which manufactures and markets a large range of consumer goods while Jeremy, until about 12 months ago, used to work for J-Power which is in construction and property development, water treatment and power generation. The situations in both of these companies were similar to that of the other three family-controlled publicly listed companies. In HanSoon, the founder of the company was still the CEO but his son had already been designated heir apparent. In defending dynastic successions Henry intimated:

I would say that there are many cases like this in Malaysia – companies like Tan Chong, the Hong Leong family, our company. There are quite a number of companies in Malaysia where the CEO position is basically given to those in the family.

This was echoed by Jeremy who stated that because the founding family owned nearly 60 percent of the shares of the company – the company is one of the largest publicly listed companies on the Kuala Lumpur Stock Exchange in terms of market capitalisation – not only was CEO succession limited to family members, but the process was kept secret as well:

These processes are not made known but I think it can be seen by the way that they bring their kids up and by the way

that they groom them. It is not [made public], of course it is a sensitive matter, and they will not comment on this – it is a family matter. They do not talk about CEO succession because none of the non-CEOs are those who have a say at what goes on in the company.

The family did not feel that they had to discuss the matter of CEO succession with the rest of the board as the family was in control of the board and the company. There is a clear line of demarcation between those in power (those in the family) and those who do not have the power (that is, those who are hired to manage the company). When queried as to how employees might feel about such a situation, Henry replied that it was something Malaysians generally accepted. The company had made this situation easier to accept by providing generous perks such as company cars, company drivers, accommodation and large salaries.

The seemingly compliant manner in which Malaysians accept this has been explained in the consideration of culture on succession management. This acquiescence can be expected in a society that practices the concept of *rukun* (the Malay notion of hierarchical order) and the Confucian teaching that everyone must know his or her place, order, duty and station in life. As a reward for being submissive, companies in return offer a number of benefits to those who conform. This can be explicated by considering the practice of *guanxi* (personal and social relationships) and the interlinked concepts of *ganqing* (feelings between people within an interpersonal relationship), *renqing* (the importance of maintaining the relationship), *mianzi* (face or social status and prestige) and *lian* (being perceived as a

morally upright person in society) as described by Yeung and Tung (1996). By being submissive and by not challenging the status quo, employees were giving *mianzi* to the controlling family members who, in turn, must then maintain *ganqing* and *renqing* by providing suitable and adequate rewards to their subordinates who may be as, or perhaps even more, qualified as they are to lead the company. All this then allows the controlling family members to appear to be *lian* or morally upright in that they were practising an acceptable form of social exchange. In perusing the influence of culture on succession, this investigation reasoned that high power distance might explain why employed staff members accept dynastic succession in family-controlled publicly listed companies but pondered if the desire among employees to maintain commonality and connectedness to their business, or employer's 'family' would be strong enough to retain them in the company knowing that the top positions were not within their reach. The answer appears to lie in the fact that Malaysian companies have taken care of this by offering inducements to keep highly qualified employees sufficiently appeased to remain in their jobs.

The practice of dynastic succession is not necessarily ineffective or inefficient. According to Henry, in HanSoon, the heir apparent had proven his competence by increasing revenues from RM400 million (Ringgit Malaysia 400 million – approximately NZ\$ 200 million) to more than RM1 billion (approximately NZ\$ 0.5 billion) even though he had not formally taken over the CEO's position. Nevertheless, it is noted that succession requires the presence of an adequate pool of qualified and

groomed candidates to maintain a high calibre of leadership and that the practice of dynastic succession, by definition, means that the size of such a pool is limited by the number of suitably qualified family members.

In family-controlled publicly listed companies the scenario is relatively clear. Founding family members control large shareholdings in their own companies and this allows them a free hand in CEO succession. Given that 67.2 percent of Malaysian companies are family-controlled (Claessens, Djankov & Lang, 1999) and that most Malaysian shareholders tend to be passive and defer to the major shareholders (Zhuang et al., 2000) it is likely that this practice can be seen not only in the publicly listed companies investigated but also in other publicly listed companies that display similar shareholding or family-control characteristics.

Expediting this level of control is the acquiescence among those who are hired that those doing the hiring have the right to make decisions as they see fit. From the findings of the data collected, this research finds dynastic succession to be the prevalent form of CEO succession in family-controlled publicly listed companies in Asian organisations. This is likely to continue to be so because (a) employers, by virtue of their large controlling shareholdings in the businesses that they founded, view their companies as their family's inheritance and would, therefore, only be willing to pass control to family members, and (b) employees expect and accept this practice because of their acceptance of the notion that the owner-employer has the right to do as he or she pleased with the business.

Attention is now drawn to CEO succession practices in non family-controlled publicly listed companies.

CEO succession in non-family-controlled publicly listed companies

Ezra is the CEO and MD of Ellaconstruct, a medium-size company in the construction industry. In Ellaconstruct, the final decision on who the CEO would be is in the hands of the board of directors. The company has a nominating committee that proposes possible candidates. The candidates could be from within the company or from outside, and it was up to the board to shortlist potential candidates or, where only one candidate had been proposed, to either endorse or reject the candidate. As the CEO of the company, Ezra is part of the nominating committee. Ezra stated that he was brought in as an outsider-successor when he became the CEO of the company as the previous CEO had not prepared anyone inside the company to succeed him. Since becoming the CEO, Ezra had elevated one of his employees to the position of Chief Operating Officer (COO) as part of a succession plan to groom potential candidates for leadership roles. Ezra indicated that although he was preparing the COO to be his eventual successor, the final decision rested with the board. The board could decide not to accept the nominated candidate; it could, instead, choose to renew the contract of the incumbent. In fact, Ezra was already past the commonly acknowledged retirement age but had had his contract

renewed. The COO was also past retirement age and, like Ezra, was working on a renewable-contract basis. When posed the question on whether companies should stipulate a retirement age for CEOs, Ezra firmly stated that there should be none. He was then asked what he would do if the board offered him a contract renewal. He replied that he would be obligated to accept the renewal as there were projects that still required his leadership. If a renewal contract should eventuate it would only serve to exacerbate anxieties among hopeful successors. When asked how such a situation would be dealt with, Ezra's reply was that this was up to the wisdom of the board and that the easiest thing for the board to do was to not renew the CEO's employment contract. While this might give the process a level of flexibility, it does little to reduce CEO-entrenchment. Without a retirement age, CEOs could indeed perpetuate conditions to keep themselves in office for as long as possible essentially creating a form of organisationally-generated entrenchment. Thus, while on the one hand, Ezra claimed that the company had a systematic approach to CEO succession, there was, on the other hand, a lack of a system to help to bring the process about smoothly. The ability to renew contracts is a factor that encourages CEO entrenchment as the incumbent can use it as a means to delay the development of the heir apparent.

The inference that can be drawn from Ellaconstruct's situation is that CEO succession decisions rest with the board of directors but the succession processes do not appear to be formalised and might encourage CEO entrenchment.

Having considered how CEO succession is implemented in publicly listed companies, attention is turned to the sole privately-owned company.

CEO Succession in a privately owned company

FineAds Berhad, which was represented by Frederick, was formed by two friends who own the company but who do not play active roles in the operations of the business. The organisation is a small company in the advertising industry in Malaysia. Frederick, who holds the titles of CEO and executive director, was hired to manage the company. He stated that the responsibility of preparing a successor had been left entirely in his hands and he insisted that he took the task very seriously. Frederick stated that a CEO succession plan existed in that he had been able to identify potential heirs apparent for the company. During the interview, he conceded that all the candidates he had identified and had groomed had encountered problems with either or both owners and that every one of his potential successors had subsequently resigned. Ultimately, the choice of the heir apparent rested with the two owners who had, hitherto, been unable to agree to any of Frederick's choices. This had gone on for the 12 years that Frederick had been working in the company. During the interview, he remarked that he was only a year or so away from his 65th birthday and he had announced his intention to retire when he reached 65. On his current potential heir apparent, Frederick commented that he had

been informed by the owners that they did not like nor trust her, citing that the potential heir apparent was 'too pugnacious' for their liking.

Subsequent to the interview, I contacted Frederick by telephone to verify if he had indeed retired from the company. It was not surprising when he chuckled and said that he had been asked by the owners of the company to continue in his position and that he had agreed to do so. He stated that he would continue this on a year-to-year basis until his successor was identified. When asked, he said that he had not determined on a new retirement age.

CEO succession practice in this company was not very different from those found in publicly listed companies. As had happened in the non-family-controlled publicly listed companies, in Frederick's company, the two partners had the final say and had thus far not agreed with any of the identified heirs apparent. When asked about this, Frederick said that there were few guidelines as to what may or may not be acceptable to the owners of the company. Neither owner has children who would want to be a part of the industry and this means that dynastic succession for the company is out of the question.

The next section considers the implications of the findings on CEO succession in the companies investigated.

Implications of the findings of the processes and models that are currently employed for CEO succession

The findings show that most of the organisations investigated do not have formal processes or models for CEO succession. This is evidenced in the similarities that can be seen across the various categories of companies involved in this study. Family-controlled publicly listed companies appear to practise dynastic CEO succession but the actual processes involved in dynastic succession are not made known to company employees – there were unwritten, internal rules that this investigation was unable to look into and which would form an interesting area of future research. For family-owned publicly listed companies, what seems to be of overriding importance is to reserve and retain top company positions for the family. In situations where members of the immediate or extended family are not available, plans to bring in a non-family successor have not been encouraged. Indeed, as seen in the case of Berani Berhad, the preference is to sell the company rather than have a non-family member lead the company. The desire to maintain a tight family-only stipulation on CEO succession is made easier by the influence of culture on succession practice in Malaysia. Elements of the *budi* complex and Confucian teaching appear to have substantial impact on how succession is practiced making the preservation of top management positions for family members of those who controlled these publicly listed companies easier to accept and less likely to be challenged. Furthermore, companies could argue that the best form of leadership succession was one that had a

good fit between successor and position and that the best fit would come from the biological offspring of the leader.

In the case of the other company categories, heirs apparent can be prematurely dismissed by their respective boards or by relevant government authorities despite the time and money invested in grooming them. Not only is this deemed by the respondents to be a waste of time and money, it does nothing for the reputation of the company in the eyes of those who are ambitious enough to want the top jobs. There appears to be an underlying lack of formalised succession plans that contain both criteria and time frames to ensure that heirs apparent do indeed become CEOs. The need for flexibility was cited as a reason for this lack of formal plans but the very flexibility that these companies desire can be a double-edged sword, in that the company can use it to clear the way for heir apparent ascension or to cut the heir-apparent out of the picture entirely.

Summary of the processes and models that are currently employed for CEO succession

CEO succession in Malaysia seems to be flexible and informal. The manner in which CEO succession is carried out is more appropriate for leadership replacement than it is for leadership succession. Regardless of whether the CEO succession results in the elevation of family or non-family members, Malaysian companies appear to be in need of more

formalised systems to enable smoother CEO succession planning, implementation and transitions.

Having considered the matter of CEO succession, attention is now drawn to the processes that are employed for succession of upper-echelon managers; the demonstration of organisationally generated entrenchment; the feasibility of co-leadership in Malaysian leadership succession processes, and the enhancers and inhibitors of succession planning and implementation.

The processes that are currently employed in leadership succession for upper-echelon managers

This section analyses the manner in which upper-echelon managerial succession is implemented in participating companies. For convenience, the term *managerial succession* is used here to distinguish succession at this level from CEO succession.

Of the nine companies investigated, only two companies, AmSure, represented by Amar Singh, and Cilicon, represented by Charles and Chester, had formal leadership succession plans and these are analysed

first. Managerial succession in the remaining seven companies was implemented in an *ad-hoc* manner.

Managerial succession in a government-linked company

The succession plan that Amar Singh described takes leadership succession needs at every management level into consideration. His description was, in many ways, similar to the Leadership Pipeline model proposed by Charan, Drotter and Noel (2001). As mentioned earlier, this plan, or what the respondent referred to as the company's succession 'infrastructure', came about as a result of the merger of AmSure with two other fairly large financial institutions. Amar Singh emphasised that this succession plan was not subject to the same level of government influence and interference as was CEO succession, although some government influence was exerted over general manager appointments.

According to Amar Singh, managers are assessed on three levels using what the company has designated as Assessment Centres One, Two and Three. Assessment Centres One and Two are for junior managers and middle-level managers respectively and these will be briefly discussed in the following paragraph. Assessment Centre Three is where those in the top echelons are prepared for further responsibilities and higher positions and it is at this level that most of the discussion will be focused.

In terms of training and development, junior-level executives who have the ability and competence to become middle managers are selected for Assessment Centre One and are trained by the organisation's own trainers. The training provided is largely for technical skill competency. In Assessment Centre Two, external consultants are engaged to expose selected candidates to areas such as leadership and management skills. Amar Singh said that this provided a means of career advancement for employees but he added that it was not easy for candidates in Assessment Centre Two to progress into Assessment Centre Three.

Candidates who qualify for inclusion in Assessment Centre Three are trained in advanced leadership skills and from this pool of candidates in Assessment Centre Three approximately 100 employees are further selected for what the company calls the 'Top 100 Programme'. These 100 employees are then assigned to various 'stretch projects' that will require them to lead various business units. Following these stretch assignments, a further round of selection is made of these 100 candidates and the successful ones, now termed as the 'high-potentials' by the company are sent overseas for short general management and leadership programmes at prestigious institutions such as the Asian Institute of Management in the Philippines, Harvard Business School and Michigan University in the USA. According to Amar Singh, there are usually approximately 30 high-potentials at any one time. In addition to this formal education, the high-potentials are also further assigned to manage various projects to enable them to put to use what they have learned. Successful high-potentials are eventually promoted to head the various business units or subsidiaries of

the company. This description of the 'Top 100 Programme' is similar to that of Byham's (2002) Acceleration Pools model and AmSure's succession infrastructure appears to have elements of both the Leadership Pipeline model and the Acceleration Pools model.

An affirmation of AmSure's commitment to leadership succession is that the identification of successors is listed as a key performance indicator for upper-echelon managers. These senior managers are required to ensure that there are two high-potentials for every senior management position in the company. Such a strategy might pose a challenge for small companies as it would probably increase the likelihood of competition for limited management positions. The size of AmSure Berhad – it has over 20,000 employees and more than 100 subsidiaries – allows for such a strategy as there are many positions within the entire organisation for these high-potential candidates. The company also had what Amar Singh called 'temporarily parking lots'; these are used to house, in the interim, candidates who are ready for promotion but for whom the appropriate positions are, as yet, unavailable. These temporary parking lots include short- to medium-term assignments in departments such as the Audit or Human Resource departments and have been designed to reduce employee resignations because of possible frustration arising from having to wait for the appropriate positions to become vacant. The provision of these transitory positions is deemed to be necessary as there have been situations where incumbents refused to vacate their positions. The most commonly encountered reason for such displays of entrenchment was that the incumbent was only a few years away from retirement. In many of

these cases, the company had preferred not to upset the *status quo* and had allowed the incumbents to remain in their positions until their retirement. Amar Singh recalled how, in some situations, incumbents who are two or three years shy of retirement have been offered what he called 'golden handshakes' or financial inducements to hasten their departures in order to address concerns of possible heir-apparent resignations that could arise from the frustration of a protracted wait in the 'temporary parking lot' for the position. Despite the use of induced exit strategies for the incumbent, Amar Singh stated that there had been cases of heir-apparent resignations because "they know that they are in the pool but they sense that they are not moving fast enough, and they are not patient" but he added that the resignation rate was, in his opinion, an acceptable 10 percent.

An indication of the company's resolve to bring about effective managerial succession was the 2007 executive decision on funding for succession preparations. In planning for the 2008 training and development budget, AmSure had appropriated 32.7 percent of the total training budget for leadership development, increasing it from the 5 percent proportion that had been in operation since 2002. In addition to this, the overall training budget was also increased although Amar Singh declined to disclose any figures during the interview except to say that it was very large and significant. The substantial increases in emphasis and in the training budget for the development of leaders suggest that AmSure was taking leadership succession seriously. Amar Singh claimed that as a result of these strategic actions, the company had been able to record a 40 percent success rate in recent years (2006 and 2007) since the inception of

the succession programmes in 2003. Whether the level of the success of this plan will increase further remains to be seen as the overall plan had only been fairly recently implemented.

A feature of AmSure's succession plan is that employees who have been selected as high-potentials are not officially informed of their high-potential status. When asked why this was so, Amar Singh remarked:

No, he is not informed. But I think, more often than not, I think, by virtue of them being identified to attend these overseas programmes, indirectly it will give them the indication that they are in the pool.

One of the reasons why we don't want to tell them is because we don't want to build up their expectations too high or to fulfil a prophecy that, at the end of the day, is not beneficial for us. Sometimes they are so good they may start marketing themselves outside. So it is not made known to them but their managers know about it.

For AmSure, the concern that they might be training an employee for another company was cited as a valid reason for the adoption of what could be termed as a 'notification-by-inference' approach to succession. This could be an indication that AmSure believed in what Yong (1996) and Sheppard (2001) said about Malaysian employees; that Malaysian employees are money-oriented and would be happy to move on to better-paying jobs even if their current employers had provided them with the appropriate training.

Amar Singh stated that another reason for the desire to maintain silence over the high-potential status of the candidate was that it afforded the company a level of flexibility to delay, or to hasten where appropriate, the advancement of the employee. However, that which appears as flexibility in the eyes of the company can be perceived as the lack of transparency on the part of the high-potential. This is exacerbated by the fact that a high-potential candidate who has been sent to, for example, Harvard University for training is undoubtedly going to have high promotion expectations. That being so, AmSure's preference to remain tight-lipped about a high-potential's inclusion in the succession process may not work in its favour; as Amar Singh had earlier stated, "they know that they are in the pool but they sense that they are not moving fast enough, and they are not patient". It is possible that for some of the high-potentials it is not a question of moving fast enough; rather it is a question of in which direction they are moving.

When asked to rate how successful the succession plan had been, Amar Singh rated the infrastructure of the succession six out of ten (on a scale where '1' represents 'very poor' and '10' denotes 'excellent'). He was confident that the company now had a formalised succession system which could be easily understood by its employees. In terms of actual implementation, he rated the succession programme four out of ten. One of the reasons he cited for the low rate of success was the issue of the inability of the company to remove non-performing Malay employees as AmSure is a government-linked company and had to adhere to the government's affirmative action policies.

Having considered AmSure, the discussion now focuses on how managerial succession is implemented in family-controlled publicly listed companies.

Managerial succession in family-controlled publicly listed companies

In the case of Berani Berhad, the matter of succession was left to the various division heads. In the words of Bernard:

I think that as far as [this company] is concerned, it is very much left to the division heads. The company as a whole, the CEO has been talking [a lot] about succession planning but as a whole, very little is done. The HR department, we do have a Human Resource department, but it does very little in terms of succession planning. A lot is actually left to the division heads. There is talk, but it is mere talk. But as divisional managers of the strategic business units, we really feel the need to have succession planning. But it is basically up to the strategic business unit heads or the division heads to go ahead and plan for people to succeed. But from my own observations of my own division as well as some other divisions, in fact very little was even done for replacing the strategic business unit heads.

Berani does not have a formalised or uniform succession plan and the decision to leave the matter of leadership succession in the hands of the division heads would be unlikely to help the company attain any level of

consistency in succession planning. Bernard agreed that this inconsistent approach could give rise to complaints of inequity between divisions that do have some form of self-imposed succession planning and other divisions that do not practise any semblance of succession. Employees in divisions that do not have any succession plan could complain about the lack of development and promotion opportunities in their own divisions. Conversely, those in divisions that do have succession plans might counter by protesting against the rigours that succession planning places upon them.

That succession was not an important item on the corporate agenda of Berani Berhad was clearly stated by Bernard when he conceded that little had been done to facilitate the succession of the heads of the various strategic business units that the company has. This was strengthened by his own admission that although he was concerned about succession, he had done little to plan for his own successor. For Bernard, succession was very important because of the urgent need for continuity especially at the operations level, and more so for him as he was managing a number of hotels. When asked why he and the other division heads had done little to implement succession processes in the company, he replied:

Again, it is very much dependent on, at the end of the day, the CEO. If the CEO makes it a point to do more than just mention that succession exists, if he practises it to a larger extent, then I think that he will put in place steps to ensure that it happens. In that process, whoever he takes in, he has to make sure that the new person believes in his ideas on succession planning and will follow it. But if he, if the CEO himself keeps mentioning succession planning, but in

practice does very little, then obviously there is going to be a problem.

He further added that in order for companies to do better in this area, formalised plans were needed:

In fact, that is the main problem. You see, as I said, it is all the case of succession planning, succession planning, succession planning and they keep talking but the next thing you know is that they say, 'Oh, here is my niece, here is my nephew, here is my son and here is my daughter'. You find that it is very difficult because, as I said, it is still a dynasty. It is still a dynasty in Malaysia. You know, like a lot of public listed companies, we do get people like KPMG, PriceWaterHouse to come in periodically, as part and parcel of training skills, financing and all that. So we do get these people to come and do a report on the company. Very often you find that one of the critical issues mentioned about a lot of these Malaysian publicly listed companies is that there is a lack of plans, real plans, put in place for succession planning. That is the problem. There is no formal structure and it is like shooting in the dark. I think that is the reason why you find that people like Korn/Ferry [International] and all these big head hunters – they are still doing extremely well in Malaysia. If you have succession planning in place, obviously when senior managers leave, within the organisation there would be another layer ready to take over. But unfortunately in Malaysia, you don't get that.

At this point of the interview, Bernard became visibly animated and especially so when he mentioned the difficulties caused by the practice of, what he called, 'dynastic succession practices', albeit at levels below that of the CEO. By this he meant that his CEO would often insist on the inclusion of members of his immediate and extended family as part of the

organisation. According to Bernard, this not only occurred in Berani Berhad but was also a common happening in companies he had worked in previously and in companies which he knew. Bernard thought that because of the observance of high power distance in Malaysian companies, senior managers find it difficult to say 'no' to the CEO on such a matter. The lack of a formalised plan makes it easy for incidences of nepotism, or what Bernard had called dynastic succession practices below the CEO's level, to occur and in Bernard's opinion, formal plans would be a means of curbing such practices.

Earlier, I had theorised that family-controlled publicly listed companies engaged in dynastic CEO succession. The above assertion by Bernard that dynastic succession practices extend to levels below the CEO supports the notion of dynastic succession; by placing family members in various positions in the business, the CEOs were exposing family members to the organisation in preparation for their eventual elevation to key managerial positions. Thus companies that practise dynastic CEO succession also take steps to ensure that they are able to maintain a reservoir of suitably groomed family members to draw from and this is done by extending dynastic succession practices further down the organisational hierarchy. The rest of Bernard's response on formalised succession planning is worth reproducing:

So what happens is that, you know, a lot of times we get panicky. Oh that position, that guy is leaving but there is nobody capable to succeed him. So what do we do? We quickly run over to KPMG or to Korn/Ferry and tell them that we need a replacement. Get us one, immediately – so it

is the panic button. And that goes to show that among Malaysian companies there is in fact very little succession planning. And that is not very good because if you need strategic continuity, then you have a major problem. You can have someone [who is leaving] decide that he is going to shake this up his own way – and this is precisely what happened to this subsidiary that I was talking to you about. The old managing director had his contract extended a few times until he was so tired. He really wanted to go. So we went to this head hunter to try and get a replacement but we couldn't find anyone suitable. Ultimately what we had to do was to pick someone from another division and put him into this company to run. In the process, we created problems on the other end ...

This was a clear case of the company using contract renewals as a means of circumventing the need for succession planning. A contract can only be renewed if the person being offered it accepts it and in the example cited above, it was a case of one renewal too many. The earlier contract renewals were possibly accepted as a demonstration of goodwill and loyalty to the company but, as the incident demonstrates, even loyalty has its limits.

It is evident that there is a lack of succession planning in Berani Berhad and that the organisation has essentially taken a leadership replacement approach in this area. The company's approach is to renew the outgoing employee's contract, and if that fails, to then get a replacement from one of its subsidiaries or from outside the company. Its strategy is to deal with succession challenges on a piecemeal basis.

The *ad-hoc* approach to managerial succession was also observed in Great Flours. Gary's answers to the question of succession for his managers were often contradictory to what he had earlier said; in a number of situations, he had to reverse his position as he became aware of problems that arose from the answers that he had offered during the interview. Some of these are described below. He also claimed that succession planning was well in place but his later responses reveal that in effect, there were no succession plans in Great Flours Berhad at all.

Gary, who is the managing director of Great Flours Berhad, started off the discussion on managerial succession by carefully describing the company's involvement in various industries such as flour milling, the manufacturing of animal feeds and chemicals, plantation management, property development, entertainment and fast-moving consumer goods. He went on to say that each of these strategic business units had essentially the same organisational structure. Gary had overall charge of a group of strategic business unit. Each strategic business unit was headed by a senior manager. These senior managers report to a general manager who, in turn, was answerable to Gary. In total, 13 senior managers (who were also referred to as division managers or category managers by Gary) report to the general manager. With such structure in place, Gary stated that he was confident that succession was on a sure footing. He said:

I don't think that succession in the organisation is going to be a problem. If you look at the organisation of the company that I manage, we have one general manager and 13 other senior managers. Any of the 13 senior managers can be the general manager when the time comes. And the general

manager is, like I said, the heir apparent to the managing director's post.

At first glance this appears to be a workable arrangement but when probed further on the merits of his statement that any one of the 13 senior managers could be the heir apparent to the general manager, it became quite clear that no formal training had been provided to groom these senior managers to take over the general manager's responsibilities. Gary's reply is reproduced below:

Each senior manager is by himself in charge of a small-to-medium company. Say, for example, the division manager taking charge of the flour – the turnover in Malaysia a year is in the region of RM 700 million (Ringgit Malaysia 700 million – about NZ\$ 350 million). He has his team of sales people and his team of marketing people reporting to him. There is a credit controller. He also liaises with the production department who will then produce according to what he thinks is required and he plans what to produce. Then he sectionalises his buyers into bulk buyers, pack buyers and small unit buyers. He has a team of people who service the wholesalers, a team of people who service the big end-users like the instant noodle manufacturers and the big bakeries. So on his own he is like a CEO – but we don't have so many CEOs in the company that you can take a stone and throw it and hit one. So they are in their own ways exposed to it and they know how to run – just taking on a bigger job.

Gary's reply is typical of an on-the-job training answer. The impression given by Gary is that the job of the general manager can be handled by

any one of the 13 senior managers as it was essentially just a bigger job. But it should be apparent that the challenges of managing 13 strategic business units are more demanding than those managing only one. Success in managing one strategic business unit is not a guarantee of success in managing a group of strategic business units. There are changes in human relations and reporting dynamics, for example. It is easier to manage junior employees in one unit than 13 other senior managers. For instance, the 13 senior managers overseeing their own strategic business unit would presumably have larger egos and aspirations than junior employees within a single strategic business unit.

The question of how he would choose from any of the 13 senior managers was then posed to Gary, who replied:

There is no clear-cut method of how you choose. By the daily operation of the organisation, we all will know who is more senior, who is actually holding a greater responsibility than all the rest of the division managers. They know for a fact. Well, of course, in most times, normally it has to do with age, most times, but not all the time.

At this point, Gary appears to imply that in most cases the most senior of the 13 managers would be the heir apparent but the heir apparent is not formally designated and the 13 senior managers are left to speculate the identity of the heir apparent. Gary then went on to say:

Every fortnight, on a Saturday, we have the senior managers sit together and discuss matters. There are occasions when I intentionally absent myself so that the general manager will

lead. There are occasions where the general manager will say 'OK let one of the division managers lead and chair the meeting'. The one who chairs most frequently other than me or the general manager, well, the rest will know from example or from daily or monthly practice is that he is the next-in-line.

This answer does not necessarily mean that the next-in-line is the most senior of the 13 division managers as he had earlier implied. He added:

At the same time you will find that there is a performer. So, everything is easy in theory but when it comes to practice ... well, there is a set pattern. They already know if I do leave the next guy is going to be the general manager and if the general manager and I should leave, then who will be responsible.

Although Gary began his reply by stating that there was currently no clear-cut selection method, he then went on to assert that the senior managers knew for a fact that the most senior would be the automatic heir apparent, that there was a set pattern. He acknowledged that the most senior of the 13 senior managers may not necessarily be the best performer and that someone else who was the best performer of the 13 senior managers would be the heir apparent. The 'set pattern' that Gary referred to was perhaps not as well established as he believed it was. There does not appear to be any formalised manner in which heir-apparent selection is conducted in Great Flours and there is a fair measure of impulsive decision-making involved in the process.

Further evidence to support my suspicions that there was no succession planning model or system in Great Flours came about when the respondent was asked whether there was any retirement age for managing directors and senior managers. He replied:

Officially in the organisation in the Malaysian private sector it is 55. But you will see that we do not follow the norm. If the guy can still deliver why ask him to leave? If he is a performer, if he can still deliver, why leave? (Pause). But of course, the other thing is if you allow the guy to stay on then the next guy will find that he is too long in the same job and he will be looking for greener pastures elsewhere.

Gary began by stating that Great Flours did not conform to the common practice of making employees retire at the age of 55. After a short pause, he reversed his position by conceding that the absence of a retirement age could result in the resignation of impatient and ambitious senior staff. He also contradicted his comments about not having a retirement age later when he stated that Great Flours commonly extended employment contracts to its top managers by offering them two-year renewable contracts as after all, if there was no fixed retirement date, there would be no need for employment extensions.

The answers that were offered to the questions posed during the interview suggest that Great Flours does not have a succession system or model in place. What the company has is an organisational structure which the respondent believes is the equivalent of a succession plan. An organisational structure is useful in that it delineates lines of command

and authority but there will always be managers who are placed on the same level in the organisation's hierarchy – in the case of Great Flours there are 13 such managers. This could explain Santora and Sarros's (1995) observation that while many companies acknowledged the importance of succession management, few organisations have any formalised plans to implement succession. Gary's answers demonstrate that he had equated an organisational structure and an organisational chart as the plans for leadership succession when succession management in fact required more than just the presence of a structure and a chart.

Returning to the matter of Gary's own employment in the company, he indicated that he was expecting to be offered the usual two-yearly renewable contracts when he attained the commonly perceived retirement age of 55. When asked how this employment-contract renewal might affect the willingness of his general manager to wait to move up to his position, Gary said:

Well, he [the general manager] has stuck around long enough and he is not willing to move. Like I said, I think he has been appropriately rewarded and there are so many things to do. He may be the number two to me in the organisation but he is number one in an area, for example. You see, consumer marketing is one big area. He is like the chief of staff for consumer marketing – *like* – OK? He assumes most of the responsibilities but he is also keeping an eye on the other divisions. He is like my other eye. So that's it – he is also appointed as a director of the company. If he goes to the next organisation, there is no guarantee that he will find job satisfaction and he has been here for 15 years.

The answer offered was oblique and suggests that Great Flours was capitalising on the size of the company to keep personnel by offering rewards and renewing contracts. It appears that the company, by doing so, was making it difficult for its employees to move as they often find it harder to secure alternative employment as they approached retirement age. While this might retain employees, it may not perform well as a means of preparing new talent to take over. As the example in Berani Berhad shows, the approach is flawed if there is an assumption that employees will want to renew their contracts every time an extension is presented to them. Subordinates of the 13 senior managers could also be discouraged by this perpetual renewal of contracts and this could push them to look for more promising alternatives elsewhere. From a leadership succession perspective, this does not bode well as it diminishes the talent pool.

Having analysed Great Flour Berhad, attention is now turned to HanSoon Berhad.

Like many of the other companies investigated, HanSoon appears to be practising leadership replacement rather than leadership succession. The process of identifying and grooming someone in HanSoon usually starts after the incumbent has given notification of his or her intention to leave. Henry commenced this phase of the interview by stating that the CEO was very serious about succession and supported his assertion by citing the example of a marketing manager who had attained retirement age. Because the company was not able to find someone to replace the

marketing director immediately, he was asked to remain in the position and subsequently stayed for an extra five years following his retirement. In the meantime, efforts were made to identify and prepare a successor. What is salient in this situation is that the process began not before but *after* the incumbent had resigned. Henry had earlier asserted that the company's CEO was serious about succession but the example shows that the CEO's engagement in the succession process only became apparent after the incumbent had attained the age of 55 and was required to retire. The paradigm presented is that of replacing the retiree rather than of ensuring continuity in the event of resignations or retirements.

In the situation above, the marketing director was willing to remain for another five years but this willingness to remain in the workforce is something that cannot be taken for granted. The age of retirement in Malaysia is 55, an age at which many might consider too premature to retire. For this reason, it is possible to induce retiring employees to remain employed for a few more years. Nonetheless, there is no guarantee that those attaining retirement age would like to continue in employment as long working hours are the norm in Malaysian organisations and especially so for those in senior positions (Raghavan, 1999).

HanSoon's practice is, therefore, more akin to leadership replacement than to leadership succession but Henry explained that since the above incident of not being able to find a replacement for the retiring marketing director had occurred, the company had become more proactive in succession planning. He stated that the Human Resource department had since

drawn up strategic plans to ensure that staffing gaps in the company are addressed. He was unable to confirm if the plans included specific steps to prepare and groom potential subordinates for higher future positions. He was also unable to provide any insights into the mechanics of a leadership succession plan in his company despite the fact that he was a very senior manager in the company. At this stage of the interview he called the Human Resource Director to ask for the necessary documentation but could not obtain any help from the Human Resource Director at that point in time. Henry's remark to this situation was simply that the Human Resource department would be working on this, suggesting that there were no plans available at the time of this investigation.

The last company interviewed, J-Power, did not subscribe to the common practise of imposing a mandatory retirement age on employees. This was because when the company started, it made a strategic plan to recruit government servants who were near retirement. In the words of Jeremy:

I think that [this company] is different because during my time the company employed a lot of government servants who have the experience to work in the company. So the company does appoint retired senior government servants to work for them to build up the company. First of all they have the experience and secondly, they have the contacts, you know. I think the other thing is that they don't have to pay that much – otherwise they have to pay and get the expertise from overseas. So they don't actually encourage retirement, they are talking about life-long employment provided you can contribute.

Hiring retired senior government servants was done for three main reasons; firstly, senior government servants came with experience; secondly, they had contacts with other government servants and this was vital for a company that conducts much of its business with the state; and thirdly, they were not too expensive to hire. The only proviso that the organisation had with regard to succession was that senior managers were not allowed to retire until they had prepared a successor to take over from them; they could resign but not retire. The difference between retiring and resigning was that those who retired continued to receive benefits such as the provision of a fully maintained company car, mobile phones and country club memberships while those who resigned received nothing. Jeremy, who was almost 70 years of age at the time of the interview, remarked that he was the only senior manager who had been allowed to retire in the company thus far. When asked about the company's succession processes, Jeremy's response revealed that there were no uniform procedures. Like Berani Berhad, J-Power left the succession process in the hands of the division managers. There was an informal system of leadership training in the company. Jeremy said:

Every year we have a leadership conference and the younger leaders and the older leaders, they all get together and listen to the bosses [the owners of the company] talk about the direction that the company was taking, what the company was doing and at the same time they sort of bind the leaders together. The other thing to ensure the transfer of this expertise or this technology is that the bosses themselves are very hands-on. They conduct a lot of meetings and they consciously mix the young and old together. They bring in the younger leaders to work with the older leaders. Because

the company structure is very flat, the young leaders and the senior ones can approach the boss at the same time.

There appears to be some form of on-the-job training and mentoring to allow junior leaders to learn from their seniors and thus to eventually take over the senior leader's position. While it cannot be said with certainty that the company has a formal plan, it can be inferred that there was some form of succession planning at work in J-Power. Unfortunately, as has been mentioned earlier, the succession process is rather *ad-hoc* as it was left to the devices of the division managers. Jeremy conceded that this approach was not effective because of an inherent challenge that comes with succession. He explained it thus:

... this sort of idea of grooming someone to replace you is not something ... nobody would like to do this because you are saying that you are trying to work yourself out of a job.

Because succession management is not integrated as part of the key performance indicators of the senior managers in J-Power (as they are in AmSure) and because of the unplanned nature of succession management, Jeremy said that the effectiveness of succession planning in J-Power had not been good. This was borne out by Jeremy's claim that, thus far, he was the only senior manager who had been allowed to retire with full benefits. Where senior managers had failed to bring about succession, the owners of the company become involved in order to bring in new people. In Jeremy's words:

You see, in my case, you can say that I took the initiative. But if, let's say, because the company is conscious of the need to sustain the company, at the operation level, in the case that the senior officer does not do it [bring about succession], the owners will do it. You know, they will bring in people to come in. They will consciously ensure that younger people are brought in so they will have a constant review [of the situation].

Thus, while the owners of the company have left the matter of succession to the division heads, they were prepared to intervene and take the necessary steps to ensure continuity. This is not demonstrative of a strategic approach to succession; rather it is indicative of the replacement approach to managerial succession. In essence, J-Power has an informal form of succession planning.

Summary of managerial succession practices in family-controlled publicly listed companies

The analysis of the data collected from the family-controlled publicly listed companies suggest that although these companies acknowledge the importance of leadership succession they have done very little to implement a succession plan that their employees can identify with or use to benchmark their career advancement in the company. The common forms of leadership succession practised in these companies were little

more than leadership replacement strategies and in many of the cases above, efforts to find a replacement were only initiated after the incumbent had resigned or attained retirement age. The offering of post-retirement-age employment contracts could be a reason why these companies have adopted a reactive rather than a proactive position on succession. In resignations where succession or replacement suddenly becomes an issue, these family-controlled publicly listed companies believed that they could invoke contract extensions as a means of resolving the problem. Alternatively, they could turn to recruitment agencies to find an outsider replacement at the risk of de-motivating employees who might be hoping to be promoted into the vacancies arising from these resignations. Some of these companies believe that the presence of an organisational structure was tantamount to having leadership succession programmes, not realising that while an organisational structure provides a sense of order and hierarchy, it is not a substitute for a succession plan that maps out who in the hierarchy could be promoted, how that person might be groomed and when the promotion should be effected.

To make the succession process even more nebulous, many of the family-controlled publicly listed companies leave the matter of succession to the heads of the various subsidiaries and divisions. The end result of such a policy is uncoordinated succession or replacement practices that may be open to charges of inequity. Overall, the companies engaged in this research have demonstrated an *ad-hoc* approach to leadership succession planning even though a succession plan is a requirement laid down by the

Malaysian Securities Commission for companies that are listed on the Kuala Lumpur Stock Exchange. What these companies appear to be saying is that the organisational chart is their succession plan.

Having considered how managerial succession is addressed in the family-controlled publicly listed companies, attention is now directed to Cilicon Berhad and Ellaconstruct Berhad, which were the two non-family-controlled publicly listed companies in this research.

Managerial succession in non-family-controlled publicly listed companies

Cilicon was the only other company of the nine companies researched that had a formalised succession plan. Recalling the major role that he played in designing the succession plan before he left Cilicon for DesignerPens, Daniel said:

When we started to realise that most of our managers would be leaving within five years or so – that was back in 1999 – we decided to start a proposal, myself and the Human Resource Director. We prepared a proposal to management telling them that we needed some kind of development programme – we did not mention the word succession because the Japanese said that it was too far away, let's not think about this kind of thing and waste our time planning something that is so unclear. People may come and people

may go. So we *decided to disguise* the programme as a development programme for our second tier. So we selected some of our key people, altogether about 30 of them. Of course along the way we faced many challenges; for example, the business did not do that well in 2001 and so some of the programmes were frozen. Then we restructured and a new team came in. All in all, out of the 30 people we managed to keep half of them still in the team. The other half has actually left and we substituted them with another new team in there – so we always kept this group to about 30 people. We can see that what we started with in 2000 and where we are today that there is a kind of graduation of programmes, more and more matured. Right now, for example, the focus is on psychometric tools to train our managers on how to read personalities, how to get people together and how to perform good team activities and stuff like that. So many of them are actually ready and we have noticed that within the next two years the older managers will be retiring and these people are the ones who will be ready. Of course along the way there are many ‘casualties’, many of the seniors have actually left because we have to understand that by upgrading their skills we make them more marketable out there.

It was interesting to note that the word ‘succession’ was something that had to be avoided because top management perceived that it connoted something that was distant and was neither urgent nor pertinent in the short to medium term, or that it was an unnecessary drain on resources. In this situation, Charles and Daniel had to disguise the programme as a management development programme. As Daniel later went on to say, the words ‘leadership succession’ were unsuitable in that the people who have been identified as successors might become too swollen-headed. While the company agreed that succession was an important

organisational task, there was also an underlying perception that leadership succession lacked near-term relevancy and carried the risk of training one's own staff, at one's own expense, for other companies. This perception of leadership succession could be a factor that prevents companies from developing a more proactive paradigm for the way that succession is implemented.

During the interview, Charles allowed me to peruse what he called the 'Master Management Development Plan'. While describing the plan, Charles expressed his unhappiness that the management development plan could be suspended, removed or modified by every incoming managing director sent from Japan. The result of this was that employees felt there was a lack of permanency in the planning and were therefore not motivated to take the plans seriously. During the interview, he produced documents that detailed the various changes that the management development programme had undergone (when compared to the original Master Management Development Plan). While some of the changes were minor, and could be even argued to be necessary, there were a large number of changes that had been substantive. For example, there were incidences where the programme was suspended for a number of months and other instances when the training direction was changed altogether, for example when leadership training was shelved and replaced with technical training. This was confirmed by Daniel who pointed out:

But then, people again still take things easily because they say, 'yes, with this company anything can change at the last minute'. Well, many times changes have taken place. Like I

said the programme took a very long time and along the way, we also stopped the programme for 6 months or so. At one point in time even up to a year because of business downturn and because of changes in the leadership. So the people kind of lost confidence and there is no momentum. I think that management needs to be very clear in terms of telling people about their development programmes, their career advancement and so on. Management should start taking the back seat once they reach the third year before retirement and let the guy [the heir apparent] be the manager. Let this guy make the decisions and the managers should just take an advisory role. But we do not see this happening in the company. We still see the managers at the forefront making all the decisions and stuff like that.

Daniel's comments point to two problems. One was the lack of employee engagement and commitment to the development plan which arose as a result of the absence of clarity and continuity in the management development plan. Every time an incoming managing director changed the programme, employees felt that any progress they had made might no longer be taken into consideration as new criteria were established. The second problem that led to employee de-motivation was the demonstration of entrenchment tendencies by the managers who were about to retire. Many of the incumbents refused to allow their successors decision-making responsibilities and this hindered the development of their heirs.

Yet another problem that made the succession plan ineffective was the manner in which the company communicated with its employees when other employees retired. Chester recounted his frustrations when one of

the senior managers in his plant retired. When the retirement was officially announced, there was no mention of a successor for almost four months after the employee had left the company. Everyone was essentially left wondering if the company would be promoting from within or recruiting from elsewhere.

Chester also recalled the example of a maintenance manager who had retired without having prepared anyone to succeed him. The maintenance manager, who was at the grade 'A' level, had not developed any of his subordinates to the grade 'B' level – all in the department were at grade 'C' or below. In a bid to have someone in charge, a month after the retirement of the maintenance manager top management promoted a grade 'C' subordinate to succeed the retiree. According to Chester, this resulted in an uproar, not only within the maintenance department but throughout the plant. Those within the department were unhappy that no one had been adequately developed for the takeover while those in other departments complained that the company could have taken a grade 'B' employee from another department to fill the position rather than to promote a grade 'C' employee into a grade 'A' position. Yet others registered their unhappiness at the inequity, in that, their promotions had to follow protocols while this particular promotion did not.

While studying the Master Management Development Plan, I noted that 80 percent of the training and development required by the plan had been outsourced to independent training providers but there were no provisions to bring these external trainers together to structure the

training in a co-ordinated manner. All Charles would say about this was how the organisation wanted it and he refused to address any further questions on this matter. This suggested that he could have realised, as a result of the interview, the shortcomings of his management development programme but that he did not want to discuss it any further.

One of the intriguing features of Cilion was that the company seldom renewed the employment contracts of retirees. There was only a very small group of employees who were on extended contracts. Charles explained that it was company policy to release everyone who was due for retirement and that offering extended contracts was a very rare occurrence. His reasoning, which carried a hint of ageist discrimination, was that older people were less productive and more prone to illnesses than younger ones. He said that one of the factors that led to the initiation of the management development plan was the dramatic increase in health insurance premiums the company had to pay in recent years as its employee pool became older.

In summary, while Cilion Berhad had a formal management development plan, there were a number of implementation problems. These problems included changes that came with each managing director rotation, frequent programme interruptions, entrenchment tendencies on by the incumbent, the lack of co-ordination between training providers and uneven application of the plan.

Attention is now turned to the issue of managerial succession in Ellaconstruct Berhad, the other non-family-controlled publicly listed company.

Ezra was insistent when he stated that the company had in place a succession plan for every departmental head. When asked to describe the succession plan he said:

Well, for example in the production side, we have a works manager – also known as a plant manager – and under him he has a series of departmental heads. We are already grooming one or two of the department head to take over from him. He is also on contract, you know, in this particular case, and so we really have to get someone ready to take over from him.

It is noteworthy that the planning, as in the case of the other companies mentioned above, involved someone who had passed retirement age. In fact, the plant manager was the same age as Ezra, who was himself on a post-retirement contract. When asked what the succession plan was, Ezra outlined the company's Establishment Committee which comprised the CEO, the Chief Operating Officer, the Chief Financial Officer and the Human Resource Manager. Ezra claimed that the Establishment Committee met regularly to discuss, among other things, manpower requirements. The selection of candidates for training and development was made by the Establishment Committee but promotion at senior management level required the endorsement of the company's board. Selected candidates are trained in the areas of technical, interpersonal and

management skills. Ezra later conceded that there was no written plan of how succession was actually implemented in the company apart from periodic staff appraisals and human resource requirement reviews.

The respondent then went on to suggest that the company had a special characteristic that most of the other companies in the Klang Valley did not have – it is located in Ipoh, some 200 kilometres north of Kuala Lumpur. The Klang Valley is a large area that comprises Kuala Lumpur and its adjoining cities and is the main economic and manufacturing centre in Malaysia. Ipoh, where Ezra's manufacturing plant is situated, is a much smaller city. He explained this distinctiveness thus:

In our company we have a very unique situation in that most of our people stay a long time. They are very happy working where they are because the plant is in Ipoh, the bulk of my staff is in Ipoh where job opportunities aren't that many, job competition isn't that stiff and people from Ipoh don't like to move out of Ipoh. My plant manager – this is his first and only job. So we have a very unique situation where people are prepared to wait. They are not in a big hurry. Even a 30-years-old employee would probably be prepared to wait for the time when his immediate superior retires in 15 years' time. He's prepared to wait.

The geographical location of the company's manufacturing plant offered a unique advantage to the company, in that, the staff members were not impatient for advancement. This willingness to wait was possibly because of a combination of the lack of job alternatives in the small industrial base in Ipoh, and the general unwillingness of the older people from Ipoh to

migrate to the Klang Valley where most of the manufacturing plants are situated. Ezra went on to say:

Having said that, we now recognise that we can't allow this to perpetuate. We need to really accelerate and one of the things that we have found very effective is to ... put them though different departments so that they can get an all-round experience.

Ezra had observed that the younger workers in Ipoh, unlike the older ones, are more willing to migrate to the larger cities in the Klang Valley or elsewhere in search of better jobs and prospects. This would explain his claim that the company now recognised the need to move away from its current mode of addressing the matter of attracting employees. He was cognisant of the fact that it was quite difficult to attract people from other parts of the country to work in Ipoh. He said:

Ipoh, I think is, you know, Ipoh. I mean, most people don't like to work in Ipoh. I come from Ipoh but I left it. I found it too slow – I found it too slow, so I said, OK, that's enough.

All these factors mean that while the older workers might be willing to bide their time and wait years for a promotion, the younger employees are not. It would give the company little advantage to be known in Ipoh as a company where careers stagnate as employees have to endure long periods of waiting for advancement opportunities. Older workers might be happy to have their contracts renewed as many times as possible in order to prolong post-retirement employment but this would be perceived

as a barrier to the advancement of the younger staff members who might decide to leave the company. All these factors, along with the inability to attract a significant number of workers from other cities into Ipoh, meant that Ellaconstruct had to try to become a more attractive employer.

In summary, Cilicon and Ellaconstruct are different, in that, the former has a written succession plan while the latter does not. Cilicon has a number of implementation problems while Ellaconstruct was only beginning to realise the need to change its succession strategy.

Having considered managerial succession in non-family-controlled publicly listed companies, consideration is now given to FineAds Berhad, the sole privately-owned company in this research.

Managerial succession in a privately owned company

The situation in FineAds was very different from that of the other companies above. FineAds is a small, privately owned company in the highly competitive advertising industry. It has a current complement of approximately 100 employees and a 40 percent staff turnover rate, a condition which, according to Frederick, reflects the nature of the industry. There is a severe shortage of skilled people in the industry and employee poaching by means of high salaries is a common practice. Therefore, when asked how his company managed managerial succession, all he offered was that he sent his senior people for training programmes conducted by external institutions. He conceded that this was also done because companies were able to secure reimbursements for any training fees spent, as businesses have to contribute to a government-instituted human resource development fund. The fund was set up to ensure that companies provided continuing training and education for their employees. He did not offer much more than this as far as managerial succession was concerned and at the end of the discussion on this matter, it was clear that Frederick was more interested in having a successor for his own position than he was in assuring succession for the other positions in the company. This had to do with the fact that he was one year away from his 65th birthday and he had no intention of remaining in employment beyond that age; he was subsequently found to be in his position even after he had attained 65 years of age.

Implications of the findings on the processes that are currently employed in managerial succession

Like the findings on CEO succession, the findings on managerial succession make it clear that the majority of the companies investigated engage in informal and loosely planned succession planning. With the exception of AmSure, and to a lesser extent Cilicon, most of the companies investigated practise leadership replacement rather than leadership succession and this is evidenced by the fact that steps to replace a retiring manager are often initiated *after* the person had resigned. The reasons for this included a misconception that succession was not pertinent to the near-term and was, therefore, not urgent. There were also misgivings that those selected for succession might deem themselves to be special. Some companies were concerned that succession planning was, in some ways, a form of training one's employees for one's competitors. Whatever the reasons, the majority of the companies investigated do not have managerial succession mechanisms in place. Even in the case of the two that had formalised their succession plans, there were some implementation issues that they had to sort through. The findings demonstrate that Malaysian companies tend to cover up their lack of succession planning by citing the need for flexibility. This has led them to prefer unwritten plans which could be changed at will rather than formalised plans that required a higher level of adherence.

The findings show that many Malaysian companies are not well positioned in terms of managerial succession and are likely to resort to

extending or renewing contracts or engaging recruitment agencies to replace exiting managers. They do not appear to take serious cognisance of the motivational value that succession planning can give to their employees.

Summary of the processes currently employed in managerial succession

Unlike CEO succession processes which can be subject to political interference and family forces, upper-echelon managerial successions appear to suffer from a general lack of concern from CEOs or company boards. The processes employed in managerial leadership succession are more appropriate for leadership replacement than for leadership succession. Contract renewals and retirement packages may appear to be effective stop-gap measures but will only delay the need to implement effective succession planning.

Having considered the subject of managerial succession, I will now analyse the demonstration of organisationally generated entrenchment in Malaysian companies.

Organisationally generated entrenchment

Researchers such as O'Reilly and Weitz (1980), Trevino (1992) and Challagalla and Shervani (1996) suggest that in Western organisations underperformers and employees who are no longer deemed to be suitable for the company are dealt with in a number of ways. Such employees may be issued with informal and formal warnings, placed under probation, be suspended and, in some situations, dismissed. There is little mention in the literature on the practice of dealing with such employees by transferring them to other departments or to less demanding areas, or by reassigning them to manage particular tasks or projects. In a number of Malaysian companies that I have consulted for, I have witnessed occasions where managers who have been deemed by the company to be performing below expectations are subjected to lateral transfers, assigned to positions of lower responsibility or designated as a manager of a special project. How widespread or common such practices are in Malaysia is, as yet, undetermined. It was therefore intriguing to me to investigate how these ways of addressing underperforming managers affected leadership succession. This thesis recognises the difficulties involved in deciding what underperformance is as different companies have different criteria for measuring underperformance. As the nine companies investigated were engaged in the manufacturing and marketing of products or services, they were able to offer a measure of commonality in the way in which they would judge an employee as underperforming. The most common reasons cited by the respondents for underperformance were the inability to meet established sales or production targets; failure to provide

required service levels to customers; not achieving objectives by the deadlines imposed, and the inability to lead subordinates to achieve team targets. Obviously each company will have its own way of deciding what underperformance is. It is not the intention of this study to define underperformance – that decision is left to the organisations concerned. What this research is interested in are the effects that the methods employed in dealing with those who have been determined by their organisations to be underperformers have on leadership succession planning and implementation.

This research also recognises that there may be employees in organisations who may no longer be perceived as desirable employees for reasons apart from performance. For instance, outspoken employees might be deemed unsuitable by their employer organisation not because of underperformance but because they are viewed as being less compliant than desired. While this research is cognisant of their presence in organisations, it did not include them in the study and retained its focus on what companies did with those managers who have been deemed to be underperformers.

At this juncture, a point of clarification is helpful. The practice of assigning someone to manage a special project is sometimes viewed as a promotion or the recognition of an employee's particular talents and capabilities. In many of the Malaysian companies, the designation of 'Manager: Special Projects' is more likely to mean that the employee in question is no longer perceived favourably and this was reflected in the answers of the

respondents. Thus, when an underperformer has been delegated the task of managing a special project, the indication is that the company is dissatisfied with the person's performance and has moved him or her sideways. This assignment is often perceived as the company's way of providing the underperformer a means to correct his or her performance. Additionally, such a move is also viewed as a means by which pressure might be applied to persuade the underperformer to leave the company. In the context of this thesis, being assigned to manage a special project is interpreted as a means of addressing underperformers rather than a way of promoting employees who are performing to, or above, the company's expectations.

While a case can be made that lateral transfers and reassignments are little more than different ways of addressing underperformance, this thesis argues that such practices create a form of entrenchment – what this research calls 'organisationally generated entrenchment' – and that organisationally generated entrenchment ultimately has an adverse effect on leadership succession. This research theorises that, although companies produce these forms of entrenchment unwittingly, the resulting entrenchment has an unfavourable effect on leadership succession planning and implementation.

In order to investigate this phenomenon, respondents were asked to describe how they managed the problem of underperforming managers in their respective organisations and to reflect on the ramifications of such practices.

With the exception of Daniel and Ezra, all respondents acknowledged they had encountered problems of underperforming managers as well as managers who were deemed to be no longer suitable for the company, and that they had mechanisms to deal with such issues. In addition to conducting performance reviews, counselling and warning these underperformers, the respondents mentioned four methods that were commonly resorted. These were (a) dismissing the underperformer; (b) reassigning underperforming managers to manage a special project; (c) laterally transferring underperformers to other departments or to areas of lower responsibilities, and (d) maintaining the *status quo*. Upon subsequent questioning, the participants conceded that the use of dismissal to address the problem of underperforming managers was, in actual fact, uncommon. They also opined that the use of the other three methods resulted in some form of entrenchment.

Before discussing the effect of the above methods of dealing with underperforming managers, consideration is given to what some of the respondents referred to as a 'consequence-management programme'. Although not every respondent used the same term, they described a consequence-management programme as a way in which employees are made to recognise their shortcomings and to then take remedial actions to correct their weaknesses.

In the companies that employed consequence-management programmes employees who have been determined to be performing below organisational expectations are counselled and advised to take corrective

actions to redress their inefficiencies. A key characteristic of the consequence-management programme is that targeted employees are given time and opportunity to improve their performance. Employees who have been placed in a consequence-management programme but who continue to refuse or are unable to make the necessary changes are subsequently dismissed from their companies. For example, in AmSure, an underperformer would be given three years to rectify his or her performance. In the event that the underperformer does not improve after the third year, termination of employment normally follows.

Consequence-management programmes are designed to provide companies with a systematic way to assess, warn, counsel and, where possible, correct the situation or when such remedial actions are unsuccessful, to remove the underperforming employee. In practice, companies that have consequence-management programmes concede that some elements of the consequence-management programme are difficult to implement. For instance, Amar Singh admitted that dismissal was extremely difficult to implement and was only resorted to in cases of criminal breach of trust. In most instances, the dismissal option is not invoked. A number of reasons were offered for this reluctance to terminate the services of affected employees; the most common is that it is not in the Malaysian culture to 'break someone's rice bowl', that is to say, that it would be un-Malaysian to take away a person's means of livelihood. This concurs with the concepts of *malu* and *segan* that is to say the feeling of shame on a collective and an individualistic level respectively. Furthermore, the Malay *budi* complex requires that those in

higher positions reach down and help the 'small man' – not to do so would be demonstrative of a *kasar* nature. These elements are also consistent with the Confucian tenets of *mianzi* (face or status) and *lian* (being perceived as a morally upright person). The combination of these factors make it difficult to dismiss an underperformer as such a move would undoubtedly affect the person's means of livelihood. This would then bring shame to the individual as well as hardship, and hence disgrace and dishonour, to the affected person's family. The need to demonstrate *budi* or *lian* thus requires that dismissals be taken as a means of last resort, if at all. To do any less would depict the person in authority as one who is cruel, unrefined and who does not display any attributes of one who has made much progress in the attainment of 'self-hood'.

During this investigation I was reminded of how I had reacted when, as the national sales manager of a very large multinational pharmaceutical company in Malaysia, I had to deal with having to dismiss an employee. I had apprehended one of my subordinates, a salesman, in two acts of criminal breach of trust the first of which was that he had sold product samples. These samples were intended to be given free-of-charge to medical doctors in the hope that they would promote our products to their patients. The salesman in question had been selling a portion of his monthly sample allocation to small privately owned retail outlets who, in turn, sold them to their own customers at a much reduced price.

In the second breach of trust, the salesman had made false purchases on behalf of certain clients who received very special discounts, ranging from

50 to 75 percent, from the company. The sales representative had requested that all the purchases be sent to his home, citing that he would deliver the goods by himself but he subsequently sold them to retail outlets. When the offending was uncovered, he admitted his misdeeds and pled for leniency. The rules in the company were very clear on such situations; a police report was to be lodged and the employee would be suspended pending investigations and, if found guilty, be dismissed. In a meeting to discuss actions to be taken against the employee, I recalled how questions on whether we should 'break the person's rice bowl' and, by extension, inflict shame on the employee's family, were raised. After some deliberation, we decided to spare him the ignominy of being made *malu* and he was given a second chance. No police reports were lodged and the only punishment meted out was that he would be given no pay increments for two years. The staff member was effusive in his appreciation to the company, promised that he would not repeat his offence and continued working in the company for another 20 years before retiring from the organisation. It can be seen that even if the rules are clear, the influence of culture can be so overwhelming that the regulations are ignored and more face-saving means are sought for and adopted. That there were no indications of recidivism on the part of the subordinate strengthened our belief in the wisdom of our actions, even though we had clearly flouted company policy.

Another commonly offered reason for the unwillingness to dismiss underperformers is the legal and political difficulties involved in dismissing Malay employees because of the government's affirmative

action policies that favour members of this ethnic group. As mentioned earlier, the Malaysian government requires publicly listed companies to have a 40 percent Malay workforce. It is already difficult enough to achieve the 40 percent required and dismissing them could raise complications that most companies did not want to deal with.

Thus, in order to avoid the odium of depriving an underperformer of his or her means of livelihood, or having to face up to external political pressures, the companies investigated resort to three common ways to deal with managers whom they are no longer happy with. As mentioned earlier, these employees may be assigned to manage special projects, transferred to smaller departments, usually with no salary change, or retained in their current positions thus maintaining the *status quo*. It is noteworthy that all three methods of discipline display a common element of allowing both the company and the affected employee to 'save face'. The company saves face in that it appears to have been firm but also compassionate (having displayed *budi* or *lian*) in dealing with the underperformer while the employee is able to retain his or her dignity by being allowed to rectify the situation or be given sufficient time to effect a face-saving exit or to simply remain in employment.

Each of the three forms of disciplinary action and their ramifications are analysed below. The assigning of underperformers as managers of special projects will be considered first. This will be followed by discussions of lateral movements and maintaining the *status quo*. How these three forms of disciplinary actions contribute to organisationally generated

entrenchment and its consequential effect on leadership succession are also discussed. This research theorises that companies unwittingly give rise to entrenchment: this thesis refers to this as organisationally generated entrenchment, and posits that organisationally generated entrenchment reduces the effectiveness of leadership succession planning and implementation systems.

Organisationally generated entrenchment arising from designating an employee as a Manager of a Special Project

AmSure Berhad and Cilicon Berhad specifically acknowledged the practice of assigning managers that they had judged to be performing below expectations (or underperforming managers) special projects to manage. As defined earlier, this is viewed as a punitive measure and both Amar Singh and Charles agreed that in their respective companies when an underperformer has been designated as a manager of a particular *special project*, it was perceived as an unfavourable career move. This was reflected in the words of Amar Singh whose answer was offered before any mention of the term 'special projects' had even been made during the interview. This was an indication that the special projects assignment was a common feature in AmSure. Amar Singh's answer, which he offered before the question could be completed, is reproduced below:

We have a small, little term in the company called 'the special project'. If you have been identified to head a special project – the message is that you are being put into a deep freezer. If you are in a senior position, they say 'OK, this is a special project and you are appointed as the head' – but the message is very clear. It is not a glamorous thing, put it this way.

Although there are negative connotations associated with the designation, the company viewed it as a face-saving means of dealing with underperformers in that it allowed the company to apply pressure on the underperformer to resign while appearing to be magnanimous. At best, the underperforming manager might improve and therefore be reassigned his or her previous position or another one. At worst, the underperformer's performance continues to be poor, or deteriorates and the only obvious cost involved is the employee's wages. While this might sound reasonable, there are ramifications to this method of addressing the problem of underperforming managers. Further consideration of this matter will demonstrate that those practising this form of disciplinary action are aware, or became aware during the interview, of the deleterious effects of this means of addressing the problem, but choose to continue to employ it nonetheless.

When asked about the possible complications that this form of disciplinary action might have on leadership succession, Amar Singh stated that there was no doubt in his mind that it impeded the company's leadership succession processes but he justified its practice by saying that it was necessary because of the difficulties in removing a person from his or her

job. The two main difficulties Amar Singh cited are that, firstly, based on his observations, the past rulings of the industrial court in Malaysia favoured the employee and secondly, – and for him, more importantly – that there were sensitivity and cultural issues surrounding dismissals, especially where Malay employees were involved. This was centred on the fact that most Malaysian companies, and especially publicly listed ones, are cautious about dismissing Malay employees because of the affirmative actions taken by the Malaysian government which specifically favour the Malays. The fact that AmSure is a government-linked company makes this factor all the more significant.

Charles, Chester and Daniel concurred that the practice of assigning underperforming managers to oversee special projects was a common occurrence in Cilicon Berhad. It should be pointed out here that during the interview Charles was hesitant in his answers with regards organisationally generated entrenchment. This was not surprising as Charles is the director of human resource management. When asked how the company dealt with underperforming managers, he paused for awhile. His answer was slow in coming and he claimed that the company had very few cases of underperforming managers. When asked whether he felt if organisationally generated entrenchment might be an impediment to leadership succession planning, he did not reply and a fairly long period of silence ensued. The question was then repeated but was restated in the context of my desire to investigate the problem of organisationally generated entrenchment in Malaysian companies in general rather than in his company specifically. This appeared to satisfy

the respondent who then conceded that a subsidiary of the company, located in another part of Malaysia, but over which he has jurisdiction, had used the 'Manager: Special Projects' designation to deal with this issue. Charles made mention of his belief that reassigning an underperformer as a manager of a special project was preferable to transferring that person to another department. He justified this move by adding that it was the desire of the company to ensure that the special project succeeded, even if the person who had been assigned to manage the project ultimately did not improve. In order to bring about project success, Cilicon Berhad engaged consultants to work alongside reassigned underperformers.

The person is [assigned] there and then we will appoint an assistant for that person. Basically for this project we will need to use the assistance of the [external] consultants. We will not be able to run it ourselves – and the [special projects] manager will not be able to run it by himself. [If he succeeds], he can perceive that he has been successful, he has made it. But the project is not a short-term project – it might run for about two years. If within the two years he fails, he will still exit – we will give him a graceful way out. But if we say what if he has a few more years [to retirement]? Basically if he has a few more years, then we just leave him there.

When asked whether this practice might be perceived by others to be a form of entrenchment and thus hinder leadership succession practices in the company, Charles did not reply and looked uncomfortable. As not having to answer any of the questions posed was his basic right, the

matter was not pressed upon him further. I was able to revisit this question when I spoke with Chester and Daniel.

Charles's silence was in contrast to the ready answers provided on the same subject matter by Daniel. Daniel had worked for a number of years as Charles's assistant and was, up to the point of his resignation, Charles's heir apparent. He used the words 'cold storage' and described how Cilicon placed underperformers in cold storage by assigning them special projects to manage. He claimed that putting people into cold storage was not a rare occurrence in Cilicon. During Daniel's tenure with Cilicon Berhad, he had come across a number of situations where underperforming managers had been subjected to this form of discipline as the company was, according to Daniel, reluctant to dismiss its employees. He was of the opinion that this practice hindered the leadership succession processes the company had instituted as it demotivated other employees who saw the company as being tolerant of underperformers. He also spoke of inconsistencies in the way this method of dealing with underperformers was implemented. He recounted a situation where a manager who had been consistently failing to meet departmental targets had been made to manage a special project. Despite the lack of improvement, the underperformer was subsequently reassigned to lead a large department; this was done in the hope that such a move would motivate the affected employee to improve in his performance. According to Daniel this demotivated the other employees as they could see that, although the underperformer had not corrected his deficiencies, he had been allowed to become the head of a large and

important department. Daniel claimed that this incident resulted in the immediate resignation of three key personnel who were being groomed for possible promotion to the position that the underperformer was now occupying. Those who resigned complained that the company had unfairly promoted an incompetent even though no actual promotion had been given. This incident “gave a wake up call to many of the managers that they cannot do something like that,” lamented Daniel. The hoped-for motivation to perform better did not materialise and the underperformer continued to perform poorly in his new position. This situation was confirmed by Chester who was adamant that putting people in cold storage only allowed underperformers to maximise their negative potential and that it signalled to the rest of the company that poor performance was tolerated.

The practice of assigning underperformers as managers of special projects inhibited leadership succession as it was able to provoke enough dissatisfaction to result in the shrinkage of the talent pool through resignations. It was a waste of company resources since the underperforming manager was retained and paid while consultants had to be engaged to assist the underperformer to make the special project viable. In a subsequent post-interview telephone conversation, Chester mentioned that this had been a point of contention during resource allocation sessions as he argued that, although resources that he wanted were sometimes not forthcoming because of financial constraints, money that could have been made available to them was being expended to retain incompetent managers.

Proponents of this method of addressing underperforming managers might argue that assigning an underperformer to manage a special project is appropriate. It is plausible that such a move, especially since it has negative connotations, could cause some affected employees to decide to improve themselves. This is merely speculative as none of the respondents offered any commentary on the possible positive effects of assigning someone as a manager of a special project. Admittedly, their silence on this matter could have been because the question of whether assigning underperformers as managers of special projects had led to any positive outcomes was not asked during the interviews and this is recognised as one of the shortcomings of this investigation.

The influence of culture can be seen in the practice of assigning someone as a manager of a special project. The underperformer is given a special project to manage not necessarily in the hope that this will result in improvement on the part of the underperformer but in the anticipation that the negative connotations of such an assignment might drive the underperformer to resign from the company on his or her own volition. Resigning on one's own accord is, understandably, not humiliating and would not cause the company to appear to be cruel. Being dismissed, on the other hand, would be very shameful for the underperformer and would also suggest that the company was heartless and that management did not know what it meant to be *ren*. This reflects important elements of the *budi* complex and Confucian teaching. In other words, while it was wrong or *kasar* to break someone else's rice bowl it would be acceptable if the person chooses to break the bowl himself or herself. Even in the latter

situation, culture dictates that the person in authority must be seen to be trying to help the 'small man' and this is done by assigning the underperformer to manage special projects. What is less clear is what might happen to the underperformer if he or she continued to remain marginal or to under-perform. It appears that in such a situation, proponents of this method of addressing underperformance hope that the negativity attached to this assignment would drive the underperformer to resign and thus break his or her own rice bowl.

Having considered the effect of the above form of addressing underperformance, attention is now turned to the impact of interdepartmental transfers or lateral movements on leadership succession processes.

Organisationally generated entrenchment arising from lateral movements

Lateral movement, or transferring an underperformer from one department to another, was reported by AmSure, Cilicon, Great Flours and HanSoon. For example, AmSure's consequence-management programme requires staff members who have been underperforming for three consecutive years to resign. Nevertheless, Amar Singh admitted that in most cases, underperformers were transferred to other departments or positions rather than dismissed.

In Cilicon Berhad, although the respondents representing Cilicon acknowledged that the practice of transferring underperformers to other departments only served to move performance problems inherent to the underperformer from one department to another, and that doing so did not solve the causes of underperformance, they conceded that it was an option that the company had utilised. During the interview, Chester was insistent that this practice was bad for the company and that it resulted in problems for smooth succession planning. He cited examples of competent, ambitious staff members who had developed the perception that there was a lack of opportunity for their own advancement as the position was occupied by an underperformer through a lateral move. He further stated that staff members who had been motivated to work for possible promotion opportunities had become de-motivated and had decided not to apply themselves towards advancement and improvement. A third predicament that arose from the practice of lateral movement was that staff members had begun to develop a cynical view of the management development programme that the company had in place. Chester remarked that many employees viewed the training programmes provided by the company as a means of meeting training hour requirements in order to maintain the company's ISO 9002 (International Organisation for Standardisation) certification rather than a way of developing themselves for further promotion and had, as a result, become unenthusiastic in applying themselves in the training programmes.

In Great Flours Berhad, Gary's approach to the matter of disciplining underperforming managers was to use a combination of a lateral

movement and a downgrade. He believed that underperforming managers should be given the opportunity to consider returning to their previous positions, that is to say, to be demoted. He was, however, either unable or unwilling to address the question of how many underperformers had been willing to accept demotion. This suggests that what he envisaged was practically untenable since the demotion strategy was unlikely to be accepted by the managers in question. Demoting a person, and especially one at managerial level, was likely to cause humiliation and resentment on the part of the person being demoted and has the effect of demoralising colleagues as well. Returning an employee to his or her former position does not address the issues surrounding underperformance. There is also the problem of having to get the employee who had taken over the underperformer's former position to vacate the position for the latter's return. This has the effect of demotivating two employees. What Gary was proposing is not a lateral move but a demotion – but he was insistent that he viewed it as a lateral move. Even if what he suggested was a lateral move, it would undermine leadership succession processes as performing employees who had looked forward to future possible promotions would now find themselves pushed backwards or moved to another department and such disenfranchised employees would then leave the company, thus shrinking the talent pool. It is unlikely that a manager could in reality expect a subordinate to accept a demotion as this could expose the manager's poor judgement in promoting the subordinate in the first place.

In the case of HanSoon, Henry recalled how the company had transferred underperforming senior managers to small branches or regions as well as to less strategic areas and departments. While agreeing that it would be best to get underperformers out of the company, Henry relented that this was in fact an action that his company had seldom resorted to

... because this is the Asian context – we try to be merciful and not break the person’s rice bowl.

In HanSoon Berhad, such lateral moves did not result in loss of seniority or pay but the underperformer would be tasked with managing a smaller department or area. Such a move is perceived as a form of demotion and when questioned about the consequences of such a move, Henry conceded that this practice not only humiliated the manager in question but also demoralised the other staff members who now had to report to someone that the company had recognised as an underperformer. He recalled a situation where this had happened and the employees in the affected department had become very unhappy and de-motivated. Henry said that an ambitious young employee had become so distraught that he subsequently resigned. In defence of the practice, Henry thought that as the organisation is a very large conglomerate, ambitious people affected by such practices should not be discouraged by such events as they could apply to be moved to other departments. Nonetheless, he conceded that the resignation of the employee suggests that the organisation needs to recognise that employees often aspire to be promoted to specific positions and that they may not always want to have to move to other departments

within the organisation in order to secure the promotion. In this instance, Henry appears to be demonstrating his belief of the concept of father leadership although he did not refer to it specifically. His suggestion that the affected person should not have become discouraged but to “look at the big picture” is reminiscent of the notion that father knows best and would look after those who displayed loyalty to him.

In summary, the respondents were of the opinion that the effects of laterally moving underperformers have the potential to breed discontent among employees since they de-motivate ambitious and competent staff members. This has caused the reduction in the number of talented employees because of resignations and which had unfavourable repercussions on leadership succession planning and implementation.

Consideration is now given to the employing the maintenance of *status quo* as a form of disciplinary action when companies addressed the matter of underperforming managers.

Organisationally generated entrenchment arising from maintaining the *status quo*

Along with the use of laterally transferring and/or assigning underperformers to manage special projects, two of the nine companies researched, AmSure Berhad and Berani Berhad also employed do-nothing strategies.

Mention was made earlier of how underperformers in AmSure were subjected to the company's consequence-management programmes but Amar Singh acknowledged that employees were often not dismissed at the end of these programmes. Employees who were no longer deemed suitable for the company were often left in their positions until they reached retirement age but Amar Singh said that such employees had come to a dead end in their careers in the organisation. Because they were allowed to remain in their current positions they became obstacles in the company's leadership succession processes as they continued to occupy managerial positions that their performing subordinates wanted. When such subordinates had proven themselves and had become ready for career advancement, instead of being promoted within the department, many of them were upgraded to positions outside their departments. The following quote from Amar Singh explains why:

More often than not, for sensitivity reasons, we don't have the subordinate become the boss within the same sector. It could happen that he may be promoted but to another sector. So you [the underperformer] don't directly report to him, you know. I think it's the Asian culture, sensitivity

issue, you know. It is a stumbling block [to succession planning] there is no doubt about that but in the local context in Malaysia, removing a person is not an easy task. A lot of cultural issues, sensitive and even legally, it is not an easy task.

There are two issues to consider in Amar Singh's comments above. Firstly, there is the problem of promoting a subordinate over that of the incumbent. For sensitive and cultural reasons, it was unacceptable to advance a subordinate over his immediate, albeit incompetent, superior. According to Amar Singh, AmSure often solved this problem by promoting the subordinate and transferring the promoted employee to another sector. He admitted that while the idea of being promoted to another sector might be appealing to some, other employees could find being moved from their own department and sectors undesirable as they would have to leave friends and colleagues behind as well as put in extra effort to become familiar with the workings of the new sector. Indeed, Amar Singh conceded that there are a number of sectors in his organisation (the Audit department is one such area) that are not viewed as career-enhancing sectors and that some employees have been vociferous in their dismay at having to be posted to such areas. For these reasons, Amar Singh acknowledged that maintaining the *status quo* only served to frustrate other competent employees. This discontentment could then result in resignations and a reduction in the size of the talent pool and thus impede the leadership succession process.

In discussing this mode of addressing underperforming managers, Bernard recounted the case of a senior general manager in one of his company's many subsidiaries. A particular general manager had been groomed to take over the position of the subsidiary's managing director upon the retirement of the incumbent. The heir apparent was subsequently found to be unsuitable for the position and a senior manager from another subsidiary was brought in to replace the outgoing managing director. According to Bernard, because of the company's reluctance to "rock the boat" the unsuccessful heir apparent remained as the general manager of the subsidiary and reported to the new managing director. Bernard recalled how the unsuccessful heir apparent went on to make "life miserable for the new managing director because the guy was new to the company while he had been in the company for the last 20 to 30 years". The company had decided to maintain the *status quo* and not remove the general manager because "it is a Malaysian thing". The repercussions of this action were clearly seen when the company attempted to remove a different underperforming manager. This other senior manager refused to go citing company precedence. Bernard described the situation as follows:

I would say that this practice is actually very destructive. I know this from experience. It took the new managing director quite a while to get on with what he was supposed to be doing because of the problems that this other guy was giving him. So it was not good for him, the managing director. It was also very bad for people at the lower levels because you are just setting a very bad example. There was a departmental head. What happened was that when it was time to remove the departmental head for non-performance,

he followed the same track and said 'I refuse to go'. So what could we do? It is bad all round – I would say that it is actually very bad all round for people above and for people below.

This is a clear example of organisationally generated entrenchment in the company. In the above situation, not removing the uncooperative general manager had given cause for the second manager to entrench himself. In the second incident, Berani Berhad found itself unable to remove the underperforming manager because of the precedence created by maintaining the *status quo* in the first instance. When companies are unable to remove incompetent managers because of precedence, the upward mobility of more competent subordinates is blocked. This will eventually lead to employee discontent and resignation.

It is of interest that both Amar Singh and Bernard explained their choice of maintaining the *status quo* by stating that it would have been culturally wrong or insensitive, and that it would not be the 'Malaysian thing' to remove underperformers. This reflects aspects of the *budi* complex where one is expected to demonstrate *timbang-rasa* (consideration), *murah hati* (generosity) and to be helpful as well as the elements of Confucian teaching which espouses *ren* (humanity or goodness). What appears to have been lost in this is that by so doing, other more competent subordinates could have been adversely affected. However, the *budi* complex and Confucianism also teaches the virtues of being patient and of knowing one's place in the *rukun* or social order and affected subordinates

would be expected to patiently wait for their turn, even at the expense of company performance.

Having considered how these three forms of action can result in organisationally generated entrenchment, consideration is now given to the implications of organisationally generated entrenchment on leadership succession.

Implications of organisationally generated entrenchment

The findings suggest that there is interplay of the elements of agency theory and organisational and social culture in the creation of organisationally generated entrenchment. Along the lines of reasoning found in agency theory, Pratt and Zeckhauser (1985) argue that those who are hired and who are in power in organisations would be highly interested in self-preservation and in making decisions that would be favourable to their own well-being. It would naturally be in the best interest of the company to dismiss underperformers but managers find it more expedient to transfer them to other departments or projects, or to maintain the *status quo*.

This research identified three forms of disciplinary action that contribute to organisationally generated entrenchment; these were assigning underperformers as managers of some special projects; maintaining the

status quo; or transferring the underperformer to another department with no loss of seniority. The findings demonstrate that all respondents concerned were of the opinion that organisationally generated entrenchment inhibits leadership succession processes. During the interviews the respondents appear to be aware of the negative effect of these three methods of addressing underperforming managers on leadership succession but conceded that their companies persisted in such practices. They appear to have some appreciation of the negative consequences of their actions as a result of their participation in the investigation and support the view that organisationally generated entrenchment has been created unwittingly. The findings support the argument that organisationally generated entrenchment is an impediment to effective leadership succession planning and implementation.

The findings also demonstrate that these forms of dealing with underperformers arise as a result of the influence of culture on management. Cultural norms in Malaysia dictate that managers must demonstrate that they possess *budi* or that they understand what it means to be *ren* and display humanity and goodness. However, these cultural elements have had the effect of generating entrenchment and must therefore be taken into consideration when planning leadership succession processes, systems and models.

Although this was not specifically posed to the respondents while investigating organisationally generated entrenchment, I posit that the renewal of employment contracts after the attainment of retirement age is

also a form of organisationally generated entrenchment. Retirees who have had their employment contracts renewed might decide to increase the chance of future extensions by not preparing successors. Hopeful potential heirs could become impatient and cynical and decide to leave the company rather than wait for what might appear to be an indeterminate period of time. This could be further investigated in future research as there are companies such as Intel that espouse retirement at predetermined times just as there are others who do not see the need for fix-time retirement.

Having considered the effect of organisationally generated entrenchment on leadership succession, attention is now given to the concept of co-leadership and its effect on succession processes. The notion of co-leadership was included for investigation as it had been touted by Heenan and Bennis (2003) as a possible enhancer of leadership succession planning and implementation.

The feasibility of incorporating co-leadership into Malaysian leadership succession practices

Heenan and Bennis (2003) suggest that co-leadership should be viewed as an important element of leadership succession planning and implementation. According to them, co-leaders are key company personnel who work alongside their managers and who are eventually groomed to take over their managers' positions. In such a scenario, co-leadership enhances leadership succession processes by making sure that suitably prepared personnel are available before the transition event occurs.

The notion of co-leadership is not without detractors and Baxter and Baxter (1989) cite the possibility that managers feel threatened by the presence of co-leaders. The concept of co-leadership is found in literature pertaining to Western organisations but the literature on leadership in Malaysian companies is silent on the subject. I therefore decided to investigate the practicality of co-leadership in Malaysian companies and to ascertain if it might be viewed as an enhancer to leadership succession.

Overall responses to co-leadership

All respondents interviewed did not view co-leadership as a workable notion in leadership succession, although Bernard thought that it was a concept that had some merits but even he conceded that it would be a difficult concept to implement. Only Ezra and Frederick's responses are presented here as they mirrored the sentiments of the other participants very well.

Ezra unequivocally voiced his disagreement when he said:

Let me say why I say no. I think that if co-leadership means equal opportunities, equal powers, then I will say no because no ship can have two captains. I strongly believe that every ship must have only one captain. You can have a deputy captain, an assistant captain to whom you can delegate part of the responsibilities but the captain must still take full accountability and responsibility. That is the only way that it will be effective. I have seen so many cases where there were two. I have seen companies, say 25 years ago, that had two managing directors – you know, joint managing directors. It became so difficult for the people reporting to them. From my observations, all it created was a lot of politicking and it became very unhealthy for the company. I would not even use the word 'co' in any way. There must still be a distinct head and a distinct deputy, a distinct hierarchy. There has to be. But during the grooming process, you know, you can mentor – the head can mentor the deputy. Personally, I am very against the word 'co' because the name itself sends out the wrong signal – 'co' or 'joint' or something like that. It will be much more effective if there is a clear hierarchy

Ezra's sentiments were echoed by Frederick. Frederick believed that culturally it would be very difficult to implement co-leadership in any company. He said:

It has a lot to do with our culture, of course this is very much driven by culture. We are willing to have one father but not one father and one co-father. And largely it is also because of my age [64] and because of my years in the business. The other thing is that they see that I am like the power source in the company and they therefore tend to show some element of distance. Although I go out to lunch with them, I joke and I laugh with them, I have teh tarik [a form of tea served in Malaysia] with them in the evenings, still there is always, you know, the level of respect and they dare not come alongside.

The metaphor of the father figure is revealing of the reasons behind the 'no' answer in this case. Employees in Malaysian organisations are often exhorted to work as though they were part of a family. What is not quite as often articulated is that the family structure referred to is that of the Asian family. In Asian family structures there are clear power delineations and while power may sometimes be delegated it is unlikely to be equally shared as power distance is to be dutifully observed (Huang, 1999). Furthermore, as Tu (1987) and Dahlan (1991) state, Confucian teaching and the *budi* complex respectively teach that each person needs to know their place in the social hierarchy. The younger must defer to the older and the less powerful to the more powerful.

Frederick's answer revealed another perspective on the matter of power structure. Power had to be understood not only from the point of view of the power holder but also from the perspective of those over whom that power is exercised. He argued that even if he, as the CEO/executive director of the company attempted to reduce the distance, his subordinates would 'dare not come alongside'. Respect for those in power is something that is quite firmly embedded in the Malaysian psyche and the co-sharing of a superior's power is unlikely to be expected by the subordinate or tolerated by the superior.

The findings suggest that the concept of co-leadership is a concept that most senior Malaysian leaders would be reluctant to implement. Senior managers are understandably unwilling to co-lead because they view this as a dilution of their power that may lead to the loss of their positions. Subordinates, on the other hand, may not want to engage in anything that might be viewed as a challenge to the power structure which may affect their own advancement opportunities. Maintaining a respectful power distance would be, in their opinion, a more favourable option. It is noted that these inferences on subordinate reluctance were not tested in this investigation and this could be grounds for further research at a later stage.

Implications of co-leadership

The Malaysian companies investigated did not view co-leadership as a necessary component of leadership succession. A problematic aspect of the concept of co-leadership for the respondents was the connotations that arose from the word 'co'. The idea that superiors might have to share power equally with subordinates is not a concept that would be well received within the traditions of Malaysian organisational hierarchies that demonstrate high levels of power distance. Thus, while respondents exhibited readiness to mentor their subordinates, they were not willing to allow subordinates to co-lead. East and South East Asians are unlikely to tolerate the concept of having co-fathers in families and similarly, Malaysian companies would not be willing to accept the presence of a co-father leader in a company. The presence of a co-leader implies possible complications to the structure of power distance as some subordinates might prefer to turn to the more lenient of the two leaders; arguably others might indeed prefer to support the stricter leader. Such a situation would give rise to disharmony in the social order and from the *rukun* perspective, as well as from the viewpoint of Confucian order, it would not be condoned. As such, it is unlikely that co-leadership would be accepted in a society that espouses social order and power distances.

It is noted that even in Western organisations, the practice of co-leadership is not widespread and Heenan and Bennis (2003) were able to list but a handful of companies that they said practised co-leadership. This could be due to the lack of awareness of such a concept. It is more plausible that

it is because leaders, by virtue of their own need for power and control, are not given to co-sharing power even if they are willing to delegate power sometimes.

From the findings it can be surmised that co-leadership is unlikely to be a concept that will be considered a part of leadership succession practices in Malaysian companies in the near future.

The investigation now considers the factors that were identified either as enhancers or inhibitors of the leadership succession process by the participants.

The factors that enhance leadership succession in Malaysian companies

During the interviews participants were asked to identify the factors that they believed had either enhanced or would be able to improve the effectiveness of their leadership succession efforts. Although it is now clear that most of the companies do not have a managerial succession system it was still a valid question to ask for the following reasons: (a) companies that did practise some form of succession would have had the opportunity to observe such enhancers at work, and (b) even companies that did not have succession planning processes in place could give their opinions on what they believed could enhance the management of leadership succession. Nine enhancers were identified. These were: having a structured leadership succession model; making succession management a key performance indicator; a large organisational structure; the presence of an influential human resource director; support from top management; compulsory retirement age; educating managers; a transformational leadership paradigm and mentoring, and the provision of exit strategies. Each of these is discussed below.

Structured leadership succession models

Amar Singh stated that the presence of a structured, formalised leadership succession model would be an important enhancer in a company's efforts to bring about effective succession. In the context of his organisation, Amar Singh thought that his company's succession programme had to be made even more structured than it currently was. During the interview, Amar Singh laid out the company's succession plan and demonstrated that it was because of the system that the company had been able to achieve a 40 percent success rate. A list containing the names of those who had successfully completed the training programmes and who had been promoted is kept in his department and, for confidentiality reasons I was allowed only a cursory look at the list. Nevertheless, Amar Singh was not satisfied with the current succession process in AmSure. He indicated that identified high-potential candidates should be made to undergo a series of formal training programmes and be given opportunities to manage a number of critical functions such as risk management, treasury, human resource and audit. He wanted definitive time frames to be included in the structure so heirs apparent could have a better temporal gauge of their development and progress against defined, time-bound benchmarks. The succession plan that was shown to me did not contain any time frames – however, I noted that it would be very difficult to include time considerations given that high-potential candidates are not actually informed of their status as high-potentials since the company practised 'notification-by-inference'.

Bernard commented that succession worked best in organisations that had formalised processes and systems. He said that a structured system that allowed employees to decide if they wanted to work towards being a potential successor for any particular position as well as measure their own progress would be much better than an informal system. More importantly, he believed that the presence of a formal succession plan that every one in the company could understand would increase transparency and reduce any manipulation of the process.

The identification of formal succession plans as an enhancer is in agreement with the literature on leadership succession. Friedman (1990), Charan, Drotter and Noel (2001) and Byham (2002) speak of the importance of a formalised succession plan to enhance the effectiveness of succession management and it would appear that the participants are in agreement with this. In the Malaysia context, the presence of a formalised plan would be even more important as it could reduce the influence of cultural factors on the way that succession is implemented. This research acknowledges the difficulties that can be encountered in attempting to overcome cultural factors that have been inculcated and embedded in the psyche of Malaysian managers especially where dealing with underperformers is concerned. Nevertheless, having a formalised plan that can be referred to is likely to be more helpful than not having one at all as the presence of such a plan reduces ambiguity and allows managers to cite succession regulations and policies as a means of sidestepping cultural norms.

Making succession management a key performance indicator

In AmSure, managing leadership succession was embedded as a key performance indicator for senior managers. Senior managers in the company were held responsible for identifying, selecting, preparing and mentoring their subordinates for higher responsibilities and positions. Amar Singh believed that the company should add two other elements to this key performance indicator to increase its effectiveness. The first element is to reward senior managers who successfully developed and subsequently transferred the heir apparent to his or her new position. The addition of an incentive for the successful management of succession was an idea that received support from Charles, Chester, Ezra and Jeremy. The second component is to penalise those who did not prepare their successors, but Amar Singh noted that this would not be easy to implement. While punishing a senior manager for not managing succession effectively could be problematic, J-Power has, in some ways, been able to incorporate the two elements that Amar Singh advocated. J-Power rewarded senior managers who prepared their successors by allowing these senior managers to retire with full benefits that continued after retirement. Senior managers who had not groomed any successors had to opt for resignation rather than retirement and company benefits that accompanied retirement were withheld.

In this area of making succession management a key performance indicator, Ezra commented that companies should make promotion

opportunities for managers subject to the successful grooming of their own successors. This is similar to suggestions by Amar Singh and Jeremy of offering an incentive, which in this case meant being promoted, and a punishment, which meant being denied the promotion.

Having incentives for managers to put succession management into place is not unreasonable. Not everyone can be expected to be intrinsically motivated to bring about leadership succession and for most people, some form of extrinsic motivators would be required. After all, succession planning does conjure images of working oneself out of one's own position and it is therefore logical that some form of reward be given to those who put effort into succession planning and management. Thus, Ezra's suggestion of making promotion contingent on effective succession has merits as employees would not want to obstruct their own advancement in their organisations. This would, however, have limited success with those who are about to retire as there is no future promotion for them. For retirees, inducements in the forms of monetary rewards, whether in the form of a one-time payment or in the manner practised by J-Power, could prove to be good motivators to persuade managers to make the effort to learn about, plan and implement succession management.

Large organisational structure

Having a large organisation was identified as an enhancing factor by Amar Singh, Ezra, Gary and Henry. AmSure, for example, is a very significant employer with more than 20,000 employees and over 100 subsidiaries. The large size of the company affords opportunities for the organisation to transfer identified and groomed heirs apparent to positions outside their own divisions. Amar Singh said that this was especially useful in situations where the incumbent demonstrated signs of entrenchment. For instance, when an incumbent was reluctant to vacate his or her position but was only a few years from retirement, it was common practice in his company to maintain the *status quo*. In such a situation, waiting heirs apparent had been transferred to comparable positions elsewhere within the group to keep them happy. This was supported by Gary who stated that the size of Great Flours allowed the company to transfer competent employees to other subsidiaries as a way of dealing with entrenchment.

In the case of AmSure, the sheer size of the company allowed it to place sufficiently prepared successors into what Amar Singh called 'temporary parking lots'. This occurred when the successor was ready to take on new responsibilities but the incumbent was not prepared to vacate the position for reasons such as being a year or two away from retirement. According to Amar Singh, being placed in a temporary parking lot was viewed as a positive career move by the company's employees as it meant that such employees had been selected for promotion and that it was a matter of

timing. Amar Singh conceded that the placement had to be temporary for fear of frustrating the employee with too long a wait.

The presence of an influential human resource director

For Henry, the presence of an influential human resource director with extensive powers to implement succession planning was an important enhancer. He thought that in many companies, and especially so in HanSoon, the human resource director did not have sufficient organisational power to influence the manner in which succession was implemented and that the human resource director essentially carried out the wishes and dictates of other directors who were not as well versed in succession planning. He commented that it was important for the human resource director to be in a position to affect and direct succession planning and not merely to implement policies and programmes over which he had no influence. This argument, of course, is based on the premise that the human resource director subscribed to the practice of leadership succession.

Support from top management for leadership succession

Charles, Chester and Daniel identified continued top management support as an enhancing factor. Speaking on the situation in Cilicon Berhad, Daniel had this to say:

We have to get support right from the top to the middle level and the lower-level management. There must be clarity that when the leadership changes at the top, the Japanese, [head office] when the next guy comes in he will continue with this programme and not change it entirely. There must be buy-in from headquarters in Japan and we must have full authority to manage the programme.

According to Charles and Daniel, it was common practice for each new incoming managing director to change, or even stall indefinitely, the company's management development programme. This has led to the perception among Cilicon's employees that the company was not serious about developing them. As such, these respondents asserted the need for continued top-management support.

The situation in Cilicon can be contrasted with that in AmSure where top management had not only approved the leadership succession programme but had also increased the budget for leadership training. By so doing, the company was signalling to its employees that it was committed and serious about wanting to develop them.

Compulsory retirement age

This factor was identified by Henry, Charles and Daniel. They believed that a retirement age should be established in every organisation. The imposition of a compulsory retirement age, with no further renewal of contracts, could compel companies to ensure that there was a pool of adequately trained employees to succeed their superiors when these superiors attained retirement age. Furthermore, it would make it clear to the younger successors that they would not have to wait indefinitely for their own promotion to higher positions. This concurs with the philosophy that Intel has when the company dictates that the CEO had to vacate his position by 65 years of age (Crum, 2004; Zachary, 2004).

In discussing the need for an obligatory retirement age, Daniel asserted that there should be no renewals of employment contracts for retirees. Many of the other companies appear to have been quite happy to manipulate contract renewals and extensions as a means of circumventing succession planning, but Daniel's comments show that there are adverse reactions over such employment contract manipulations. His comments are reproduced below:

Yes, it does have a negative effect. For example, certain key characters were supposed to have left the company at the age of 55 but the company gave them new contracts. This had a very negative impact on those below them who see them as dinosaurs. And the management is basically saying, yes, this is my so-called right-hand person and he gets to do the job although the younger person can do it better. This

type of relationship is still there and it does frustrate the group. They should put a stop to that.

Daniel argued that the presence of a compulsory retirement age would reduce entrenchment as well as remove any form of preferential treatment given to staff members because of relationships or politics within the company. A policy that removes the 'flexibility' to offer renewable post-retirement-age employment contracts could be useful in forcing companies to have formalised succession plans in place.

Educating managers on leadership succession

Jeremy stated that companies should not assume that senior managers automatically understood the need for succession. He said that his own encounter with the importance of leadership succession began when he met a Peruvian professor who had been engaged as a consultant for his company:

I think it is a belief. I remember one day I was entertaining a guest from Peru – we have a power station there. He is a professor involved in economic planning for the government. He told me about this succession thing, about grooming the young, about succession. He told me the same thing about a company – if it wants to succeed and do well, it has to train up the young. And to me this is a reality which people don't see. In the end I think they suffer.

This was the first incidence when a senior manager in the research had indicated the need for educating top management about the need for succession. In view of the findings that most of the organisations researched did not have succession planning and implementation systems in place, it is possible that this is one of the key missing components of succession practices in Malaysian companies. According to Jeremy succession was something that company managers need to be taught and regularly reminded and be monitored for performance and compliance.

The matter of leadership succession is not well publicised in the literature or in the newspapers and management journals in Malaysia. As mentioned earlier, a survey conducted by DDI found that 66 percent of the companies surveyed believed that they have succession management plans. However, this investigation has demonstrated that while all the companies involved in this research agreed that succession was important and that they had succession processes in place, only two had any plans that resembled leadership succession planning and implementation systems. The others equated leadership replacement with leadership succession. This suggests that there was a need to increase the awareness of leadership succession planning in corporate Malaysia. However, as Huang's (1999, 2001) research suggests, East and South East Asian companies, and especially those which are controlled by the Chinese have been slow in adopting what is often viewed as a Western management practice. This reluctance, which arises from cultural influence, will be

difficult, but not impossible, to overcome and education and increasing the awareness for the need for effective leadership succession management processes would be a good platform to start from.

Transformational leadership and mentoring

Chester highlighted two factors that would enhance succession processes. These were the possession of a transformational leadership mindset and the mentoring of subordinates. He felt that unless leaders saw succession as a vital leadership tool, they would not be motivated to be engaged in implementing it. If this is true, then there was a gap in the management development programme in Cilion Berhad. Nowhere in the company's management development programme were there anything about the need to develop leaders for the future. Selected candidates attended the training programmes with the sole purpose of developing themselves for further promotion but the training did not include any aspects of how they could, in turn, groom future leaders.

In terms of mentoring subordinates, Chester recalled how being guided would have helped him when he was selected to replace an employee who had retired from the company. There had been no indications that Chester was to succeed the retiree and Chester was placed in the new position without any guidance. Chester voiced his frustrations at having had to struggle to understand the requirements of the new position and

stated that he had found the situation distressing. He claimed that, as a result of this experience he had taken to voluntarily mentoring his subordinates to ensure that they would not have to go through the same experience when it was time for him to retire.

Mentoring can be seen to be occurring within the organisations investigated. Mentoring was demonstrated in the way that the CEOs of Berani, DesignerPens and J-Power had gone about putting their children through various departments in the organisation. Although it is unlikely that Malaysian CEOs would engage in the Japanese practice that Morikawa (1996) calls interim *shacho* or interim CEO, there are indications that some form of mentoring is in place. For leadership succession planning and implementation to be effective, this thesis argues that mentoring needs to be inculcated at all levels of the company so as to ensure the presence of successors at every level of the organisation. The processes and importance of mentoring was not something that was given adequate attention to in this research and could form an important area of future research in leadership succession processes.

The provision of exit strategies

Ezra thought that there had to be exit strategies to help the incumbent vacate his or her position. He argued that the outgoing incumbent should be given some other position to fit into (assuming that the person in

question was not retiring) and that even a lateral move would be useful. The important difference between this type of lateral move and the ones discussed under organisationally generated entrenchment is that the lateral movements here involve employees whose performance the company is satisfied with, and who the organisation wishes to retain. Ezra said:

[The employees must feel that] 'I'm not being threatened by creating a successor. I am not being pushed out by having a successor'. I think the message we have consistently been pushing out is, you get a successor, the chances of moving up the career ladder is better. They mustn't see it as a threat. We often tell them, don't see your direct report who is good as a threat. See it as an opportunity for him to take over from you so that the management or the company will give you other responsibilities.

Ezra did concede that the exit strategies do not always work as some of his subordinates have exhibited entrenchment and have refused to vacate their positions, arguing that they were happy with their current positions and had been performing well. In such situations, Ezra had had to move the heir apparent into another part of the company.

Implications of the findings on the enhancers of leadership succession processes

Top management support, clearly formalised succession structures, educating managers about succession, developing a transformational leadership mindset and the inclusion of succession planning and implementation as key performance indicators for senior managers were some of the commonly recognised enhancers to leadership succession processes. These factors suggest that top management would do well to develop a holistic, strategic view of leadership succession. These factors, along with the other factors mentioned above, point to the need for those in the upper-echelons of management to go beyond paying lip service to leadership succession and to put into place structures and systems that can ensure effective and uniformly implemented succession processes in the organisation.

Several factors were only mentioned once or, at most, twice when all the responses are taken together. These include: not renewing employment contracts; the provision of exit strategies for the outgoing incumbent; the appointment of an influential and highly positioned human resource director tasked with planning and implementing leadership succession programmes; the removal of organisationally generated entrenchment, and the need to make the process transparent. It is tempting to conclude that these are less useful enhancers – by virtue of the fact that they received scant mention. It can be argued that they are just as important as the other factors – only that the other respondents have not given much

thought to them. For example, developing a transformational leadership mindset was only mentioned once but without a transformational leadership mindset, those in authority might not even begin to consider leadership succession, since their main focus would be on getting their employees to achieve organisational objectives and targets. The fact that it had only one mention does not reduce its importance to all the companies researched. In perusing the enhancers of leadership succession, it would be more beneficial to consider their contributions to the succession process overall rather than to rate enhancers in any level of importance. What is salient about the identification of these enhancers is to see how they might be employed to increase the overall effectiveness of a leadership succession model. Finally, it is noted that these enhancers are just the ones that have been identified by the respondents and that this list is by no means exhaustive. It is possible that there could be other enhancing factors that were not highlighted in this research or that might be uncovered with a broader spectrum of participants. The review of the literature demonstrates that there are other types of enhancers. These include understanding and internalisation of the importance of succession planning and the importance of having intrinsic motivators such as the desire to be measured not only by the results that one achieves while in power but also by one's legacy. It can be argued that the former factor is part and parcel of educating managers on the need to prepare for succession and the development of a transformational leadership paradigm. The latter enhancer has been discussed when considering the manner in which, for instance, Randall Tobias vacated his position as CEO in Eli Lilly (Tobias & Tobias, 2003) and in the way in which Herb Kelleher,

former CEO of Southwest Airlines had paved the way for a smooth transition for his successor (Dearlove & Crainer, 2002).

Having considered the factors that have been identified by the respondents as enhancers of the leadership succession process, attention is now turned to the final research area in this investigation – that of the factors that inhibit succession effectiveness.

The factors that inhibit leadership succession in Malaysian companies

While the identification of enhancers is helpful in that such enhancers can then be used to improve the effectiveness of succession processes and models, the uncovering of the inhibitors is just as important. This is because their removal could also pave the way for smoother succession transitions by reducing potential frustrations caused by these inhibitors. Ten inhibiting factors were identified by the respondents. These are: the unwillingness of managers to involve subordinates in succession; the reluctance by subordinates to be included for succession planning; the practice of dynastic succession; the unwillingness to challenge the *status quo*; informal succession processes; the possession of a replacement attitude; the renewal of employment contracts; the lack of continued top-management support; perceived government requirements for an

ethnically balanced employee composition, and entrenchment tendencies. Each of these factors is discussed below.

Unwillingness of managers to involve subordinates in succession

An inhibitor that had been observed by Amar Singh was the unwillingness of sector heads to release their high-performing subordinates into the high-potential pool. This reluctance came about because in releasing the subordinate, the sector head would then have to look for someone else to do the identified high-potential candidate's work. This disinclination is further exacerbated by the fact that after training, a number of the high-potentials had been transferred to other departments and sectors rather than back to the sectors from which they had been selected. In Amar Singh's words:

The other one is basically the sector heads, the minute they know that they have staff in their sector, are willing for them to release them. It's always the famous phrase is you know, you are going to take him out of my sector over my dead body. Especially our high-performing guys; the minute they let them go they will have difficulty of grooming somebody to take over his job. So that could be another inhibitor. People are not willingly letting go of high performers so that they can transferred anywhere else within the company.

The reluctance to release a high-potential for succession planning because of the fear that this might result in a drop in departmental performance is understandable, especially since there is no guarantee that the selected employee would subsequently be returned to the department from which he or she was first taken.

Reluctance by subordinates to be included for succession planning

An inhibitor raised by Amar Singh had to do with the subordinates themselves. Amar Singh claimed that often it was the identified high-potential employees themselves who did not want to be selected. The reason for this lack of desire was because the inclusion into the high-potentials pool was not a guarantee of eventual promotion. There was also fear among selected candidates that while they were being trained and exposed to various functional areas, their positions could be taken over by other employees. As Amar Singh recounted:

The persons themselves are not willing to move to another area especially when it is a lateral movement, especially if they know that they are in the pool and they have to go to another area for exposure but not get promoted. So they feel that the minute they leave their ship, somebody else is going to come in there and might get promoted ahead of them. So the inducement for them to move to another area laterally is not there [for these high-potential candidates]. Yes, you are going into untested waters. For example, if you are in

consumer banking and, say, you go into audit for a while, you know the reluctance is always there... they feel that 'if I go into audit, it's a tunnel with no outlet, I can't come out'. And they say that whoever is taking over their position is going to get ahead of them.

The lack of assurance of promotions for those in the high-potential pool appears to have been a stumbling block. It is unlikely that any company, even one as large as AmSure, can give unreserved assurances of promotions to their employees. On the other hand, it is not unreasonable to assume that the majority of the candidates selected for the high-potential pool would be sufficiently mature to understand and accept this perceived risk.

Linked to this inhibitor is the reluctance of high-potential employees in AmSure to accept an overseas posting. Amar Singh said that while overseas postings have, of late, become a prerequisite for appointment to the upper-echelons, many of the employees are disinclined to accept them:

If you ask someone to go to an overseas posting for exposure, I think the overseas posting for locals, the excitement is not there. Most of them feel that when they go overseas, [they are] far from sight, far from the heart. They find that they are out of the main stream and are lost in the system... Because of past history, people who have gone overseas, when they come back, more often than not, they are lost in the system. The incoming inbound trip is not an exciting one. More often than not they land up doing some administrative job somewhere. With all the exposure overseas, you know, Hong Kong, New York, when they come back rather than using them in certain areas they land

up in admin functions. Historically, that is the trend in the past – so the perception is when I get posted overseas when I come back I may end up in a dead-end job.

Amar Singh stated that the company was in need of strategies to reduce the perception of risk inherent in being selected as a high-potential employee, especially where overseas appointments were involved. The development of procedures to ensure that selected employees are placed in positions where their talents are fully appreciated and utilised will be useful in the company's efforts to increase succession effectiveness.

Consideration is now given to the inhibitors identified by the group of companies forming the family-controlled publicly listed companies.

The practice of dynastic succession as an inhibitor for CEO succession

Bernard and Jeremy commented that in many family-controlled publicly listed companies the CEO's position was reserved for the family and the process was also a closely guarded secret. Jeremy stated that he was aware of situations where elderly incumbents had refused to make way for good candidates within the company but who were not family members. Because the position was open only to family members, the succession process was sometimes delayed to enable younger family

members time to acquire the necessary business acumen to take over the reins of the company.

Unwillingness to challenge the *status quo*

Where non-CEO succession was concerned, Bernard identified the unwillingness of an organisation to upset the *status quo*, especially where underperforming senior managers were involved, as an inhibitor. This has to do with the cultural need to 'save face' both for the company and for the employee concerned. In his view, when underperforming senior managers are not dealt with accordingly, this inaction can result in a blockage in the succession processes which can remain in the system for many years. He recalled the incident when Berani Berhad refused to take any action to remove a general manager whom the company thought was no longer suitable for the company. At a later time, when the company attempted to remove another senior manager for underperformance, the senior manager cited the precedence that had occurred through the inaction of the company against the general manager earlier and had refused to resign. As a result, he lamented, the company had to retain the services of the senior manager as it did not want to take the matter to the industrial courts.

The reasons underpinning this reluctance to challenge the *status quo* have been discussed above. This research acknowledges that this will be a

difficult area to address as many cultural factors, such as the respect for power distance, the need to subscribe to a hierarchical order and the fact that this practice has been in force for generations, are at play. While this may not affect leadership succession planning it could pose serious challenges to the overall effectiveness of leadership succession implementation. In the area of organisationally generated entrenchment, not challenging the way that underperformers are dealt with currently would mean that there is tacit approval of the practice. This results in precedence which can be complicated to deal with. The presence of a well-planned, transparent leadership succession plan could be a means of helping to overcome the problem of precedence to some extent.

Informal succession processes

Loose, informal succession processes where nothing was documented was cited as an inhibiting factor by Charles, Daniel and Jeremy. For example, commenting on Cilicon Berhad, Charles and Daniel lamented the fact that frequently changing the managing director by headquarters in Japan had meant numerous interruptions to the company's succession programme. An example of one such disruption was the stalling of the company's management development programme for nine months by a new managing director. Charles sighed when he recalled how he would have to re-sell the idea of succession to each new managing director even if the previous managing director had agreed to the plan.

A replacement, rather than a succession, attitude

That a replacement mindset could be an inhibitor was raised by both Bernard and Chester. Bernard recounted that, in his organisation, steps were usually taken to replace someone only after the person had resigned. Chester echoed Bernard's sentiments when he said that his company, Cilicon Berhad, often engaged in what he called 'fire-fighting' as it scrambled to replace key personnel who had resigned or retired. He recalled the time when the managing director appointed him to take over a section after someone had left. Chester recounted how he suddenly found himself having to manage people who had university degrees although he did not have one himself and how the whole experience had stressed him. He said:

It is replacement – it is almost like fire-fighting.

Chester then went on to comment on how better planning would have resulted in a better, more manageable and less stressful transition for him. He thought that the company's replacement approach was the result of a lack of a co-ordinated plan:

It still boils down to this, because I don't think that we have a corporate kind of a succession plan written down clearly. The top management, maybe in their view they have one but the way we perceive it is we don't have one.

The renewal of employment contracts

Ezra and Jeremy identified the renewal of employment contracts for employees who had attained retirement age as an inhibitor. Ezra was of the opinion that the extendable nature of the employment contracts and the willingness of retirees to continue working often made it difficult for the company to offer better positions to capable, young employees. This was a reversal of what he had stated earlier in the interview when he ruminated that a compulsory retirement age was not required. It is possible that he had begun to realise the problem of entrenchment that employment contract renewals posed to succession as a whole.

In discussing inhibiting effects of the use of employment contract renewals, Jeremy said that contract extensions changed the anticipated retirement dates of the incumbents and thus created a sense of uncertainty amongst heirs apparent. He asserted that all employees, regardless of their maturity, required a level of certainty and that ambiguity in the date of the succession event could lead to heir-apparent departures. It was interesting that Jeremy would suggest this as he had just retired from a company where there was no fixed retirement age.

Lack of continued top-management support

The lack of top-management support was cited by respondents speaking on behalf of Cilicon Berhad and Berani Berhad. In the case of Cilicon Berhad, the lack of continued top-management support was a result of the frequent changing of the managing director by headquarters in Japan. Charles, Chester and Daniel decried the company's policy of replacing the incumbent managing director every four or five years as each transition brought changes and interruptions to the succession programme. For example, one such disruption resulted in a nine-month stoppage of the company's management development programme. The local Malaysian succession plan did not have the backing of top management in Japan. This is evidenced by Charles's commentary on how he had to sell the idea of succession to new managing directors even though previous managing directors had agreed to the plan. Daniel said that if the programme had been presented to and approved by corporate headquarters in Japan, changes of the magnitude that were currently being experienced would not have occurred.

In Berani Berhad's situation, Bernard lamented the fact that there was no support from the CEO on the matter of managerial succession. He said:

I think as far as the company is concerned, it is very much left to the division heads. The company as a whole, the CEO has been talking about succession planning but as a whole, very little is done. The Human Resource department, we have a HR department but it does very little in terms of succession planning, in terms of human resource planning.

A lot is actually left to the division heads. There is talk, there is talk, but it is mere talk.

The CEO of the company had not offered any form of financial or organisational support for managerial succession processes, and Bernard said that the result was that the division heads had not done anything to facilitate succession but had instead adopted a replacement strategy.

Perceived government requirements for an ethnically balanced employee composition

Ezra stated that his organisation, Ellaconstruct, had to maintain an employee population that mirrored the national racial profile because of its extensive business links with the Malaysian government. He then asserted that having to maintain such an ethnic balance was an inhibitor to succession planning. He said that publicly listed companies in Malaysia are expected to have a racially balanced workforce and this posed special challenges. As Ezra said:

Managing in the Malaysian context, not being a homogeneous society, we have to be sensitive to the requirements of getting an ethnically balanced composition, not only at certain levels but right through the hierarchy. Now, finding the person sometimes, not often but there are times, finding the person of the correct ethnicity can be a challenge in that sometimes it will, well, it takes more effort and longer to identify someone who is prepared to take on the challenge.

Ezra's thinly veiled comments were that it could sometimes be difficult to effect succession because of the need to have about 40 percent Malay managers. He claimed that this posed challenges as the company sometimes found it hard to secure sufficiently skilled Malays to fill the appropriate positions. While it can be argued that this was a challenge for all publicly listed companies, the dilemma was more serious for companies like Ellaconstruct that have close business ties with the government. Succession in such companies carried with it the stigma of qualification based on the colour of one's skin rather than on one's abilities. The predicaments of succession that had to take racial considerations into account include the difficulties of finding suitable candidates of the right ethnicity and the de-motivation that this gives to those who are suitably qualified but who are from another race. Unfortunately, short of a change in national policy or in the nature of the company's business relationships and customers, this problem seems to be intractable from the point of view of the maintenance of the racial balance that is unique to Malaysia. Nonetheless, an effective succession plan can take such needs into account and therefore include longer time frames to source or groom sufficient numbers of Malay managers for such organisations.

Entrenchment tendencies

Entrenchment as an inhibitor was raised by Frederick who claimed that he has seen how managers of another company of which he was a board member had surrounded themselves with subordinates who were not capable of succeeding them. This ensured the continued employment of these entrenched managers which Frederick thought was to the long-term detriment of the company. In addition to the corporate examples that he had cited to support this point, Frederick cited three large churches in Kuala Lumpur. He was a board member of one of the three churches. His church has more than 2,500 members and Frederick claimed that the senior pastor had surrounded himself with associates and junior pastors who would not be able to succeed him should he decide to retire. Frederick argued that this situation was similar to those of the other two large churches that he had mentioned and that entrenchment did not bode well for the future of leadership succession whether in commercially driven organisations or in not-for-profit organisations.

Having considered the inhibitors that have been raised by the respondents, consideration is given to what the implications of these inhibitors are to succession practices in Malaysian companies.

Implications of the findings on the inhibitors of leadership succession processes

A number of inferences can be made from the factors that were recognised by the respondents as inhibitors to the succession process. Firstly, some of the factors appear to be unique to Malaysia because of the connection that these companies have with the government. These included the need to ethnically balance the workforce. These factors were mentioned by the two companies that were either linked to the Malaysian government or had close business relationships with the government.

Some factors are peculiar to Malaysian companies because of aspects of the culture of the country. For example, there is a cultural bias against discussing CEO succession as this is often perceived to be tantamount to speculating on the impending demise of the incumbent. Of course it can be argued that this is perhaps a South East Asian, rather than just a Malaysian, cultural trait as people in the Asian region can be highly superstitious and find it distasteful to engage in talk that might attract bad luck.

A number of the factors are linked to the ownership nature of the companies. For example, in family-controlled publicly listed companies, CEO succession is reserved for family members and even then, incumbents often display CEO entrenchment tendencies as they are loath to surrender their office.

Some of the inhibiting factors identified, such as reserving CEO succession for family members only and government requirements, appear to be difficult to address. For instance, to make any changes to dynastic CEO succession, one would have to first have to be a part of the founding family. Other inhibitors like informal succession processes and the renewal of employment contracts should be addressed in order to remove as many impediments as possible so that leadership succession planning and implementation can be facilitated.

Summary of the findings on leadership succession processes in Malaysian organisations

While Malaysian organisations subscribe to the notion that leadership succession is an important organisational activity, like many of their Western counterparts they do not appear to engage in structured, formalised succession planning and implementation. Leadership replacement is more commonly practised than is planned leadership succession and action is often initiated to fill a vacancy arising from retirement or resignation only after the incumbent has left the company. There appears to be an overall *ad-hoc* approach to succession planning.

One of the objectives of this research was to explore the models that Malaysian companies employ for leadership succession and to investigate

the effectiveness of such models in the practice of leadership succession in Malaysian organisations. The evidence reveals that, with the exception of one company, AmSure, the other companies did not have any form of succession model; Cilicon Berhad's so-called model is in effect merely a training programme. As such, it was not possible to evaluate the models but to conclude that it is likely that most organisations do not have any succession planning and implementation processes. This is certainly true of the companies and their subsidiaries, with the exception of AmSure Berhad. Even in AmSure, the level of success, based on records provided by Amar Singh, was only 40 percent. It would be reasonable to surmise that leadership succession planning is at the infancy stage among Malaysian organisations and there appears to be a need for better education, awareness and management of leadership succession systems in Malaysian organisations.

Chapter 6

CONCLUSIONS AND RECOMMENDATIONS

- Introduction
- The state of leadership succession in Malaysian organisations
- Organisationally generated entrenchment and its impact on leadership succession processes
- Theoretical framework and modelling: Towards a better practice of leadership succession in Malaysian organisations
- A model for leadership succession: The Succession Development Pathway Model
- Comparing the Succession Development Pathway Model and the Leadership Pipeline
- Whence from here? Future research
- Finale

Introduction

I started the thesis by stating that my interest in leadership succession began when one of my corporate clients voiced concern about succession issues his company was facing. As I began to ponder the issue, I also became intrigued by demonstrations of organisationally generated entrenchment and was keen to examine the effects of organisationally generated entrenchment on leadership succession processes. As I read around the topic of leadership succession, I note that there is little in the literature about leadership succession in Malaysian organisations and that most of this literature comes in the form of reports that had been commissioned by commercial organisations that provided leadership training and consultation. On the other hand, while there is a substantial body of knowledge on leadership succession in Western countries, the literature focused on specific issues such as the financial effect of leadership succession events, and not on the actual process itself. I therefore became interested in researching succession processes in Malaysian companies and in identifying what helped or hindered the implementation of such processes.

This investigation was made possible with the kind participation of nine Malaysian companies. These organisations, which included companies that were small, medium, large and very large, have employee strengths ranging from 100 to more than 20,000 employees. Eight of these nine companies collectively represent the leadership succession practices that

can be found in a further 450 subsidiaries that are part of their conglomerates. The participants involved in this investigation consisted of senior managers, managing directors and CEOs. None of the participants were founding members or part of the immediate or extended family of the founders of the companies investigated.

Having completed the research, I believe that the apprehensions voiced by my former client are valid not only in respect of his organisation but also in respect of many other Malaysian companies. This is supported by the observation that although every participating organisation attested to the strategic importance of leadership succession, only two of the nine organisations investigated had gone beyond acknowledging the need for leadership succession. And of the two companies that claimed to have succession planning, one was found to have processes that were largely dependent on uncoordinated training provided by external trainers and that were more appropriate for skills development and leadership replacement than for leadership succession. In the other companies, there were few, if any, indications of leadership succession. Resignations and retirements were commonly addressed through replacement strategies and even then, many of the initiatives to replace the departing employees occurred only after the resignation or exit of the outgoing employees. The practice of leadership succession is in a nascent stage in Malaysian organisations and many of these companies, while acknowledging the challenges, have done little to proactively and strategically address the area of leadership succession. Businesses appear to have equated leadership replacement with succession, or to believe that the presence of an organisational structural chart is tantamount to having a succession

plan, or to believe that succession planning could be done on an *ad-hoc* basis. My investigations suggest that the anxieties raised by my former client are likely to be valid and pertinent to Malaysian organisations and will remain so for quite some time into the future.

Having analysed the data gathered for this investigation, in this chapter I present the conclusions that have been drawn about leadership succession practices and the effects of organisationally generated entrenchment on such processes in Malaysian companies, as well as offer recommendations to enable smooth and effective leadership transition events. This chapter also recognises a number of areas that could be investigated further to enhance the study of leadership succession processes.

The state of leadership succession in Malaysian organisations

In this investigation, leadership succession was not confined to CEO succession but was also extended to include succession in the upper-echelons or senior management levels. As this research looked at both CEO and managerial succession, the conclusions for each of these areas are addressed separately and are presented below.

CEO succession

In the area of CEO succession, while the ownership structure of the company influenced the way in which CEO succession was implemented, there were several commonalities and the following was observed.

In government-linked companies, CEO succession is subject to political influences that are outside the company's control. Even if the company had instituted a formalised succession plan, the presence of such a plan did not guarantee the eventual accession of the designated heir apparent as the final decision was made by two government agencies. In most situations, decisions of the government bodies have been consistent with the recommendations of the government-linked company. While there have been exceptions, they are very rare; it is, after all, only logical that the company would want to make sure that its appointed heir apparent

complete the accession process and become the CEO and that care would be taken during the selection process to ensure that the chosen candidate constituted a good fit to the needs of the company and the government. It would be reasonable to assume that the company would have had tacit agreement from the two government bodies when selecting possible heirs apparent to ensure smooth succession transitions. The example of the failure of one heir apparent to become the CEO as recounted by Amar Singh only serves to demonstrate that even well-thought-out systems will occasionally encounter problems.

In the case of the family-controlled publicly listed companies, CEO succession is largely reserved for family members as the founding families have large, controlling shareholdings in their respective companies. Retaining control of the organisation within the family appears to be of paramount importance to these companies. There is a high level of confidentiality in how succession is practised in family-controlled publicly listed companies and the manner in which succession is decided remains shrouded in secrecy. The prevailing opinion amongst the respondents was that the owners of the companies could do as they saw fit. Such an approach is perpetuated by the fact that high-ranking employed managers generally accept that the owners of the businesses reserved the right to decide who would be at the helm. The timing of CEO transition events in family-controlled publicly listed companies is dependent on when the incumbent CEO wishes to vacate and on the presence of a successor from within the family. In such a situation, CEO entrenchment is common and the responses of the participants attest to this. In family-controlled publicly listed companies, top positions are firstly reserved for members

of the immediate families. If immediate family members are unavailable, the net is then cast further to include members of the extended family. Whether or not there is a structured succession plan is debatable but the answers from the respondents in this investigation suggest that there is an absence of formalised plans. For instance, it is uncommon for such companies to announce a retirement date for the incumbent CEO. Even in situations where the CEOs have vacated their positions, the departures were often akin to stepping aside rather than stepping out altogether. From such a position, these retired but nevertheless present CEOs continue to exert their influence in their companies and the new CEO, who is a family member, will need to allow for such influence.

It is noted that although all the respondents in the family-controlled publicly listed companies were highly placed in their organisations, they were hired employees and not members of the founding families. Efforts to include the actual founding members of the companies or their children in this study were unsuccessful. The manner in which CEO succession is implemented in these companies is largely unknown. For an in-depth study of the dynamics of dynastic succession, future research involving members of the founding family will be desirable.

In the case of the non-family-controlled publicly listed companies, because of the wide distribution of company ownership, CEO succession was not reserved for family members but was determined by the board of directors. Even so, of the companies involved in this investigation, there did not appear to be any formalised plans in the way that CEO succession was implemented. Non-family-controlled publicly listed companies often

resolved the problems of CEO succession by offering employment contract renewals and generous compensations to the retiring CEO. While such an approach has proved workable, it cannot be assumed that there will be employees every time who will want to continue to accept such contract extensions. The practice of employment contract renewals also means that there is a lack of a definite CEO retirement age and this can give rise to the problem of CEO entrenchment. Because a retiring CEO's contract can be renewed, an incumbent might see this renewal as an opportunity to delay grooming an heir apparent in order to ensure his or her own continued employment. The use of contract extensions is thus a form of organisationally generated entrenchment.

In the privately owned company investigated, due to personal reasons neither of the two owners was in any position to place their own children into the company as the CEO. Although one of the two owners had appointed his son as a senior manager in the company, the placement was short-lived as the son was not interested in the business. From the responses of the CEO of this company, it was evident that the company did not have any clear policy on succession and there were no clear criteria as to what it was looking for in a potential successor for Frederick. As a result, all the candidates that Frederick had selected and groomed had met with objections from the owners and these employees subsequently resigned from the company.

In summary, this research has shown that, regardless of the ownership nature of the company, CEO succession in Malaysia is largely not formalised, that there is no predetermined CEO retirement age and that

companies are often more engaged in circumventing the challenges of succession than in addressing them. In similar fashion to the majority of Western corporations reported in the literature, most Malaysian companies, while acceding to the importance of CEO succession, do not have systems and processes to plan strategically for CEO succession. Culture has a large influence on CEO succession and is likely to continue to do so. The practice of father leadership is made possible and is further encouraged by the observance and acceptance of high power distance and the precepts found in the *budi* complex and in Confucianism by those under authority while those who control these companies appear comfortable with their own sense of what Sonnenfeld (1988) calls heroic stature and mission.

Managerial succession

In the area of managerial succession, four conclusions were reached. These are considered below.

The first conclusion that can be drawn on managerial succession is that most Malaysian companies do not practice succession planning or have any formalised succession planning in place. Seven of the companies investigated have no succession model of any form and of the two that did, one was essentially a management development model which was more appropriate for management replacement. Only one company had a well-structured succession system. A reason for the lack of succession

planning is that many of these companies equate leadership replacement with leadership succession. Participants would, for example, enthusiastically assert that their organisations were very succession-oriented only to subsequently concede that steps to fill in the vacancy were usually initiated only after the incumbent had either given notice to resign or had left the company altogether and that, at that point in time, there would be no successor in sight. The fact that this occurred in all but one of the organisations investigated has led this investigation to theorise that companies confuse leadership replacement with leadership succession. In a few organisations, a vague semblance of succession was observed but upon closer inspection, it could be seen that their so-called succession processes were largely informal, uncoordinated, unevenly implemented between various parts of the organisation and were generally conceded by the respondents to be ineffective. Even in the one company that had a structured succession plan, the respondent stated that the overall rate of effectiveness was not satisfactory. In a number of situations, the mere presence of an organisational chart was deemed to be evidence of succession planning.

Supporting the theory that companies mistake leadership replacement for leadership succession are the observations that in many of the companies investigated, the replacement approach had resulted in leadership voids in crucial operational areas as organisations scramble to fill vacancies. In other situations, succession programmes have been altered or halted with each change of the top position. As a result, leadership succession processes are unstructured, inadequately supported by top management and consequentially, poorly implemented. This uncoordinated approach

was seen in the majority of the companies involved in this research. They either made little or no effort to engage in managerial succession planning or, where they did, left planning and implementation in the hands of subsidiary managers who as hired employees might be expected to be more likely to take steps to protect their own positions than engage in an activity that is often perceived as a threat to their own positions. Indeed, to delegate succession in this manner would mean that the subsidiary managers had an understanding and knowledge of how succession is to be planned and implemented but the responses of the participants suggest that, by and large, subsidiary managers lack the necessary information and expertise to bring about succession effectively. Furthermore, the paucity of direction as to how managerial succession should be planned and implemented often results in implementation inconsistencies as some subsidiaries execute their own versions of succession processes while other subsidiaries ignore the matter entirely.

The second conclusion that can be made about managerial succession is that, in the Malaysian context, government policy can negatively affect the effectiveness of succession practices. For example, succession is made more challenging by the need for publicly listed companies, especially for those for whom the government is a substantial customer, to keep in line with the Malaysian government's policies on the protection and advancement of Malays who form the largest ethnic group in the country. The difficulties that this has posed take two forms: the first is the difficulties faced in dismissing Malay employees who are deemed to be no longer suitable for employment in government-linked companies and the second is the inability of other publicly listed companies, which are not

linked to the government but which have substantial business dealings with the government, to secure sufficient number of Malays for succession purposes. These two challenges are explained as follows.

Because of their connection to the government, government-linked companies tend to attract a high proportion of Malay workers; for instance, according to Amar Singh, Malays account for approximately 75 percent of all employees in AmSure. In situations where these employees have been deemed to be no longer suitable, for example because of underperformance, government-linked companies have found it difficult to dismiss them. These underperformers became, in effect, entrenched because of government policy because the company could not remove them and consequentially could not bring about the promotion of other employees waiting for those positions in question. The resulting delay has been offered as a major reason for the resignations of some of the company's high-potential employees.

Another challenge arising from the government's policies on Malay rights is that publicly listed companies that are not linked to the government often encounter the problem of not being able to secure enough appropriately skilled Malay managers. This hampers smooth managerial succession processes, in that, although companies have suitably qualified employees, these organisations could not promote them as they were from different ethnic groups. These companies then had to engage in a time-consuming search for suitably qualified Malay workers in order to maintain the employee racial-ratio profile.

The third conclusion is that many Malaysian organisations perceive succession as an expensive, distant, non-urgent activity. Its implementation requires organisations to invest in training employees who may eventually end up resigning and moving to other companies. Succession is thus often viewed as a form of training and developing employees which eventually is of benefit to rival companies and is therefore unnecessary. This supports the views of Yong (1996) and Sheppard (2001) who report that many Malaysian companies view Malaysian employees as money-oriented people who show little company loyalty and should therefore engage in self-financed career development. Unfortunately, such a view only serves to perpetuate a cycle in which companies do not want to invest in succession planning while expecting employees to shoulder their own training and development costs, and then having the employees leave the organisation because they do not see career and development opportunities in such companies. This is akin to the vicious cycle theory of leadership succession which argues that leadership succession events are not in the best interest of the company and lead to disruptions of and declines in organisational performance (Grusky, 1963; Allen, Panian & Lotz, 1979). Because there is no assurance that a suitably groomed employee would not leave the company, many organisations have chosen not to engage in the management of leadership succession as the costs incurred in developing employees is deemed to be unjustified to the company in the long term.

The fourth conclusion is that senior managers do not appear to be interested or motivated in bringing about effective succession transitions. One reason for the current state of succession in Malaysian organisations

is that because succession management is not included as a key performance indicator in senior management performance appraisal systems, senior managers tend to neglect it. In some companies, succession management had been included as a key performance indicator but no rewards were included and the lack of inducements had not helped in effective implementation of succession.

As a result of the observations above, this investigation posits that the effectiveness of leadership succession management is dependent on educating managers on the differences between management replacement and succession and the inclusion of managing succession processes as a key performance indicator and that senior managers should be given appropriate incentives to motivate them to engage in this key organisational activity. Given the powers and the statutory policies that have been enacted by the Malaysian government, little, if any, can be done to address the impact of government influence on managerial succession in affected companies.

It is the argument of this investigation that Malaysian companies are not actively engaged in leadership succession planning and implementation and that they are more commonly practising leadership replacement. The findings on the succession practices confirm the veracity of this argument. It can be concluded that leadership succession in corporate Malaysia, at both CEO and upper-echelon levels, is at a relatively unsophisticated stage. Leadership replacement is more commonly practised than is leadership succession. Companies need to understand the differences between replacement and succession and they also need a strategic,

centralised approach to succession utilising well-structured succession plans.

Discussion of organisationally generated entrenchment and its impact on leadership succession follows.

Organisationally generated entrenchment and its impact on leadership succession processes

In embarking on this research, I wrote about an observation that I had made while training staff members of a number of corporations. This had to do with how companies dealt with underperforming managers and how such practices – putting them in ‘cold storage’, transferring them to other departments or doing nothing – had resulted in disillusionment and de-motivation amongst staff members. As mentioned earlier, companies resort to these stop-gap measures because they are less onerous than dismissing underperformers. These actions give rise to what this thesis calls ‘organisationally generated entrenchment’. For this reason, I wanted to discover the causes and the effects of organisationally generated entrenchment on leadership succession. This research demonstrates that organisationally generated entrenchment is commonplace in Malaysian companies and that it is a self-inflicted organisational problem. The research demonstrates that there are a number of cultural reasons for

organisationally generated entrenchment. It is likely that those who engage in one of the three variants of organisationally generated entrenchment to address underperformance have some inkling that organisationally generated entrenchment impedes leadership succession. Even so, cultural influence, such as the desire to demonstrate *budi* and *ren* are sufficiently strong to perpetuate this practice.

Organisationally generated entrenchment is not always manifested in the form of recalcitrant underperforming managers refusing to give up their positions as a result of some precedence as was demonstrated by Bernard. The results of organisationally generated entrenchment are more commonly observed in the resignations of potential successors who perceived the company's retention of incompetent managers as an impediment to their career progression. The reason commonly cited for the reluctance to dismiss underperforming managers is the disinclination of Malaysians to deprive someone of their economic livelihood but what appears to have been conveniently side-stepped is that not breaking an underperformer manager's rice bowl could similarly impede the career advancement opportunities of more competent employees. The net effect is that organisationally generated entrenchment reduces the size of the talent pool through staff attrition as employees look elsewhere for better opportunities.

This investigation theorises that organisationally generated entrenchment is a self-inflicted inhibitor of leadership succession that has been created, either deliberately or tacitly, intra-corporately. Demonstrations of organisationally generated entrenchment serve to either de-motivate

ambitious high-potential employees or cause them to resign from the company, thereby reducing the size of the talent pool from which companies might draw for succession. I posit that when companies utilise face-saving, stop-gap disciplinary measures against incompetent managers, they generate what is perceived by potential successors as a form of entrenchment in that underperforming managers are seen to be allowed to become entrenched. Potential successors subsequently take this to mean a reduction in the likelihood of their own advancement and may decide to exit the company. The argument of this investigation is that organisationally generated entrenchment, whether caused knowingly or unknowingly by organisations, has a deleterious effect on leadership succession and that it is in the best interest of organisations to take steps to minimise organisationally generated entrenchment. This means that companies that practise consequence-management programmes, for example, will have to enforce the rules and regulations of such programmes more rigorously.

Although this study focuses on organisationally generated entrenchment that arises from the way in which companies deal with underperformers, organisationally generated entrenchment can also arise from the practice of gender and racial prejudice and bias. The identification of organisationally generated entrenchment resulting from these forms of organisational practices was outside of the ambit of this research but their impact on leadership succession forms an intriguing area for future research.

In Chapter 1, I posited that organisationally generated entrenchment exists in Malaysian companies and that its presence reduces the overall effectiveness of leadership succession management. The findings of this investigation confirm the presence and the practice of organisationally generated entrenchment. This research also reveals that culture plays a very large role in the development of organisationally generated entrenchment and that it is deeply embedded in the country's cultural values. Furthermore, the results also demonstrate that organisationally generated entrenchment has the effect of causing de-motivation which can then lead to a contraction of the size of the talent pool and that such a reduction could have adverse effects on leadership succession.

Theoretical framework and modelling: Towards a better practice of leadership succession in Malaysian organisations

The findings of this investigation demonstrate that leadership succession is in the nascent stage in Malaysian organisations; that most managers do not understand leadership succession planning and implementation processes even if they agree that succession management is important to the organisation; that most companies employ leadership replacement measure rather than manage leadership succession processes; that companies engage in practices that give rise to organisationally generated entrenchment and that the above are influenced by the culture of the country. As a result of the cultural influences discussed earlier, this thesis questions the wisdom of the offering of one-size-fits-all models, such as the Leadership Pipeline model and the Acceleration Pools model, for leadership succession in Malaysian companies. While these models have a measure of applicability, they fail to take into consideration the level of development and sophistication in the understanding of leadership succession in Malaysian organisations and more importantly, they do not take into account the effect that national culture may have on the practice of leadership succession. Indeed, while a company like the ANZ Bank in New Zealand might find Charan, Drotter and Noel's (2001) Leadership Pipeline model useful, the value and utility of such a model in Malaysian companies is debatable. This thesis posits that a workable model in Malaysia must take culture into account and therefore proposes a

succession management model called the Succession Development Pathway Model for Malaysian organisations.

The Succession Development Pathway Model was developed from the findings of this investigation and embodies information derived from both primary and secondary sources. A theoretical model on the management of leadership succession is discussed and subsequently utilised to explain how the Succession Development Pathway Model was designed. Having explained the rationale behind the construction of the Succession Development Pathway Model, the model is then compared with Charan, Drotter and Noel's (2001) Leadership Pipeline model which is held in high regard in the literature on succession models.

Figure 6.1 outlines the various elements that have been identified in the research as components that are required in a formalised succession plan. The model takes into account the effects of culture, most of the identified enhancers and inhibitors and is explained below.

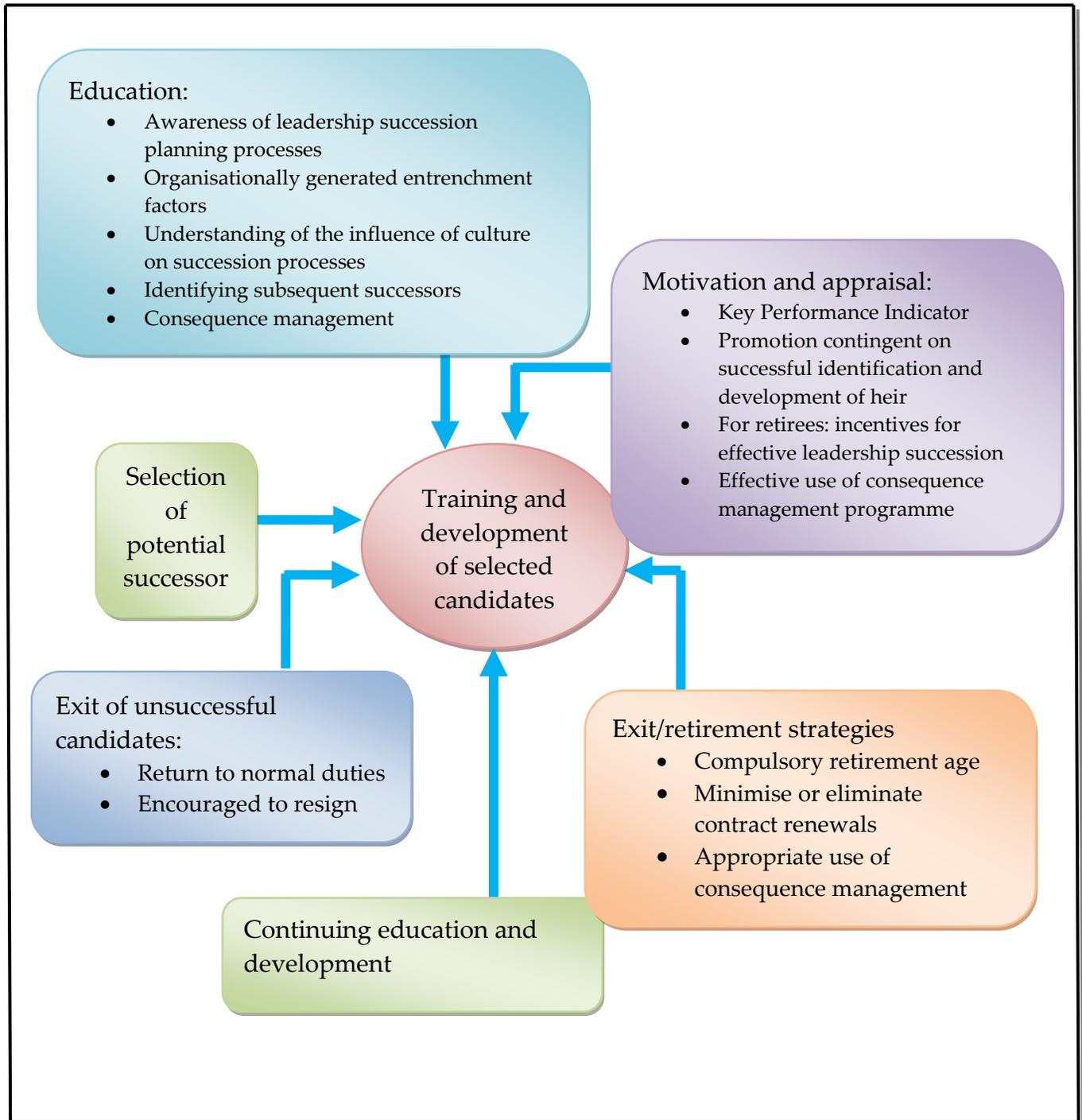


Figure 6.1: Theoretical framework for leadership succession

The theoretical model starts with the selection of potential successors. Once these have been identified, they are sent for education in leadership succession management processes where they would be groomed in areas such as the identification of other potential successors, understanding enhancers and inhibitors, including organisationally generated entrenchment inhibitors and handling consequence management issues. Essentially, the purpose here is to educate and inculcate a transformational leadership paradigm in the selected candidates. The importance of having a transformational leadership mindset was identified one of the participants. The need to educate managers in this area has been highlighted by a number of respondents in the research and it is evident that this is an area of need with Malaysian managers.

The next important element of the framework is that of motivation and appraisal. Two important aspects of motivation are considered here – making succession management a key performance indicator and rewarding effective implementation of succession management processes. The need to include succession management as a key performance indicator was highlighted by respondents from AmSure, Cilicon, Ellaconstruct and J-Power. However, in order to motivate managers to bring about successful succession companies would do well to recognise that not everyone can be expected to be intrinsically motivated to engage in an activity which would ultimately mean being replaced by his or her selected successor. As such, extrinsic motivators would be needed to encourage the successful implementation of the process. These external motivators could include making the promotion of these managers

contingent on the identification and development of their own successors or the provision of commensurate rewards. Formalising succession as a key performance indicator means that managers are kept reminded of their responsibilities in ensuring leadership continuity. Appraisal is included in this element in order to demonstrate the importance and seriousness that the company has accorded leadership succession planning and implementation.

Another salient element of this model is that of the provision of exit or retirement strategies. Consequence management processes should be engaged to remove those who are underperforming through a standardised application of consequence management processes. The influence of culture needs to be clearly highlighted to facilitate uniform application of standards and consequences. For those who are of retirement age, companies should minimise the use of contract renewals to circumvent the necessity of succession planning. The mandatory departure from the company of employees upon attainment of retirement age was identified by the participants as an important enhancer while Ezra and Jeremy opined that the absence of a compulsory retirement age was an inhibitor. This was particularly intriguing as Ezra had at the start of the interview indicated that he did not think that a compulsory retirement age was necessary and Jeremy had been in the employ of an organisation that did not have any retirement age.

The next element of the framework is about the need for continuing education and development of managers in the area of leadership succession in order to keep managers abreast of changes and advancements in this area.

The last element in this framework has to do with exit strategies for unsuccessful candidates. It would be imprudent to assume that all selected candidates will be successful and will progress to the next stage of the corporate ladder. Mechanisms will be required to enable unsuccessful candidates to return to their normal duties or be encouraged to resign from the company where appropriate.

This research acknowledges that not all the factors identified in the research can be included in the framework. While the presence of a formalised model will help to neutralise some of the inhibitors identified in this research – for instance, it will alert companies of the need to have a succession rather than a replacement mindset as well as remove some entrenchment tendencies – this thesis recognises that some inhibitors will be outside the influence of any succession model. For example, the unwillingness of managers to challenge the *status quo*, the practice of dynastic succession and the reluctance of managers to include subordinates, and conversely, the disinclination of staff to be included for succession are factors that will require a long period of staff education as well as organisational and social culture change. Nevertheless, this thesis argues that the presence of a formalised model will afford companies a

process by which they can plot and measure succession planning and implementation.

The purpose of considering a theoretical model is to ensure that important elements uncovered during the research are incorporated into the design of a succession model that would be country-specific. This theoretical framework can then be subsequently transformed into a model that organisations might find practical, workable and relevant to the location in which they operate.

In designing such a model it would be prudent to incorporate as many of the enhancers identified into any practical succession model arising from the theoretical framework. Factors such as making succession management a key performance indicator, having a compulsory retirement age, continued education of managers on succession practices and the provision of a structured succession process have been taken into consideration while designing the theoretical basis of the Leadership Succession Development Pathway Model. Additionally, it would be equally wise to remove as many of the inhibitors, or to alert organisations of potential inhibitors, including organisationally generated ones, in the succession model. As discussed earlier, organisationally generated entrenchment has cultural underpinnings and, as such, this model has taken cultural factors into consideration.

Having considered the above, the elements of the theoretical framework are designed into the Succession Development Pathway Model which is offered to the practice of leadership succession planning in Malaysian companies.

A model for leadership succession: the Succession Development Pathway Model

The third objective of this investigation was to design a succession model that can be utilised by companies that are interested in succession planning and implementation. The research found that most of the companies investigated do not practise leadership succession but from the findings made in respect of the two organisations that engaged in some form of succession management and from the identification of the enhancers and inhibitors of succession processes, there was sufficient information to design and develop a succession model that can be utilised by these companies.

Any succession planning in an organisation should start at the top. The CEO and those in the upper-echelons need to understand the necessity for leadership succession and to then go about instituting a succession programme, firstly at the upper levels of management, and then disseminate this to the rest of the company. As argued by many of the

respondents, effective succession processes require strong and continued top-management support.

Once this has been achieved, key positions and functions at every level of the organisation should be clearly identified. The skills and competencies needed for each of these positions and functions will need to be carefully and clearly elucidated and the appropriate level of training programmes planned and implemented. While it is expected that some of the training will require the services of external trainers, such outside providers will need to be brought in as partners in the succession process to ensure that they have an informed understanding of what is required and will thus be able to conduct the training in a systematic manner.

There are constraints in the number of processes and steps that can be incorporated into any succession model and some steps are left out. This omission is deliberate as no model should be so cluttered as to be rendered unusable. For example, the provision of top management support for succession management is not included in the Succession Development Pathway Model as it can be reasonably assumed that without such support there would be no need for the model anyway. Similarly, the identification of key positions and functions – as distinct from the identification of the key people to fill in these positions – are also assumed to be ongoing organisational activities for companies that are, or which are desirous of being actively engaged in leadership succession planning and implementation.

Having made these points, this thesis offers the Succession Development Pathway Model as a means of succession planning and implementation for Malaysian companies. The Succession Development Pathway Model is depicted in Figure 6.2 and can be seen as a series of activities that include training, assessment, removing underperformers and the mentoring and progression of successful candidates to higher positions.

Using the model as the basis of discussion, organisations initiate the succession process by identifying possible candidates for training and development. Once candidates have been selected, they are sent for appropriate training and development. For example, referring to Figure 6.2, selected candidates for the junior management level enter the programme for training via Development Stage 1. Following the training, employees are assessed and successful candidates proceed to constitute the high-potential pool appropriate for this level. Unsuccessful candidates are returned to their normal work routines with the benefit of having received training.

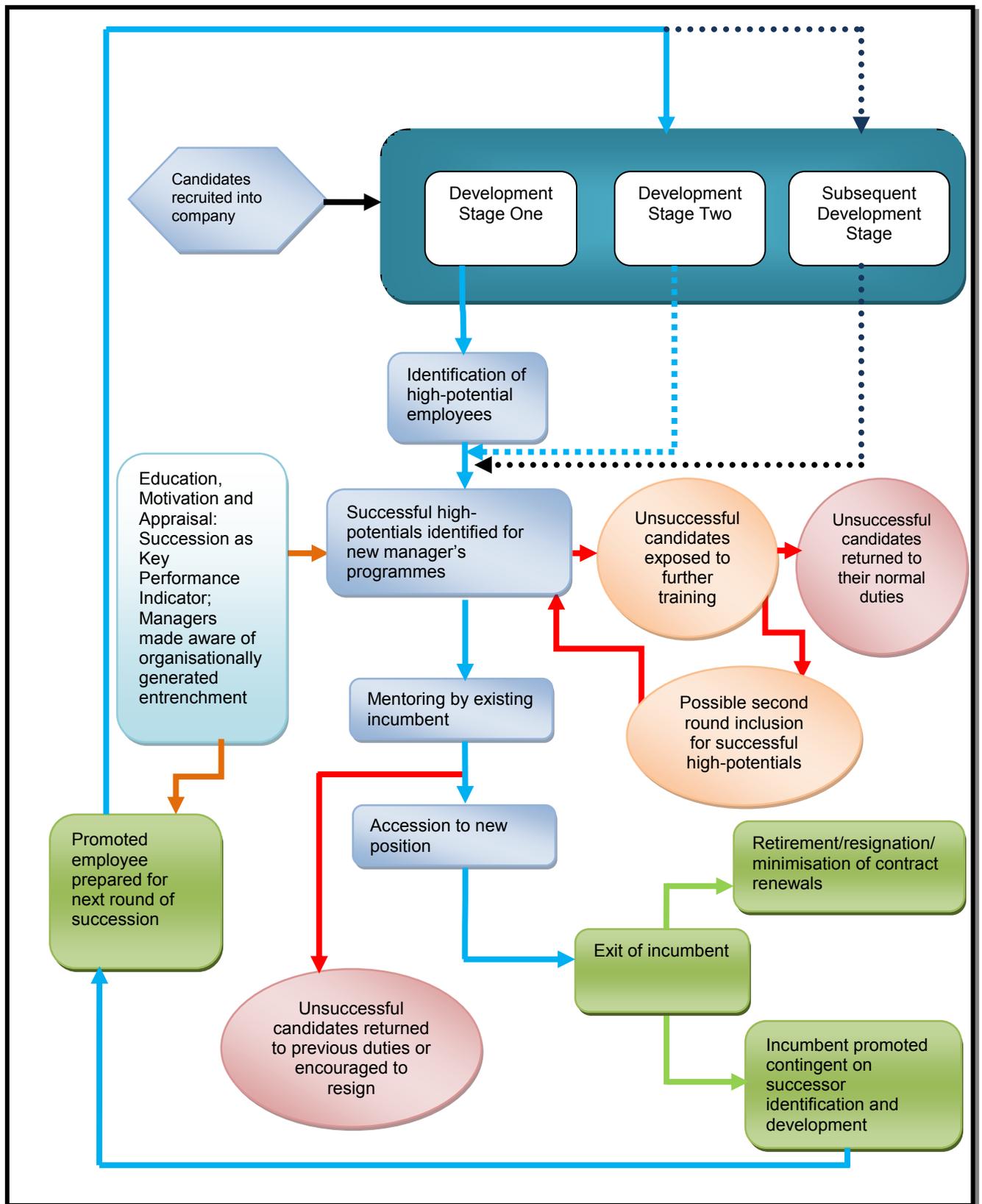


Figure 6.2: The Succession Development Pathway Model

The high-potentials are then sent for further managerial training programmes and may also be given 'stretch assignments' such as managing short-term projects for which they would not normally have responsibility for. At this point, the model suggests that companies educate the selected candidates on the importance of leadership succession and the planning processes involved. The selected employees should also be made aware of the effects of culture on leadership succession as well as culture-induced issues like organisationally generated entrenchment. Apart from education, selected employees should be informed of their role in future succession management – that they would need to identify and groom their own eventual successors – and that this would be an important key performance indicator in their performance appraisals. They should also be made to understand that their own future promotions would be contingent on their preparation of suitably qualified successors for themselves.

Those who are unsuccessful may either be granted further training or returned to their normal duties. At this point, the Succession Development Pathway Model differs from the Leadership Pipeline and the Accelerated Pools models. Neither the Leadership Pipeline nor the Accelerated Pools models allow room for a second chance for unsuccessful candidates. The provision of a second chance is included because of Malaysian culture requires company managers to demonstrate a high level of *budi* or *ren* and help the 'small man'. This provision is an opportunity that allows the company to demonstrate the magnanimity of the organisation's father leader. This will also allow management to return subsequently unsuccessful candidates to their normal duties;

indeed, these employees might even resign from the company as they see little or no future for themselves in the company. Either way, the company would have saved face by being generous in their efforts to develop their employees and should any affected employee decide to resign, he or she would preserve his or her dignity by exiting on his or her own volition.

Successful high-potentials will then progress to be mentored for the positions that they are expected to take over by the incumbents in these positions. At the appropriate times, they would be appointed to their new positions as the outgoing incumbent vacates that position, through retirement, resignation or elevation to a higher position. The provision for the promotion of the incumbent is that he or she would need to have successfully developed his or her successor and the motivating effect of this has been discussed earlier. This employee is then prepared for the next round of career development and leadership succession. At this juncture, the identification of the presence of a strong and influential Human Resource Director by one of the respondents is referred to and, as far as success in leadership succession planning and implementation is concerned, a human resource director with a well-formalised succession structure would be more likely to succeed in this area than a director who did not have such a succession management tool.

Returning to Figure 6.2, the company and the incumbent manager will assess the candidate and if he or she is found to be an underperformer, the employee in question would be returned to his or her previous duties or be encouraged to resign through the application of a suitable

consequence-management programme. Successful performers, on the other hand, are prepared for subsequent rounds of succession and at the appropriate time, be included into Development Stage 2. Time frames can be employed to ensure that employees know when they are due for assessment and possible promotion and for incumbents to plan their own progress, development or retirement.

One stage of the succession development pathway is shown in Figure 6.3 and is represented by the diamond symbol to facilitate the depiction of the activities and the recursion of these events in the entire succession process as shown in Figure 6.4. At every stage, selected high-potentials undergo monitoring and assessment. In order to reduce organisationally generated entrenchment, underperformers are removed or encouraged to leave the organisation after sufficient warnings have been given and following sufficient attempts at redressing their shortcomings. The process will require a high level of transparency so that employees going into the process will see in advance what opportunities or challenges lie ahead. While it can be argued that such a transparent process might prevent certain risk-averse employees from agreeing to their inclusion in such a succession process, it can also be reasoned that such an eventuality would indeed be beneficial in that only those who are ambitious would want to participate in the process.

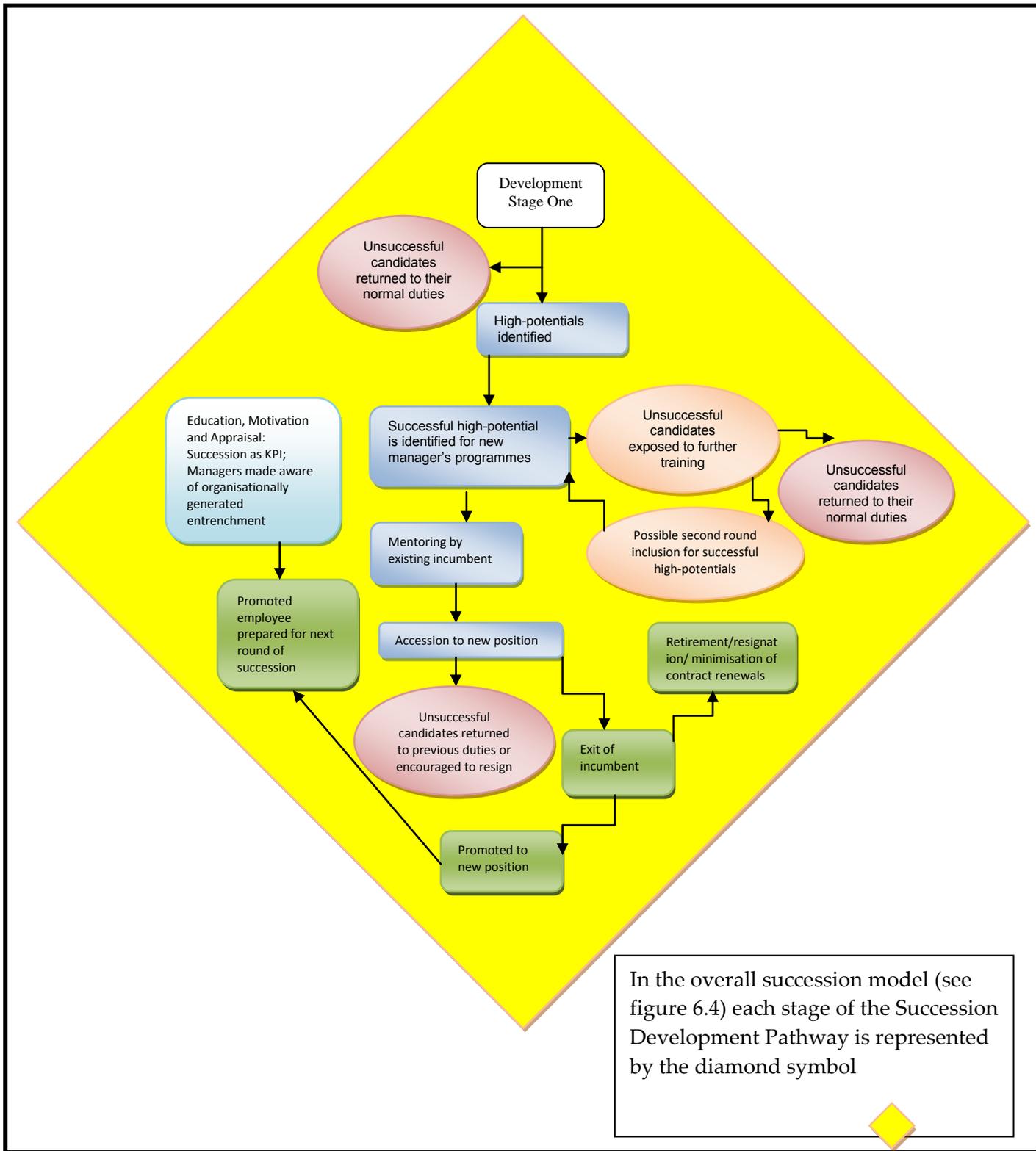


Figure 6.3: One stage of the Succession Development Pathway Model

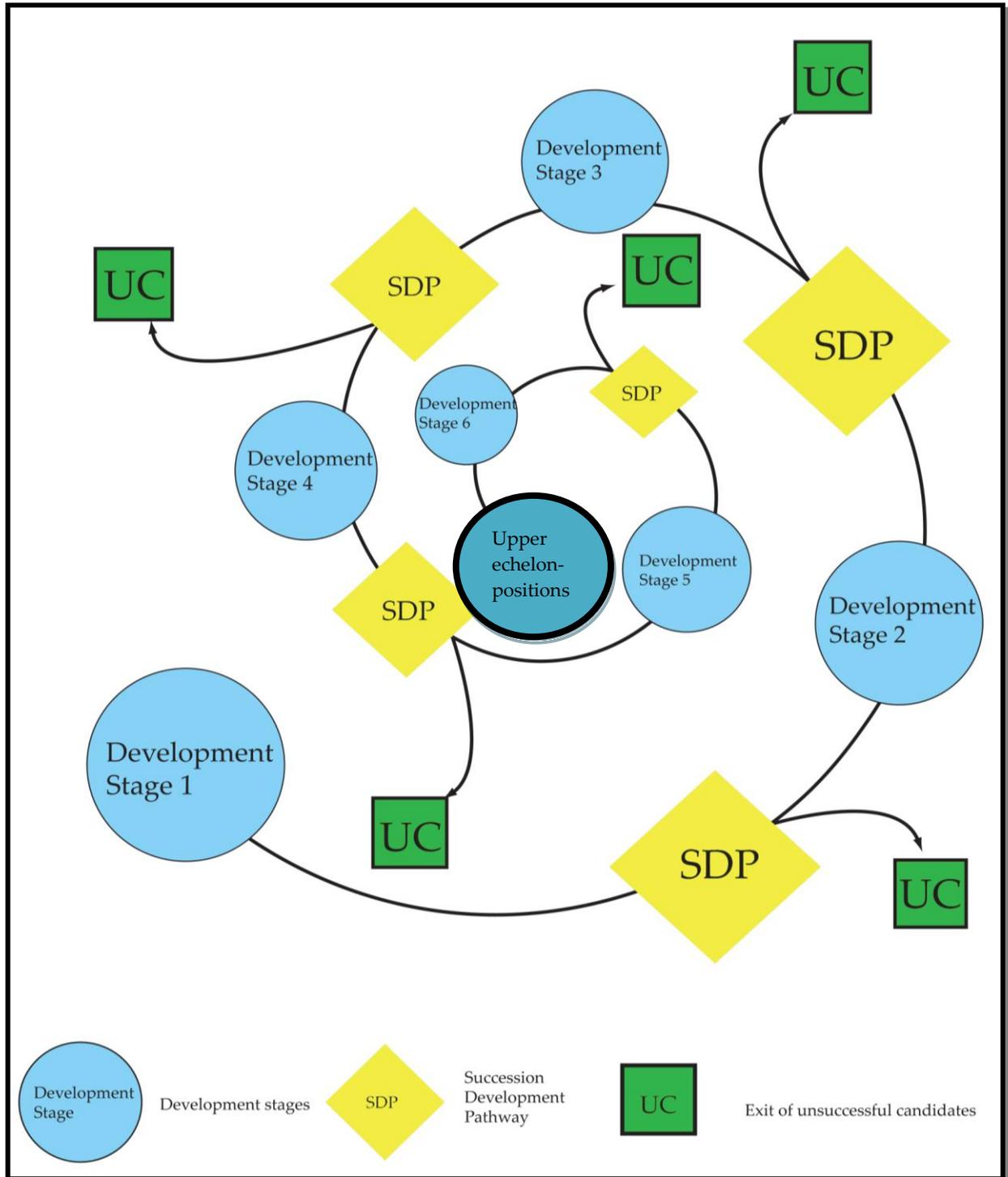


Figure 6.4: The complete Succession Development Pathway Model

The Succession Development Pathway Model might appear to be useful only to medium, large and very large companies that have deep human capital and financial resources but, in fact, because the development stages can be reduced or extended as appropriate, it is also suitable for small businesses.

In order for succession processes to be effective, inhibiting factors will need to be removed while enhancers are included. These have been discussed in the preceding chapter and only a brief mention of these factors will be made here. The leadership replacement mindset will need to be superseded by one that views succession as an important, strategic organisational activity. The lack of knowledge in this area among senior managers will require addressing and companies might want to consider the inclusion of succession as a strategic process that senior managers will need to be engaged in and be appraised on. It would be to the company's advantage to ensure that the incentives provided are sufficiently attractive to encourage managers to plan and implement succession effectively. The two types of inducements that were uncovered during the course of this investigation included financial incentives for retirees and the making of promotion contingent on the identification and development of one's own successor. There may be other forms of incentives that could be used but this was not investigated during the course of this research and could be an area for further study. Strong, ongoing top-management support will do much to ensure that employees are continually reminded of the strategic importance of leadership succession, and the presence of a well-structured and effectively implemented succession plan can do much to increase employee loyalty.

Comparing the Succession Development Pathway Model and the Leadership Pipeline

Charan, Drotter and Noel (2001) claim that their Leadership Pipeline model has been adopted by well-known companies such as General Electric and Citigroup and from personal knowledge, I know that the ANZ Bank in Australia and New Zealand have adopted the model for succession. It seemed prudent to compare the Succession Development Pathway Model offered in this thesis to the Leadership Pipeline model.

Similarities in the two models

A perusal of the structure of the Leadership Pipeline will reveal that the model does indeed facilitate succession planning and leadership development. It appears to have mechanisms that helps to identify and prevent gaps in the pipeline and provides for the transition of employees from one level to the next in a systematic manner. It also suggests that companies develop the appropriate processes required to develop the specific skills and work values that are required for each move in the pipeline. In these respects, the Succession Development Pathway Model and the Leadership Pipeline model have a number of similarities as the Succession Development Pathway Model also requires identified candidates to undergo the appropriate levels of training and exposure to company practice as the organisation deems fit.

There are time elements in both models in that employees have to successfully complete a stage before advancing to the next stage for training, development and subsequent promotion. In either model, any employee entering the process will realise that its progress will take a fair amount of time. A staff member entering a stage of the Leadership Pipeline or the Succession Development Pathway Model can expect to be in the stage for an average of three years. Both models facilitate individual performance improvement in that coaching and mentoring are required at each stage of the process. It is noted that in the Leadership Pipeline model, the mentoring stage is implicit while the Succession Development Pathway Model makes this an explicit requirement.

Differences in the two models

As mentioned in the literature review, the Leadership Pipeline model is presented to employees as a system that allows ambitious company executives to climb to the very top of the corporate ladder. Indeed, it suggests that anyone who has successfully traversed the stages of the pipeline has the opportunity to become the CEO of the company. This does not appear in the Succession Development Pathway Model (Figures 6.2 and 6.4). While the Succession Development Pathway Model (Figure 6.2) suggests that employees can expect subsequent development and advancement, pending the successful completion of previous stages and the meeting of important key performance indicators, it makes no explicit mention of the possibility of the CEO's position. In Figure 6.4, which

shows the complete Succession Development Pathway Model the CEO's position is replaced with 'Upper Echelon Positions' rather than that of the CEO. This is in keeping with the fact that in family-controlled publicly listed companies, the position of the CEO is out of the reach of the average hired professional who is not linked to the CEO through biological ties. Also, in government-linked companies, the CEO's position is not always based solely on merits – political connections play an important role in CEO succession in government-linked companies. Additionally, by not mentioning the possibility of ascending to the CEO's position explicitly, the Succession Development Pathway Model addresses concerns expressed by respondents such as Daniel that those selected for succession might become too swollen-headed and thus adopt an elitist attitude. Daniel's concerns are expressed in the preference by companies such as AmSure and Ellaconstruct to practice 'notification-by-inference' with selected high-potential employees. In this respect, the Succession Development Pathway Model takes cultural influences into account.

The impact of culture is also clearly demonstrated in the Succession Development Pathway Model in that in each stage of the model, aspiring managers are made aware of the effect of culture on their management practices, and especially so in the area of organisationally generated entrenchment. This is not dealt with in the Leadership Pipeline, presumably because the model was developed for Western organisations. However, the Leadership Pipeline has been published as a book and is touted as an effective tool for leadership succession planning even for non-Western companies. By omitting so important an element such as the influence of culture on succession practices reduces its effectiveness in

cultures that are different from the ones for which the model was developed. This may be a reason why East and South East Asian companies, and particular those that are controlled by the Chinese, have been reported to be slow in adopting Western practices (see for example, Huang1999; 2001).

The Succession Development Pathway Model is also different from the Leadership Pipeline in that it offers unsuccessful candidates a 'second chance' in that they can be sent for further training and subsequent re-evaluation for inclusion for further advancement. This feature allows organisations to demonstrate *budi* or *ren* to staff members who have not been quite as successful as they had been expected to be. By doing so, the company can be seen to be practising positive 'father leadership' in offering the employee a second chance. This also reduces the humiliation associated with a loss of face (*malu* and *segan*) which accompanies failure to ascend to a higher position in the organisation. The provision of a second chance is not a feature of the Leadership Pipeline model.

An important difference between the two models is that the Succession Development Pathway Model requires that managers be subjected to managing succession on their own. As the model suggests, incumbents are promoted to higher positions contingent on the successful identification and development of their own successors. This element of the Succession Development Pathway Model was included to ensure that there is continuity in the process of leadership succession planning and implementation. While the Leadership Pipeline makes the assumption that managers would be involved in leadership succession, this research

has demonstrated that this cannot be taken for granted in the Malaysian context.

Another distinction that can be seen between the two models is that the Succession Development Pathway Model advocates the resignation of employees who have attained retirement age. The model also calls for the minimisation of employment contract renewals. As seen earlier, renewable contracts have been seen as an impediment to leadership succession. In the Malaysian context, retirement is a contractual agreement between the employer and the employee and its enforcement is therefore relatively easy. Furthermore, in the event that a company feels 55 years of age is too early for retirement all it has to do is to revise the clause on the age of retirement.

This investigation has demonstrated that because of the influence and impact of culture on leadership succession planning and implementation, Western models may not be as effective in accommodating the idiosyncrasies that exist in different cultures. Yet, as Gummesson (2000) argues, consultants have often contributed to practice equipped with only fragments of theory and have been quick to offer general solutions to particular problems. This thesis recognises this challenge and, therefore, offers the Succession Development Pathway Model as a possible process for Malaysian corporations. This thesis also suggests that while there is a need to investigate leadership succession in organisations in general, there is also a need to research leadership succession planning and implementation processes in companies within a specific cultural context in particular.

Whence from here? Future research

The nature of the research required that I interview senior managers. There was a fair amount of difficulty in arranging for the interviews due to the very busy work schedules of these managers. The richness of the data obtained from these participants could only have been achieved from using the qualitative approach that was employed in this research.

In the area of organisationally generated entrenchment, this research focused on how organisations dealt with managers whom they deemed were underperforming. Having completed this investigation, I am cognisant of the fact that there might be other sources of organisationally generated entrenchment. For example, it would be of interest to study the possibility of organisationally generated entrenchment arising from gender bias and racial discrimination and the effects that such organisationally generated entrenchment might have on succession planning. The effect of government policies as a possible source of organisationally generated entrenchment can also be examined.

Another area for research is the process that is used for CEO succession in family-controlled publicly listed companies. These organisations form a large portion of publicly listed companies in many Asian stock exchanges and are therefore important to the economies of the countries that they represent. Knowledge of how they bring about succession would be

interesting not only to the public at large but would also be beneficial to the companies themselves.

The matter of mentoring appeared a number of times in this research and this thesis acknowledges the lack of investigation into this particular aspect of leadership succession. Mentoring is an important component of preparing successors and has been demonstrated in, for example, DesignerPens where the president's daughter has been moved from one department to another in order to acquire the necessary skills and experience that she will need to eventually take over the helm. The influence of mentoring on leadership succession, not only at the highest level, but at all levels with respect to leadership succession should make for interesting future research.

One area of research that would be of interest, and especially so as this thesis recommends the inclusion of succession management as a key performance indicator, is the type of incentives that would motivate managers to be actively involved in leadership succession planning and implementation. Any study of possible motivators should take into account the different forces that are at work in those who are managing succession because doing so would lead to their subsequent elevation and continued employment within the organisation, and those who are engaged in succession as one of their last duties to the organisation before retiring.

Finale

This research has confirmed that there is little leadership succession planning in Malaysian companies. Those organisations that have engaged in succession planning report lower-than-desired rates of success. This research has also confirmed the presence of organisationally generated entrenchment and determined that it reduces the effectiveness of succession planning and implementation. Having determined that Malaysian companies are largely unprepared for succession events, it might be tempting for some to explain this lack of preparation by ambiguously claiming that this is just part of the Malaysian culture. The level of unprepared-ness in this area is high and has caused some to voice their concerns. That there is some anxiety over this area bodes well for companies and I am honoured to have been a part of the study and to contribute towards bringing companies a little closer to effective leadership succession planning and implementation.

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APPENDICES

- *Appendix A – Human Ethics Approval MUHECN 07/020*
- *Appendix B – Participant Information Sheet*
- *Appendix C – Participant Consent Form*
- *Appendix D – Participant List and Company Description*
- *Appendix E – Interview Guide*
- *Appendix F – Global Top 20 Companies for Leaders*

Appendix A – Human Ethics Approval MUHECN 07/020



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14 June 2007

John Tan
c/- Dr A Shome
College of Business
Massey University
Albany

Dear John

HUMAN ETHICS APPROVAL APPLICATION – MUHECN 07/020
“Enhancers and Inhibitors of Leadership Succession Development and Implementation”

Thank you for your application. It has been fully considered, and approved by the Massey University Human Ethics Committee: Northern.

Approval is for three years. If this project has not been completed within three years from the date of this letter, a reapproval must be requested.

If the nature, content, location, procedures or personnel of your approved application change, please advise the Secretary of the Committee.

Yours sincerely

A handwritten signature in blue ink that reads "Ann Dupuis".

Associate-Professor Ann Dupuis
Chair
Human Ethics Committee: Northern

cc: Dr A Shome
College of Business

Appendix B – Participant Information Sheet

INFORMATION SHEET

Name of researcher: John Pek-Guan Tan, PhD candidate
Research Topic: Enhancers and Inhibitors of leadership succession development and implementation

I am John Tan, a doctoral student in the Department of Management and International Business, Massey University, New Zealand. I am currently undertaking a research project entitled 'Enhancers and Inhibitors of Leadership Succession Development and Implementation' in fulfilment for the Doctor of Philosophy (PhD) degree. My research investigates the issue of leadership succession planning and implementation in commercial organisations in Malaysia. The research will examine the factors that either hinder or help organisations in their management of leadership succession development and implementation.

Data will be collected from willing participating companies from across a range of industries on the subject matter. It is important to note that any data collected from any participant/respondent will be treated in the strictest confidence. The identities of all participants will be kept strictly confidential and in no way whatsoever will participants be identified in the thesis. In writing up the thesis, only pseudonyms will be employed and in no way will the data collected from participants be linked to any specific company or participant. Only the researcher and his two supervisors will be able to access the information collected. It is expected that the knowledge and the insights gained from your participation in this research will help in the development of theories, principles and practices to aid in leadership succession development and implementation.

Contact Details

Researcher

| | | |
|-------------------|--|--|
| John Pek-Guan Tan | 4 Christensen Place Crown Hill, Auckland New Zealand jtcam@ihug.co.nz | 09-4491429 (home) 021 0384 380 (mobile) |
|-------------------|--|--|

Supervisor

| | | |
|------------------|--|-----------------------|
| Dr Anthony Shome | A.Shome@massey.ac.nz | 09-4140800 (ext 9236) |
|------------------|--|-----------------------|

Co-Supervisor

| | | |
|-------------------|--|-----------------------|
| Dr Ralph Bathurst | R.Bathurst@massey.ac.nz | 09-4140800 (ext 9570) |
|-------------------|--|-----------------------|

Participant recruitment

Participants are selected and invited to participate in the research based on the following processes:

- All participants must be in senior management positions in their respective companies and be involved in leadership succession planning and/or implementation in their respective companies
- All companies selected may either be publicly listed companies or privately owned companies with thirty or more employees
- Data will be collected by face-to-face interviews. All possible care has been taken to ensure that there are no risks or discomfort of any sort to participants. In any case, participants are reminded that they are at full liberty to terminate the interview at any time should they decide that they do not want to proceed further for any reason whatsoever.

Project Procedures

Any and all data collected from the interviews will only be used for the purposes of academic research – that is, to aid in the completion of the PhD thesis. The data will be used to analyse current organisational leadership succession practices and to determine the factors that would enhance or hinder such practices. For interviews that are audio recorded, each recording will be transcribed and printed. The audio tape and the transcribed documents will be kept in a secure place in the researcher's residence. The only person who will have access to the data will be the researcher himself and his two supervisors. All data collected and stored will be destroyed upon the successful completion of the researcher's thesis. All tapes will be appropriately disposed and printed documents (transcription of the recordings) shredded.

Participants who wish to access the data that they provided may do so by requesting the researcher in writing. Such requests will be brought to the researcher's supervisor and no data will be disclosed to anyone without the express and written approval of the supervisor. No participant or respondent will be able to access data provided by another participant or respondent. The confidentiality of all data collected is assured.

Participant involvement

Participants will be invited to participate in this research either by email, telephone or by means of a face-to-face invitation. In any case, anyone who has expressed willingness to participate in the interviews will be asked to sign the Informed Consent Form. Each participant will be informed that the interviews will take between one and two hours and that the researcher would like to have the interview recorded. Where participants are willing to have their interviews recorded, each participant will then be asked to indicate this in their Informed Consent Form. Participants who do not wish to have their interviews recorded will be asked to allow the researcher to take notes during the interview. They will also be asked to indicate in the Consent Forms that they would allow note taking but not audio recording of the interview.

Participant's Rights

Although participants have given their written Informed Consent for the interviews, the following Statement of Rights for participants will apply throughout the interview:

Participants are under no obligation to accept this invitation to participate in the interview. Nonetheless, if you have decided to participate, you have the right to:

- Decline to answer any particular question that is posed to you during the interviews.
- Withdraw from the study at any time from the time that you have agreed to take part in the research to the time that the interview is being conducted. You may also withdraw from the study during the interview itself.
- Ask any questions or ask for clarifications that you may so wish about the study at any time during participation.
- Provided information pertaining to the subject matter on the understanding that your name will not be used in the research thesis unless you have given written permission to the researcher to do so.
- Access a summary of the project findings when the project has been concluded and the thesis has been completed. A summary of the project findings will be made available to all participants upon verbal or written request. This summary will be emailed to fulfil such requests.
- Ask for the audio recording machine to be turned off at any time during the interview.
- Contact the researcher and/or the researcher's supervisors if you have any question about the project.

Project Contacts

If you have any questions/concerns please direct them to the researcher or the supervisor who can be contacted at the previously given contact details.

Ethics Committee Approval Statement

This project has been reviewed and approved by the Massey University Human Ethics Committee: Northern, Application MUHECN 07/020. If you have any concerns about the conduct of this research, please contact Associate Professor Ann Dupuis, Acting Chair, Massey University Human Ethics Committee: Northern, telephone 09 414 0800 x 9054, email humanethicsnorth@massey.ac.nz

Appendix C – Participant Consent Form

PARTICIPANT CONSENT FORM

For
Mr John Pek-Guan Tan
PhD Candidate
Department of Management and International Business
Massey University
Albany Campus
Auckland
New Zealand

Research topic:

Enhancers and Inhibitors of Leadership Succession Development and Implementation

This consent form will be held for a period of five (5) years

I have read the Information Sheet and have had the details of the study explained to me. My questions have been answered to my satisfaction and I understand that I may ask further questions at any time.

I agree/do not agree to the interview being audio taped.

I agree/do not agree to have notes taken during the interview.

I wish/do not wish to have my tapes returned to me.

I agree to participate in this study under the conditions set out in the Information Sheet.

Signature: **Date:**

Full Name – printed:

Appendix D – Participant List and Company Description

| Company Description | Participant Code | Number of participants from the company and status |
|---|---------------------|--|
| AmSure Berhad is a very significant employer in the financial sector in Malaysia and is involved in commercial and consumer banking, insurance and other financial services. The company is listed on the Kuala Lumpur Stock Exchange (KLSE). AmSure Berhad has over 150 subsidiaries. AmSure has a workforce in excess of 20,000 employees. | Amar Singh | 1 (Senior manager) |
| Berani Berhad is a fairly large company that is involved in the manufacturing of a range of industrial products and health foods, hotel development and management and construction businesses. The company is listed on the KLSE and is part of a conglomerate with over 20 businesses and subsidiaries in many parts of the world. Berani Berhad has a workforce of approximately 2,000 employees. | Bernard | 1 (Managing Director) |
| Cilicon Berhad is a fairly large company involved in the manufacturing of components for the electronics industry. The company is listed on the Nikkei Stock Exchange (Japan). The company has subsidiaries around the world and leadership succession practices in the subsidiaries were deemed by the participants to be similar to the ones implemented in Malaysia. In Malaysia, Cilicon Berhad has a workforce of approximately 2,000 employees. | Charles and Chester | 2 (Human Resource Director and a senior manager. The two participants have been designated Charles and Chester respectively). (Also included were responses on Cilicon from Daniel – please see below for explanation) |
| DesignerPens Berhad is a small to medium sized company involved in the stationery and writing instruments industry and is listed on the KLSE. The company has over 50 subsidiaries | Daniel | 1 – (Human Resource Director). In addition to his views on his |

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| internationally. In Malaysia the company has a workforce of about 500 employees. | | company, the respondent also gave his views on Cilicon Berhad, as he had recently resigned from it. |
| Ellaconstruct Berhad is a medium-sized Malaysian company in the construction industry. It is listed on the KLSE and is part of a conglomerate comprising over 100 companies. It has 20 subsidiaries of its own. The company has a workforce of approximately 1,000 employees and is part of a conglomerate that has over 14,000 employees in oil palm and rubber plantations and shipping. | Ezra | 1 (CEO/MD. The respondent carries both the CEO and MD titles) |
| FineAds Berhad is a small, privately owned company in the advertising industry in Malaysia. It has about 100 employees. | Frederick | 1 (CEO/Executive Director and carries two titles) |
| Great Flours Berhad is a fairly large company involved in flour milling, the manufacturing of animal feed, cooking oil and a large range of toiletry products. It is listed on the KLSE and is part of a group that has 140 companies domestically and globally. The company has a workforce of over 2,500 employees. | Gary | 1 (MD) |
| HanSoon Berhad is a fairly large company involved in the manufacturing and marketing of a large range of consumer goods such as cooking oils, personal hygiene products, household cleaning products and detergents. It has over 30 subsidiaries and affiliated businesses in the South East Asian region. The company has an annual turnover in excess of RM1 billion. HanSoon has more than 1,500 employees. | Henry | 1 (Senior Regional Manager) |
| J-Power is a large company involved in the construction industry, property development, water-treatment and power-generation industry | Jeremy | 1 (Senior Division Manager) |

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| in Malaysia. It is one of the largest companies listed on the KLSE and has about 100 subsidiaries. J-Power has a workforce of more than 5,000 employees | | |
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Appendix E – Interview Guide

Interview Guide

This interview guide does not represent the actual questions that were used during the interviews. They reflect the areas that I wanted to cover with the respondents during the interviews. Participants were questioned using the semi-structured interview format. As often happens in interviews with senior managers, the answers provided by these questions often led to other questions that are too numerous to list here. The questions presented in this interview guide are representative of the main questions that were posed for all the research areas that this investigation focused on.

On the importance of leadership succession to the company

1. How important would you say is leadership succession to your company, and why?
2. What type of leadership succession processes do you have in place in your company? Can you please describe them and are these formal or informal processes?
3. How does your company go about training and developing people to take over from those above them?

4. If the top leadership team in your company were to all resign tomorrow, how prepared would your company be for such a situation?

On CEO succession, dynastic succession and CEO entrenchment

5. How is CEO succession practised in your company?
6. Is there a retirement age for the CEO in this company?
7. If the heir apparent is identified, how is this done?
8. Is the heir apparent identification process clearly known to all in the company?
9. What training processes are in place for the development of the heir apparent?
10. Are fixed timelines scheduled for CEO succession in your company?
11. If succession is reserved for members of the founding family, how is the heir apparent chosen?
12. What are your feelings and thoughts on the limiting of CEO succession to family members?
13. What issues might arise when discussing CEO succession in your company?

14. Have there been situations when the CEO had refused to vacate his or her position for the heir apparent?

On managerial succession

15. What are the processes involved in the way that your company identifies, develops and grooms successors for senior management positions? Are these formal or informal processes?
16. How many possible successors do you identify for each position?
17. How long would it take for an identified possible successor to move from one position to another?
18. Does the possible successor know that he or she has been identified and is being groomed for higher responsibilities?
19. Have there been incidents when incumbent managers have refused to give way to heirs apparent?
20. How long does it normally take your company to fill a vacancy arising from retirement or promotion?
21. Have there been incidents when a key managerial position is vacated and the company had not been able to fill that position immediately? If so, how long did it take and why was there a delay in filling the position?

22. In situations where the incumbent demonstrates entrenchment, what mechanisms does your company have to deal with such entrenchment?
23. How would you rate the success of your succession plan? (Using a Likert scale of 1 to 10 where 1 is poor and 10 is excellent, or rate out of 100 percent).
24. What mechanisms does your company have to ensure that succession is perpetuated?
25. The common practice in Malaysia is to retire managers at the age of 55. Does your company follow this practice? Do you engage in contract extensions and renewals and if so, why?
26. If your company does engage in the practice of contract extensions and renewals, what do you think the effect of such a practice is on leadership succession? Why?
27. At what point of a manager's career does he or she start looking at grooming someone to replace himself or herself?

On organisationally generated entrenchment

28. In your organisation, do you have problems with underperforming managers and how do you decide who is an underperformer?
29. How does your company address the problem of underperforming managers?
30. What are the reasons for not removing unproductive employees altogether from the company?
31. In your opinion, how does the manner in which your company deals with underperforming managers affect the effectiveness of the succession process?
32. Can you provide some first-hand description of the effects of the way in which your company has addressed the issue of underperformers?

On co-leadership

33. What are your opinions on co-leadership and how practical do you think that it would be in leadership succession?
34. Why do you feel that co-leadership would or would not be feasible in the Malaysian context?

On factors that enhance leadership succession processes

35. What factors would you say have enhanced leadership succession processes in your organisation?
36. If you were to revise the entire leadership succession process in your company, what features would you retain, and why? What aspects would you strengthen, and why?

On factors that inhibit leadership succession processes

37. What factors would you say have impeded leadership succession practices in your company, and why?
38. If you were to revise the entire leadership succession process in your company, what features would you remove, and why?

The Global Top 20 Companies for Leaders

(Source: Hewitt Associates, 2005)

| Ranking | Company | Headquarters/Country |
|---------|---|----------------------|
| 1 | General Electric Company | USA |
| 2 | Procter & Gamble | USA |
| 3 | Nokia | Finland |
| 4 | Hindustan Unilever Limited | India |
| 5 | Capital One Financial Corporation | USA |
| 6 | General Mills, Inc. | USA |
| 7 | McKinsey & Company | USA |
| 8 | IBM | USA |
| 9 | BBVA | Spain |
| 10 | Infosys Technologies Limited | Indian |
| 11 | Inditex, S.A. | Spain |
| 12 | Medtronic, Inc. | USA |
| 13 | Eli Lilly and Company | USA |
| 14 | McDonald's Corporation | USA |
| 15 | Whirlpool Corporation | USA |
| 16 | Natura Cosméticos S.A. | Brazil |
| 17 | GlaxoSmithKline | United Kingdom |
| 18 | Australia and New Zealand Banking Group Limited | Australia |
| 19 | ICICI Bank Limited | India |
| 20 | Wipro Limited | India |