

Succession Planning and Executive Compensation Strategies: Case Study on Multi-business Corporate Firms in India

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ABSTRACT

In the age of Post COVID Resilience and Digitization, strategic issues in leadership research have gained prominence. Succession planning is one of such topics of strategic Human Resource Management (SHRM) which is considered by corporate boards as a major concern as it provides a way for business continuity. It is quite an important aspect for most of the start-up enterprises of modern times as they have to ensure its business continuity through the availability of strong leadership bench strength. Having a good successor on key management positions will ensure a family legacy for upcoming generations.

Past literature offers insight that corporate firms including family and standalone groups have observed many challenges in terms of loss of leadership on key management positions due to the lack of a proper succession plan in place. In this study, it has attempted to explore various insights related to succession planning and its linkages to executive compensation in corporate firms having diversified business portfolios. Findings provide a fresh perspective on succession planning and executive compensation which is equally important for practitioners and new-age start-ups.

Keywords: Succession planning, Executive compensation, Corporate firms, Business continuity, Startups.

Adhyayan: A Journal of Management Sciences (2023); DOI: 10.21567/adhyayan.v13i2.01

INTRODUCTION

In simple words, succession planning can be defined as a process of identifying, nurturing, developing, engaging and retaining top-performing talent so as to ensure strong and dynamic leadership availability on key management profiles. When the unforeseen need arises to replace a key leader, an emergency succession plan is implemented. On the other side, a long-term succession plan assists the business in preparing for expected changes in leadership (Negative Impacts of Poor Talent Management Strategies, 2023). Succession planning has many similar words like replacement planning, leadership succession, CEO succession, manpower planning and talent management but there exist conceptual differences among these terms.

Succession Management is a broader term that includes various dimensions related to succession planning & management specifically ensuring a strong successor availability who can handle any emergent need of the organization. There are various factors that affect its availability within an organization like the proactive approach of the fore founders of the

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How to cite this article: Pandey, A.K. (2023). Succession Planning and Executive Compensation Strategies: Case Study on Multi-business Corporate Firms in India. *Adhyayan: A Journal of Management Sciences*, 13(2):1-5.

Source of support: Nil

Conflict of interest: None

enterprise, insider talent development activities and retaining high-performing individuals. Preparing offspring in a manner so that they can learn the micro management of the organization along with the legacy set forth by founders.

Scope of the Study

Succession Planning & management and executive compensation is a strategic issue in human resource management. The study offers insight that effective executive pay practices may be helpful in promoting talent retention which ultimately contributes in

succession planning from within (Insider succession). Succession planning practices have a greater influence on management and governance structure in modern-day tech start-ups and other small-size business enterprises. It has a linkage to the sustainable aspect of business.

Literature Review

In a Comparative research study of three Spanish (Family Owned Businesses) FOBs, it has been observed that the danger of succession failure is dependent not only on comprehensive process design and planning but also on a well-developed firm and family framework on succession that gives adequate family resources to deal with unforeseen events and resolve conflicts (Botella-Carrubi & González-Cruz, 2019). It shows the need of further investigation into how a multi-business enterprise will handle this prominent issue of having a profound leadership pipeline in the Indian context. Succession Planning is concerned with searching, nurturing and making leaders who can handle future business operations (H. Church, 2014). In a web article, it has been explored that Compensation policies that are carefully designed can aid in the development of a leadership pipeline, the advancement of succession planning goals, and the reduction of transition risk (Meyer, 2018). Succession has many future implications for a successful organization (Cipd | Succession Planning | Factsheets, 2022).

It has been observed that in the absence of an effective succession plan continuity of family enterprise might be affected. Even, more profit is a possibility if a succession plan is formulated. Even knowing such facts, many family firms fail to formulate a succession plan document. Promoters have a strong role in succession planning, but it is again a challenging task. It has been also observed that family involvement and hold on firm operations can be ensured through effective succession planning (Christensen, 1953; Ward, 1987; Lansberg, 1988; Seymour, 1993; Upton et al, 2001 as cited in Renuka; 2021).

Research Objectives

- To explore various strategies of executive compensation aiming succession planning in Indian corporate firm having operations in multi-business
- To analyze the linkage of succession planning and executive compensation

Proposed Conceptual Framework

Literature offers insights that incentive structure helps in the retention of a high potential talented individual



Figure 1: Researcher's proposed conceptual Linkage

with the organization for the longer term which is directly a step towards ensuring an effective succession planning in place. In this way, a hypothetical conceptual framework can be depicted as follows:

Research Method

A case study research design has been incorporated for investigating the trends of succession planning and executive compensation. Secondary data sources from the Web of Science database, Google Scholar, ResearchGate, dimension AI database, Ebsco business source elite, company reports, official websites and other web sources have been utilized to analyze the various outcomes of the present study.

As per the sample size and sampling frame is concerned, top 5 corporate firms have been selected based on market capitalization till September 2023 from NIFTY 50 Index. Public sector companies haven't been included as enterprise selection boards do perform the appointment of key leaders at a time when superannuation occurs. As of September 29, 2023, the Nifty 50 Index represents approximately 59% of the free float market capitalization of the firms listed on the NSE (Kenton, 2022). The other criteria for selecting these 05 corporate firms was enterprises having operations for more than 40 years along with at least 02 diversified business portfolios in the Indian market.

Data Analysis and Interpretations

RSU- Restricted Stock Units

The above table shows the listing of key components of executive compensation and state of succession orientation observed in both family groups as well as in standalone corporate firms. . It has been observed that companies reported very less about key executive compensation as well as such practices vary across the industry due to the nature and operational requirements of the business. Incentive structure might include considerations like providing restrictive stock options, receiving no pay or only sitting fees, and performance-related bonuses in corporate-level profiles.

Observed data offers insight that total compensation on average lies in the range of Annual CTC 10 to 65 cr for the CEO, chairman and other board-level members



Table 1: Sample characteristics of 05 corporate firms

Corporate Firm	Operating Since/ Total operating years till 2023	Weightage (%) in free float market	Sectors of operations
HDFC Bank	1977, 46	13.24	Banking
Reliance Industries Ltd	1958, 65	9.25	Multiple Sector
Infosys Ltd.	1981, 42	5.84	Information Technology
ITC Ltd.	1910, 113	4.53	FMCG
L&T	1938, 85	4.23	Engineering & Construction

Table 2: State of Succession Planning and Components of Executive Pay in Selected multi-business Corporate Firms

Corporate Firm	State of Succession	Executive Compensation Breakups on an average (in INR) for CEO / Board Level Positions (Data As per Feb'23)				Specific Observation
		Base Pay	Allowances & Perquisites	Performance Bonus	Total Remuneration to CEO /Maximum Amount of Salary (Cr)	
HDFC Bank	Professionally Managed	2.82 Cr	3.31Cr	3.63 Cr	10.03–10.55	Compensation was significantly increased from last appraisal period so as to retain the talent at top level positions.
Reliance Industries Ltd	Family Managed	NADR ¹	NADR ¹	NADR ¹	Maximum 24	Chairman received nil payment for the financial year 2022-23 (Digital, 2023). Offspring will receive only sitting fee.
Infosys Ltd.	Family Managed	NADR ¹	NADR ¹	NADR ¹	56.44	A decline trend has been spotted in CEO compensation in FY23 as compared to FY22 (Gohel, 2023). CEO compensation includes restricted stock units (RSU) in IT prominent firm Infosys.
ITC Ltd.	Professionally Managed	NADR ¹	NADR ¹	12.8 Cr	16.31	The top executive's income is also 326 times larger than the median remuneration offered to all employees in ITC.
L&T	Professionally Managed	NADR ¹	NADR ¹	NADR ¹	61.27	(Salary of Top Indian CEOs, 2023)

Note*: NADR1 –No Adequate Data Reported In Public

of the corporate firms. It may offer new insights when more firms might be included for further analyzing the CEO compensation strategies linked to succession management.

FINDINGS AND DISCUSSION

Base pay, allowances & perquisites and performance bonus-related information lack proper disclosure in spite it has strategic importance in many of corporate firms. Even, though executive compensation strategies might be a confidential choice to a particular organization but it may affect the process of executive-level retention which plays a crucial role in succession planning. As CEO compensation and top-level executive pay considerations are not properly reported by the 05

selected multi-business corporate firms in the Public domain. This is because of the fact that firm believes it is an effective way to keep executives away from the consultation and head hunters. Even, other strategic issues might be a concern for such corporate firms which led them not to disclose executive-level compensation strategies in spite it has linkage with outsider succession. In a present case exploration, it has been observed that Family family-managed firm has a specific arrangement / provision abbreviated as *RSU* so as to retain the top-level executives for lengthier tenure.

In terms of state of succession orientation, professional versus family-managed succession planning can be compared in multi-business corporate firms. Investigating individual firm from a succession

planning strategies point of view might offer interesting insights. In family-owned multi-business corporate firms, it has been observed that key persons like the chairman and offspring take no or just sitting fee for Annual general meetings (AGMs). It shows the sense of commitment to the family legacy and sets examples for others at a time when business earning potential gets a sit back. In other findings, it has been observed that the non-financial part of compensation finds less reporting in CEO pay considerations in many of the corporate firms (*Ceo Compensation*, n.d.).

CONCLUSION

Executive compensation strategies provide a chance to retain the key managerial personnel in the organization which is one of the major challenges in many of the corporate firms. Even, Variables like shareholding patterns, Board intervention, high potential (HIPO) candidates and family legacy might have a greater linkage with succession planning. Summarizing the key reviews and findings, it can be stated that Succession Planning strategies must be supported by appropriate executive compensation strategies which has greater significance for retaining talent for longer tenure. Indian corporate firms operating in diversified business portfolios must consider succession planning as a crucial aspect that ensures the smooth running of business operations along with business continuity. Indian family businesses might adopt strategies followed by Standalone /non-family firms which focus on hiring professional managers on key positions irrespective of their affiliation with the group firm. Even, the present study can be further extended to see specific interventions of succession strategies with the lenses of other variables acting in a particular industry. New-age start-ups can explore succession management by ensuring adequate strategies available to pay the potential leaders.

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