

Succession plans for Malaysian firms

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Do Malaysian companies generally have a succession plan to ensure business continuity? How can family businesses break the curse of having a poor survival rate after passing on to the second and third generations? StarBiz interviews several experts in the fields of human resource, leadership and corporate governance as well as those involved in family business.



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MALAYSIAN companies are generally aware of the importance of succession planning, especially the larger corporations, said most local human resource experts interviewed by StarBiz.

While some big-cap companies have taken some degree of active measures to develop a succession plan, others have not. The latter is particularly true for the smaller unlisted companies.

SMR Technologies Bhd chairman and chief executive officer Dr R. Palan said common sense dictated that any organisation should have a succession plan, despite their status.

"Certainly the larger ones in recent years have put great effort to develop succession plans," he told StarBiz, citing some of the Government-linked companies (GLCs) as examples.

Palan said in the case of GLCs, a lot of effort had been channelled to develop the next level of leadership in a conscious and planned manner.

He noted that there was a lot of leadership and business training programmes going on today, especially among larger Malaysian companies.

He said it was a common trend worldwide for large companies to focus on developing stars and A players - the top 5% of a company's workforce.

"Star players refer to individuals who can significantly contribute to a company's profitability, while A players are not far behind in their abilities.

"The key is how to attract them to work for the company," Palan said, adding that these individuals wanted recognition besides good remuneration.

He said the goal of a company was to ensure that it created the right conditions for these individuals to grow and contribute.

Palan said the talent crisis was a real one.

"It's not just in Malaysia. It's with every country. The good news is our talent is desired in other countries. The bad news is we are losing them to others. While offering financial packages are important, it is not the only thing talented people look for."

In respect to succession planning and retaining capable individuals, a company needs to ask itself: Do we offer these people the opportunity to work with the best? Do we accept that they might disagree with us as they have their own ideas? What are we doing to remove obstacles in their path for them to perform?

"I also believe companies should start to look at their B players too - the 80% to 90% of employees in a company who are average performers but the mainstay of any business. They need to be engaged more proactively and companies need successors there too," he said.

Palan, who is the founder of the Asia HRD Congress, said talent was increasingly becoming a key variable in the success of corporations.

"That's why we have the annual Asia HRD Congress to keep abreast of current issues relating to human resources," he said, adding that the congress was held in different cities in Asia with specific themes each year, including manpower and succession planning.

He said smooth successions were a result of a well-thought plan to ensure business continuity.

"Business continuity does not just happen without proper planning," he said, adding that a case in point would be The General Electric Company (GE), a multinational corporation from the United States.

"GE is arguably one of the most successful companies in the world with a good track record of returns to shareholders," he said.

Palan said GE had the ability to ensure that its executives had all the experiences possible to steer the company through periods of growth, downturns and stable environments, noting that the company was a conglomerate long before the term was coined.

He said GE chief executive officer Jack Welch, before he retired, had a pool of three successors.

"One of them succeeded to replace him while the two others went on to other companies and created great value too," said Palan.

"I certainly think companies should have a succession plan as it is the only way to stay relevant in a changing world."

He said research studies had indicated that the main factors impacting the long-term profitability of a company was its organisational processes and procedures (weighting 34%), followed by the specific industry (18%), appointed chief executive officer (17%) and other less measurable reasons (31%).

Palan said traditionally, family companies might have appointed family members who were not qualified.

"It might still happen in smaller organisations. But look at the larger companies – the family members have been trained to be professionals. They have degrees from top business schools," he said, citing the Ambani brothers of India and Li Ka-shing of Hong Kong as individuals that had built successful empires with many family members in the business.

Asian Strategic & Leadership Institute chief executive officer Datuk Michael Yeoh said Malaysian corporations were now more aware of the need for succession planning to establish business continuity in the interests of stakeholders.

"We are seeing more local companies adopting best practices, including having a succession plan. Some of the listed companies on Bursa Malaysia now have three or four possible candidates that could replace the chief executive officer if required," he said.
