



IMPACT OF PERFORMANCE MANAGEMENT ON SUCCESSION PLANNING

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Abstract

Motivation: HR in an organization faces various challenges in business environment, such as Building Capabilities, Improving Productivity, Building Performance Culture, Talent Management, Succession Planning for Key Leadership and Critical Roles, Developing Accountability and Ownership, Human Capital Management and transforming HR function into developmental Role from the legacy driven HR, etc.

Succession Planning is the process of identifying and developing individuals, who have potential to hold the key leadership position in an Organization, whereas Performance Management includes assessing and improving upon the performance of an employee to meet the organizational goals. There are several Management Practices, which are adopted widely in Industry to make a successful Succession Planning. Workforce and Talent Management is one of them. The health of an organization majorly depends on the proper placement of people, which is a combined outcome of Talent Identification, Talent Development and Talent Retention. Performance Management plays a vital role in Talent Identification. It also has an impact on Talent Development and Talent Retention. The key idea of succession planning suggests that the right person to be placed at the right position at the right time.

Succession planning is becoming a challenge these days in the corporate world. Organizations are often not found prepared with their successors to occupy the key positions as and when required. The positions are either kept vacant for a substantial period or more than one role is assigned to a single person. Identifying the right talent for the key positions from outside the organization and recruiting them is a much more difficult task at the eleventh hour. This has a significant impact on organizational health and in turn to organizational sustainability.

Organizations must last longer than people. Role of organization continues even when the people move out. Employees must superannuate after attaining a certain age. Also, organizations must have a contingency plan for sudden vacancy arises out of attrition, health hazards and death of employee. Succession planning is the strategy to ensure that a suitable person is made available during exigencies. Employees are developed for taking on higher responsibilities and for the new roles that may emerge in future.

The placement of Key Leadership positions can be executed either by inviting the talent from outside or developing the talent in-house. The latter is always in demand keeping in view the core values of the organization and the impact on loyalty and organizational culture in a long run. It is preferable to develop the in-house talent pool to reduce dependency on recruitment of experienced people from outside for the critical roles. It brings the talent acquisition cost low and contributes as a motivating factor for the team as well. The acceptability of a person placed at Top / Key Leadership Positions is high when these are occupied by in-house talent.

Performance Management is the backbone of organization, as it is the performance that helps it to grow, develop and strive for excellence. It is a system that ensures that Human Capital is properly and optimally utilized. It encourages achieving desired business results. It is also a tool to ensure that individual and organizational goals are aligned. Organizations are making efforts to make it scientific, objective and more realistic. Many organizations are practicing a participative appraisal process. The idea is to identify potential, evaluate performance, map & develop competencies and align values of an employee with organization.

Problem Statement: To develop an effective Performance Management System and to integrate it with Succession Planning is a big challenge these days. There are many challenges in finding solutions to the following basic questions: 1. How does performance management affect the success of succession planning? 2. What are the best practices in performance management that support effective succession planning? 3. What are the potential benefits of integrating performance management and succession planning, and how does it contribute to organizational success?

Methods/Study Design: A mixed-methods approach of consisting both qualitative and quantitative data analysis is preferred. The study involves a sample of Indian PSUs from different industries. Inputs on perceptions and interpretations collected through discussions, interviews, and document analysis. The interviews of Key



Stakeholders, including HR Managers, Executives, and Functional Managers are conducted to gather information on the perception of employees about current Performance Management Practices and Succession Planning in the participating organizations. The document analysis involves review of HR Policies, Procedures, and Reports related to PMS and Promotion Policies. Feedback collected through interactions are analyzed using thematic analysis to identify patterns and themes related to the linkage between PMS and Succession Planning.

Predictions and Results: The findings of this study would provide insights into the significance of Performance Management in Succession Planning. The study identifies and suggests the best practices in PMS that support effective Succession Planning. The study also helps in linking PMS and Succession Planning to recognize the impact of integrating these two. Thus, the study recommends how to identify and develop individuals in-house, to take critical and key leadership roles as and when required by the organization.

Summary/Conclusion: To identify and develop the people for effective Succession Planning is the need of hour. PMS plays a big role in identifying, developing, and retaining the in-house talent thus preparing and positioning for the critical and key leadership roles. Performance Management is an ongoing process starting from beginning till end and even after the employee superannuates/leaves the organization. Management Practices cannot be dealt with separately for Talent Management and Succession Planning. Performance Management has a significant impact on Talent Management and thus on Succession Planning for key leadership positions in an organization to meet present and future needs.

Keywords: Performance Management, Talent Management, Succession Planning.

INTRODUCTION

Preparing ourselves for the future economic environment is the biggest challenge for achieving the Sustainability. Organizations, be it Government, Semi Government, Private or Social, needs to have a succession plan or readiness for taking up the roles and responsibility by the next generation. Large organizations, especially the Corporate & Public Sectors in India often find themselves in challenging situation while filling the suitable manpower gap within the organization due to changing market condition and environmental need. Human Recourses (HR) plays the most important role in handling manpower, optimizing the strength, developing the talent and preparing them for the future. There are various challenges HR faces in business environment, such as Building Capabilities, Improving on Productivity, Building Performance Culture, Talent Management, Succession Planning for Key Leadership and Critical Roles, Developing Accountability and Ownership, Human Capital Management and transforming HR function into developmental Role from the legacy driven HR, etc. Human Resources needs to be utilized optimally and developed in line with the changing market scenario. HR needs to be aligned with the organizational goal.

Succession Planning is process of identifying and developing individuals, who have potential to hold the Key Leadership Positions in an Organization, whereas Performance Management includes assessing and improving upon the performance of an employee to meet the organizational goals. There are several Management Practices, which are adopted widely in Industry to make a successful Succession Planning. Workforce and Talent Management is one of them. The health of an organization majorly depends on the proper placement of people, which is a combined outcome of Talent Identification, Talent Development and Talent Retention. Performance Management plays a vital role in Identification of Talent. It has an impact on Talent Development and Talent Retention too. The key idea of succession planning suggests that the right person to be placed at right position at right time.

Succession Planning is becoming a challenge these days in corporate world. Organizations are often not found ready with their successors to occupy the key positions as and when required. The positions are either kept vacant for a substantial period of time or more than one role is assigned to a single person. Identifying the right talent for the key positions from outside the

organization and recruiting them is much more difficult task at the eleventh hour. This has significant impact on organizational health, and in turn to the organizational sustainability.

Organizations have to last longer than people. Role of organization continues even when the people move out. Employee has to superannuate after attaining a certain age. Also, organizations have to have a contingency plan for sudden vacancy arises out of attrition, health hazards and death of employee. Succession planning is the strategy to ensure that suitable person is made available to take the responsibility during exigencies. Employees are developed for taking higher responsibilities and also for the new roles that may emerge in future.

Several studies are done in the past to develop and establish a Succession Planning Method with the help of various HR processes at National and International levels. (Ahmad, 2018a; By & Sivakumar, n.d.; Diab et al., 2023; Okhawere & Felix Isibor, 2016; Pila et al., 2016). The relationship is already established between Succession planning and Talent Management Processes. Talent Identification plays the primary role. The role of Performance Management under Talent Identification is yet to be studied further in details for Indian PSUs. The impact of Performance Management on Succession Planning needs to be assessed, critically analyzed and reviewed in depth at various levels in an organization.

The placement of key leadership positions can be executed either by inviting the talent from outside or developing the talent in-house. The latter is always in demand keeping in view the core values of the organization and the impact on loyalty and organizational culture in a long run. It is preferred to develop the in-house talent pool to reduce dependency on recruitment of experienced people from outside for the critical roles. It brings the talent acquisition cost low and contributes as a motivating factor for the team as well. The acceptability by the people for a person placed at Top / Key Leadership Positions is high, when these are occupied by in-house talent.

Performance Management is the back-bone of organization, as it is the performance, which helps to grow, develop and strive for organizational excellence. This Performance Management System ensures that Human Capital is utilized properly and optimally. It encourages achieving desired business-results. It is also a tool, which ensures that individual actions are aligned with organizational goals. Organizations are making efforts to make it scientific, objective and more realistic. Many organizations are practicing a participative appraisal process. The idea is to identify potential, evaluate performance, map & develop competencies and align values of an employee with that of organization.

PROBLEM STATEMENT

To develop an effective Performance Management System and to integrate it with Succession Planning is a big challenge these days.

There are many challenges in finding solutions to the following basic questions:

1. How does performance management affect the success of succession planning?
2. What are the best practices in performance management that support effective succession planning?
3. What are the potential benefits of integrating performance management and succession planning, and how does it contribute to organizational success?

METHODS/STUDY DESIGN

A mixed approach, consisting of a method with both Qualitative and Quantitative data analysis is preferred. The study involves a sample of Indian Public Sector Units (PSUs) from different industries. Inputs on perceptions and interpretations collected through discussions, interviews and document analysis. The interviews of Key Stakeholders, including HR Managers, Executives, and Functional Managers are conducted to gather information on the perception of employees about current Performance Management Practices and Succession Planning in the participating organizations. The document analysis involves review of HR Policies, Procedures, and Reports related to PMS and Promotion Policies. Feedback collected through interactions are analyzed using thematic analysis to identify patterns and themes related to the linkage between PMS and Succession Planning.

Information gathered from various PSUs viz. BPCL, HPCL, SAIL, ONGC, IOCL, BHEL, BEL, NTPC, Power Grid Corporation of India Ltd., Coal India Ltd.

Questionnaire was designed to assess the perception of employees of the sample organizations. A sample size of 10 at Middle, Senior and Top Management were intended from PSUs of various industries form different sectors (Oil, Steel, Power, Coal).

Also, the documents were reviewed related to promotion policies & guidelines in addition to the discussions on succession planning methods & procedures adopted by various PSUs.

OBSERVATIONS AND DISCUSSION

While deputing the right person at the right place, especially for the key leadership positions, people are identified and developed with the help of various HR processes. It is important to note that the identification of right talent is the most crucial stage, where talent pool is identified and then exposed to different roles and responsibilities along with various developmental activities.

Talent Identification starts at recruitment stage, when the best available talent is attracted based on employer branding and compensation and benefits. PSUs have many limitations in Compensation and Benefits. But the scope is open for employer's brand value. Most of the PSUs are following the similar recruitment processes. Induction processes are also more or less similar barring variation in number of days for classroom sessions and On the Job Training (OJT) for the new recruits.

Job orientation is as per the requirement of the organization, while the selection criteria are same for every managerial role. Employees' competence and potential are identified mainly based on their appraisal ratings by their controlling bosses at the beginning of the career.

Competencies mapping is either missing or not well planned in PSUs. The frequencies of such exercise, if at all done, is too low (say once in a decade) in most of the PSUs. Competency Mapping is regularly done in only few PSUs and Talent Development is yet to be connected to it for the present and future need of the organization with the changing economic environment.

Performance rating remains the most effective parameter, even at middle and senior management level. However, Performance targets are Specific, Measurable, Achievable and Relevant (SMART) in most of the cases. The final ratings are having very low weightage as compared to the performance, and this weightage keeps on decreasing with hierarchy in management bands. In other words, the rating becomes more on subjective matters like Competence, Values and Potential for the top. The general perception about the appraisal rating in PSU is pick and choose rather than professional way.

The following table elaborates the items covered under the head Talent Identification (TID), Talent Development (TD), Talent Retention (TR) and Succession Planning.(Jindal & Shaikh, 2021a)

(Pila et al., 2016)

Table 1: Constructs and Sources of Items Jindal & Shaikh,2021b, 2021a)

Construct	Items	Source
TID	<ol style="list-style-type: none"> 1. Leadership abilities 2. Systematic process 3. Performance rating 4. Career planning chart 5. Mentoring and coaching 6. Experience in company 7. Overall experience in industry 8. Critical nature of job 9. Performance in critical incidents 10. Assessment centers 11. Competency mapping 12. Replacement chart 	<ul style="list-style-type: none"> ● Hirsh, W. (2000). Succession Planning demystified. Brighton: Institute for Employment Studies. ● Rothwell, W. (2010). Effective succession planning: Ensuring leadership continuity and building Talent from within. New York: Amacom
TD	<ol style="list-style-type: none"> 1. Continuous feedback 2. Assessment development centers 3. Individual development plan 4. GAP in learning needs 5. Competency development 6. Higher education 7. Cross functional assignments 8. Job Rotation 	<ul style="list-style-type: none"> ● Garavan, T. N., Carbery, R., & Rock, A. (2012). Mapping talent development: Definition, Scope and architecture. European Journal of Ttraining and Development, 36(1), 5–24. ● Hirsh, W. (2000). Succession Planning demystified. Brighton: Institute for Employment Studies. ● Rothwell, W. (2010). Effective succession planning: Ensuring leadership continuity and building Talent from within. New York: Amacom
TR	<ol style="list-style-type: none"> 1. Current compensation 2. The reward system 3. Work life balance facilities 4. Employee engagement plans 5. Transparent promotion policy 6. Mentoring Facility 7. Employer brand of my company 8. Competency management 9. Top level management 10. The culture of organization 	<ul style="list-style-type: none"> ● Phillips, J. J., & Edwards, L. (2008). Managing talent retention: An ROI approach. San Francisco: John Wiley & Sons. ● Hirsh, W. (2000). Succession Planning demystified. Brighton: Institute for Employment Studies
Succession planning	<ol style="list-style-type: none"> 1. Identification of successors 2. Development of successors 	<ul style="list-style-type: none"> ● Cannon, J. A., & McGee, R. (2010). Talent management and succession planning (vol. 151). London: Chartered Institute of Personnel and Development.

In most of the PSUs in India, Appraisal System is the only method to identify the talents within an organization. Assessment Centers, Competency Mapping, 360-degree feedback, etc are neither implemented nor given significant weightage while identification of talent.

Based on the feedback and interactions with the stake holders, various points emerged out. The perceptions of employees and the management indicate the following:

Most of the corporate, especially the Indian PSUs adopt the Performance Appraisal Rating as a basis for Talent Identification. Higher the ratings, more is the opportunity. Flagship Talent Development programme, such as Cutting Edge, Senior Management Program, Advance Management Programme are designed for and made exclusive to the people, who are rated high by their appraisers. Nominations in all these flagship programs and in company sponsored



Management Development Programs are directly connected to PMS only. Foreign Training & Tours are considered more as a reward than the requirement.

Organizations need versatility of exposure (cross functional, cross country and international) by an employee to understand and experience the broader perspective. But it has an adverse effect on managing an excellent/outstanding rating due to settling time and tuning with the boss.

Even if the budget allocation and investment in Learning & Development is very high in PSUs these days, the outcome is not aligned to the growth of employee in the organization. Still, the importance of these developmental programs is not taken into the real sense.

In most of the PSUs, the promotion policies are either not transparent or available only with HRD. People in the field are having a vague idea on this, especially regarding Competency, Values and Potential. They are focused on performance rating in line with the KRAs/KPIs marked to them. Bi-annual reviews are also focused on performance against targets.

The categorization of employees in line with bell curve does exist in almost all the PSUs in India. An employee, once placed in a specific category in the bell curve, it is almost impossible for them to change it. Bell curve segregates employees on the basis of their past PMS ratings, which may not be relevant to employee's development and future growth in the changing market scenario.

Succession Planning and career growth are very much interdependent when we talk about in-house Talent Pool. With the shift in hierarchy level in pyramid, many talents are left behind just because of different promotion policy at different level, say Junior, Middle, Senior and Top Management. A leader is supposed to display different behavioral and functional competencies at different level, which cannot be assessed right at the beginning or mid of the career.

The available Talent Pool at senior level may sometimes lack behind with versatile experience to manage the boundaries and inter departmental dealings. With limited exposure, the successor is difficult to be identified. In most of the PSUs in India, majority of employees are being promoted faster, who are in the same function for years together, as it was easier for them to manage the bosses and the other stake holders in the same function. The growth has a cumulative effect based on promotions. Hence the available Talent Pool for succession planning is very limited.

Retaining the best Talent Pool, many a times becomes difficult with lack of motivation at Middle, Senior and Top Level. People leave organizations to find a better opportunity in other competitive companies, crossing the border of ethics & loyalty.

The above limitations lead to shift the organizational culture from the organizational values towards the boss management. Employees are developed in such a way that their focus is on current objectives rather than future goals.

Hence, a continual modification in PMS is required to align the employee's career growth with the Succession Planning of organization. This will have a direct impact on Talent Identification and in turn indirectly on the Talent Development and Talent Retention for the future need.

The impact of PMS with respect to other Talent Management practices is much more than what it looks apparently.

PREDICTIONS AND RESULTS

The findings of this study would provide insights into the significance of Performance Management in Succession Planning. The study identifies and suggests the best practices in PMS that support effective Succession Planning. The study also helps in linking PMS and Succession Planning to recognize the impact of integrating these two. Thus, the study recommends how to identify and develop individuals in-house, to take critical and key leadership roles as and when required by the organization.

RECOMMENDATIONS

Following modifications are recommended based on the feedback to improve upon prevailing PMS:

- 360-degree feedback should be shared with the employees not only as a score but also as strength and area of improvement.
- Leadership Circle used during selection for promotion should be guiding device rather than testing method. The scores on Competency Mapping needs to be shared with the candidates. There is also a need to develop competency by adopting several Leadership Programs for improvement.
- Distribution Ratio of Performance Ratings based on KRAs/KPIs and Competence, Values and Potential needs to be reviewed.
- The subjectivity of rating on Competence, Values and Potential needs to be minimized, which is having maximum effect on PMS at Middle and Senior Management level.
- Bell Curve has a de-motivating impact in professional growth of an employee. Should be removed
- Previous Year Performance rating has a major impact on the current and future growth of an employee, which needs to be kept confidential from the current appraiser to avoid a biased approach.
- Prevailing PMS is more aligned towards the appraiser's demand than the organizational goal.
- Variety of experience and exposure to versatile roles should be given proper weightage to develop a talent to hold the top leadership positions.
- Competency Mapping to be done more frequently (at least once in a year) and results should be shared with the countersigning or functional heads. Currently, it is with HR function only in most of the PSUs.

CONCLUSION

To identify and develop the people for effective Succession Planning is the need of hour. PMS plays a big role in identifying, developing and retaining the in-house talent thus preparing and positioning for the critical and key leadership roles. Performance Management is an ongoing process starting from beginning till end and even after the employee superannuates/leaves the



organization. Management Practices cannot be dealt separately for Talent Management and Succession Planning. Performance Management has a significant impact on Talent Management and thus on Succession Planning for key leadership positions in an organization to meet present and future need. There is a need for continual improvement of Performance Management System with change of roles and change in changing economic environment to achieve sustainability for an organization.

Various other parameters must be introduced and implemented at various stages while identifying Talent. The Talent Developmental Programme must identify and fulfill the gap related to competence, exposures, versatility etc., rather than randomly selecting the top performers to hold a position.

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