## Succession Planning for Boards and KMP – precedents and ideal policies

***"A critical difference between companies that manage succession well and those that don't is the understanding that succession is a process, not an event."***

***(Donald K. David Professor of Business Administration, Emeritus)***

- ### Introduction:

For organizations to succeed in a competitive market, they must plan ahead. One aspect of planning often gets overlooked, but it has big implications for organizational continuity and success: **succession planning**. Succession Planning is a systematic and forward-looking process through which an organization identifies, develops, and prepares potential leaders and key employees to assume critical roles in the future. This strategy involves identifying vital business roles and creating a talent pipeline. The goal is to ensure a smooth transition when key leaders or employees leave.

In today's volatile business environment, the continuity and sustainability of leadership are critical for corporate success. Succession planning, particularly for the Board of Directors and Key Managerial Personnel (KMP), is no longer optional - it is a strategic imperative.

Unplanned exits of CS, CEOs, CFOs, or board members can create vacuums that damage operational efficiency and market confidence. A well-articulated succession plan mitigates this risk.

- ### Background: Evolution of Succession Planning in India

Succession planning in India has evolved significantly over the past few decades. Before the 1990s, leadership transitions were largely informal, and family driven. However, with the economic liberalization of 1991, Indian companies were exposed to global competition, which brought a stronger emphasis on corporate governance, transparency, and professional management.

To address risks of leadership gaps, regulators stepped in, most notably through the Companies Act, 2013, which required Boards and their Nomination and Remuneration Committees to oversee succession planning for directors and key managerial personnel (KMPs). This was further reinforced by SEBI's LODR Regulations, 2015, making succession planning a core governance responsibility for listed companies. Influenced by global best practices, Indian corporation, both promoter-led and professionally managed, have adopted structured approaches to leadership transitions, ensuring business continuity, stability, and investor confidence.

- ### Let's understand why Succession Planning is important.

The answer for the same question can be answered from one of the remarkable case of **The Tata Group,** one of India's largest and most respected conglomerates.

The Tata Group was led by **Ratan Tata** until his retirement in 2012. During his tenure he has made the group into global business powerhouse due to which succession planning was critical.

After his retirement **Cyrus Mistry**, from the Shapoorji Pallonji family (a major shareholder in Tata Sons) was appointed as chairman which was shortlisted by Ratan Tata himself.

However, the transition did not go smoothly as Mistry had a different leadership style, more analytical and conservative than Ratan Tata's visionary approach. He began to restructure several Tata Companies which clashed with Tata Trusts long-term goals.

In 2016, Mr. Mistry was abruptly removed as Chairman, and the media was flooded with reports on what went wrong at Bombay House. Headlines such as ***'Mistry Ends, Mystery Begins'*** and ***'Mistry Replaced, Ratan Tata Back as Interim Chief'*** dominated the news. The episode led to a **decline in the share prices** of Tata Group companies, a **prolonged legal battle** between Mistry and Tata Sons, and significant **reputational damage, stakeholder concerns, and operational disruptions.**

After Mistry's ouster, In, 2017 **Natarajan Chandrasekaran**, CEO of Tata Consultancy Services (TCS), was appointed Chairman of Tata Sons. His appointment stabilized the group and is now seen as a successful outcome of learning from the previous mistake.

This marks a greater shift towards professionalizing leadership, with more emphasis placed on executives like N. Chandrasekaran who have a deep understanding of the Group's operations and a proven track record of performance.

- **<u>Key Components of an Ideal Succession Policy</u>**

An effective succession policy should be formalized, regularly updated, and aligned with the company's strategic goals. It includes:

1. **Identification of Critical Roles:**

Focus on positions that are vital to business continuity – Board Chair, Managing Director/CEO, CFO, CS, and Business Unit Heads.

2. **Talent Pipeline and Development:**

Build a robust internal leadership pipeline through training, mentorship, and performance monitoring. Groom high-potential leaders early.

3. **Emergency Succession Plan:**

Draft protocols for unexpected vacancies (e.g., death, resignation, or illness of a KMP), identifying interim leaders and decision makers.

4. **Role of the Nomination & Remuneration Committee (NRC):**

The NRC should oversee and periodically review succession plans. They must ensure diversity, meritocracy, and strategic alignment.

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5. **Communication and Disclosure:**

Succession plans should be internally communicated at the leadership level and disclosed to stakeholders, especially during leadership transitions.

➢ **<u>What framework/ Policies adopted by leading companies for their Succession Planning:</u>**

*1.* **Bharti Airtel** *(Corporate Governance Report 2023-24):*

**Board**: The Board actively manages succession planning by reviewing tenure, performance evaluations, skill gaps, diversity, time commitment, and statutory requirements. The Chairman, with the **HR & Nomination Committee**, implements a multi-year plan to anticipate retirements, prioritize future needs, and build a strong talent pipeline, ensuring smooth transitions and aligned board competencies.

**Top critical positions including Senior Management:** Succession planning for top critical positions, including Senior Management, is led by the **Apex Talent Council**, evaluating successors based on skills, experience, leadership, and readiness, supported by development plans). The HR & Nomination Committee of the Company reviews succession planning framework on half-yearly basis.

2. **HDFC:** *(Integrated Audit Report 2024-25)*

The **NRC and Board** reviews succession planning and transitions at the Board and Senior Management level.

Succession planning at Senior Management level, including business and assurance functions, is continuously reviewed to ensure continuity and depth of leadership at two levels below the Managing Director. Successors are identified prior to the Senior Management positions falling vacant, to ensure a smooth and seamless transition.

3. **Wipro:** *(Integrated Audit Report 2023-24)*

Wipro, succession planning is a bi-annual exercise. The **Nomination and Remuneration Committee** implements this mechanism in concurrence with the Board for Board members, key managerial personnel, and senior management.

Talent is grouped in terms of performance and potential; successors are identified for critical role. Executive coaching is provided to senior leaders to facilitate their holistic development. This process helps to identify top talent across the organization, and train to assume leadership roles in the future, creating a robust leadership pipeline to deliver improved business results.

➢ **<u>Ambani Family Succession: A Planned Transition to the Next Generation.</u>** <u>(*The Economic Times)*</u>

The differences between Mukesh Ambani and his younger brother Anil, following the demise of their father Dhirubhai Ambani, highlighted the risks associated with inadequate succession planning. The absence of a clear plan ultimately led their mother, Kokilaben Ambani, to intervene and facilitate the division of Reliance's assets between the two brothers.

Taking lessons from this episode, Mukesh Ambani has adopted a structured and phased approach to succession planning for his children.

Mukesh Ambani has divided the business into three key verticals, each aligned with a different heir:

- Isha Ambani – Retail (Reliance Retail Ventures Ltd.)
- Akash Ambani – Telecom (Jio Platforms Ltd.)
- Anant Ambani – Energy & Petrochemicals (Reliance New Energy Ltd.)

In RIL's AGM**,** Mukesh Ambani has clearly articulated his intention to pass the baton gradually, reinforcing transparency and investor confidence.

## ➢ What Comes in the way Succession Planning

It is an unfortunate reality that nepotism continues to prevail as a constant norm in many Indian businesses. Succession planning, a critical aspect of corporate governance, often takes a backseat to the interests of influential families and individuals.

Despite claims of professionalism, many organisations prioritise blood ties and personal relationships over meritocracy, undermining the very principles they should uphold. This systemic nepotism suppresses innovation and growth while marginalising deserving talent.

## ➢ Conclusion:

In Conclusion, Succession planning is not merely about filling vacancies. It is about ensuring that the future leadership of an organization is well-equipped to take forward its vision, values, and strategy. A well-planned succession strategy, backed by policy and precedent, enhances resilience, builds investor confidence, and prepares the organization for generational transitions.

For companies aiming to be future-ready, proactive and structured succession planning for the Board and KMP is not just a governance obligation, it is a business necessity.