

Succession Management in China

Fewer than one-third are satisfied with how their companies identify, develop, engage, and promote the next generation of talent.



Introduction

Succession management is an important component of talent systems that many consider to be critical to an organization's sustainable success. It provides a continuous talent supply, not only helping to meet short-term business needs but also supporting the company's long-term strategy. An effective succession management system can minimize the impact of position vacancies and role changes, ensuring the continuity of leadership culture. It provides valuable data that helps the organization make accurate talent decisions and supports individuals' development with more targeted efforts. Lastly, it encourages and reinforces internal talent movement across boundaries and allows the organization to create a process that is more scientific and objective, which can contribute to talent retention.

A 2014 Korn Ferry survey of global companies showed that only a third of the companies surveyed were satisfied with the outcomes of their succession management systems. These companies reported being dissatisfied with inadequate "ready now" candidates, heavy reliance on external hiring, and failing to consider lower levels of the leadership pipeline.

A few of the companies surveyed were from China, which is entering an age of critical succession management as CEOs of globally competitive companies are nearing retirement (Liu, 2011). Succession planning in China is becoming more complex and less straightforward as the younger generations, increasingly exposed to Western corporate values, resist traditional bequeathing of the helm to family or close insiders (Fan, 2013). Korn Ferry commissioned an additional, China-focused survey on succession management to uncover current trends, identify gaps, and provide suggestions for Chinese companies that are motivated to build strategic succession management plans.

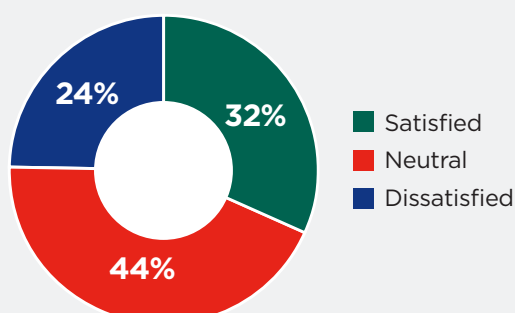
Key survey findings that we discuss include:

- Similar to global numbers, only a third of Chinese company respondents stated that they were satisfied with their company's succession management practices.
- Succession management must deeper to include professionals and junior roles. Only 15% of the companies surveyed said they had ready talent for every level.
- Personal traits have a significant impact on the success of promotion, but they are often not considered in such decisions.

Figure 1

Only a third of Chinese company respondents stated that they were satisfied with their company's succession management practices.

Overall, how satisfied are you with your company's recent succession management outcomes?



China-based companies' succession management is not going “deep enough.”

Succession management is still new in Chinese companies, most of which do not have transparent structures of effective corporate governance systems (Liu, 2011). Often, succession issues are first brought to light when the current leader departs or makes plans to depart. In this survey, we aimed to determine which populations succession management typically covers and what the key drivers are behind succession practices in China-based companies.

Succession management systems in China focused primarily on directors, SVPs/VPs, and top-level senior executives (Figure 2). This finding is consistent with findings from the global sample (Korn Ferry, 2014). China-based companies focused less on SVPs/VPs and top-level senior executives—69% and 54%, respectively—than did the sample of global companies—78% and 76%, respectively.

About the study

Korn Ferry commissioned a China-based survey to complement the 2014 global study conducted by Korn Ferry and Hanover Research.

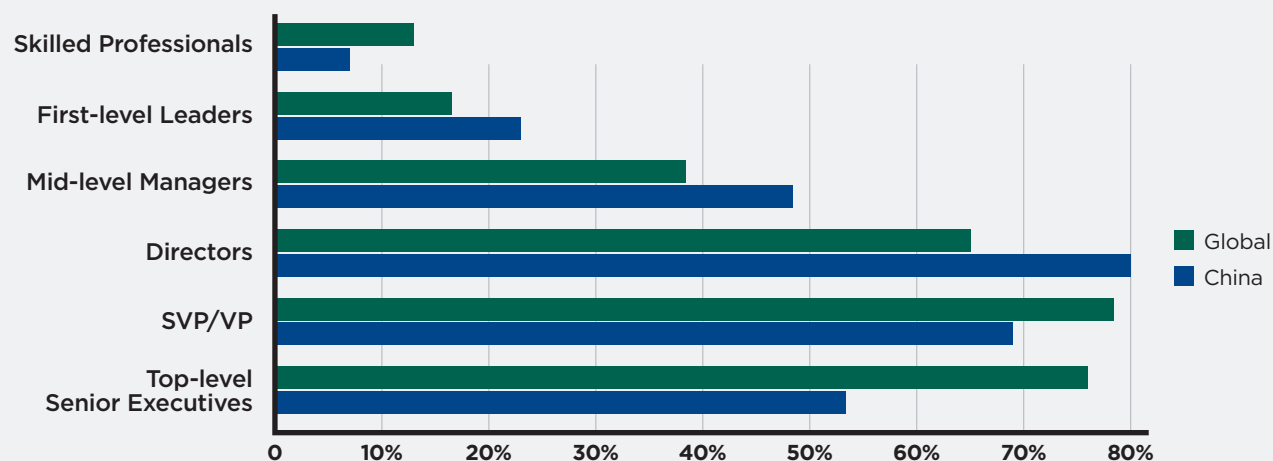
94 companies participated in the survey:
78% are Multinational Corporations (MNCs)
and 91% employ more than 500 people.

This is possibly due to the fact that succession at these levels would be managed by the companies' headquarters, with some support at the local level. Consistent with the global survey results, our results confirmed that attention given to first-level leaders and skilled professionals was not sufficient.

Figure 2

Succession management should go deeper to include professionals and junior roles.

Which of the following levels within your organization are included in your Succession Management program?



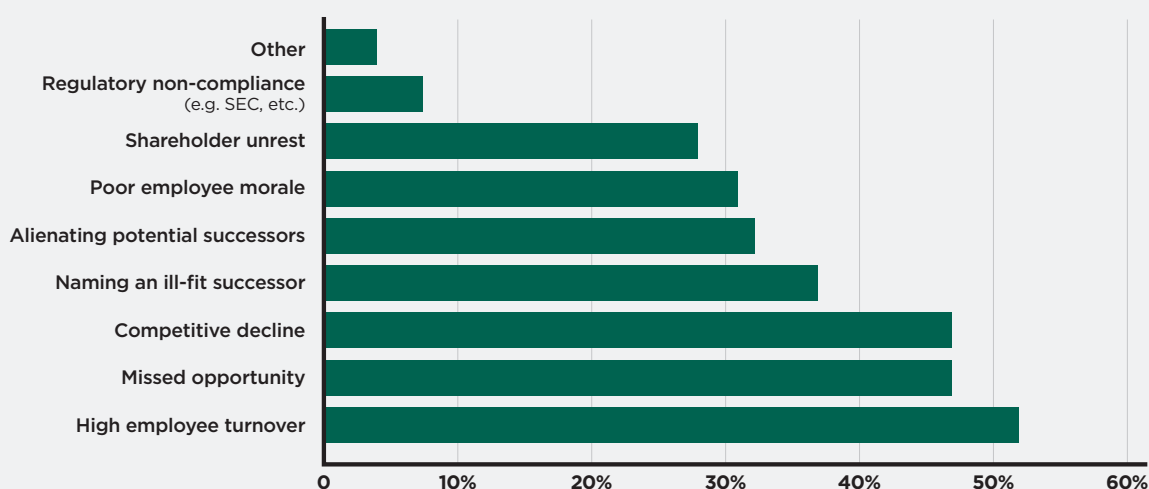
Turnover is the main motivation of China-based companies' succession management.

With regards to what drives succession management, our survey showed that China-based companies are driven by similar factors as global companies, both internal and external (Figure 3). However, "high employee turnover" is the top driver in China, whereas this driver is ranked fifth after "missed opportunity," "competitive decline," "naming ill-fit candidates," and "poor employee morale" in the global sample. It seems that China-based companies are expecting that succession management will help improve employee loyalty, retain top talent, and ensure the companies remain competitive.

Figure 3

High employee turnover as a driver of succession management was ranked first in China and fifth globally.

Which of the following do you consider to be significant risks addressed by your current Succession Management system?



Non-MNCs report lower levels of satisfaction with succession management.

Similar to global results, a majority of survey respondents were either neutral or not satisfied with their succession management practices (Figure 1). Overall, multinational corporations (MNCs) reported higher satisfaction levels than did State-Owned Enterprises (SOEs) and Privately-Owned Enterprises (POEs) in China. Among the five SOEs and 12 POEs in the sample, nine (53%) indicated they were not satisfied, whereas only 14 out of 77 MNCs (18%) showed the same degree of dissatisfaction. Interestingly, the four joint ventures represented in the sample were highly satisfied with their succession management systems, even more so than the MNCs. However, due to the small sample sizes, the results may not be generalizable to other joint ventures in China.

Non-multinational corporations (non-MNCs) were the least pleased with their succession management practices and can benefit from:

- Showing a longer-term commitment to succession management, and considering it a strategic priority.
- Defining potential clearly and using scientific tools to assess potential.
- Taking a “whole person” view of talent and putting more emphasis on traits and motivation.

Satisfaction with current succession management is related to talent decisions.

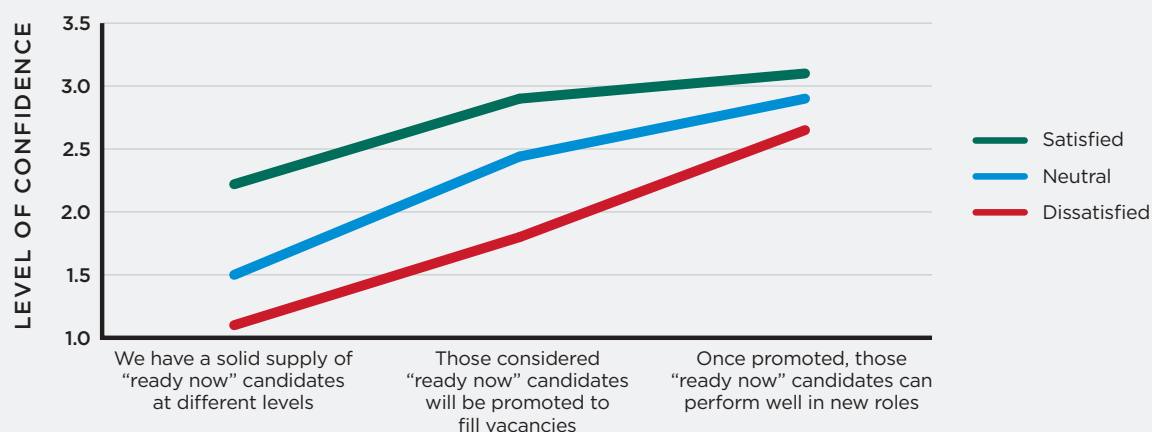
How do talent practices differ in organizations more and less satisfied with their succession management systems? We divided the companies into three groups, according to their level of satisfaction with their succession management systems and called these Satisfied, Neutral, and Not Satisfied. We considered where they perceived differences regarding their succession management practices and found that:

- Companies that are satisfied with their succession management systems are more confident in their capability to identify high potentials, assess readiness, and develop talent. They are better able to balance internal promotion and external hiring.
- Companies that are not satisfied with their succession management systems are much less confident in their talent practices (Figure 4). They are also less confident that candidates considered “ready now” will be promoted to fill vacancies, whereas those that are more satisfied are more confident in their internal promotions.

Figure 4

Companies are the least confident that they have a solid supply of “ready now” candidates at different levels. Better succession management systems can improve decisions on internal promotions.

How confident are you in the company’s system of talent management practice when it comes to:



All types of companies underestimate the importance of traits and drivers.

Most companies are fairly confident that “ready now” candidates can perform well in their new roles once promoted. It is worthwhile to look into what key factors are considered in promotion decisions; moreover, when a promotion is considered failed, what might contribute to the failure? We applied Korn Ferry’s Four Dimensions of Leadership framework (see page 10) to understand how promotion decisions are made.

The traditional wisdom in promotion decisions is to primarily consider competencies and experiences. Our survey results showed that most companies do not dedicate sufficient attention to traits and motivations, also called drivers (Figure 5). Traits was considered the least important dimension. A recent study on the relation between traits and drivers and engagement found that leaders who experienced a high fit between

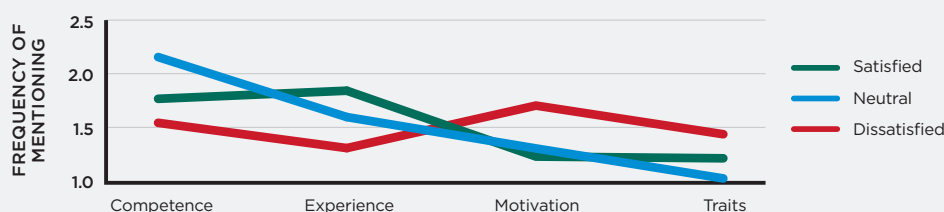
their traits and drivers and their roles saw engagement levels 150% higher than those with average fit and 12 times higher than those with poor fit (Lewis and Jones, 2016). Traits and drivers are important leadership dimensions that should not be ignored (e.g., Goleman, 2000; Sternberg et al., 1995; Lombardo & Eichinger, 2000a).

Lacking needed traits and experiences was consistently identified as the factor that leads to failures, regardless of whether the companies reported being satisfied with their succession management (Figure 6). Of course, competencies are still important and should be considered as a fundamental requirement. It is also frequently mentioned as a contributing factor to failed promotion by those companies less satisfied with their succession management.

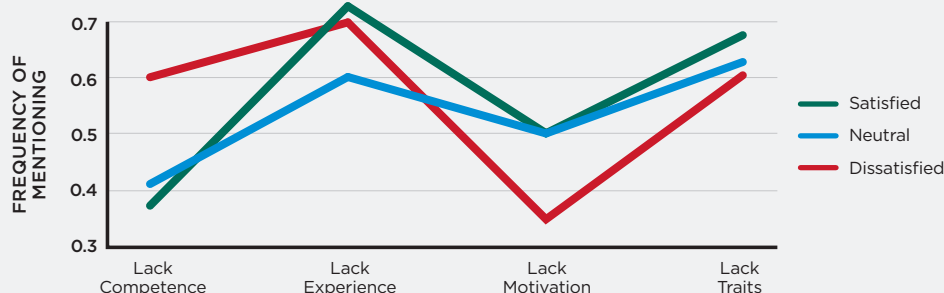
Figures 5 and 6

Companies should devote more attention to all four dimensions of leadership: competencies, experiences, drivers, and traits.

Which of the following do you consider to be the most significant qualities during promotion decisions at your company?



When promotion fails, in which of the following areas do you tend to see the biggest gaps in executives who are not “ready now” to fill open leadership positions?



Succession matters: building a holistic succession management system.

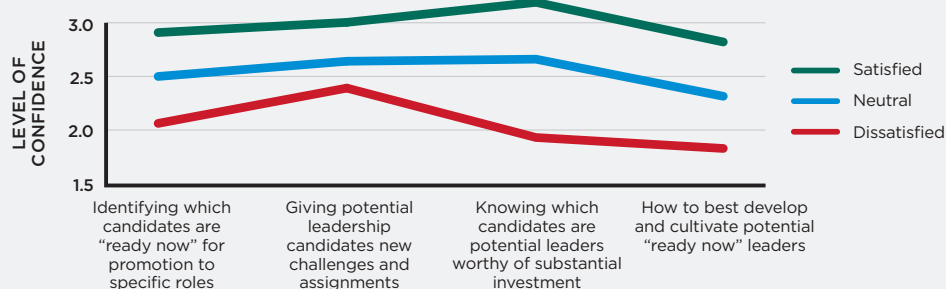
Our important conclusion based on our survey of Chinese companies is that succession matters. Creating a good succession management system is important, as it can ensure a sufficient talent supply at each level, make more convincing talent decisions based on available data, reduce the likelihood to make promotions mistakes, and ultimately keep a better balance between promoting from within and hiring from outside. The next question is how we can build a highly effective succession management system and what assistance companies are looking for from outside.

Our analysis showed that China-based companies that are satisfied with their succession management are more likely to know which candidates are potential leaders worthy of substantial investment, which candidates are “ready now” for promotion to specific roles, how to give potential leadership candidates new challenges and assignments, and how to best develop and cultivate potential “ready now” leaders (Figure 7).

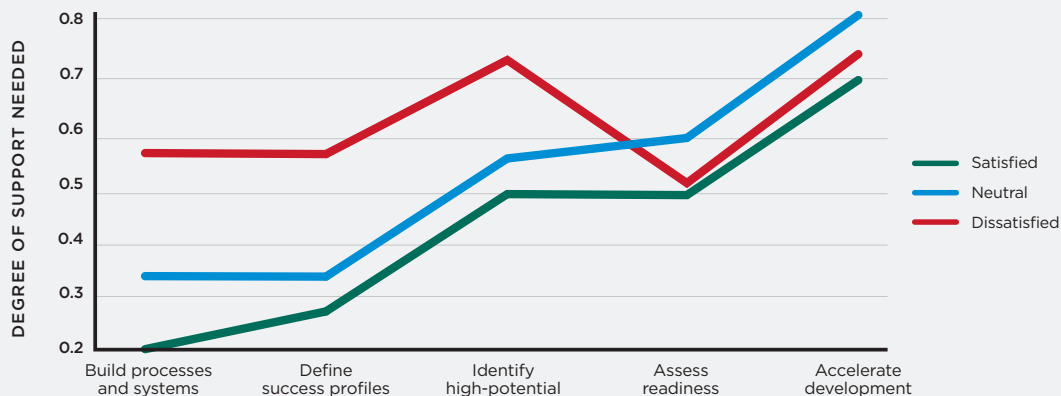
Figures 7 and 8

Being satisfied with the overall succession management system is related to being confident in identifying, developing, and investing in “ready now” candidates. Accelerating development is something for which almost every company reports needing help from the outside.

Please indicate how strongly you agree or disagree with the following: “I have confidence in my company’s system of talent management practices when it comes to...”



Where do you need the most help if you want to further improve the effectiveness of your company’s succession management practice?



Conclusion

Based on the 94 companies surveyed in China, we came to a similar set of conclusions as the global (2014) survey: Only one-third of companies are satisfied with their current succession management. The reasons for dissatisfaction in China include lacking depth and bench strength and overly relying on external hires, the same reasons mentioned in the worldwide survey. We identified a unique key driving factor behind succession management in China: talent retention. Succession management can help to mitigate the risk due to turnover while serving as a retention tool.

We found that companies that are satisfied with their succession management are more confident in their ability to make the right talent decisions, can ensure a more sustainable talent supply through reducing talent loss, and enjoy a better balance between promoting from within and hiring from outside.

The survey has highlighted the importance of using a holistic framework, like the KF4D, in talent decisions. China-based companies (and especially non-MNCs, which are less satisfied with their current succession management) should consider adopting a more systematic approach to assess, identify, develop, and promote talent, which is core to any succession management system.

Based on the survey findings, we have some advice for China-based companies:

- Building a succession management system is a strategic initiative that must go “deep” and be sustained over the long term to be effective. Research suggests that enterprise leaders tend to focus on the here and now, making it difficult to invest in succession persistently (Lombardo & Eichinger, 2000b). Therefore, a mind-set change is needed to build a sustainable system for the purpose of succession. Whereas it is common practice for any company to fill in urgent vacancies quickly by hiring talent from the outside, organizations must recognize that succession is for the future, and it takes a long time and a lot of persistence from senior leadership teams to make succession management work.
- Traits deserve more attention in succession management practices. Few companies take a holistic approach to their internal promotion decisions, despite research showing that traits are a critical factor in making a promotion a success. Traits are important because they drive organizational climate, which in turn affects leadership effectiveness. Moreover, traits also define a leader’s potential to develop competencies at a higher level. Therefore, any succession management system should take a whole-person perspective.
- We recommend defining potential scientifically and to adopt the most effective tools to assess potential. Potential is an important concept, but people often confuse it with performance (Corporate Leadership Council, 2005). Performance is easier to define in an organization, but people may define potential differently, which makes it difficult to discuss succession issues internally. Organizations are encouraged to look for external assistance to define and assess potential.

Take a holistic approach

Performance, engagement, and culture are all driven by a deep understanding of people. The Korn Ferry Four Dimensions of Leadership and Talent provides a complete picture of the individual qualities that drive performance and engagement, and forms the basis for all our solutions.

Competencies

Skills and behaviors required for success that can be observed.

FOR EXAMPLE:

Decision quality, strategic mindset, global perspective, and business insight.

Experiences

Assignments or roles that prepare a person for future roles.

FOR EXAMPLE:

Functional experiences, international assignments, turnarounds, and fix-its.

Traits

Inclinations and natural tendencies a person leans toward, including personality traits.

FOR EXAMPLE:

Assertiveness, risk taking, and confidence.

Drivers

Values and interests that influence a person’s career path, motivation, and engagement.

FOR EXAMPLE:

Power, status, autonomy, and challenge.

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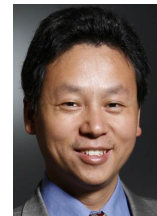
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The Korn Ferry Institute, our research and analytics arm, was established to share intelligence and expert points of view on talent and leadership. Through studies, books, and a quarterly magazine, *Briefings*, we aim to increase understanding of how strategic talent decisions contribute to competitive advantage, growth, and success. Visit kornferryinstitute.com for more information.