SUCCESSION PLANNING AMONG COMMERCIAL BANKS IN KENYA

BY

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DECLARATION

This research project is my original work and has not been presented for a degree program in any university.

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This project has been submitted for examination with my approval as a university supervisor.

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I say Asante Sana and God Bless you all.
DEDICATION

It is with great pleasure that I dedicate this study to my family for their absolute support, inspiration, love and belief in me.
ABSTRACT

Succession planning is a crucial activity for any organization that aspires to withstand the test of time. Employees are the most important asset for any organizations thus the need to retain them. However it is inevitable to stop an employee from exiting the organization hence the need to find a suitable successor that will fill the vacancy when it opens up. Succession planning ensures that an organization has the right people at the right time for the right jobs. The aim of this study is to determine the nature of succession planning in commercial banks in Kenya. The banking industry is a volatile industry with cut throat competition for best talents and brains so as to gain competitive advantages. This study plans to determine whether succession in commercial banks are planned in advance and prepared for or whether succession is emergent and only happens when a vacancy occurs. Furthermore, the study aimed at establishing the factors that influence succession planning in these banks. Through a descriptive survey, a questionnaire was developed and sent to all the 43 commercial banks in Kenya for their respective employees to respond. The study showed that succession planning in majority of the commercial banks in Kenya is a one off event that takes place when a CEO is about to exit the organization. Once a successor has been identified, the succession planning processes come to a stop. Lack of continuous succession planning by commercial banks in Kenya has made it impossible for majority of the banks to name a suitable successor within a year. It is therefore imperative for commercial banks in Kenya to take succession planning seriously and make it a continuous process that will ensure a pool of talent is available at any particular time for selection whenever a vacancy opens up. In terms of factors that influence succession planning, it was found that Board of directors are the most influential in CEO succession process. Government regulations were also rated highly with respondents stating age and health of the CEO as other factors that influence succession planning in their banks.
# TABLE OF CONTENTS

DECLARATION ........................................................................................................................................... II

ACKNOWLEDGEMENT ............................................................................................................................... III

DEDICATION ............................................................................................................................................... III

ABSTRACT ................................................................................................................................................ V

LIST OF TABLES ......................................................................................................................................... IX

CHAPTER ONE: INTRODUCTION ............................................................................................................. 1

1.1 Background of the study ...................................................................................................................... 1

1.1.1 Succession Planning ......................................................................................................................... 3

1.1.2 Banking Industry in Kenya .............................................................................................................. 4

1.2 Research problem ............................................................................................................................... 7

1.3 Research objectives ............................................................................................................................. 8

1.4 Value of the study ............................................................................................................................... 8

CHAPTER TWO: LITERATURE REVIEW .................................................................................................. 10

2.1 Introduction ......................................................................................................................................... 10

2.2 Theoretical Review ............................................................................................................................... 10

2.3 Succession Planning ............................................................................................................................. 11

2.3.1 CEO Succession ............................................................................................................................... 13

2.4 Factors Influencing Succession Planning ........................................................................................... 14

2.5 Empirical Studies on Succession Planning ........................................................................................ 15
2.6 Summary of Literature Review .................................................................................................................. 17

CHAPTER THREE: RESEARCH METHODOLOGY ......................................................................................... 18

3.1 Introduction .............................................................................................................................................. 18
3.2 Research Design ..................................................................................................................................... 18
3.3 Population ............................................................................................................................................... 18
3.4 Data Collection ...................................................................................................................................... 19
3.5 Data Analysis .......................................................................................................................................... 19

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSIONS ................................................. 20

4.1 Introduction .............................................................................................................................................. 20
4.2 Respondents Profile ................................................................................................................................. 20
4.3 Nature of Succession Planning in Banks. ............................................................................................... 21
  4.3.1 CEO Search and replacement ............................................................................................................. 21
  4.3.2 Succession planning process .............................................................................................................. 22
  4.3.3 Internal candidates .............................................................................................................................. 22
  4.3.4 External candidates ........................................................................................................................... 30
4.4 Factors influencing CEO Succession. ..................................................................................................... 32
4.5 Rating of Succession Planning .............................................................................................................. 34
4.6 CEO Succession Versus Performance .................................................................................................... 35
4.7 Discussions of findings ............................................................................................................................ 36

CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS .......................... 39
5.1 Introduction ........................................................................................................................................... 39
5.2 Summary of the Findings ......................................................................................................................... 39
5.3 Conclusion ............................................................................................................................................ 41
5.4 Recommendations ................................................................................................................................. 41
5.5 Limitations of the Study ......................................................................................................................... 42
5.6 Suggestions for Further Work ............................................................................................................... 43

REFERENCES ............................................................................................................................................. 44

APPENDICIES ............................................................................................................................................ 48

Appendix I: Introduction Letter .................................................................................................................. 48
Appendix II: Questionnaire .......................................................................................................................... 49
Appendix III – List of Commercial Banks and Mortgage Finance Companies ........................................... 56
LIST OF TABLES

Table 1: Number of Respondents ................................................................. 21
Table 2: CEO Replacement ................................................................. 22
Table 3: Start of Succession planning .................................................... 23
Table 4: Participants in Succession planning ......................................... 24
Table 5: Quality of succession planning document ................................. 25
Table 6: Developers of succession planning document ............................ 26
Table 7: Skills and experience of new CEO ............................................ 26
Table 8: Skills & Experience consider future of organization .................. 27
Table 9: Selection of internal candidates ............................................... 28
Table 10: Viability of naming a candidate in 12 months ............................ 28
Table 11: Levels of consideration down the organizational hierarchy ....... 29
Table 12: Methods of grooming ............................................................ 30
Table 13: External candidates search process ....................................... 31
Table 14: Preference between internal and external candidates ............... 32
Table 15: Factors influencing CEO succession ....................................... 33
Table 16: Rating succession planning ................................................... 34
Table 17: Performance of banks during exit and entry of CEOs .............. 35
CHAPTER ONE: INTRODUCTION

1.1 Background of the study

According to Drucker (1993) the future of management is a concern to most people simply because people will not be able to tolerate as a country, as a society, as a government, the danger that any one of the major companies will decline or collapse because it has not made adequate provisions for management succession. People are the most important asset is a common phrase in the corporate environment. Every organization cherish its employees especially its think tanks. It is generally agreed that the biggest contributors to organizational success and performance are the employees. However, organizations don’t permanently own employees hence they are free to leave at any given time. Having a workforce (i.e., human capital) alone is not sufficient for a firm to earn a competitive advantage. Rather a firm must utilize the workforce as a strategic resource to sustain a competitive advantage (Kutcher, Jones and Widener, 2009). Penrose (1959) considered managerial talent to be the most crucial component in her characterization of a firm as a collection of resources. Although physical resources are important, the services that resources will yield depend on the capacities of the men using them (Deol, 2009). Succession planning needs to be focused on senior management positions, starting at the top of the organization (with particular attention paid to CEO and/or managing director) and going at least six or seven levels down, so as to include middle management positions (Bleakley, 2006). It is doing all you can to ensure you have the right people in the right jobs at the right time (Hills, 2009).
Succession planning is an activity that most companies would be quick to say is in place. Unfortunately, it is widely known that succession planning efforts are all too often woefully underdeveloped, unevenly executed, and sometimes simply ignored (Miles & Dysart, 2007). CEO succession planning is a fundamental element of enterprise risk (Dalton & Dalton).

Organization and strategy scholars studying CEO succession have often dichotomized CEO successors into insiders and outsiders (Shen & Cannella, 2002). An insider is an individual who is currently employed by the organization and thus promoted into a position of ultimate authority while an outsider is an individual who has not had any direct executive experience with the organization (Santora, Clemens & Sarros, 1997).

Kenya’s banking sector faced major crises in the 1980s and 1990s, due to undercapitalization, high levels of non-performing loans and weaknesses in corporate governance (Beck et al., 2010). However, according to Beck et al. (2010), the sector has made significant improvements in financial stability since the year 2000. Despite the fight to retain the stability of the sector, global issues such as the global economic meltdown have had a direct bearing on the performance of the sector. Following The global economic meltdown, customers’ attitudes towards savings levels, lending and other services being offered by banks were on the decline. For some, the crisis was the precursor to redundancy, reductions in earnings, loss of interest on savings, inability to raise a mortgage and/or other distressful events (Bennett & Kottasz, 2011). Human capital has become the most sought after resource for market share growth in the Kenyan banking sector, where business ideas are being copied with speed. This has prompted changes in the executive team of most of the commercial banks in Kenya with many opting to hire Kenyans in the Diaspora (Ciuri, 2013).
1.1.1 Succession Planning

Succession planning has the potential to be one of the major business issues of the coming decade. The demographic reality is that organizations will have a shrinking pool of labor from which to draw on, which will impact operations at all levels, from the receptionist to the CEO. It is this reality that has pushed succession planning – an important issue in normal times to the forefront (Brent, 2013).

Different authors have defined succession planning in various ways. Couch (2013) defines succession planning as a deliberate and systematic effort to identify leadership requirements, identify pools of high-potential candidates at all levels, accelerate the development of mission-critical leadership competencies in the candidates through intentional development, select leaders from the candidate pools for pivotal roles and then, regularly measure progress. According to Hills (2009), Succession planning is about more than filling the top spots. It is a smart talent management strategy that can drive retention of talent throughout the organization and make sure that the organization has the skills it needs in place, or on hand, to respond to the rapidly shifting sands that make up today’s business environment.

In 1997, consultants at McKinsey & Company released the now famous book, The War for Talent. In it they argued that during both good and bad economic times talent is critical to the success of an organization. Through extensive research involving hundreds of companies and thousands of executives, they concluded that companies that do a better job of attracting, developing, and retaining highly talented managers had higher returns for shareholders. If a war for talent existed in the 1990s, the situation can only become more competitive as the labor market stops growing and ages (Brent, 2013).
For an effective succession planning to take effect there need be full support from the top management. One of the biggest challenges of succession planning is the unwillingness of top managers to train the junior staff. This is because; those trained pose a threat to the very existence of the senior management. Also, the general staff must support the efforts and the activities of succession planning. Staff who are unwilling to be trained to take up new and superior tasks may jeopardize the efforts and spirit of succession planning in the organization. Some of the other factors that may influence succession planning are; measuring the performance, determining the performance which is needed for the future, assessing the potential, establishing a way to narrow the gaps, following up, documenting competence, making and maintaining rewards for developing people, evaluating results and leading from the front. Mehrabani and Mohamad, (2011) studied on factors that influence the implementation of the succession planning system in Iran’s private Banks, the following factors were found paramount in descending order; training, management support, clarifying the career path, creating positive vision, strong organizational culture, technology advancement, flat structure and financial conditions.

1.1.2 Banking Industry in Kenya

The Banking industry in Kenya is governed by the Companies Act, the Banking Act, the Central Bank of Kenya Act of 1966 and the various prudential guidelines issued by the Central Bank of Kenya (CBK). The central bank of Kenya act is an act of parliament that established the Central bank of Kenya. The establishment of the Bank was a direct result of the desire among the three East African states to have independent monetary and financial policies.
This led to the collapse of the East Africa Currency Board (EACB) in mid 1960s. Following the promulgation of the new constitution on August 27th, 2010, the Central Bank of Kenya (CBK) is now established under Article 231 of the Constitution, 2010 (CBK, 2013).

Under this Article the Central Bank has the responsibility of formulating monetary policy, promoting price stability, issuing currency and performing any other functions conferred on it by an Act of Parliament. The central bank of Kenya is an independent entity and it shall not be under the direction or control of any person or authority in the exercise of its powers or performance of its functions as per the constitution of Kenya. The banking Act of Kenya is also vital in the operations of the CBK. The banking Act of Kenya is an act of Parliament that regulates the business of banking and for matters incidental thereto and matters connected therewith (Banking Act of Kenya, 2010). The companies Act of Kenya is an act of parliament used to amend and consolidate the law relating to the incorporation, regulation and winding up of companies and other associations, and to make provision for other matters relating thereto and connected therewith (Companies Act, 2010).

Kenya’s financial sector has faced various challenges over the years. The sector faced major crises in the 1980s and 1990s, due to undercapitalization, high levels of non-performing loans and weaknesses in corporate governance. The crisis culminated in 1992, when according to Honohan and Laeven (2005) - Kenya suffered formally a systemic banking crisis. From time to time, the sector faces global and domestic shocks that are occasioned by increase in global fuel prices and constrained food supply. As a result of these global and domestic shocks, the Kenyan shilling weakens significantly against the major currencies thus rising inflation rates. The rising inflation rate is also a major challenge for the sector since it inhibits the lending and borrowing
by the banks. In the year 2011, the overall inflation rate rose from 4.5% to 18.9% as at end year 31\textsuperscript{st} December (Trans national Bank, 2011).

By African standards and in comparison with other East African economies, Kenya’s banking sector has for many years been credited for its size and diversification. This is due to the improvement of quality of lending, variety of financial institutions and markets that provide an array of products and services and an ever improving GDP of the country.

The government of Kenya has been widely credited for the stability of the banking sector. In the Economic Recovery Strategy (ERS) that the government published in 2003, it acknowledged the difficulties the sector is experiencing which in the long run it will affect the achievements of the objectives as stipulated in the ERS.

The government has also echoed the importance of the stability and performance of the financial sector in its Vision 2030. The main objectives that were articulated in Vision 2030 for the financial sector were to improve stability, enhance efficiency in the delivery of credit and other financial services, and lastly to improve access to financial services and products for a much larger number of Kenyan households (Beck et al., 2010).

Currently there are 42 licensed commercial banks and 1 mortgage finance company. Out of the 43 institutions, 31 are locally owned and 13 are foreign owned. The locally owned financial institutions comprise 3 banks with significant shareholding by the Government and State Corporations, 27 commercial banks and 1 mortgage finance institution (CBK, 2013). Recently, the CBK licensed two sharia compliant Islamic banks to offer interest free products and services to the citizens of Kenya based on Islamic faith and teachings.
1.2 Research problem

Succession planning is attributed to the selection of talented employees to replace senior managers who leave the firm because of retirement, reassignment or other reasons (Huang, 2001). CEO turnover rates have risen over the years. In the 12th Annual Global CEO Succession Study, Favaro, Karlsson and Neilson (2011) noted that in 2011, 14.2 percent of CEOs at the world’s top 2,500 companies were replaced. This number was sharply higher than the previous year’s turnover rate of 11.6 percent. CEO development is becoming an increasingly critical and strategic imperative for organizations in the current business environment. Recent historical events and emerging trends emphasize the need to invest in the active development of leaders. Despite the fact that executives are increasingly expressing the need to focus on such initiatives, few are actively growing organizational leaders as part of their business strategy (Leskiw and Singh, 2007).

The banking industry in Kenya is no different from other industries as the war for talent increase day by day. Human capital has become the most sought after resource for market share growth in the local banking industry where business ideas are being copied (Ciuri, 2013). At least five banks have hired new Chief Executives while others have injected new fresh blood in their top tier management positions, as banks seek fresh brains and strategies to drive growth in a very competitive and fast changing environment. In the wake of succession, most of the banks have opted to look for successors externally within Kenya and the Diaspora.

Much has been researched on succession planning in different organizations and industries. Maalu (2010) researched on the succession strategy and performance of small and medium family businesses in Nairobi, Kenya. His research aimed at determining the nature of business succession strategies, the factors that influence succession and relationship between succession 
and firm performance among the family owned SMEs in Nairobi. Mwiti (2010) looked into the succession planning process at Josra coffee company and determined the factors that influence the succession process in the firm. In his findings, Mwiti (2010) acknowledged the availability of succession plan at Josra coffee company although not formal and that predecessors are reluctant to delegate powers easily. Chepkwony (2012), examined talent management practices and the extent to which talent management is linked to succession planning and business strategy among banks that operate in Kenya. He noted that most banks adopted talent management programs that tap talent from universities. Banks have also adopted different strategies to retain their talents such as hefty remuneration packages.

This research therefore seeks to answer the following questions; what is the nature of succession planning among commercial banks in Kenya? What are the factors that influence succession planning?

1.3 Research objectives

i. To determine the nature of succession planning in commercial banks in Kenya.

ii. To determine the factors that influence succession planning in the banking industry.

1.4 Value of the study

This research is intended to benefit different stakeholders in the banking industry. First and foremost, the research will establish whether the banking industry has succession plans and whether the plan is the key determinant of talent management in the industry. The study will also give an insight on the nature of succession planning among commercial banks in Kenya.
Furthermore, based on the research, it will be known whether CEO experience prior to new appointments in the same capacity is needed for an individual to be eligible for the appointment.

The research will be able to establish the factors that influence successful implementation of succession plans in the banking industry hence allowing the management of the banks understand the same. Employees will also have an insight of the factors that will allow them prosper within the organization to the highest ranks possible.
CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter looks into past writings pertaining to theories of succession planning, empirical evidence of succession planning and how various scholars have written about the topic being studied.

2.2 Theoretical Review

Succession plans have been mostly associated with the exit of executive personnel of organizations such as the CEO. A change in CEO can fundamentally alter the knowledge, skills, and interaction processes at the top of a company (Zhang & Rajagopalan, 2004). Eventually, this change will affect the general performance of the company. There are two main theories to succession plans; buying talent or building talent (Hills, 2009). Buying talent is more often associated with outside successions whilst building talent is associated with inside successions.

Buying of talent allows the organization to look for specific persons who have the necessary skill to fill the vacant position from other firms externally. Successors from outside tend to be seen as harbingers of, if not torchbearers for, changes in mission, strategy, and personnel while inside successors represent stability and continuity (Friedman & Singh, 1989). Although outside successors allow the organization to keep pace with changing market demands, acquire specialized skills and bring in new ideas and fresh perspectives (Hills, 2009); research has shown that they rarely succeed in their efforts to improve firm performance (Zhang & Rajagopalan, 2004). Historically, inside succession was more preferable than outside succession. However, in recent years it is quite the opposite – outside succession is more preferable than inside succession. Despite the preference in outsider CEO succession by organizations, their
performance has been lower than insider CEOs. In 2009-2011, outgoing insider CEOs delivered a 4.4 percent shareholder return above regional market index, compared to just a 0.5 percent higher return from outsider CEOs overall (Favaro et al., 2011). Without entrenched loyalties to internal political coalitions, outside successors have relatively broad latitude to start afresh in matters concerning resource allocation. As a result, organizations are more likely to choose outsiders when they have been performing poorly. Conversely, succession from within is more likely when pre-succession performance has been good (Zhang & Rajagopalan, 2004).

2.3 Succession Planning

Succession planning has been widely researched on and various scholars have defined it as per their understandings. Rothwell (2001) defines succession planning as a deliberate and systematic effort by an organization to ensure leadership continuity in key positions, retain and develop intellectual and knowledge capital for the future, and encourage individual advancement. Edwards (2008) sees Succession planning as a systematic approach to ensuring that an organization has a steady, reliable pipeline of talent that will meet its future needs in leadership and other linchpin roles. Huang (1999) defines succession planning as any type of formal rules or procedures in arranging for managerial succession.

Different people have different perception about succession planning. Some simply see it as planning who will be the next senior team. To others it’s about helping people cross-skill so there are well equipped pool of suitably experienced talent for internal recruitment. For some it is more of an organization-wide strategy that is focused on ensuring the organization is future-proofed – it will have the right skills in place to be able to grow and perform in a future that is
increasingly unpredictable. It is all these things – but to simplify, it is doing all you can to ensure you have the right people in the right jobs at the right time (Hills, 2009).

There are three types of succession planning (Ibara, 2004). The first type of succession planning is replacement planning, which is a reactive approach to staffing that involves identifying replacements for key positions, usually at the senior levels of the organization. The second type is referred to as developmental succession planning which provides for development of individuals to meet the challenges of future organizational change by grooming them for advancement possibilities and for exercising increasing technical proficiency and lastly talent pool planning which identifies possible internal replacements for critical positions and provides for developing groups of people to meet that challenge of future organizational change.

Organizations have two options in their quest for succession planning. One option is to wait until a vacancy occurs and then quickly put in place a selection process to seek out the best available person. A second, more proactive option is the development of a succession management plan designed to ensure that people are well prepared to fill a vacancy when one occurs (Canavan, 2001). However, most organizations go for the former option as most organizations have either no succession plans or their plans are not meaningful. Dalton (2007) notes that in a survey conducted by the National Association of Corporate Directors (NACD), it was reported that nearly half of the companies with revenues greater than $550 million have no meaningful CEO succession plan in place.
2.3.1 CEO Succession

A vexing issue for those tasked with managing CEO succession is the escalation in CEO turnover rates (Dalton & Dalton, 2007). Recession, disruptive market forces, emerging market are some of the factors that have contributed to high CEO turnovers. In a survey conducted by Booz & Co. it was noted that CEO turnover rate was highest among the top 250 companies by market capitalization, highest in the energy, telecom, and utilities sectors by 19, 18, and 16 percent, respectively and that the number of companies among the top 2,500 based in BRIC and other emerging countries has more than doubled, rising from 10 percent in 2006 to 25 percent in 2011 (Favaro et al., 2011).

CEO prior experience has also played a major role in succession plan. Elsaid et al. (2011) acknowledges that between 2007 and 2009, almost 20 percent of the newly appointed CEOs had CEO experience at another corporation, compared to fewer than 5 percent between 1995 and 2002. This increase in demand for hiring experienced CEOs is due to the increasing unwillingness of companies to take risk of hiring individuals who had no previous job specific experience on the post. An experienced CEO will only have to accustom himself to the organizational culture while a non-experience will have to accustom himself to both the organization and the position of CEO.

CEO succession planning is a fundamental element of enterprise risk. If the goal of executives is advancement, then the CEO position would be highly coveted. Boards must have succession processes in place for the routine and the unplanned emergency.
Good succession planning is not just looking at who is next in line for a slot, but looking at people early in their careers and determining what kind of training they need to become leaders (Avanesh, 2011).

2.4 Factors Influencing Succession Planning

Succession planning is a vital process that organizations cannot afford to ignore. Organizations lose workforce all the time. The workforce might be replaced in a short time, but what they are actually losing is a large quantity of company memory and essential skills (Mehrabani & Mohamad, 2011). There are many factors which influence succession planning to be successful and effective, even though each organization will be quite unique in its specific features. Mehrabani & Mohamed (2011) came up with the following factors as part of their research findings: Training: Training plans help the employees to learn new skills and knowledge and therefore, give them new abilities. Trained people are more empowered. Therefore, they are available for any succession. Management Support: In order to implement a successful succession planning system, there is a need for a lot of support from the managers. Clarifying the career path is another factor where an organization clarifies the career path that would eventually help employees to better understand the career objectives and also help them towards a better implementation of succession planning. Another factor is creating a positive vision which will help create a positive insight towards succession planning programs thus removing fear in employees who thing succession planning is a threat to their positions in the organization. Having a strong organizational culture which provides values, beliefs, standards and paradigms for all employees also affect effective succession planning. Employees can consider these values, beliefs, standards and paradigms as a guideline for their everyday performance.
Therefore, if these values and standards support the succession planning system, employees would follow the system too. Technological advancements also impacts the way of preparing workforce for new jobs. In addition, technology advancement makes it easier for employees to find opportunities elsewhere. Flat structure is also a factor which influences succession planning since it allows better communication and easier knowledge sharing in the organizations, which are parameters that would greatly help in implementation of succession planning. Financial conditions of the organization also affect implementation of effective succession plans. For example, having enough budgets for human resources is one of the most important conditions for training people. Another factor discussed by Haveman, Russo & Meyer (2001) is the role of governmental regulations in the business environment. Regulations can alter technical and institutional features of organizational environments such as rising and lowering barriers of entry, set price controls or eliminate them that eventually impacts the profitability of an organization. If current executives are not able to pilot their organizations through these new regulations and competition, organizations have no option but to search for new talent.

2. 5 Empirical Studies on Succession Planning

Succession planning has been widely researched on by various management scholars. Various aspects of succession planning have been looked into ranging from succession planning in various types of industries e.g. IT, banking, energy industries; different types of organizations e.g. non-profit & profit organizations, family businesses, religious institutions etc.; insider versus Outsider CEO successions; planned versus Emergent Succession planning. This section of the literature review will look into various researches done pertaining to succession planning and the end results of the researches.
Various studies have been done on succession planning with regard to industries. Avanesh, (2011), measured the process of succession planning and its impact on organizational performance in Indian IT sector and made specific recommendations for improving the quality of succession planning and organizational performance. The study found that the overall mean percentage of Succession Planning Performance of IT Consultancy firms (72.4%) is found to be higher than that of IT Product/ Research firms (70.4%).

Organizational Performance of IT Consultancy firms (79.6%) are higher than that of the IT Product/ Research firms (76.7%). the relationship between Practice of Succession Planning and Organizational Performance was found to be positive in IT Consultancy Groups and IT Product/Research Groups.

Another study done by Helmich and Gilroy (2012) focused on CEO successions in State Owned Enterprises (SOEs). SOEs operate in a different environment from those discussed in most of the succession planning literatures. Their main focus was on the supply of executives in different managerial labor markets and on what the aspiring executive is looking for when considering or moving into the CEO position. The duos expectations for Chinese SOEs, is that the interaction between the intra-industry managerial labor market and the intra-firm managerial market will influence the CEO choice from inside or outside the firm. The study concluded that the likelihood of intra-firm succession in SOEs is significantly increased when the proportion of SOEs in the industry is low. Also, the likelihood of intra-firm succession is significantly increased when the performance of SOEs lags behind the industry average level.
Froelich, McKee and Rathge (2009), researched on succession planning in non-profit organizations. Their desire for such organizations was the lack of enough study that will cover these organizations yet management of such organizations can be more difficult due to shortage of experienced executives in the market, lower salaries and lack of organizational infrastructure which are less lucrative to younger generation. From the study, Froelich et al., (2009) found that non-profit organizations are doing little about succession planning yet they consider it important. Internal candidates are preferred in about half the organizations while about two-thirds report no viable internal candidate. Moreover, extent and level of effort in leadership development activities was not high. Finally, organizations rather strongly prefer their next chief executive to come from a similar type of organization.

2.6 Summary of Literature Review

Much has been written pertaining CEO Succession planning. Different aspects that have been researched on by different authors have been highlighted in this study. What is evident from these studies is that CEO Succession is not an ongoing process for most of the organizations and that those responsible for planning and developing succession plans are sleeping on their jobs. Organizations are faced with dilemma upon the sudden death, illness or even resignation over who will take the mantle from the leaving CEO. This scenario has been replicated in commercial banks in Kenya with some banks losing their CEO to their competitors or retirement.

Thus it is important to study the succession planning in these banks so as to establish if the banks have a documented succession plan or their succession plans are emergent upon the exit of the CEO.
CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter describes the methodology used to conduct the research. It elaborates on the research design used, the population in which the research was conducted in, data collection methods and how the collected data will be analyzed.

3.2 Research Design

Cross-sectional survey was used to elicit information pertaining to succession planning among commercial banks in Kenya. Cross-sectional survey is best used to gather information of a defined population at a particular point in time. Through descriptive survey, the researcher was able to determine the nature of succession plans in Kenyan commercial banks i.e. whether they are planned or emergent. Also, the researcher was able to determine the factors that influence succession planning in commercial banks in Kenya.

3.3 Population

The population of this study comprised of all commercial banks in Kenya. According to CBK (2013), there are 43 commercial banks that operate in Kenya. Questionnaires were sent to all the 43 commercial banks in Kenya in anticipation of responses from all the banks. However, 6 banks withdrew from the survey given that their organizational policies do not allow for external surveys. Therefore only 37 banks were expected to respond but only 25 banks came through with their responses giving a response rate of 67%.
3.4 Data Collection

To elicit information pertaining to the research topic, data was collected through primary source data techniques. A tailored questionnaire with structured questions was used in the research to collect data. Questionnaires are appropriate to gather information since the population is small and will also give the respondents a free hand in submitting their responses. Google drive, an online application was used to develop the questionnaire, send the questionnaire to the respondents, receive and analyze their responses. Those who responded to the questionnaire were senior most officials of the banks with 60% being Human resource managers, 4% being CEO and company secretary respectively. Other officials like Public relation managers etc. totaled 32% of the respondents.

The questionnaire was divided into the following parts: Part A: Profile; Part B: Succession Planning in the organization. Part C: How would you rate the following factors; Part D: CEO Succession vs. Performance.

3.5 Data Analysis

Data analysis allows the testing and examining of data that was collected from the respondents. Content analysis techniques were used to analyze the gathered data qualitatively. The collected data was tested and analyzed to determine its credibility, consistency and usefulness. The gathered data is analyzed, interpreted and presented as findings in graphs and frequency distribution tables for ease of interpretation by stakeholders. The use of other statistical techniques such as mean and percentages is paramount in submission and analysis of the data.
CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSIONS

4.1 Introduction

This chapter analyses and discusses the elicited data from respondents of the questionnaire. Questionnaires were disbursed to all the 43 commercial banks in Kenya. Out of the 43 commercial banks, 6 banks declined to respond, 12 banks neither declined to respond nor did they respond thus responses from only 25 banks were received. The 6 banks that declined to respond stated that their organizational policy doesn’t allow for any surveys to be done on their organization. This study thus had a response of 67% given only 25 commercial banks out of 37. This chapter analyses the data based on the objectives of this research thus is divided into two parts: Nature of succession planning in Commercial banks in Kenya and Factors that influence succession planning in commercial banks in Kenya. Data collected is therefore quantitatively analyzed and shall be summarized in percentages and presented in tables.

4.2 Respondents Profile

The respondents of this survey were mainly Human resource managers probably due to their involvement in the general succession planning of the organization. 60% of the respondents were human resource managers, while 4% of the respondents were the company secretary and the CEO. 32% of the respondents comprised of other personnel from the organizations.
<table>
<thead>
<tr>
<th>Position</th>
<th>Number of respondents</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chairman- BOD</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td>CEO/MD</td>
<td>1</td>
<td>4%</td>
</tr>
<tr>
<td>Company Secretary</td>
<td>1</td>
<td>4%</td>
</tr>
<tr>
<td>HR Manager</td>
<td>15</td>
<td>60%</td>
</tr>
<tr>
<td>Other</td>
<td>8</td>
<td>32%</td>
</tr>
</tbody>
</table>

Table 1: Number of Respondents

4.3 Nature of Succession Planning in Banks.

In this section, an array of questions will be analyzed to determine whether commercial banks in Kenya have succession plans and what is the nature of these plans. Succession planning can either be planned over a period of time or can be emergent based on the situations at hand and the need for succession.

4.3.1 CEO Search and replacement

It was observed from the data collected, 96% of the respondents stated that their organizations are not currently conducting a CEO search. Only 4% of the respondents stated that their organizations are conducting CEO search.
### Table 2: CEO Replacement

<table>
<thead>
<tr>
<th>Duration</th>
<th>No. of respondents</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>This year 2013</td>
<td>3</td>
<td>12%</td>
</tr>
<tr>
<td>1 year ago</td>
<td>2</td>
<td>8%</td>
</tr>
<tr>
<td>2 years ago</td>
<td>2</td>
<td>8%</td>
</tr>
<tr>
<td>More than 3 years ago</td>
<td>18</td>
<td>72%</td>
</tr>
</tbody>
</table>

It was also noted that most organizations have had the same CEO for more than three years with 72% of the respondents stating the last CEO was replaced more than 3 years ago. In equal measure, 8%, 1 year ago and 2 years ago respectively while 12% of the respondents saying their CEO was replaced this year, 2013. This rating means that CEO are usually given time over the years to implement their strategies and drive their organizations to the desired profitability and performance. A period of 3 years and above is enough to turn around the organization’s performance.

### 4.3.2 Succession planning process

This part established the start of CEO succession in commercial banks. It was noted that 44% of the banks start their succession planning process before the CEO announces his/her exit and the process is not an ongoing activity. 36% of respondents stated that succession planning starts after current CEO announces his/her exit while 20% stated that succession planning starts before the current CEO announces his/her exit and it’s an ongoing activity.
<table>
<thead>
<tr>
<th>Start of Process</th>
<th>No. of Respondents</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>After current CEO announces his/her exit</td>
<td>9</td>
<td>36%</td>
</tr>
<tr>
<td>Before current CEO announces his/her exit and it’s an ongoing activity</td>
<td>5</td>
<td>20%</td>
</tr>
<tr>
<td>Before current CEO announces his/her exit and it’s not an ongoing activity</td>
<td>11</td>
<td>44%</td>
</tr>
</tbody>
</table>

Table 3: Start of Succession Planning

As shown above, it is clear that succession planning in most of the commercial banks is emergent based on the situations at hand. They either plan before the exit of a CEO and the process stops after a candidate has been identified or the process begins after the CEO announces his exit. Organizations need to review their succession planning processes from time to time.

Participation in the succession planning process was also tested to determine those who participate in the succession planning. Boards of directors have been identified to be mostly participating in the process with 28% of respondents stating so. 21% of the respondents stated that the board chairman participates while 15% and 18% of respondents stated select board committee and CEO/MD respectively participate in the process. 4% of respondents stated that HR managers participate while 8% stated executive search firms also take part in the process. Other persons who also participate were rated by 4% of the respondents.
<table>
<thead>
<tr>
<th>Participants</th>
<th>No. of Respondents</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full BOD</td>
<td>21</td>
<td>28%</td>
</tr>
<tr>
<td>Board Chairman</td>
<td>16</td>
<td>21%</td>
</tr>
<tr>
<td>Select Board Committee</td>
<td>11</td>
<td>15%</td>
</tr>
<tr>
<td>CEO/MD</td>
<td>14</td>
<td>19%</td>
</tr>
<tr>
<td>HR manager</td>
<td>4</td>
<td>5%</td>
</tr>
<tr>
<td>Executive Search firm</td>
<td>6</td>
<td>8%</td>
</tr>
<tr>
<td>Other</td>
<td>3</td>
<td>4%</td>
</tr>
</tbody>
</table>

Table 4: Participants in Succession planning

With regard to oversight authority over succession planning, 40% of the respondents state that the board of directors is mandated to oversee the process. However, 36% say that a select board committee is established for the sole purpose of overseeing the process while 8% say that the board chairman has the sole mandate to do so. Only 4% of the respondents think that the HR manager, CEO, Executive search firm and other officials have the mandate to oversee succession planning.

For succession planning to be efficient it is imperative that a document is developed that lists down the skills, experience and the suitable profiles that are pre-requisite for anyone to be considered for the CEO position. 44% of the respondents have stated that their banks have moderately well written documents while 28% have a very well written document. 20% of the respondents have an extremely well written document with only 8% of the respondents stating their succession planning document is slightly well written.
It is evident that despite the difference in the quality of the succession planning documents, most banks have a document that guides them in the process.

<table>
<thead>
<tr>
<th>Description</th>
<th>No. of respondents</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Poorly written</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td>Slightly well written</td>
<td>2</td>
<td>8%</td>
</tr>
<tr>
<td>Moderately well written</td>
<td>11</td>
<td>44%</td>
</tr>
<tr>
<td>Very well written</td>
<td>7</td>
<td>28%</td>
</tr>
<tr>
<td>Extremely well written</td>
<td>5</td>
<td>20%</td>
</tr>
</tbody>
</table>

Table 5: Quality of succession planning document

The development of the succession planning document was also studied with 36% of the respondents stating that a board committee is selected to develop the document. While 28% of the respondents stated that board of directors are the ones mandated to develop the document, 8% of the respondents said the CEO, board chairman, Human resource manager and executive search firm are tasked to develop the document. Only 4% of the respondents stated that other persons have the mandate to develop the document.
Skills and experience of the current and future CEO are also looked into to determine whether there are any differences. It has been noted by 28% of respondents that there are no difference between the skills and experience of the current CEO and the next while 36% say the difference is moderate. Also, 24% of the respondents noted that the difference is slight while 8% and 4% of the respondents stated that there is very much difference and extremely difference respectively.

Table 6: Developers of succession planning documents

<table>
<thead>
<tr>
<th>Description</th>
<th>No. of respondents</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full BOD</td>
<td>7</td>
<td>28%</td>
</tr>
<tr>
<td>Board Chairman</td>
<td>2</td>
<td>8%</td>
</tr>
<tr>
<td>CEO/MD</td>
<td>2</td>
<td>8%</td>
</tr>
<tr>
<td>HR Manager</td>
<td>2</td>
<td>8%</td>
</tr>
<tr>
<td>Select Board Committee</td>
<td>9</td>
<td>36%</td>
</tr>
<tr>
<td>Executive search firm</td>
<td>2</td>
<td>8%</td>
</tr>
<tr>
<td>Other</td>
<td>1</td>
<td>4%</td>
</tr>
</tbody>
</table>

Table 7: Skills and Experience of CEO

<table>
<thead>
<tr>
<th>Description</th>
<th>No. of respondents</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Extremely different</td>
<td>1</td>
<td>4%</td>
</tr>
<tr>
<td>Very different</td>
<td>2</td>
<td>8%</td>
</tr>
<tr>
<td>Moderately different</td>
<td>9</td>
<td>36%</td>
</tr>
<tr>
<td>Slightly different</td>
<td>6</td>
<td>24%</td>
</tr>
<tr>
<td>Not at all different</td>
<td>7</td>
<td>28%</td>
</tr>
</tbody>
</table>
From the above responses, it clearly shows that there are no much changes in the skills and experiences which may be as a result of lack of planning to know what is needed off the new CEO.

In terms of how much the skills and experience take into consideration the future needs of the organization, 44% of the respondents noted that the skills took a lot of consideration while 40% of the respondents stated a great deal of future needs have been considered. While 4% of the respondents think the skills and experience needed have a little consideration on the future needs, 12% think the skills and experience have taken a moderate amount of consideration about the future needs of their respective banks.

<table>
<thead>
<tr>
<th>Description</th>
<th>No. of Respondents</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Great Amount</td>
<td>0</td>
<td>40%</td>
</tr>
<tr>
<td>A lot of consideration</td>
<td>1</td>
<td>44%</td>
</tr>
<tr>
<td>Moderate Amount</td>
<td>3</td>
<td>12%</td>
</tr>
<tr>
<td>Little consideration</td>
<td>11</td>
<td>4%</td>
</tr>
<tr>
<td>No consideration at all</td>
<td>10</td>
<td>0%</td>
</tr>
</tbody>
</table>

Table 8: Skills and experience considers the future of the organization

4.3.3 Internal Candidates

This part looks into the preference of the organization about internal candidates who are suitable successors. The study has shown that 48% of the organizations always consider internal candidates in their succession plan. Frequently, 32% of the organizations consider internal candidates while 12% of the respondents often consider internal candidates as suitable
successors. 4% of the respondents equally stated that internal candidates are never or occasionally considered respectively.

<table>
<thead>
<tr>
<th>Description</th>
<th>No. of Respondents</th>
<th>percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not at all</td>
<td>1</td>
<td>4%</td>
</tr>
<tr>
<td>Hardly</td>
<td>1</td>
<td>4%</td>
</tr>
<tr>
<td>Occasionally</td>
<td>3</td>
<td>12%</td>
</tr>
<tr>
<td>often</td>
<td>8</td>
<td>32%</td>
</tr>
<tr>
<td>Always</td>
<td>12</td>
<td>48%</td>
</tr>
</tbody>
</table>

Table 9: Selection of internal Candidates

Although internal candidates are considered for succession, 48% of respondents say it’s moderately viable to name an internal successor within 12 months. While 16% of the respondents say it’s not at all viable another 16% of respondents say it is very viable to name an internal successor within 12 months in their organization. 12% of the remaining respondents say it is slightly viable to name a successor with 8% stating it’s extremely viable to name a successor within 12 months.

<table>
<thead>
<tr>
<th>Description</th>
<th>No. of Respondents</th>
<th>percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not viable at all</td>
<td>4</td>
<td>16%</td>
</tr>
<tr>
<td>Slightly Viable</td>
<td>3</td>
<td>12%</td>
</tr>
<tr>
<td>Moderately viable</td>
<td>12</td>
<td>48%</td>
</tr>
<tr>
<td>Very viable</td>
<td>4</td>
<td>16%</td>
</tr>
<tr>
<td>Extremely viable</td>
<td>2</td>
<td>8%</td>
</tr>
</tbody>
</table>

Table 10: Viability to name a candidate in 12 months
From the table above, majority of the respondents say it is neither hard nor easy to name a successor in 12 months’ time. It is expected of any organization to be able to identify and name a suitable successor within a short period. However, since most organizations have no succession plans they eventually cannot identify a suitable candidate immediately hence the need for more time to search for one.

Commercial banks in Kenya need to identify suitable candidates to succeed the CEO from its senior management staff. When respondents were asked how deep down the organizational hierarchy are internal candidates considered for succession planning, 56% responded 1 level below the CEO, 32% responded 2 levels below CEO and 12% stated 3 levels below CEO.

<table>
<thead>
<tr>
<th>Description</th>
<th>No. of Respondents</th>
<th>percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 level below CEO</td>
<td>14</td>
<td>56%</td>
</tr>
<tr>
<td>2 levels below CEO</td>
<td>8</td>
<td>32%</td>
</tr>
<tr>
<td>3 levels below CEO</td>
<td>3</td>
<td>12%</td>
</tr>
<tr>
<td>More than 3 levels below CEO</td>
<td>0</td>
<td>0%</td>
</tr>
</tbody>
</table>

Table 11: Levels of consideration down the organizational hierarchy

From the above results, it seems that most commercial banks search for a suitable successor just a level below the CEO. This is not enough to guarantee a suitable, capable candidate is selected since the range is small. In order to have a bigger pool of candidates where the banks can select from, the levels of consideration should be lowered at least 2 levels down. This will ensure there’s competition amongst the candidates and eventually the best of them all will be selected.
In order for commercial banks to have a pool of suitable candidates, they must identify the individuals for grooming purposes so that they can be ready for the selection when an opportunity arises. It has been noted from the study that 64% of the commercial banks are currently not grooming any of its employees while 36% are currently grooming someone to take over from the CEO. Some of the methods used to groom the suitable candidates are periodic training and job rotations at 29% each, developmental assignments at 19%, mentoring at 16%, structured socialization was rated at 7% while other methods were rated at 1%.

<table>
<thead>
<tr>
<th>Description</th>
<th>No. of Respondents</th>
<th>percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Periodic Training</td>
<td>20</td>
<td>29%</td>
</tr>
<tr>
<td>Job Rotations</td>
<td>20</td>
<td>29%</td>
</tr>
<tr>
<td>Developmental Assignments</td>
<td>13</td>
<td>19%</td>
</tr>
<tr>
<td>Mentoring</td>
<td>11</td>
<td>16%</td>
</tr>
<tr>
<td>Structured Socialization</td>
<td>5</td>
<td>7%</td>
</tr>
<tr>
<td>Others</td>
<td>1</td>
<td>1%</td>
</tr>
</tbody>
</table>

Table 12: Methods of grooming

In terms of awareness, 29% of the respondents say that the internal candidates are usually not aware their being groomed for the CEO position while 25% of the respondents say candidates are usually very aware that their being groomed.

4.3.4 External Candidates

This part of the study intends to elicit information pertaining to external candidates who are suitable for CEO succession. As per the survey, it has been noted that most of the commercial banks consider external candidates to succeed the CEO.
From the responses received, 52% of the respondents have stated that their organizations always consider external candidates while 8% of the respondents state their organizations rarely consider external candidates. This shows that banks also look for potential candidates from the market so as to get the best candidate for the position. Despite having suitable internal candidates for succession, 32% of the respondents feel it is neither necessary nor unnecessary to conduct external search, 24% of the respondents strongly feel it’s necessary to conduct the search. However, 16% feel it’s very unnecessary to conduct the search. In terms of fairness, 42% of the respondents said external candidates are treated very fairly while 38% noted they are treated extremely fairly. 21% of the respondents noted they were neither treated fairly nor unfairly.

Once a suitable internal candidate has been identified, 44% of the respondents want the external search process to be completely ended. While 36% of the respondents feel the external search should be decreased, 16% of the respondents feel the process should continue at the same pace. It is only 4% of the respondents who feel that the process should be increased.

<table>
<thead>
<tr>
<th>Description</th>
<th>No. of Respondents</th>
<th>percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>End External search</td>
<td>11</td>
<td>44%</td>
</tr>
<tr>
<td>Decrease External Search</td>
<td>9</td>
<td>36%</td>
</tr>
<tr>
<td>Continue search with the same pace</td>
<td>4</td>
<td>16%</td>
</tr>
<tr>
<td>Increase External search</td>
<td>1</td>
<td>4%</td>
</tr>
<tr>
<td>Increase External search Substantially</td>
<td>0</td>
<td>0%</td>
</tr>
</tbody>
</table>

Table 13: External candidates search process
Respondents were also asked for their preference between internal candidates and external candidates. Many of the respondents choose internal candidates with 32% strongly preferring internal candidates and 25% moderately choosing the internal candidate. 20% of the respondents had no preference while 12% of the respondents preferred external candidates.

<table>
<thead>
<tr>
<th>Description</th>
<th>No. of Respondents</th>
<th>percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly prefer external candidate</td>
<td>3</td>
<td>12%</td>
</tr>
<tr>
<td>Moderately prefer external candidate</td>
<td>3</td>
<td>12%</td>
</tr>
<tr>
<td>No preference either way</td>
<td>5</td>
<td>20%</td>
</tr>
<tr>
<td>Moderately prefer internal candidate</td>
<td>6</td>
<td>24%</td>
</tr>
<tr>
<td>Strongly prefer internal candidate</td>
<td>8</td>
<td>32%</td>
</tr>
</tbody>
</table>

Table 14: preference between internal and external candidates

It is clear from the above results that internal candidates are mostly preferred over internal candidates. Selection of internal candidates to succeed the CEO brings hopes into the employees about their career growth and reiterates the commitment of the organization management towards nurturing internal candidates to take up senior positions.

### 4.4 Factors influencing CEO Succession.

This section of the study discusses the factors that influence CEO succession planning. Some of these factors are internal while others are external factors. Using a scale of 1-5, respondents were able to rate to what extents these factors have influenced CEO successions. Apart from the mentioned factors, respondents were allowed to contribute and suggest other factors that may influence CEO succession.
According to the data collected from the respondents, Government regulations, board of directors, external completion, and exit of incumbent CEO are considered to be extremely influential.

<table>
<thead>
<tr>
<th>Factors</th>
<th>No. of Respondents</th>
<th>Mean</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government regulations</td>
<td>11</td>
<td>0.17</td>
<td>44%</td>
</tr>
<tr>
<td>Availability of suitable CEO successors</td>
<td>8</td>
<td>0.13</td>
<td>32%</td>
</tr>
<tr>
<td>Size of organization</td>
<td>3</td>
<td>0.05</td>
<td>12%</td>
</tr>
<tr>
<td>Board of Directors</td>
<td>16</td>
<td>0.25</td>
<td>64%</td>
</tr>
<tr>
<td>External Competition</td>
<td>10</td>
<td>0.16</td>
<td>40%</td>
</tr>
<tr>
<td>Organizational change</td>
<td>5</td>
<td>0.08</td>
<td>20%</td>
</tr>
<tr>
<td>Exit of incumbent CEO</td>
<td>10</td>
<td>0.16</td>
<td>40%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>63</strong></td>
<td><strong>1</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

Table 15: Factors influencing CEO succession

From the above table, Board of directors have been highly rated with 16 respondents saying it strongly influences the CEO succession. It has scored a mean score of 0.25 with a percentage of 64%. This indicates that board of directors play an integral role in selection of CEO and succession planning as a whole. Directors therefore need to ensure that their organizations have well established succession plans that are well documented so as to guide them in the process. Government regulations were also ranked highly scoring a mean of 0.17. Government regulations such as taxes, employment policies etc. may hinder the operations of the organizations and eventually the profitability. It therefore happens that in such instances the CEO needs to be proactive to act in accordance with the regulations while ensuring that the bank
makes profit. If the CEO fails to deliver in the midst of these regulations, the management may consider replacing the CEO. External competition and the exit of the incumbent CEO were ranked third with a mean score of 0.16 each. Availability of suitable successors had a mean score 0.13 while size of the organization and organizational change had a mean score of 0.08 and 0.05 respectively. Apart from these prelisted factors, respondents were asked to state other factors that may influence succession planning. They include: age and health of incumbent CEO, education and experience level of successors, the ownership of the bank, organization strategies and retirement age of the employees.

4.5 Rating of Succession Planning

The respondents were asked to rate the succession planning process of their respective commercial banks. 52% of the respondents rated their succession planning as very good while 28% found their succession planning to be excellent. 12% of the respondent rated their succession planning processes as good while 8% state they have a fair succession planning process.

<table>
<thead>
<tr>
<th>Description</th>
<th>No. of Respondents</th>
<th>percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Excellent</td>
<td>7</td>
<td>28%</td>
</tr>
<tr>
<td>Very good</td>
<td>13</td>
<td>52%</td>
</tr>
<tr>
<td>Good</td>
<td>3</td>
<td>12%</td>
</tr>
<tr>
<td>Fair</td>
<td>2</td>
<td>8%</td>
</tr>
<tr>
<td>Poor</td>
<td>0</td>
<td>0%</td>
</tr>
</tbody>
</table>

Table 16: Rating of succession planning
4.6 CEO Succession versus Performance

This part determined whether there are any effects between performance and exit and entry of CEO. It also determined how many of the organization are listed in the stock exchange in Kenya. Out of the 25 organizations that responded, only 3 were listed in the Nairobi stock exchange while 22 banks are not listed. From the data elicited from the respondents, there seems no difference in the performance of the organizations irrespective of their exit or entries.

<table>
<thead>
<tr>
<th>Description</th>
<th>No. of Respondents</th>
<th>Percentage</th>
<th>No. of Respondents</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Poor</td>
<td>0</td>
<td>0%</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td>Good</td>
<td>3</td>
<td>12%</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td>No effect</td>
<td>16</td>
<td>64%</td>
<td>15</td>
<td>60%</td>
</tr>
<tr>
<td>Very Good</td>
<td>5</td>
<td>20%</td>
<td>7</td>
<td>28%</td>
</tr>
<tr>
<td>Excellent</td>
<td>1</td>
<td>4%</td>
<td>3</td>
<td>12%</td>
</tr>
</tbody>
</table>

Table 17: Performance of banks during Exit and Entry of CEOs.

64% of the respondents have shown that there is no effect on the performance of their banks when the CEO announces his/her exit whereas 60% of the respondents believe there are no performance changes when a new CEO is announced. However, 28% of the respondents state that their performance is very good upon the entry of the new CEO while 12% state their performance becomes excellent. This can be attributed to high morale staff and new strategies that the new CEO has come up with which eventually translate to better performance.
4.7 Discussion of findings

Succession planning is not new to commercial banks in Kenya but the process is taken lightly by most of the organizations. Although most organizations state that they have succession plans in their organizations, the succession plans are either underdeveloped, unevenly executed or sometimes ignored (Miles & Dysart, 2007). The study has shown that 44% of the commercial banks have a moderately written document that guides the organization in succession planning process. It is important that the succession planning document is enhanced so as to capture the skills, experience, qualifications of suitable candidates in a more comprehensive and formal manner that will guide the board of directors into full implementation of the processes. The key skills and competencies required to adapt to a changing market place must be driven, not by traditional precedent, but by current and future strategic requirements (Guinn, 2000).

There is no consensus as to who is responsible for CEO succession planning and implementation (Dalton & Dalton, 2007). However, in this research 40% respondents have stated that the board of directors have the sole responsibility of overseeing the succession planning in their banks. Board of directors should therefore, fully own the succession planning process since it is the only group in the banks that is responsible for governance and thus it is their duty to develop, implement and then see to it that a thoughtful and thorough succession planning process is executed (Miles & Dysart, 2007). They should put in place mechanisms that will ensure internal candidates are groomed enough and in time to take up the senior positions in the banks.

Good succession planning is not just about looking at who is next in line for a slot, but looking at people early in their careers and determining what kind of training they need to become leaders (Avanesh, 2011).
The results from the study show that 56% of the commercial banks in Kenya only consider CEO successors one level below the CEO position. Commercial banks need to have a bigger pool of individuals from which they can select from. This pool of talent can only be achieved if the suitable candidates are selected from deeper hierarchical levels below the CEO position. One of the biggest elements of succession planning is development. Someone has to be properly developed with training and experience if they are going to become a successor. Proper succession planning provides for smooth transitions. Since the successor has already been actively involved in the work of that position or that team, he is more than ready to assume the formal leadership role (Hall, 2004).

The origin of CEO successor was also studied in this research. The results from the study showed that internal successors are more preferred over external successors. It was found from the research that most banks prefer internal candidates to succeed their CEO. Internal candidates are better suited to carry the culture of the organization and give the employees hope of career growth in the organizations. However, this result is contradictory with other studies that show external successors are more appealing to the board and bring about strategic change and improved performance (Elsaid, 2011). Despite external candidates being favored over internal candidates, past research show that internal successor performs better than external successors (Favaro, Karlsson & Neilson, 2012).

The research also studied the factors that influence succession planning in the organization. One of the most influential factors that respondents rated highly is the board of directors. The board of directors is a group that may display in-group bias by giving preferential treatment to those they perceive as similar. If the board is comprised mainly of men, they will prefer a male as the successor CEO (Elsaid & Ursel, 2011).
The other factor that was highly rated is government regulations. Organizations that do not perform well in regulated environments may look for suitable successors who may steer the organization in better performance despite the regulations. And as time passes, regulated organizations will search for higher margins in more defensible unregulated niches, which further fuels demand for new people in the top ranks. Moreover, regulatory punctuations that remove constraints on regulated organizations’ scope of operations open doors to markets that promise higher profits or growth potential. Because incumbent executives typically lack experience in these new markets, organizations often must recruit new ones (Havemen, Russo & Meyer, 2001). Other factors that were also rated are exit of incumbent, age and health of CEO, external competition etc. 52% of the respondents rated the overall succession planning in their banks as very good.
CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary of the findings, conclusion of the research and the recommendations. Furthermore, it states the limitations which the researcher encountered and areas which need further research.

5.2 Summary of the Findings

The objective of this research was to determine the nature of succession planning in commercial banks in Kenya and to determine the factors that influence succession planning in these financial institutions. Through the aid of a questionnaire, a descriptive survey was done of all the 43 commercial banks in Kenya. The questionnaire was sent to all the 43 commercial banks in Kenya through their Head Offices mostly situated in Nairobi. Out of the 43 expected responses a total of 25 responses were received.

The questionnaire was structured to enable end user give specific, uniform responses that will help the research elicit information based on the research objectives at hand. While determining the nature of succession planning in commercial banks in Kenya, this research was able to establish that most of the banks that responded to the questionnaire had no ongoing activities pertaining to succession planning. Planning is usually begins after the CEO announces his exit and before his/her exit. Once a suitable successor has been identified and taken office, the process comes to halt. Also it has been noted from the responses that most of the banks do not groom their employees to take up the CEO position. Out of the 25 responses received 16
responses stated that their organizations are currently not grooming any employee to take the CEO position. Banks in Kenya should have policies and procedures on how to develop talent and groom individuals who have the capacity and will to take up the CEO position when its available. Most of the responding banks established that their organizations have documents written down that guide them in the search of a suitable successor. This document is moderately written in most of the organizations and there could be a need to further improve the document so as to increase the standards of the document.

The other aspect that came out clear from the responses was the preference of internal candidates to replace their CEO. Most of the respondents strongly prefer an internal candidate to rise to the ranks to the CEO position and not from outside the organization. This will ensure the employees that there are opportunities from within the organization and one can rise up to the biggest office in the organization. From the survey, it has been established that most banks opt to select an internal successor one level below the CEO. It is necessary that the banks expand its search pool to include personnel at least 3 levels below the CEO. This will ensure that the middle level managers are also considered for development hence increase the talent management pool.

The other objective that the research has been able to achieve is the factors that influence succession planning in commercial banks in Kenya. The main factor that has been identified as the major influence to the process is the board of directors. The board of director are the ones who are mandated with replacements of CEOs and their suggestions, ideas and wish pay a major part in CEO succession. The other factor that influences succession planning is government regulations that are sometimes volatile and not favorable to the organization.
Thus the CEO has to be very keen on these regulations and that he can easily sail through them. Other factors that are also influential include external competition where by banks are competing for talent and fresh ideas at any given cost. Another factor that influence succession factor is the exit of the incumbent CEO either through resignation, death or illness. At this particular point the banks have no option but to look for another person to fill the vacancy.

5.3 Conclusion

The purpose of the study was to determine the nature of succession planning among commercial banks in Kenya and to determine the factors that influence succession planning. It is clear that succession planning is not planned thus the process is not ongoing throughout. Once a CEO announces his/her exit then that is the time the process begins. Most of the respondents prefer an internal candidate to succeed a CEO over an external candidate. Respondents rated board of directors as most influential together with other factors such as government regulations, external completion exit of incumbent CEO, size of organization among others. It is important that commercial banks in Kenya take seriously the issue of succession planning so that they can make it an ongoing activity with employees being groomed and informed that they are being prepared for the job.

5.4 Recommendations

Succession planning process for any organization is a very important activity that requires a lot of seriousness for it to be successful. It is important that commercial banks in Kenya also give it the seriousness it deserves. First and foremost, their need to be a well written succession planning document that will outline the succession planning processes, skills, experience and
other details that will be needed for succession planning. Another recommendation is the continuous implementation of succession planning activities throughout the days and ensuring that the activities are planned and ongoing. Suitable candidates should be identified in earnest so that they can be groomed and seasoned properly for the task. CEO succession should be a developmental process where suitable candidates are groomed over a period of time rather than a replacement process. Commercial banks should increase their CEO search pool from 1 level below the CEO to at least 3 levels below the CEO. This will ensure that the middle managers are groomed and suitable candidates are identified as suitable successors.

5.5 Limitations of the Study

One of the limitations of the study is that the anticipated respondents that were expected to respond didn’t take part in the survey. This might have affected the quality of the results since some of the respondents might have not been aware of some of the issues. It was expected that CEOs and Board Chairmen would respond to the questionnaire since they mostly sit in CEO succession meetings. However, the highest number of respondents was HR managers who are conversant with the general succession planning processes in the organizations. Another limitation is the declining of 6 commercial banks to respond due to their organizational policies. If these banks had taken part in the survey the results of the study may have taken a different dimension all together. Their decline reduced the number of respondents thus reduced the percentage of generalization that was intended. Furthermore, the respondents may have not given honest answer so as to protect the image of their organizations.
5.6 Suggestions for Further Work

Succession planning is a very wide topic that needs to be researched in depth. Future studies can be done on succession planning in relation to performance of commercial banks. The issue of internal versus external CEO succession can also be researched further with key interest on how the two perform in terms of organizational performance.
REFERENCES


Hall A. W., (2004). Succession planning through leadership modeling. Capella University


Hills A. (2009), Succession Planning – or smart talent management? Industrial and commercial Training 41 (1) 3-8


APPENDICIES

Appendix I Letter of Introduction
Appendix II: Questionnaire

This questionnaire has been developed to elicit information pertaining to Succession planning amongst commercial banks in the Banking Industry in Kenya. It will be used for purposes of research as part of an MBA program being undertaken by the researcher. Please ensure that the answers provided are correct as per your knowledge since they will be used to determine the end result of this research.

PART A: Profile

What is your position in the bank? *
- Chairman - Board of Directors
- CEO/MD
- Company Secretary
- HR Manager
- Other: [ ]

PART B: Succession planning in the organization

Is your bank at the moment conducting a CEO Search? *
- YES
- NO

When was the last time your organization replaced a CEO? *
- This year 2013
- 1 year ago
- 2 years ago
- More than 3 years ago
- Never before.

When Does Succession Planning take place in your organization? *
- After Current CEO announces his/her exit
- Before the current CEO announces his/her exit, and it’s an ongoing activity
- Before the current CEO announces his/her exit, and it’s not an ongoing activity
Who participates in CEO Succession planning in your organization? (Please select all that apply) *

- [ ] Full Board of Directors  
- [ ] Board Chairman  
- [ ] Select Board Committee  
- [ ] CEO/MD  
- [ ] Human Resource Manager  
- [ ] Executive Search Firm  
- [ ] Other: [ ]

Who is primarily concerned with overseeing CEO Succession Planning in your Organization? *

- [ ] Full Board of Directors  
- [ ] Board Chairman  
- [ ] CEO/MD  
- [ ] Human Resource Manager  
- [ ] Select Board Committee  
- [ ] Executive Search Firm  
- [ ] Other: [ ]

Does Your Organization have a well written document that lists the skills, competencies and experiences required for the new CEO? *

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<tr>
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Who develops this succession planning document? *

- [ ] Full Board of Directors  
- [ ] Board Chairman  
- [ ] CEO/MD  
- [ ] Human Resource Department  
- [ ] Select Board Committee  
- [ ] Executive Search Firm  
- [ ] Other: [ ]
How different are the skills and experience profile for the next CEO from the present CEO?*

1 2 3 4 5

Extremely Different ○ ○ ○ ○ ○ Not Different at all

How much does the skill and experience profile for the next CEO take into consideration the future needs of the company? *

1 2 3 4 5

No Consideration at all ○ ○ ○ ○ ○ A lot of Consideration

Are internal candidates considered to replace the CEO in the organization's succession plan? *

1 2 3 4 5

Never ○ ○ ○ ○ ○ Always

How deep down the organizational hierarchy do you consider?

- ○ 1 level below CEO
- ○ 2 Levels below CEO
- ○ 3 Levels below CEO
- ○ More than 3 levels below CEO

How Viable is it to name a CEO Successor from internal candidates within 12 months?

1 2 3 4 5

Not Viable at all ○ ○ ○ ○ ○ Extremely Viable

Is your organization grooming a specific executive to succeed the current CEO? (E.g. CFO, COO) *

- ○ YES
- ○ NO
How are internal Candidates groomed for CEO Succession? (Please select all that apply) *

- [ ] Periodic Training
- [ ] Job Rotations
- [ ] Developmental Assignment
- [ ] Mentoring
- [ ] Structured Socialization
- [ ] Other:

Are the internal Candidates aware that they are groomed for CEO Successions? *

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<td>Very Aware</td>
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Are external Candidates considered to replace the CEO in your Succession plan? *

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<tr>
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Is it necessary for external candidate search even when there are strong internal candidates for CEO Succession? *

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How fairly are external candidates assessed and evaluated compared to internal candidates? *

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<td>Very Unfairly</td>
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Once a suitable internal candidate has been identified, what should happen to external search process? *

- External Search Should be ended
- External Search activities should be decreased
- External Search should continue with the same pace
- External search activities should be increased
- External Search Should be increased substantially

How established is your organization's external benchmark of the CEO successor candidates? *

- Extremely Well Established
- Very Well Established
- Moderately Well Established
- Slightly Well Established
- Poorly Established

Do you prefer an internal or external candidate to replace your current CEO? *

1 2 3 4 5

Strongly prefer Internal Candidate  O  O  O  O  O  Strongly prefer External Candidate

PART C: How would you rate the below factors in CEO succession

Government Regulations *

1 2 3 4 5

Not Influential  O  O  O  O  Very Influential

Availability of Suitable CEO Successors *

1 2 3 4 5

Not Influential  O  O  O  O  Very Influential

Size of the Organization *

1 2 3 4 5

Not Influential  O  O  O  O  Very Influential
Board of Directors *

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External Competition *

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Organizational Change *

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Exit of incumbent CEO *

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What other factors in your view might influence succession planning in your organization?

Kindly Rate the overall Succession Planning in your organization *

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PART D: CEO Succession vs. Performance

Is Your Organization Listed on Nairobi Stock Exchange? *

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How will you rate the organization’s overall performance upon the announcement of the exit of the CEO? *

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How will you rate the organization’s performance overall upon the announcement of the appointment of a new CEO? *

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Appendix III – List of Commercial Banks and Mortgage Finance Companies

A: Commercial Banks

1. African Banking Corporation
2. Barclays Bank of Kenya
3. Bank of Africa Kenya
4. Bank of India
5. Bank of Baroda (K)
6. CFC Stanbic Bank Ltd
8. Commercial Bank of Africa
9. Co-operative Bank of Kenya
10. Credit Bank
11. Citibank N.A Kenya
12. Chase Bank (K)
13. Consolidated Bank of Kenya Ltd
15. Dubai Bank Kenya
17. Ecobank Limited
18. Equatorial Commercial Bank
19. Equity Bank
20. Family Bank
21. Fidelity Commercial Bank
22. Fina Bank
23. First Community Bank
24. Giro Commercial Bank
25. Guardian Bank
26. Gulf African Bank
27. Habib Bank A.G. Zurich
28. Habib bank Limited
29. Imperial Bank
30. Investment & Mortgages Bank
31. Jamii Bora Bank Ltd
32. Kenya Commercial Bank Ltd
33. K-Rep Bank Ltd
34. Middle East Bank (K)
35. National Bank of Kenya Ltd
36. NIC Bank
37. Oriental Commercial Bank
38. Paramount Universal Bank
39. Prime Bank Ltd
40. Standard Chartered Bank of Kenya Ltd
41. Trans-National Bank
42. UBA Kenya Bank Ltd
43. Victoria Commercial Bank

B: Mortgage Finance Company

44. Housing Finance Ltd