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SUCCESSION MANAGEMENT: A CASE STUDY OF DANFOSS TRATA

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Project submitted as partial requirement for the conferral of

Master in International Management

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September 2018

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INTRODUCTION

Rothwell (2010, p. 6) defined succession management 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". Succession management is a resourcing strategy that ensures continuity of tasks by balancing organizational needs in terms of competences and personal attributes with available human resources.

Speed of change has been increasing, challenges are becoming more and more complex and employees, especially those in positions that have the biggest impact on business results (in majority leaders but not necessarily), need to make sense of these challenges and fight them (Day, 2007). Furthermore, talent war has been emerging because a number of those retiring is higher than a number of those entering workforce market. One of the key questions that every organization will be facing sooner or later is how to retain Millennials, who will represent around three quarters of entire workforce and have a strong focus on the future, progression, attaining skills in various fields and want constant feedback, yet do not provide loyalty in return (McGlashan, Meadows, Power & Spencer, 2015).

Succession management hold answers to these issues. Some of its benefits are successful job filling, increased employee retention, objective assessment, proactive employee development, encouraged diversity and creation of positive atmosphere (Day, 2007; Hirsh, 2000; Rothwell, 2010).

The purpose of the thesis is to provide for a better understanding of what succession management is and how such system can be applied to organizations. Danfoss entities are a relevant context for exploring succession management. The company lists its employees as one of key factors in achieving business growth (Danfoss, 2015). In addition, it strives to become an example of good HR activities globally, renowned for its performance and employees commitment that lead to great business results (Zupanič, 2016).

Danfoss Trata, one of the entities in Danfoss Group, wants to fully implement succession management system. There are already traces of such system but it is not comprehensive yet. Therefore, I will be check whether some of presented practices can be used also on lower organizational levels, combine or benchmark them with other suggested models and

aim to give recommendations on implementation. Danfoss Trata already executes some activities that are interconnected with succession management (talent management, for example) and has the potential to serve as a reference to other Slovene organizations. Goals of this thesis are thus:

- to provide a clear idea of succession management and differences to similar concepts,
- to conduct an analysis of Trata's system,
- to point out areas for improvement and develop recommendations,
- to show how such system could be applied to other companies.

The goals will be achieved by answering below research questions.

1. How evolved is succession management process in Danfoss Trata?
2. How succession management process can be improved in Danfoss Trata?
3. Can succession management practice in Danfoss Trata serve as a reference to other companies on Slovenian market?

I intend to clarify what succession management is, what its benefits are and where challenges might occur. Many companies do have some traces of succession management but it often comes under different names such as succession or replacement planning as well as talent management. Differences between these exist though and will be explained on practical examples.

In the thesis I will present models used in succession management – some draw a process (Rothwell's Seven-Pointed Star), others focus on assessment (9-grid box) and some evaluate the process (Bersin's maturity model). Moreover, current global status on succession management will follow – how widespread it is, what its major execution issues are and what the outcomes of such system are. In addition, I will describe trends that drive the orientation of succession management.

Finally, I will move onto the case study, which kicks off with description of current Danfoss' succession management strategy, followed by a discussion on how it can be improved or what other organizations need to take into consideration if they decide to pursue such activities. Attaining goals mentioned above will help Danfoss Trata to establish itself a "best practice company" with a completely integrated succession management system.

1 DEFINING SUCCESSION MANAGEMENT

1.1 Succession Planning

Henri Fayol (1916) divided management responsibilities into planning, organizing, coordinating, commanding and controlling. This framework makes him as one of the most often referenced authors on managerial topics (The Economist, 2009).

In his mentioned work, he defined 14 principles of management, one of them being stability of tenure of personnel. He argues that stability, guaranteed by management with having right employee at the right place (Fayol, 1949):

- contributes to psychological well-being of the employees (feeling of belongingness, team spirit),
- provides employees with time to understand their work in depth, which increases their efficiency and accountability,
- plans for the future and therefore ensures business runs smoothly when disruptions occur in organization.

Altogether leads to increased productivity, willingness to perform well and therefore contributes to company growth. On the other hand, if the principle is violated, employees might feel unsafe, which can result in under-performance and non-willingness to participate. Consequently, an organization might have to deal with unexploited potential, under-utilized resources or failure to meet business objectives. In other words, time, effort and money spent on recruitment, training and development of unsatisfied workers will go to waste (Fayol, 1949).

Even though Fayol refers to employees and not leaders, some believe it is one for the first mentions of what we know today as succession planning. However, stronger parallels with succession planning occurred after the Second World War – mostly due to numerous deaths followed by promotions in organizations – in a shape of replacement planning which is further discussed in chapter 1.5.1 (Sloan & Rogelberg, 2016). Nowadays, succession planning commonly covers below topics (Day, 2007; Hirsh, 2000):

- enrichment of succession plans through discussion of people and tasks,
- identification of key positions,

- identification of gaps,
- development plans for individuals,
- identification of potential successors.

Rothwell (2010, p. 6) defined succession planning as "a means of identifying critical management positions, starting at the levels of project manager and supervisor and extending up to the highest position in the organization. Succession planning also describes management positions to provide maximum flexibility in lateral management moves and to ensure that as individuals achieve greater seniority, their management skills will broaden and become more generalized in relation to total organizational objectives rather than to purely departmental objectives".

Furthermore, as already shown by Fayol (1949), succession planning is not applicable only to managerial positions. It is a systematic information-gathering process aiming to find one or more successors to a position or an employee, which carries out tasks important for organizational performance. However, finding a successor is not sufficient – he needs to be developed, trained and prepared to take over tasks from a person who is leaving his position (Day, 2007; Hirsh, 2000).

Need for development additionally varies according to duration and urgency of succession. Short-term successors need to be fairly ready and are most likely to be used in urgent (i.e. unplanned) needs (Hirsh, 2000, p. 3-5). Long-term successors are most likely to be talents who are carefully trained with comprehensive development systems (Hirsh, 2000, p. 3-5. These trainings normally take months or even years and can be expensive. It is therefore highly likely that long-term successors will fill a position, which has been expected to be vacant rather than the one that occurred urgently (Day, 2007, p. 7; Fayol 1949).

1.2   Succession Management

The goal of succession management is similar to the one of succession planning – it aims to identify and develop current and future potential successors. However, succession management considers the dynamics of business environment: real-time occurrence plays a role in succession management but is omitted in the process of succession planning (Berke, 2005a, p. 1-2; Rothwell, 2010, p. 6). In comparison, succession management is seen as

more proactive, elaborate, deliberate, systematic and integrated (Berke, 2005a, p. 1-2; Rothwell, 2010, p. 6).

Above characteristics of succession management result (if conducted well) in an entire pool of better-prepared employees instead of just a list of candidates which is commonly a result of succession planning. Consequently, succession management requires the most resources and support by top management that can see its value hence finds ways to integrate it into daily operations by giving feedback, coaching and help employees realize their potential (Berke, 2005a; Rothwell, 2010).

Interest in succession management expanded greatly in the 1980s by researching topics such as successor origin, organization size, succession rates, post-succession performance, role of corporate boards, decision-making process and the system itself. However, most of them were still focusing on CEO succession only (Kesner & Sebora, 1994).

Importance of succession management has increased significantly over the past ten years (Berke, 2005b). The reason is that, at the time, executives were getting ready for retirement, critical positions were vacant for too long or people who were ill prepared got promoted. In addition, nowadays there is a perception that good people are hard to find (Mihel, 2014). Both reasons created a need for a systematic solution.

Authors agree that succession management focuses on four key aspects (Barnett & Davis, 2008; Berke, 2005b; Caruso, Groehler & Perry, 2005; Day, 2007; Hirsh, 2000; PwC South Africa, 2017):

- proactive learning and development of all employees,
- identification and assessment of potential successors,
- readiness and appropriateness of candidates,
- leadership continuity.

Succession management is a resourcing strategy. It helps balancing demand and supply by tying organization's available potential successors to its (future) needs, encourages skills analysis and job filling process. As a result, it supports attainment of strategic and operational objectives by having the right people at the right place at the right time doing the right things to achieve the right results. Therefore, it can be a source of competitive advantage (Day, 2007; Hirsh, 2000; Rothwell, 2010).

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Figure 1: Succession Management Supports Achieving Organizational Results (Adapted by Rothwell)
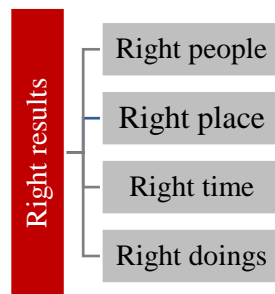
Source: Rothwell (2010, p. 9).

Berke (2005a) sees the value of succession management in its expansion throughout entire organization rather than top levels only – including individual key positions. Rothwell (2010, p. 9) supports the benefit with an explanation that regardless of the job category (technical, sales, production etc.) and rank, critical backups and individual development on key positions should also be managed. His reasoning is that organizations are striving towards highly engaging work environments with decentralized decision-making, diffused leadership, empowered employees, accumulated proprietary knowledge and relationships critical to work. Therefore, these qualities need to be passed on from leaving workers to their successors.

Furthermore, Rothwell (2010) emphasized that the focus of succession management is on continuity. Similarly as Fayol (1949), he described it as a stabilizing process for tenure of personnel. He explains that strategic decisions regarding development and replacement are ensuring continuous effective organizational performance. Rothwell (2010, p. 6) defined succession planning and management 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".

1.3   Benefits of Succession Management

The aim of succession management – to recognize and develop potential successors – was mentioned in the previous chapter. However, there are several other benefits, which are, in order to have a better overview, briefly presented in Table 1. Each benefit is then then described in details in the following sub-chapters.

Table 1: Benefits of Succession Management

Benefit	Explanation
A collection of HR Data	• A collection of hard and soft information for each employee and key requirements and expectations for each position should be in place. • It can be used to create a pool of potential successors and/or aggregated on organizational level to analyze required headcount and skills.
Development and Retention	• On average, half of employees leave because of insufficient growth. Succession management process requires creating a development plan for each individual and consequently managing their progress and satisfaction, resulting in increased retention. From organizational point of view, this leads into lower searching and hiring costs. • External candidates might be uninterested in working in remote areas, small organizations or unfavorable political or economic environments. Therefore, developing own talent is essential.
Filling Gaps between Required and Available Skills	• Succession management helps to predict what needs in terms of headcount and skills required an organization might have. • Managers need to ask themselves questions like who is retiring and when, as well as who is unsatisfied with his job. • Development plans enable manipulation of competence stock. By dictating a way in which employees will be developing, they can address future gaps between requirements and existing stock.
Continuity	• Succession management allows having a real-time relevant pool of candidates, who can quickly replace leaving employees in in an orderly and calm manner. • It assists in giving an overview of suitable employees that can take over these tasks fully or partially. It avoids allocating new tasks to less productive employees or overloading employees with higher potential.
Objective Assessment	• Structure provided by succession management leads into specified and agreed criteria against which each employee is discussed. Other managers are expected to challenge an employee's direct manager and debate until mutual assessment is reached.
Diversity	• There is a lack of women and representatives from minorities on leading positions. • Succession management accelerates development of protected labor classes and diverse groups.
Positive Attitude and Results	• Promoting from within improves organizational morale. • A two-way communication strengthens relationship and information flow. Feedback is necessary so that decisions done on both sides are based on realistic inputs. Employee involvement in discussions about his development positively effects commitment. • Having right people at the right time at the right place positively influences business and financial results.

Source: own work.

1.3.1   A Collection of HR Data

In order for the process to run without disruptions, Hirsh (2000) suggests to maintain a database on jobs and people. This typically includes hard (e.g., employee's education, personal data, payroll), as well as soft information (career aspirations, assessments, opinions and similar).

On the other hand, a database of positions in the company should include key requirements and its expectations. This collection can be used to create a pool of potential successors and not only when a unique need occurs. Finally, it can also be used on aggregated level to reveal manpower and skills required (Hirsh, 2000).

1.3.2   Development and Retention

Most employees want more than a good paycheck (Day, 2007, p. 31). On average, more than half of employees, who are searching for a new job, are doing so because of insufficient development (Day, 2007, p. 31). Succession management process requires creation of a development plan for each individual. In that way, leaders can manage each subordinate's progress and indirectly influence their satisfaction, which increases probability of them staying with the company (Day, 2007, p. 31; Hirsh, 2000, p. 7).

Furthermore, according to Rothwell (2010, p. 22), by providing means to speed up employee development and facilitating increased opportunities, succession management helps to identify and retain high-potentials. On the other hand, from organizational point of view, retention of key employees reflects in significantly decreased hiring costs and costs related to external searches (Barnett & Davis, 2008, p. 723; Caruso & Groehler, n.d.).

Moreover, external candidates might not be interested in working in remote or rural areas nor small organizations. Same holds for companies that operate in politically and economically unstable (or simply bad) environments. In such cases, developing own talent is essential (Mihel, 2014; Routhieaux, 2016).

1.3.3   Filling Current and Future Gaps between Required and Available Skills

Succession management helps to predict how employee count will be changing and what will be organization's needs in terms of headcount and skills required. These needs depend

on factors such as company growth, demographics and employee turnover (Hirsh, 2000). Particularly those who left key positions by surprise can have extreme impact on critical functions; even its temporary loss (Joynton, 2014, p. 3). Practically speaking, managers need to ask themselves questions like who is retiring and when, as well as who is unsatisfied with his job (Haroski, 2015).

Development plans additionally enable managers to manipulate competence stock in their departments (Haroski, 2015). With ongoing job analysis, managers have an overview of current competences and can address future gaps between requirements and existing stock. Consequently, managers can dictate the way in which employees will be growing as well as prepare them for new challenges (Joynton, 2014; PwC South Africa, 2017).

1.3.4   Continuity

Since succession management is a systematic approach, it warrants continuous identification, review and preparation of potential successors. This allows having a real-time relevant pool of candidates who can quickly replace employees in (key) positions in an orderly (well-thought through) and calm manner (Hirsh, 2000; Joynton, 2014; Rothwell, 2010).

Moreover, when an organization is facing (or expects to face) downsizing or simply when an employee decides to leave the company, fewer people are available to take over his/her tasks. Rothwell (2010, p. 15) noted that, in such cases, it is normally high performers who are appointed to take over these tasks. If all work falls onto high-potentials, it is more likely they will start feeling dissatisfied and might leave the company. In such instances, succession management assists in giving an overview on who, besides talents, is suitable to take over these tasks fully or partially. In addition, it avoids allocating new tasks to less productive employees (Rothwell, 2010, p. 15).

1.3.5   Objective Assessment

Succession management provides structure for understanding performance, skills and potential of its current employees and tends to be more objective (Barnett & Davis, 2008; Hirsh, 2000). Hirsh (2000, p. 51) argues that there should be "specific and agreed criteria for judging performance which are used in the discussion. Managers demonstrate

individuals' performance against these criteria and this is supplemented or challenged by colleagues until a joint view is achieved".

1.3.6   Diversity

Caruso and Groehler (n.d.) concluded that there is a lack of female representatives in key positions as well as those from minorities. It is defended that succession management program accelerates development of protected labor classes and diverse groups, which is argued to be a responsibility of each organization (Rothwell, 2010, p. 25).

1.3.7   Positive Attitude and Results

Rothwell (2010) suggested that promoting from within improves morale. As shown later in chapter 1.5.3 on Red Hat example, it is important for employees to understand what is expected from them. This can be granted by a two-way communication, which strengthens relationship and information flow (Haroski, 2015).

In addition, Mihel (2014) underlines that employee involvement in discussions related to his progress at work positively effects morale and commitment of individuals as well as organization as a whole. He considers an honest two-way discussion between an employee and his manager to be crucial so that decisions done on both sides are based on realistic inputs.

Finally, having right people at the right time at the right place positively influences business and financial results (Barnett & Davis, 2008, p. 723). Succession management is a source of competitive advantage as it enables quick reactions, which is especially important in rapidly changing or highly competitive environments (Day, 2007, p. 31; Rothwell, 2010, p. 14).

1.4   Succession Management Challenges

1.4.1   Setting up a Succession Management Process

Lack of structured succession process can lead into insufficient preparation of employees. First question that occurs to companies that want to introduce succession management

process is most commonly where to find information and requirements for its set-up and who should be responsible for it. Further issues might appear in clarifying on what qualities are needed in employees (or, more specifically, in successors). Once requirements are clear, an organization has to develop an assessment system that will provide at least an orientation for future development of its employees, if not also identify potential successors (PwC South Africa, 2017; Routhieaux, 2016).

1.4.2   Assessment Reliability

Organizational gains when assessments are reliable, reflect in a clearer picture of what are and will be needed competencies, as well as where potential can be tapped from. PwC (2017, p. 9) and Rothwell (2010, p. 70–71) noted that when succession process was purely in CEO's hands, he often chose a successor without constructive discussions with other stakeholders. When replacements are carried out without formal procedure, successors tend to be chosen subjectively: they carry same values, have similar background or appearance as current position holders or are simply likeable (Rothwell, 210, p. 14). This can turn out to be an error (Joynton, 2014, p. 3).

1.4.3   Employee Development

In addition, an organization has to provide adequate time and space for employee development and growth (PwC South Africa, 2017). However, some organizations and individuals believe employees should be managing their own career path (Hirsh, 2000).

In relation to providing feedback, it needs to be emphasized that it can be a great challenge to encourage employees to grow and not promise them promotion. This can be tricky as it is suggested that several successors are identified for one critical position. If an organization promises promotion and then does not provide one, disappointment, dissatisfaction and perhaps cynicism will accompany the employee (Joynton, 2014, p. 3; PwC South Africa, 2017, p. 8).

1.4.4   Commitment, Corporate Support and Transparency

Day (2007) noted that positive reinforcement of succession management is necessary throughout the entire organization. "Sending a changed person back to unsupportive

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environment is highly unlikely to accomplish much of anything except heightened feelings of frustration and discouragement" (Day, 2007, p. 14).

It has been emphasized that succession management involves all corporate levels – that makes it everyone's responsibility. The roles and responsibilities of each person should be clearly defined in advance (PwC South Africa, 2017). However, HR, information technology (IT) and top management are three bodies that can be considered as necessities in the entire process.

Rothwell (2010) observed that disinterest of top management negatively influences attitude towards succession management and no program can be effective with such connotation. Research by Barnett & Davis (2008, p. 724) showed that top management lacks confidence in their own succession process. These results are rather alarming since confidence and commitment from the top are listed as one of the key factors that either make or break succession system. Rothwell (2010, p. 70–74) explains that the reason, can be that they do not see the benefits such system brings; perhaps they see it even to the contrary – an "evil" that requires much time, financial and human resources. Anyway, performance and development of employees need to be taken seriously – it is in organization's interest to consider time and resources related to succession management as an investment if they see employees as a corporate asset (Hirsh, 2000, p. 54–55).

HR perhaps has the most visible role in facilitating succession management since they are in charge of finding the best fits for open positions (Haroski, 2015) but it can only do so if it is competent enough (Hirsh, 2000, p. 55). Most common mistake that HR is doing is believing their work is done once successors are identified and, as a consequence, do not support in continuous revisions of employees' progress. The latter reflects in outdated performance rating and non-realistically graded potential (Barnett & Davis, 2008, p. 725).

Other common myths that exist in HR include assuming that external candidates are more promising (or internal ones for that matter), that successors are completely ready and that succession is single-person event (Haroski, 2015). Moreover, when HR decisions are centralized and made locally, they often cut across responsibilities that line mangers were given (Hirsh, 2000, p. 8).

As mentioned above, IT is as well a supporting function of succession management process. Caruso and Groehler (n.d.) pointed out missing databases as one of key areas for

improvement. Information accessibility is commonly considered to be IT department's responsibility. Data needs to be easily accessible and stored in order for the organization to run as effectively as possible (Hirsh, 2000; PwC South Africa, 2017).

1.4.5   External talent

Although hiring externally is more costly (and these financial and human resources can be used otherwise (Joynton, 2014, p. 3), Hirsh (2000, p. 8) and Mihel (2014, p. 1) highlight several reasons why this might be in some cases a better option for the organization. Firstly, since companies might be afraid to predict what jobs and which competencies will be required in the future they prefer not to nourish talent internally but instead hire it externally when the need arises. Secondly, potential successors may still turn down the offer and leave the company (Hirsh, 2000, p. 8; Mihel, 2014, p. 1). Finally, "homegrown" employees may have limited perspective as they experienced only few (if not one) ways of working. Newcomers on the other hand might bring new, fresher ideas (Schawbel, 2016).

1.5   Distinction of Succession Management from Similar Concepts

1.5.1   Replacement Planning

As indicated in chapter 1.1, replacement planning is used mainly for unplanned losses and is a driver for succession planning and management programs. It is a form of risk management with an objective to limit the chance of a potential workforce disaster (Rothwell, 2010). Replacement planning process commonly asks the manager of each unit to name a few people in the organization that might be a potential backup for vacant position.

Table 2: Continuum of Succession Process (Adapted by Berke).

	Replacement Planning	Succession Planning	Succession Management
Identification of Successors	Yes	Yes	Yes
Development of Successors	Little or none	Yes	Yes
Managerial Levels	Top two or three	Top two or three	All

Source: Berke (2005a).

How replacement planning differs from succession planning and management can be seen below in Table 2Table 1. Unlike succession management, replacement planning occurs only on top two or three management levels. Most commonly highlighted difference, however, is that succession planning does not encompass (planned) development and preparation of potential successor (Berke, 2005a; Rothwell, 2010).

Box 1: Replacement Planning and 9/11

One of the most widely known events where replacement planning efforts were taken is the so-called *9/11* terrorist attack in 2001. Collapse of the Twin Towers of the World Trade Center in New York resulted in nearly 3000 casualties (National September 11 Memorial Museum, 2018) and an overall shock that required governmental, economic and business-related changes; in the area of human resources the importance of crisis management programs has been raised (Kondrasuk, 2004; Rothwell, 2010).

Besides the obvious need for replacement of those who lost their lives, the attack also triggered other factors that influenced staffing requirements. Employees were allowed to take more time off (Cohen, 2002) due to sick leaves attributable to depression and post-traumatic stress disorder (Poe, 2001). Employees started to appreciate time spent with loved ones more, which reflected in unwillingness to work more than required (Cohen, 2002, p. 16).

Moreover, Kondrasuk (2004) pointed out that the biggest changes were done in hiring and terminating employees. He argued that, since the hijackers had easily infiltrated into the society, HR professionals deepened the screening process. Hereafter, Kondrasuk (2004) assumed there had been fewer job opportunities for those who were believed to be Muslim. Additionally, skills associated with ethnic diversity and security became more valued after the attack. It was widely expected that employers would require trainings in crisis management and terrorism prevention (Cohen, 2002).

As mentioned in the beginning of this chapter, replacement planning process is used most commonly in case of unexpected events (accidents, health issues, maternity leaves, changing retirement ages, resignations and similar (Erskine, 2014)) and is regarded as a risk management tool. Research done by Cohen (2002) indicated that only half of respondents had a crisis management program before the 9/11 attack – the number jumped

to 90% within only a year after the attack. Along with an increase of crisis programs, the importance of succession planning increased (Cohen, 2002). Kondrasuk (2004) observed that replacement planning process became deliberate and systematic, as well as spread to lower positions. To conclude, trends are showing that the 9/11 terrorist attack initiated a transition of the U.S. organizational replacement planning towards succession planning.

1.5.2   Workforce planning

Workforce planning is a process that is "shaped by the organizational strategy and ensures the right number of people with the right skills, in the right place at the right time to deliver short- and long-term organizational objectives" and aims to provide with a number of people needed by using past trends to predict the future (CIPD, 2010, p. 4). It analyses staffing needs throughout the entire organization. In this manner, it resembles to succession management, which is carried out throughout all organizational levels. However, in reality this is a rare practice. Instead, organizations most frequently simply fill a position when it becomes vacant or higher workload occurs. The main drawback of this process is that an organization may end up having (too many) people not suitable for the job (Rothwell, 2010, p. 13).

It has been noted that organizations undertake different activities throughout what they call workforce planning – it often represents a part or a synonym of what has been described as succession management rather than a "systematic effort to review and develop the entire workforce" (Baron, Clake, Turner & Pass, 2010, p. 3). The research conducted by Baron, Clake, Turner & Pass (2010) among others included Harrod, a leading supplier of sports equipment in the United Kingdom at the time.

Box 2: Workforce Planning at Harrod

In Harrod, workforce planning process starts in November when all employees collaborate with managers discussing new ideas for products and ways of working for the following four years. In the meantime, HR analyses external environment and determines future staffing requirements by forecasting labor and skills excess and/or shortage (Baron, Clake, Turner & Pass, 2010).

However, the plan includes annual training plan and future succession needs that are

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accumulated into a succession plan. Succession plan in Harrod should, based on the research conducted by Baron, Clake, Turner & Pass (2010):

- prevent skill shortage derived from new products, technology or market needs,
- fill the gaps in new organizational processes and ways of working,
- link objectives with rewards (profit share and bonuses for all employees),
- be communicated regularly between employees and departmental mangers, cross-functional meetings and internal quarterly publication.

Communication, along with engaging employees into plan development, is believed to be key as it heightens work-life balance which motivates workforce and therefore makes it easier for them to deliver good results thus achieve business objectives (Baron, Clake, Turner & Pass, 2010).

Figure 2: Harrod Workforce Succession Planning Process (Adapted by Baron, Clake, Turner & Pass)
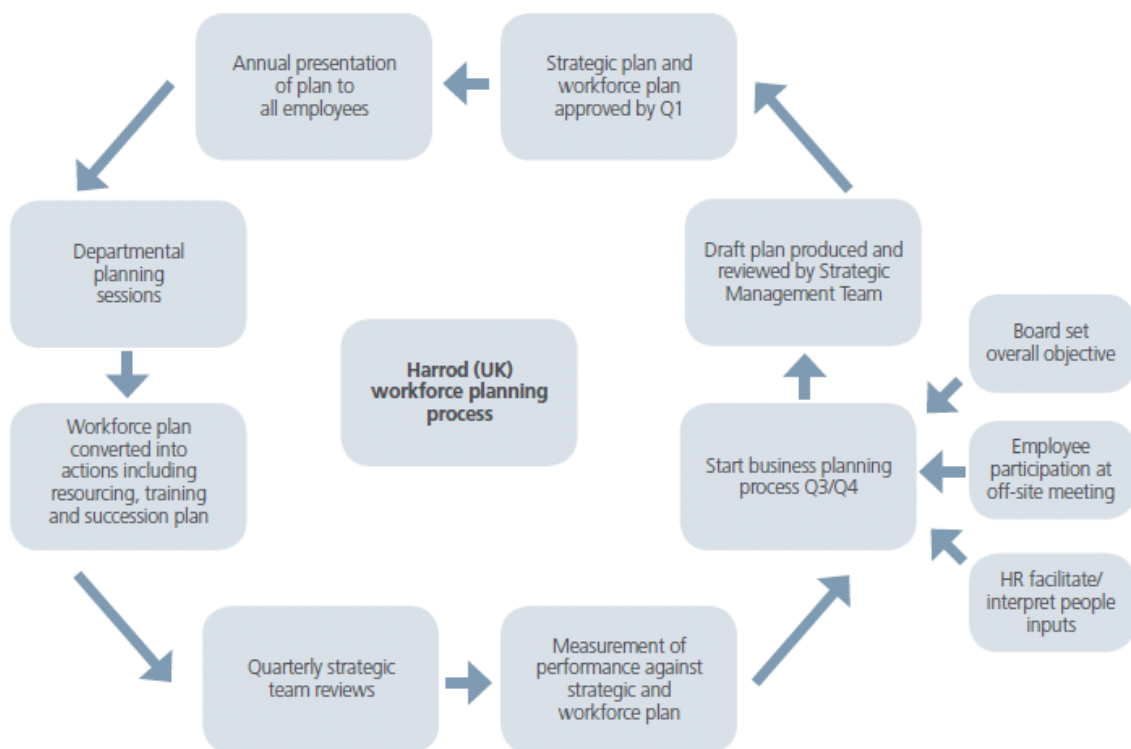
Source: Baron, Clake, Turner & Pass (2010, p. 31).

Finally, workforce planning needs to be tracked. Most important measurements is whether Harrod has enough human resources to meet the business objectives as well as of

Finally, workforce planning needs to be tracked. Most important measurements is whether Harrod has enough human resources to meet the business objectives as well as of plan effectiveness – how motivated and acquainted with business plans are employees? Other measurements include profit per employee, employee turnover and absence, productivity and production efficiency. Results are presented on a monthly basis in comparison to the plan (Baron, Clake, Turner & Pass, 2010).

As stated in the beginning of this chapter, workforce planning often represents a base for more complex HR process, which is why it is in reality used interchangeably with talent or succession management and similar. In **Napaka! Vira sklicevanja ni bilo ogoče najti.**, it can be seen that one of the outcomes of Harrod's workforce plan is a succession plan. Even their HR manager, who is responsible for workforce planning, opinions that "the creation of a multi-skilled, flexible workforce is the key driver in the preparation of the workforce plan" (Baron, Clake, Turner & Pass, 2010, p. 30). He clearly pictured connectedness of workforce planning to other HR activities

1.5.3 Human Capital Management

Becker (1993, p. 54) defined human capital management as an "investment in education, training, skills, health, and other values that can not be separated from the individual" aiming to increase employee's productivity. Similarly, OECD (2007, p. 29) defined human capital as "the knowledge, skills, competencies and attributes embodied in individuals that facilitate the creation of personal, social and economic well-being". These determinants can be possessed individually or, as seen from an organization's perspective, a collective stock (Huff, n.d.; Juneja, 2018; Ployhart, Nyberg, Reilly & Maltarich, 2014).

However, studies are showing that application of the concept to reality differs – mostly due to its earlier mentioned orientation onto either an individual or an organization. This can be explained by several factors. Firstly, KSAOs (knowledge, skills, abilities and other) appear in all organizational levels yet they differ between the levels. Secondly, an individual possesses at once cognitive and non-cognitive KSAOs, which may result in multiple types of resources existing at organizational and individual level simultaneously (Ployhart, Nyberg, Reilly & Maltarich, 2014).

Human capital management refers to managing employees in a way that they would increase their effort to achieve organizational objectives. Juneja (2018) defines it as a "process of acquiring, training, managing, retaining employees for them to contribute effectively in the processes of the organization".

Deloitte (short for Deloitte Touche Tohmatsu Limited; 2018) and Huff (n.d.) recognized people vital in tackling business challenges and creating material wealth for organizations (or public welfare in case of public institutions). Rothwell (2010) recaps that people are organization's greatest assets. The issue is, however, that human capital theory treats individuals as economic commodities but determinants mentioned above are intangible and therefore hard to measure and quantify. Subsequently, it is hard to assess employee's economic value (Rothwell, 2010).

How to measure someone's contribution to an external society is the question Red Hat faced since it functions as a part of multiple open source software communities. Their work involves collaboration with volunteers, which therefore disables Red Hat to dictate what and when works need to be done (Whitehurst, 2015).

Box 3: Human Capital Management in Red Hat

In their opinion, traditional performance reviews can weaken organization's agility and result in missed opportunities. Red Hat operates in a fast-changing environment. Consequently, individual's performance objectives might become irrelevant quickly, resulting in low performance rating (and consequently in low compensation and advancement opportunities). They say this does not sound like an organization that rewards innovation, which is what Red Hat aims to do. This issue was resolved by development of a simpler performance review system that enables more flexibility and does not limit assessment to quantifiable measurements (Whitehurst, 2015).

Employee's responsibilities and manager's expectations are clarified in a dialogue between the two parties. However, goal-setting and progress-tracking is handled exclusively by an employee. It is argued that they understand best what outcomes of their work should be and how they relate to Red Hat's mission and strategy. Managers on the other hand should be attentive to performance and potential in order to connect them with opportunities for growth and development. Frequency of reviews is determined

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determined commonly (Whitehurst, 2015).

- Instead of scoring individuals, managers focus on developing their strengths and capabilities continuously. Annual reviews serve only as a reflection on what has been learnt and achieved in the past year and what challenges can be added to an employee's job. Moreover, colleagues and communities also evaluate employee's performance to comprehend employee's reputation as well as the scope and quality of their influence (Whitehurst, 2015).

- Compensation is not based on a matrix or formula which solves the problem of over-assessing employees in order to give them higher compensation. Managers are free to decide what is right for their people (Whitehurst, 2015).

As a conclusion Whitehurst (2015) points out an individual's case in the company who was an interface designer for core products. Not only she was good at her core job but she also reasonably and intelligently contributed in discussion in whatever area. Since she has been close to customers it was relatively easy for her to gather feedback from the market and therefore influence project-related decisions.

Due to its economic orientation, human capital management requires traditional metric assessment. However, as shown in the upper case, such metrics can easily overlook intangible assets, such as the influence this employee in Red Hat had. Organizations might fail to recognize employees with high potential if they cannot properly address jobs where measuring worker's output is not as straightforward as counting how many pieces were produced.

Succession management tools (one of them is presented later in chapter 2.2) on the other hand, encourages development of own assessment tool according to organizational needs hence improving organization's choice of talent and succession candidates. Finally, the most important difference between succession management and human capital management is their time-orientation in time. The latter focuses on current stock of knowledge, skills and abilities whereas succession management helps in understanding what the stock should be in the future and consequently giving an overview where companies' weaknesses are and how to develop its employees.

1.5.4 Talent Management

Phrase *talent management* tends to be used loosely and is often used interchangeably in association with terms such as succession planning, human resources planning, human capital management and employee performance management (Gallardo-Gallardo, Dries & González-Cruz, 2013; Lewis & Heckman, 2006; Rothwell, 2010). Gallardo-Gallardo, Dries & González-Cruz (2013) explained that this is due to lack of clarity what talent is referring to since it can be seen from two perspectives: as an object (as a characterstic of a person) or as an subject (as people). This can as well be noted in below definitions. Talent management is:

- "a process of recruiting, on-boarding and developing as well as the strategies associated with those activities in organizations" (Rothwell, 2010, p. 13),
- "the process of attracting skilled employees to a company, and developing the skills of existing employees, giving them attractive pay, working conditions, etc.," according to English dictionary (2018),
- "a system that promotes a high-performing workforce, identifies and closes skills gaps, and implements and maintains programs to attract, acquire, develop, promote, and retain quality and diverse talent" (U.S. Office of Personnel Management, n.d.),
- "a holistic approach to optimizing human capital which enables an organization to drive short- and long-term results by building culture, engagement, capability, and capacity through integrated talent acquisition, development, and deployment processes that are aligned to business goals" (Dantzler, 2009).

Definitions above describe talent management as a process that focuses on best employees – how to recognize, develop, reward and retain them, which to some extent resembles to succession management. More often than not, succession process is related to executive positions in the organization and developing future leaders (long-term development). Talent management, however, does not focus only onto long- but also short-term development. The biggest difference between the two programs is that talent pools are not limited by size whereas succession pools are often restricted by the number of critical positions (Gallardo-Gallardo, Dries & González-Cruz, 2013).

Based on the definition by Dantzler, well-executed talent management should lead into continuously improved results. Consequently, when companies fail to recognize and

reward their best people, this will reflect on their business. When Microsoft introduced Windows Vista, customers and businesses hated and ignored it, which only revealed that the company was not working well altogether. CEO attributed this failure to meet customers' demands to poor (high-performing) employee management.

Box 4: Talent Management in Microsoft

Steve Ballmer, then CEO of Microsoft, claimed leaders were not empowered enough. He understood that Vista did not give "a lot of agility in our ability to remap, reapply, re-focus resources" (Vance, 2012). As a solution, Ballmer changed management philosophy by focusing on collaboration and recruiting the right leaders (Bersin, 2012).

Drastic changes were required – Microsoft needed to revise and agree on their beliefs, then apply them to technology approaches. "The only way to get great execution with great ideas is to have guys in our leadership who can really take things to the next level" he argued (Vance, 2012). As a result, Ballmer brought several new leaders to Microsoft and moved Office (core product) engineers to their then-focal business (mobile software). The reason is that these engineers were people who pushed getting products out on time, surpassing expectations and were thus crucial in Microsoft's progress (Vance, 2012).

Under Ballmer annual revenues of Microsoft almost tripled whereas net income increased by 215% (Vance, 2012). Much of this growth came from areas he restructured. Ballmer's success was attributed to his ability to manage the company through people and devotion to interdisciplinary work (Vance, 2012). Since then, Microsoft has taken their talent management by underlining that learning and creativity as key to success. Most importantly, they assume everyone has a talent but it is up to the manager to show an employee how to use it wisely (Dweck & Hogan, 2016).

The biggest difference between talent management and other HR activities mentioned in this paper is the focus. Talent management emphasizes life cycle of an employee rather than leader's role in growth of an employee. In this manner, it is very similar to succession management. Moreover, both can be used as strategies to retain their best employees as well as attract new ones. However, succession management is a process with activities that concern all employees and not solely high-performers.

2 SUCCESSION MANAGEMENT MODELS

This chapter is divided into three parts. Initial part consists of four models of succession management process. Two of them are based on practical examples and experiences (created by a research and a consulting firm) whereas the remaining two offer an academic overview (one drawn by a professor and the other one as a product of literature overview). In the second part, a 9-Box Grid is presented; one of the most frequently used assessment tools in succession management. Final part offers an overview of several stages of succession management and its connection to business results. Based on this, an organization can estimate what impact on their business succession management will have on its business. Table 3 offers a summary of models discussed in the chapter.

Table 3: Overview of Succession Management Models

Type of Model	Name	Author and Source/Base	Summary
Process	Succession Management Framework	Loew (Brandon Hall Group), research	Phases: 1. Align (identify critical positions and key capabilities) 2. Assess (select) succession candidates 3. Develop (prepare) candidates 4. Deploy (transition candidates)
	Succession Planning Process	Haroski (FGP), best practices (consulting)	Steps: 1. Assessment of key positions 2. Identification of key talent 3. Assessment of key talent 4. Generation of development plans 5. Development monitoring and review
	High-Impact Succession Management Process	Barnett & Davis, literature overview	Steps: 1. Preliminary planning 2. Preparing for succession planning 3. The talent review meeting 4. Providing feedback and facilitating developmental action planning 5. Measuring effectiveness
	Seven-Pointed Star	Rothwell, academic	Actions: 1. Make commitment 2. Assess present work and people 3. Appraise individual performance 4. Assess future potential work and people requirements 5. Assess future individual potential 6. Close the development gap requirements 7. Evaluate succession program

Assessment	9-Box Grid	/	An employee is placed in one of the 9 boxes based on his potential and current performance. Boxes indicate direction of development for each employee.
Maturity of Succession Management and Impact on Business	Maturity Model and Business Impact	Bersin & Associates, research; Loew (Brandon Hall Group), research	Five-level succession management model measures maturity of the process and gives suggestions for improvement based on current level (the higher the level the more interconnected, systematic and proactive succession management). Correlations between succession program effectiveness and impact it has on business are found. Based on maturity of the program, impact can be estimated.

Source: own work.

2.1 Succession Management Process Models

2.1.1 Succession Management Framework

Brandon Hall Group, a research firm, divides succession management process into four phases: align, assess, develop and deploy, which are presented in Figure 3 (Loew, 2015).

Figure 3: Succession Management Framework (Adapted by Loew)
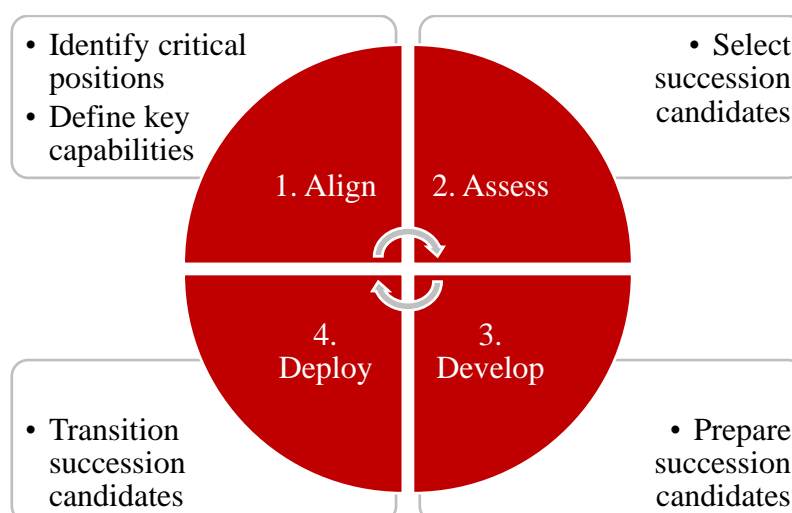
Source: Loew (2015, p. 20).

Phase 1: Align. Steps: Identify Critical Positions and Key Capabilities. It requires identification of critical positions, tasks or even groups. These are normally the drivers in

achieving business goals. However, they do not necessarily represent a leader's quality and are more often a combination of several factors. Therefore, it is important to dig deeper and broader into the organization – beyond senior level leaders – and clarify criteria for each position. Key questions to consider relate to turnover, expected and unexpected succession needs, average headcount, risks and opportunities for each position and nonetheless, what skills, experiences, behaviors and other attributes will be needed.

Phase 2: Assess. Step: Select Succession Candidates. Above mentioned current or future requirements (skills, experiences, behaviors and other attributes) need to be met with resources available to the organization. Performance, potential, readiness and preferences of employees need to be understood, which is why gathering relevant people is important. Gaps that appear between competency stock and organizational requirements have to be addressed.

Phase 3: Develop. Step: Prepare Succession Candidates. Organization implements development plans to address above mentioned gaps – the plan needs to include not just development targets but also proposal(s) on how to get there.

Phase 4: Deploy. Step: Transition Succession Candidates. Track progress of each candidate and compare it with targeted development. In addition, do so continuously to ensure alignment between development plans and organizational needs.

2.1.2   Succession Planning Process

Haroski's (2015) model was created with FGP International, a recruiting and consulting firm, and is based on "best practices" they encountered when working with clients. Although the process is developed for succession planning, it can be easily adapted to all organizational levels thus making it a succession management process. Below is a scheme of the process with topics relevant for each step.

Figure 4: Succession Planning Process (Adapted by Haroski)

1. Assessment of Key Positions	2. Identification of Key Talent	3. Assessment of Key Talent	4. Generation of Development Plans	5. Development Monitoring and Review
Critical positions; Skills, education and experiences needed; Behavioral competencies; Plan for future roles	Retention risk; Potential candidates; Critical employees; Performance and potential for advancement	Skills that we have versus skills that we need; Assess everyone; Readiness and willingness for promotion	Career plan creation (projects, rotation, mentoing and coaching, seminars, formal education, cross-training)	Alignment with strategic goals and vision; Progress evaluation; Development plan revision; Measurement of successes to plan; On-going feedback

Source: Haroski (2015).

2.1.3   High-Impact Succession Management Process

Barnett & Davis (2008, p. 730–731) composed this model based on the literature review of several authors and researches. It is one of the few models presented that list preliminary requirements for the process thus making it useful for companies that are trying to implement the system.

Step 1: Preliminary Planning. HR prepares and engages executives in a discussion about purpose and objectives, as well as definition of key concepts and criteria against which employees and the process effectiveness will be evaluated. Moreover, at this stage the process is designed; including a list of participants, timeline, steps, decisions to be taken and linkage to other HR activities and lower levels.

Figure 5: High-Impact Succession Management Process (Adapted by Barnett & Davis)

Source: Barnett & Davis (2008).

Step 2: Preparing for Succession Planning and Talent Review. Participants and nominees are selected. Data and information (such as competences and potential ratings) are collected, assembled and assessed in compliance with earlier agreed criteria. Moreover, conversations about aspiration with participants are held.

Step 3: The Talent Review Meeting. Each nominee is discussed in-depth regarding his/her strengths, limitations, development opportunities, performance and potential. For each employee development plan is created.

Step 4: Providing Feedback and Facilitating Developmental Action Planning. Firstly, development plan is communicated to nominees and their managers. Succession plan goes into effect by educating (or however determined in development plan) selected participants.

Step 5: Measuring Effectiveness. Measures with an established baseline need to be agreed on. The process is evaluated against the targets. It is suggested to discuss possible modification and improvements for the future.

2.1.4   Seven-Pointed Star

Rothwell's Seven-Pointed Star (Rothwell, 2010), presented in Figure 6, is one of the most commonly used process frameworks as it ensures systematic planning and management (Zupanič, 2016, p. 51). In order to implement one, below actions are required.

Figure 6: Seven-Pointed Star (Adapted by Rothwell)

1. Make Commitment
2. Assess   Present Work and People
3. Appraise Individual Performance
4. Assess Future Potential Work and People Requirements
5. Assess   Future   Individual Potential Requirements
6. Close the Development Gap Requirements
7. Evaluate Succession Planning Program
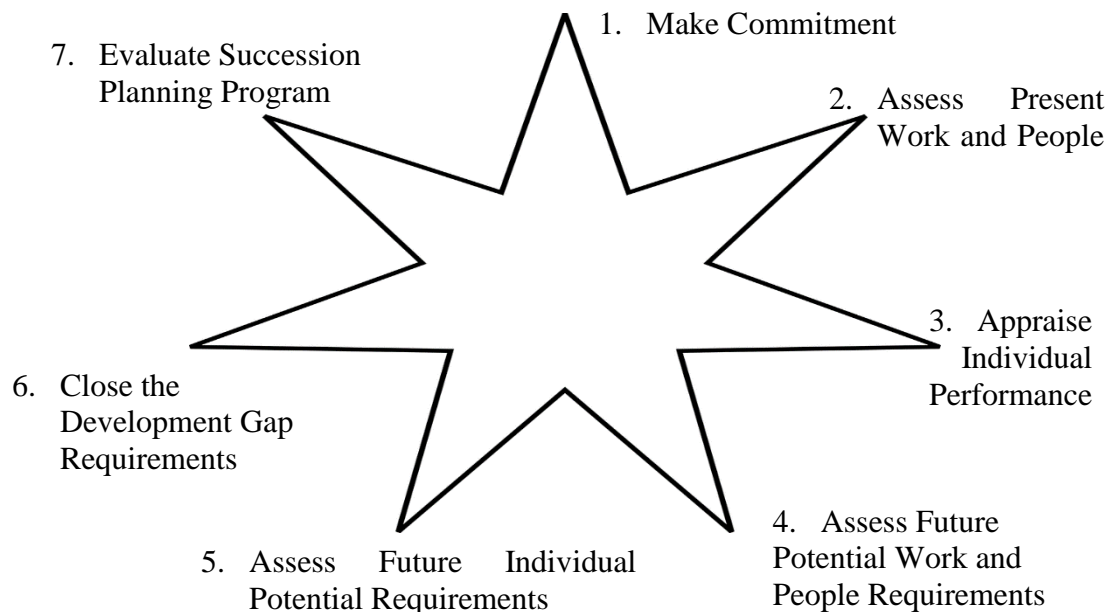
Source: Rothwell (2010, p. 83).

Step 1: Make Commitment. Stakeholders have to prepare a succession program and commit to it. Some of the activities that need to be undertaken are demonstration of a need for the program, definition of requirements, clarification of roles, connection to strategic plans and establishment of measurable goals.

Step 2: Assess Present Work and People Requirements. Listing work or competency requirements is crucial to ensure sufficient preparation of later chosen successors. In addition, it might reveal who is tough to replace.

Step 3: Appraise Individual Performance. Succession management is based on assumption that potential successor is doing well at their current job. Therefore, it is important to assess each individual. Moreover, it is beneficial to have an overview on stock of competences in the organization.

Step 4: Assess Future Potential Work and People Requirements. Which competences will be required in key positions in the future? How to align them with business strategy? If an organization can answer these questions, future leaders may be prepared to cope with changing organizational objectives.

Step 5: Assess Future Individual Potential. Organization needs to set-up an objective process to evaluate potential of each employee. Consequently, it can match individual's strongest points with future organizational requirements.

Step 6: Close the Development Gap. Organization must create a continuous development program, which will help to close the gap identified in step 5.

Step 7: Evaluate Succession Planning Program. The entire program has to be a subject of continuous evaluation to see how well it is working. Naturally, weak points need to be addressed and improved to maintain commitment to a systematic succession program.

2.2   Assessment Model: 9-Box Grid

Table 4: 9-Box Grid (Adapted by Day)

Potential	Potential for advancement but not meeting performance expectations: wrong job or wrong boss?	High potential and meets performance expectations: give **additional challenge, reward** and **recognize,** provide **opportunity to develop**.	Highest potential and usually exceeds expectations: **accelerate development opportunities**.
	Promotion potential for one level or laterally but underperforming: **coaching**.	Promotion potential for one level or laterally and meeting performance expectations: maybe needs **greater motivation, engagement or rewards.**	Promotion potential for one level or laterally with greater scope or challenge and usually exceeds expectations: **additional developmental challenges**.
	Has reached career potential and is not delivering: **counsel or terminate**.	Specialized talent or has reached career potential but meets performance expectations: **motivate and focus**.	Specialized talent or has reached career potential and usually exceeds expectations: **retain and reward**.
	Performance		

Source: Day (2007, p. 9).

9-Box Grid is one of the most commonly used tools in succession management. One axis indicates growth potential and the other evaluates employee's performance (is below, meeting or exceeding expectations). These two determinants place an employee in one of the 9 boxes that indicate direction of development for each employee as well as identify potential successors (SHRM, 2018).

2.3   Succession Management Maturity Model and Business Impact

This five-level model of succession management, developed by Bersin & Associates (2009), is used to measure maturity of succession management process. Each upper level includes more components of a succession program than the previous one. The higher an organization in the model appears, the more interconnected, systematic and proactive succession management is within the organization. The goal of the model is to give recommendations to organizations on how they can increase their maturity (improve their succession system).

Figure 7: Succession Management Maturity Model (Adapted by Bersin & Associates)
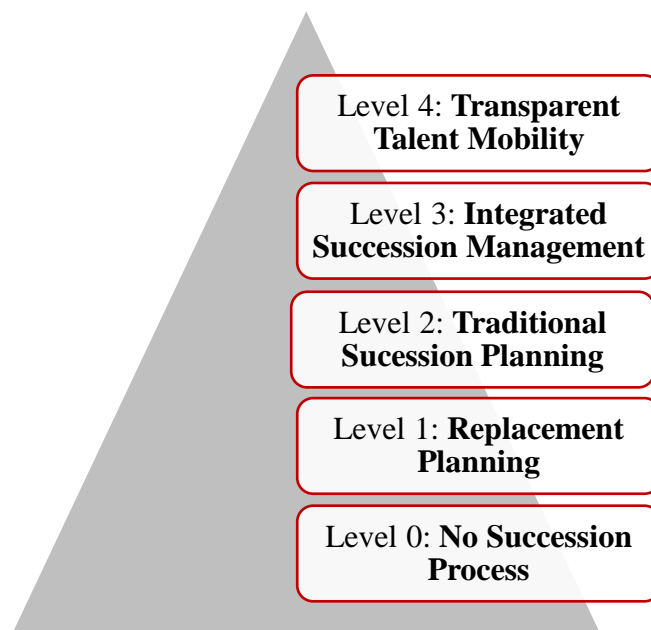
Source: Bersin & Associates (2009, p. 19).

Level 0: No succession process. There are almost no traces of succession system; perhaps a few potential CEO and top management successors are named. For such companies limited growth is expected.

Level 1: Replacement Planning. The process focuses on senior level. In comparison to level 0, a more detailed list of potential successors is generated. At this level, no formal development is in place.

Level 2: Traditional Succession Planning. It still targets only top levels of the organization but is aligned with business unit's strategy. Talent reviews and development plans are in place and are supported by the HR.

Level 3: Integrated Succession Management. It targets positions at all levels, not only top. It is as well aligned with the business strategy and intertwined with other HR management processes. Top management is supportive of the process.

Level 4: Transparent Talent Mobility. It is noted that no companies really belong to this level yet and is considered as "the next step" of succession management practices. Understanding potential of organization's workforce comes naturally and is based on what is the best for business. It is highly transparent, dynamic, pool-based, involves entire organization and has development plans in place.

Moreover, during her research, Loew (2015) from Brandon Hall Group found out that companies can be grouped in one of the four clusters which are similar to the ones in maturity model. Loew's model is based on correlations between succession management effectiveness and impact it has on business. An organization classifies itself in one of the below groups based on their succession management focus.

Table 5: Impact of Succession Management on Business (Adapted by Loew)

Level		Succession Management Focus	Succession Management Impact	Reflection on Business
1	Individual Development Planning	Reactive skill development	Efficient	Operational efficiency
2	Executive Replacement Planning	CEO and other senior leader replacement	Effective	Business process effectiveness
3	Succession Planning and Management	Healthy leadership and key individual contributor bench	Business-aligned	Competitive parity and business growth
4	Talent Mobility and Upgrading	Succession culture based on predictive talent requirements	Predictive	Transformation and sustained business growth

Source: Loew (2015, p. 19).

3 SUCCESSION MANAGEMENT IN PRACTICE

3.1 Current Status of Succession Management

3.1.1 General Overview

Annual global turnover of CEOs has increased for almost 60% in 2006 against 1995 (Barnett & Davis, 2008, p. 724). On average, each year about 10–15% of companies undergo CEO succession globally (Harrell, 2016). One of the most recent studies conducted by The Conference Board (2017), which takes into account S&P 500 companies, shows that in 2016 63 successions (12.6%) took place; the highest number since 2005.

On average, more than three quarters of successors come from the inside as shown in the research conducted among world's 2,500 largest public companies (Favaro, Karlsson & Neilson, 2015, p. 6). Harrell (2016), who described the trend on a global level, showed similar numbers. Furthermore, similar conclusions were drawn in a research conducted on Fortune 100 companies where, on average, 80% of CEOs come from the inside (Koch, Forgues & Monties, 2015). In case of newly appointed CEOs in S&P 500 companies the trend is heightened: in 2011, in 75% of cases (The Conference Board, 2017, p. 6) new CEOs were promoted from within and since then the ratio has only been increasing, reaching 85.7% in 2016 (The Conference Board, 2017, p. 6). However, it is important to underline that this recently increasing trend is a bit deceptive; 40–50 years ago in S&P 500 companies on average, more than 90% of successors were insiders (Harrell, 2016). Perhaps the reasons for such high percentages are to be associated with high firm-related specificity (limited number of external candidates and harder transfer of work to successors) and having vast internal options (bigger talent pools) (Koch, Forgues & Monties, 2015).

Furthermore, proportion of planned successions has been more or less steady at around 50% in early 2000's in world's 2,500 largest public companies (Favaro, Karlsson & Neilson, 2015, p. 3). However, after economic crisis hit in 2008, planned successions (against forced ones) in these companies started to increase and accounted for a bit less than 80% of all successions in 2014 (Favaro, Karlsson & Neilson, 2015, p. 3).

3.1.2 Implementation Rate of Succession Management

Rothwell (2010, p. 29) referred to a survey of Novations Group where 2,556 HR and training and development executives showed that in half of cases, where succession management is in practice, it is also cascaded to lower levels. Nonetheless, authors agree that proportion of those included in succession system decreases gradually when moving onto lower organizational levels (Loew, 2015; Rothwell, 2010).

Loew (2015, p. 9) showed that 20% of organizations (n=164) had succession management system implemented for five years or more at the time of research and 35% of organizations did not have such program. The survey respondents came from 24 countries and are Executives, Chief Human Resources Officers, VPs of Talent and other business leaders as well as HR, Learning and Talent Leaders.

Although the numbers slightly differ in global researches, overall they suggest that succession management systems have been implemented at an increasing rate over the last two decades.

- Studies from the beginning of 2000's suggest there were about 20% of companies that had succession management in place (Barnett & Davis, 2008, p. 724).
- Rothwell's collection of reports (2010, p. 28) suggested 40–45% of companies had succession activities running. He also noticed that the bigger the company, the higher the probability of having such practice implemented (Rothwell, 2010, p. 28). Similar observations for the same period are noted by Charan and Useem (2002, p. 78) saying that 55% of such companies had the process in place.
- According to Day's conclusions, 58% of organizations whose HR leaders are members of SHRM (n=427; 2007, p. 13) had succession practice applied to some extent.
- Bersin & Associates (2009, p. 10) concluded that 12% of global business leaders or talent managers (n=320) believed they had truly integrated succession management program. It was thought that lower organizational levels were easier to fill and that the process was therefore executed differently on those levels in 62% of cases (n=320; Bersin & Associates, 2009, p. 11).
- According to Harrell's estimations (2016), 54% of global companies had such system whereas 39% had no idea who could replace current CEO.

3.1.3   Succession Management Drivers

From her research, Loew (2015) extracted key drivers for succession management: lack of talent to fill critical job roles and lack of process to assess, grow and develop employees. A bit more than half of organizations across the globe from various industries (n=164; Loew, 2015, p. 10) aimed to undertook succession management programs to ensure progression of individual development programs. Additional 17 percentage points intended to do so over the next 12-months (Loew, 2015, p. 12). Moreover, 44% of these companies meant to expand it to all parts of the organization (Loew, 2015, p. 10)

Figure 8 above summarizes Day's (2007, p. 13) takeaways on how long in the future companies are considering skill requirements on average. Participants were 427 HR professionals that are members of SHRM across the globe. A gradual decline of the share of companies that consider skills 1–5 years in advance is observed. However, the percentage drops significantly with 6 years or more. In contrast, responses of 103 board members from best performing companies in the United States indicate that 56% of them are looking into potential leaders from younger generations (jwc partners, 2017).

Figure 8: How Long in The Future Companies Consider Skill Requirements (Adapted by Day)
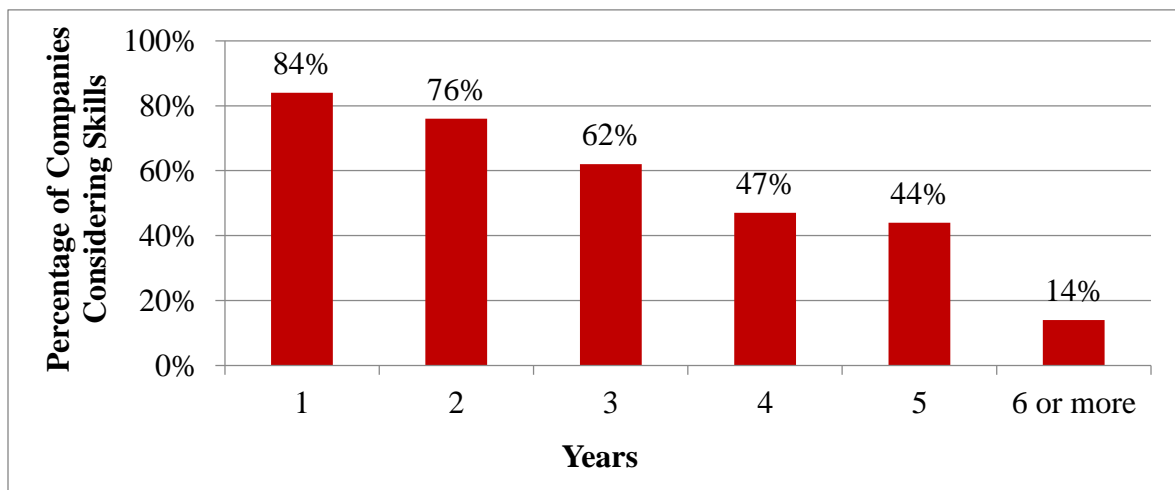
Source: Day (2007, p. 13).

CEO succession will most likely remain in focus due intolerance for bad performance (Rothwell, 2010, p. 56). A research on S&P 500 companies showed that poorly performing ones have, on average, 60% higher likelihood for CEO turnover (The Conference Board,

2017; Tonello, 2017). In 2016, 29% of CEOs left these companies due to bad performance; a year before it was 17% (The Conference Board, 2017; Tonello, 2017).

3.1.4   Most Common Succession Management Issues

On average, 5% of global business leaders and talent managers claim their system enables them meeting all talent needs; 20% of the same sample say that it does not meet their needs at all (Bersin & Associates, 2009). Similarly, 84% of Executives, Chief Human Resources Officers, VPs of Talent and other business as well as HR, Learning and Talent Leaders from 24 countries (n=164) suffered from an unhealthy pool of successors (Loew, 2015). Most common explanations were that companies failed to identify its talent or did not have or were unaware of required competencies (Bersin & Associates, 2009; Harrell, 2016).

Budget of succession management plays a big role in its implementation. In 2015, in the same research conducted across 24 countries as mentioned above, Loew showed that within what she classified as talent management, on average only 6% of the budget went to succession management. There were two positive takeaways though: firstly, companies said they will allocate the most budget to succession management in the following 12 months and secondly, activities within the succession system like learning, development and talent retention and acquisition were funded the most (Loew, 2015).

3.1.5   Corporate Support

Recent studies showed higher involvement of boards and management in succession planning. Rothwell (2010) believed it is so due to the positive effect on the accountability in business operations. Some research showed that 29% (n=164) of organizations (respondents are Executives, Chief Human Resources Officers, VPs of Talent and other business leaders as well as HR, Learning and Talent Leaders from 24 countries) include executives to succession management decisions at any level (Loew, 2015, p. 10).

Furthermore, CEO succession and CEO evaluation appear to be two of the most highlighted topics in the boardrooms – right after corporate strategy – according to a research conducted on a sample of 100 U.S. companies with revenues greater than $1 billion (jwc partners, 2017, p. 3). In contrast, the same research showed that HR topics

generally appeared in bottom half when ranking topics according to its importance (jwc partners, 2017, p. 6).

However, Bersin & Associates (2009, p. 12) concluded that on average 55% of global executives believed that their succession system is effective whereas only 38% of global HR professionals thought so. Loew (2015, p. 14) showed that 24% of organizations (n=164) from 24 countries and various industries rate their system as effective. This can be explained by the fact that only 40% of global companies (n=320; respondents are global business leaders and HR professionals) aligned succession management with strategic business activities (Bersin & Associates, 2009).

A quarter of global executives and HR professionals in a research (n=320; Bersin & Associates, 2009, p. 13) believed that they have right people present at performance review meetings. This result complies with Harrell's implication (2016) that 77% of S&P 500 executives did not participate in employee evaluations (with an exception of the CEO) and is the activity on which they spent the least of their time (Harrell, 2016). Perhaps this can be explained by the fact that 70% of top performing companies (n=103) outsource their succession management activities (jwc partners, 2017).

3.1.6 Diversity

An increase in number of women appointed as successors has been observed. In 2001, there were 6 female CEOs in S&P 500 companies and in 2013 and 2014 there were 24 (The Conference Board, 2017, p. 36). In 2016, 22 women were CEOs of S&P 500 companies (4.4%) and 6 out of newly appointed 63 CEOs in that year were women (9.5%; The Conference Board, 2017, p. 34). Most of them work in consumer products industry; however, newcomers mostly come from finance and insurance (The Conference Board, 2017; Tonello, 2017). In comparison to men, newly appointed female CEOs came from the outside more often (Favaro, Karlsson & Neilson, 2015, p. 9) in world's 2,500 largest public companies. In addition, they were also forced to leave more often than men (Favaro, Karlsson & Neilson, 2015, p. 9).

Moreover, a research conducted on largest 2,500 public organizations globally showed that newly appointed CEOs in 2014 in China, Japan and Northern America had none or barely

any experiences working in other regions (Favaro, Karlsson & Neilson, 2015, p. 10). On the other hand, Europeans had the most (Favaro, Karlsson & Neilson, 2015, p. 10).

3.1.7 Consequences of Succession Events

Favaro, Karlsson and Neilson (2015, p. 3) noted that every CEO succession event disturbs financial performance in a year before and after the change. On a sample of 2,500 world's largest public companies they concluded that on average, this reflects $1.8 billion lost in shareholder value per succession. However, they claim that negative impact is much smaller when the change is planned (Favaro, Karlsson & Neilson, 2015, p. 3). On the other hand, some suggest that stock market reacts positively when a succession occurs in companies with well-know "in-house breeding" programs (Harrell, 2016).

In addition, internally promoted employees show better performance than externally hired talents (Harrell, 2016). However, companies that are performing badly will hire externally more often than the ones doing well; perhaps externally hired leaders do worse because they walk into more challenging organizational environment (Harrell, 2016). Harrell (2016) indicates some studies showed that leaders, who had joined the company a few years before they were promoted, did just as well as candidates prepared in-house.

Finally, organizations with well-working succession management system appear to be more effective in reaching business results than the ones without. Below are examples of two studies.

Table 6: Effective Management System Strengthens Leadership, Quality of Pool of Potential Successors and Accelerates Growth (Adapted by Bersin & Associates)

n=320	Effective Succession Management System	No Effective Succession Management System
Share of Companies with Effective Leadership	65%	6%
Share of Companies with Increased Quality and Strength of Their Pool of Potential Successors	73%	21%
Share of Companies with Accelerated Growth	62%	12%

Source: Bersin & Associates (2009, p. 14).

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Table 7: Implementation and Execution of Succession Management Leads to Increased Revenues, Customer Retention and Decreased Workforce Turnover (Adapted by Loew)

n=164	Succession Management Practices Implemented	No Succession Management Practices Implemented
Voluntary Turnover Decreased at Least 1% over Last 12 Months	25%	8%
Revenue Increased at Least 5% over Last 12 Months	40%	31%
Customer Retention Increased at Least 5% over Last 12 Months	25%	8%

Source: Loew (2015, p. 25).

3.2   Trends Influencing Succession Management

In chapter 1.3 Benefits of Succession Management mentioned are development, retention, assessment, continuity of positions and tasks and diversity among others. Nowadays, many trends shaping succession management are observed. In this thesis, trends are grouped according to how a company can benefit or tackle these trends if succession management is implemented successfully.

3.2.1   Employee-Related Data and Decision Making

Having a data collection on personnel eases HR-related decision-making. Tracking availability, performance and preferences of employees will be key (McGlashan, Meadows, Power & Spencer, 2015; PwC Switzerland, 2017). Oxford Economics and SAP conducted a research on 2,700 organizations from 27 countries worldwide with at least $10 million revenues annually that more or less equally represent seven industries. 62% of them admitted they do not have enough data about potential of their workforce (Oxford Economics & SAP, 2014). 164 global Executives, Chief Human Resources Officers and Talent Leaders answered similarly – 67% of them stated they had not yet exploited technology for efficient succession management program (Loew, 2015, p. 10).

Moreover, in earlier mentioned Oxford Economics' research only 42% of respondents (n=2,700) claimed they knew how to extract meaningful information in the flood of data they are provided with (Oxford Economics & SAP, 2014). McGlashan, Meadows, Power

and Spencer (2015) believed this percentage is even lower. Consequently, pressures to invest in (suitable) HR technology occurred (Oxford Economics & SAP, 2014).

3.2.2   How Development Improves Retention

By 2020, half of global workforce will be represented by Millennials and around three quarters by 2025 (Abade, 2018; Hall, 2017; Oliver Wyman, 2016). Most highlighted characteristic of the newcomers is disloyalty. A research conducted by PricewaterhouseCoopers (2007, p. 31) on 2,739 graduates from China, the U.K. and the U.S. showed that only 8% of then-students believed they would have only one employer. On the other hand, 13.4% believed to have six or more (PricewaterhouseCoopers, 2007, p. 30). Harrell (2016) observed that in 1988, employees worked on average for fewer than three employees in their lifetime. A decade later, this average was higher than five (Harrell, 2016).

Furthermore, Schawbel (2014, 2016) estimated that, on average, 80% of the U.S. employees are open to new opportunities. Moreover, Oxford Economics' research on 2,700 organizations from 27 countries worldwide revealed that 35% of them had issues with disloyal employees as they appeared to be highly opportunistic (Oliver Wyman, 2016; Oxford Economics & SAP, 2014). Furthermore, average employment tenure has been decreasing. In the United States, it was 4.2 years in 2017 (Schawbel, 2017) where the average is being "pulled down" by the Millennials who left the company after 2 years on average (Schawbel, 2016).

Older generations retiring later than expected will most likely block younger ones in climbing up the corporate ladder (Schawbel, 2017). Besides immediate feedback, Generations Y and Z expect prompt recognition for their work (Schawbel, 2016). Rothwell (2010, p. 47), Barnett and Davis (2008, p. 722–723) add that Millennials distrust employers' ability to reward and retain them in the future for the work they have done today. If an organization fails to compensate them immediately, there is a high possibility they will leave the company (McGlashan, Meadows, Power & Spencer, 2015; Rothwell 2010, p. 47).

Oliver Wyman (2016) conducted a research on 31 large French and international firms where respondents were heads of HR as well as unknown number of academics in the

fields of management, the humanities and social sciences. The research showed that for two thirds of Generation Y personal development opportunities are the most important criteria when searching for a job (Oliver Wyman, 2016). Similarly, Day (2007, p. 31) summarized that out of 242 U.S. city employees, 52% of those searching for new employment are doing so because of insufficient development whereas only 16% do it for financial reasons.

Furthermore, PwC's People and Organization conducted an extensive research where 74% of participants stated they were willing to retrain or at least learn new skills to remain employable (PwC's People and Organization, 2017). The research included 10,029 employees from various industries and positions in China, Germany, India, the U.K. and the U.S. Furthermore, employees are as well willing to extend their learning opportunities outside of the organization (Oliver Wyman, 2016). Tn the contrary, according to some sources, Millennials do not count on organizations to develop them – they prefer to do it by themselves (Oliver Wyman, 2016). On average, three quarters of employees believe that it's an individual's responsibility to acquire right skills and education (Schawbel, 2017).

Y and Z Generations no longer support traditional education so strongly though. There are more courses, certificates and credentials offered by third parties than ever, which enables young generations to select specific fields of interest and are nonetheless cheaper than tuition (Schawbel, 2017). On the other hand, 78% of members of Generations Y and Z believe they have been adequately prepared for the professional world by educational institutions (Schawbel, 2016).

According to Oliver Wyman (2016) Millennials want to feel empowered to get things done and are seeking for challenge by handling meaningful tasks. When it comes to promoting employees this, however, no longer necessarily means to climb the corporate ladder. Rather than moving vertically, they want to move horizontally to gain cross-functional experience and work on projects. In this regard, they do not want their jobs to be strictly defined task-wise and are even leaning towards looser job titles (Barnett & Davis, 2008; Oliver Wyman, 2016; PwC Switzerland, 2017).

As Millennials and Generation Z are taking over workforce market, companies need to draw their profile and acquaint themselves with their preferences if they want to avoid high turnovers and keep their best employees. Openness to new opportunities, disloyalty and

tendency to switch jobs might be a consequence of requirement for constant feedback and recognition for their work.

Since the process of succession management encompasses creation of development plans for each employee, it consequently assists in retaining personnel. As stated earlier in this thesis, insufficient development is the most common reason for job changes. Millennials and younger prefer to broaden their skills and knowledge beyond their field instead of moving upward in the organization.

3.2.3   Workforce Shortage

Aging demographics has been shaped by two determinants: more and more people are retiring and secondly, fewer people are entering workforce market (Rothwell, 2010, p. 46). "Three in every four Americans plan to work past retirement age and almost two thirds said they will continue to work part-time," noted Schawbel (2017). Additionally, Haroski (2015) suggested that 44% of global workforce expects to retire by the age of 65 and another 10% of those aged above 50 will start working part-time.

As predicted (Rothwell, 2010), aging workforce and recovering economy are making talent shortages one of the most highlighted HR issues (Weisbeck, 2016). Oxford Economics' worldwide research, conducted on 2,700 organizations with minimally $10 million revenues annually, underlined talent shortages as the biggest HR challenge until 2020 (2014). Economic growth has been slowed down by employers not being able to find candidates with required skills (Schawbel, 2017) – on average, 48% of the U.S. employers cannot fill vacancies because of the mismatch on what market is offering what skills are required (Schawbel, 2016). Globally speaking, this percentage appears to be lower (28%) concerning leadership positions (Haroski, 2015). Additionally, it is estimated that 65% of jobs that Generation Z will fill do not even exist yet (Schawbel, 2017).

Automation plays a role as well. It is projected that half of tasks done by humans today will become automated, which will decrease headcount between 12 and 15% (Schawbel, 2017). Based on responses of over 200 HR professionals from organizations located in Switzerland of different sizes and industries, PwC Switzerland (2017), estimated that 20–30% of all jobs will become automated already by 2025 and that 40% of today's jobs will no longer exist. On the other hand, in a research involving 10,029 employees from various

industries and positions in China, Germany, India, the U.K. and the U.S., it was found that 56% of the sample believed governments should prevent increased automatization if needed (PwC's People and Organization, 2017, p. 33). 73% of the same sample thought human mind could never be replaced (PwC's People and Organization, 2017, p. 8).

Conversely, with more cross-functional and project work, organizations are becoming flatter and have less hierarchical levels. This, along with more individual autonomy in decision-making, leads to downsizing and more agile organizations (Haroski, 2015; Oliver Wyman, 2016). Old hierarchical authorities are no longer sufficient – leadership is changing in a way it can manage rather open, interactive and highly-changing environments (Oliver Wyman, 2016). Younger generations, who are entering workforce market, are lacking ability to influence as well as technical and IT expertise (jwc partners, 2017; Schawbel, 2015). However, Generation Z is supposed to be the most entrepreneurial, flexible and realistic (Schawbel, 2015). On average, more than 90% of them aspire to be leaders (Schawbel, 2015).

From the above trends we can conclude that recent workforce shortages will be deepening in the future. Firstly, there will be less people available and secondly, discrepancy between workforce wishes and actual needs are already occurring (new leadership skills are desired by the population, newcomers are very ambitious but lacking technical expertise). Succession management assists in balancing demand and supply by aligning organization's available potential successors with its (future) needs, encourages skills analysis, development and consequently job filling process (Rothwell, 2010).

Millennials appreciate honesty (Schwabel, 2014). Several researches (Oliver Wyman, 2016; PwC Switzerland, 2017; Schawbel, 2016) concluded that Millennials and Generation Z are impatient and want immediate feedback. They differ from older generations in what performance is given more weight – team work is valued more by younger generations (Schawbel, 2016).

3.2.4 Productivity Disruptions

Besides increasing trend of job switches and retirements, where tasks need to be handed on, absence from work needs to be taken into account. Schawbel (2015), for example, suggested that 64% of managers want their employees to be reachable after working hours.

It is reported that 84% of employees have experienced symptoms of poor health due to work-related burnout. This, on average yearly level, correlates to 20 days of absence and 46 days of reduced productivity for each individual (Schawbel, 2017).

As stated in the previous paragraph, succession management (if executed correctly), ensures continuity of tasks by giving an overview on who is suitable to take over these tasks fully or partially. In addition, it avoids allocating new tasks to less productive or over-loaded employees (Rothwell, 2010).

3.2.5   Objective Assessment

There are two main assessment-related challenges that organizations face. Firstly, when employees for promotion are picked informally, they tend to be chosen subjectively (for example due to likeability, appearance or similarity with current position holder; Rothwell, 2010, p. 14). Secondly, organizations should encourage employees to grow and not promise promotion. The tricky part is that, according to a research, only 20% of employees had at least 50% possibility of promotion on average (Barnett & Davis, 2008, p. 724). As a result, organizations need objective assessments in order to make the best decision and maintain trust by those who were not picked for promotion (Joynton, 2014, p. 3; PwC South Africa, 2017, p. 8).

Furthermore, in Switzerland, 72% out of 200 surveyed HR professionals expected an increase in importance of qualitative performance measures (PwC Switzerland, 2017) since importance of soft skills is increasing (Rothwell, 2010). Thus, companies will be forced to work hard on objectivity of their assessment system (Rothwell, 2010).

3.2.6   Diversity

In 2014, on average, 37% of leaders and 12% of high-potentials were women (Schwabel, 2014). This number is expected to increase since women have been delaying or will not be having children and are becoming more educated (Schwabel, 2014).

Based on a research on Swiss companies, 74% of HR professionals (n=200) believed that demographic changes will influence the future of work the most (PwC Switzerland, 2017).

The highest birth rates are found in Asia and Africa. Consequently, it is believed that many talents will come from those areas (PwC Switzerland, 2017).

4 METHODOLOGY

As mentioned, the purpose of the thesis is to provide for a better understanding of succession management on a case example as well as develop practical recommendations. To address these challenges, I need to answer below research questions.

1. How evolved is succession management process in Danfoss Trata?
2. How succession management process can be improved in Danfoss Trata?
3. Can succession management practice in Danfoss Trata serve as a reference to other companies on Slovenian market?

I will use a descriptive case study approach to address these questions. Case study is an in-depth investigation that captures complexity and uniqueness of a subject (e.g. employee, project, organization, household) in real-life context (Reis, 2016). According to Yin (1981, p. 98), it should be used when "an empirical inquiry must examine a contemporary phenomenon in its real-life context, especially when the boundaries between phenomenon and context are nor clearly evident". It might incorporate several exploration methods such as interviews, documentation, records and observations.

The reason I chose a case study as my research method is that it captures the phenomenon in completeness, since it takes into account many variables, thus giving realistic results. I can collect evidence, present my findings and then apply it to other organizations as I aim to do with my third research question. However, it is important to note that findings from case studies cannot be generalized, which leaves a lot of room for discussion. The drawback of a case study method is that bias is inevitable – participants are involved with the organization and might therefore not be objective. Since it explores a complex problem, it can time consuming (Reis, 2016).

Main source of information is based on internal material dedicated to succession management-related activities and an interview with Katarina Petronijevič, HR Business Partner and responsible for succession management in Danfoss Trata. Interview was semi-structured and lasted for an hour and a half. I studied internal material along with literature

used for this thesis. As a consequence, I knew which information I was still missing and used the opportunity to ask about it during the interview. I chose semi-structured approach because I knew which topics I wanted to cover, yet wanted to leave enough room for sub-questions in order to have a complete overview, including the details. Questions were divided into two parts. First one was referring to the context of succession management in Danfoss Trata (what is the goal, why the process, how is it approached (open/closed process), who is involved, what responsibilities each participant has and what is the timeline). Second set of questions discussed steps in the process in details.

Furthermore, there was a talent and succession management workshop held by Bojana Zupanič, Head of Succession in Danfoss. Firstly, she presented the process. Later we tried to list key positions in five years and prepared development plans for "made-up" employees. Finally, the discussion on the process mostly revolved around what the role of the manager is in getting an employee ready to become a talent or potential successor.

I will use this information to see to what extent Danfoss Trata complies with earlier presented models. Rothwell (2010) as well as some researches (Bersin & Associates, 2009) suggest that the system needs to be implemented at all organizational levels for its highest effectiveness – which is what Danfoss wants to achieve.

Nevertheless, one of the biggest limitations I faced when conducting a case study was subjectivity. Firstly, I intentionally chose an HR business partner for my interview since she is familiar with succession management system in Danfoss Trata thus I could not avoid making this systematic error. Secondly, I could have used several sources but in reality, there was only one HR partner I could interview. Thirdly, the interview and documents available on this topic were referring to Danfoss Trata in particular. There is always a possibility that some of the information I received has been "altered" or incomplete simply, because people do not like to point out flaws in the system they are responsible for. Potential solution would be to seek for a second opinion – "outsider" specialists (Reis, 2016). There is also a likelihood of biasness of the informant (myself). I intend to present facts and presentations in a balanced way, indicating several perspectives (Yin, 1981). According to Yin (1981), a case study offering only one view is the poorest case study.

5 DESCRIPTION AND EVALUATION OF SUCCESSION MANAGEMENT IN DANFOSS TRATA

In 1933, Mads Clausen founded Danfoss and led it from a solo enterprise into one of the world's most innovative suppliers in energy-efficient solutions. Engineering company, at the time still named Dansk Køleautomatik og Apparatfabrik (it was renamed to Danfoss in 1946), produced one of the world's first radiator thermostats for heating regulation and was world's first mass producer of frequency converters (Danfoss A/S, 2018a).

Nowadays, Danfoss is a leading international corporation in the area of heating and cooling with headquarters in Denmark (Danfoss Trata d.o.o., 2018). It operates in over 70 countries, sells products to more than 100 markets and employs more than 26,000 people. Revenues in 2017 grew by 12% in comparison to the year before and reached 5.8 billion Euros (Danfoss, 2018; Danfoss A/S, 2018d).

It is considered one of the most ethical companies worldwide (Danfoss A/S, 2018a). To maintain such reputation, the Group aims to always "be associated with respect for human rights, proper working conditions and social and environmental considerations" (Danfoss A/S, 2018b). To ensure ethical transparency, it monitors and mitigates its human rights impact (Danfoss A/S, 2018c). In addition, they have implemented programs that comply with best practices in ethics, anti-corruption, competition law, data privacy and export control. They say it is their priority to protect the environment and improve health, working environment and safety of their employees (Danfoss A/S, 2018b).

However, Danfoss Trata's roots go back to 1937 when the company Kovinolivarna Franc Smole was established in Ljubljana, Slovenia. At first, it was operating in casting and machining of cast iron products for industrial and communal use. Twenty years later, it expanded its portfolio to electronic regulators and valves. In the beginning of nineties, its Yugoslavian market share in district heating regulation and air conditioning accounted for almost 90% (Danfoss Trata d.o.o., 2018).

It became a part of Danfoss in 1995 as a Group's competency center for development and production of district heating components. It engineers components for district heating, balancing valves and heat exchangers. In other words, it holds business and technical responsibility for solutions within control and transfer of heat in water based heating,

cooling, HVAC and district energy system. It provides solutions to fight climate change and ensures quality of living (Danfoss Trata d.o.o., 2018).

District Heating business unit has expanded from components production (in Ljubljana) to heating stations by acquiring and establishing companies in numerous European countries and China. Danfoss Trata's role is to co-create transformation and co-coordinate their business (Danfoss Trata d.o.o., 2018). In 2017, its revenues amounted for more than 100 million Euros. At the end of the year, there were 458 full-time employees in two factories in Slovenia (Danfoss, 2018).

Since then, Danfoss Trata has been continuously achieving positive results, including remarkable profitability and highly developed supply chain system. One of key examples is increase of productivity for 220% between 2005 and 2015 (Danfoss, 2018). Even more talkative is employee engagement score: on a scale 0–100, Danfoss Trata reached a score of 90, showing that the workforce feels highly engaged (Danfoss, 2018). For comparison, an analysis by Gallup, an American research, performance management consulting company (2018), shows that 87% of employees, on average, are not engaged at work. It values honesty, openness, mutual trust, professionalism and constant personal development. It aims to develop perspective employees and future experts that will be needed in the future. These are mostly mechanical engineers, supply chain managers and experts in lean production (Danfoss Trata d.o.o., 2018).

Danfoss' awareness of future needs strives from strong HR activities. Top management is aware of its importance hence incorporates HR into business strategy. In Danfoss, key HR drivers that shape the strategy are high-performing culture, agile organization, global leadership and right people (Zupanič, 2016). Zupanič (2016, p. 77) noted that a third of key HR activities in the organization was derived from an area related to succession management:

- systematic strengthening of leadership and talent pool at all levels;
- systematic development of competences and clear career path.

During talent management workshop held in Trata in June 2018, Bojana Zupanič (Head of Succession) compared succession management process with a production line: you have the raw materials (talent's abilities) that you put in machining (develop them), resulting in final product (potential successor).

In the company, succession management is a relatively fresh concept. Previously, it has been incorporated only in top 5 levels of Danfoss Group. Last year, however, Trata decided to structure the process as well throughout entire entity and is currently in its first process cycle. Based on the description further on in this chapter, I schematically present Danfoss Trata's succession management process in Figure 9.

Figure 9: Danfoss Trata Succession Management Process
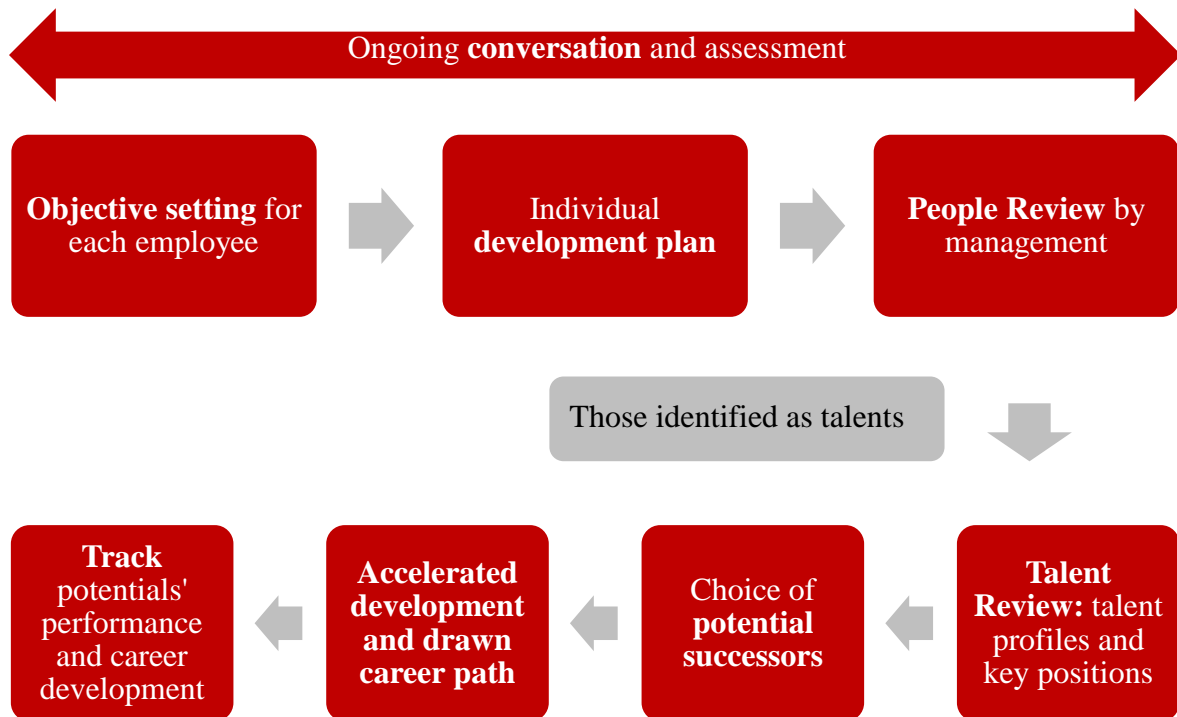
Source: own work.

5.1   Objective Setting

Petronjievič (2018) pointed out that clarity of direction contributes to the overall achievement of business objectives. Clear goals that motivate, ongoing conversations, alignment of efforts and actions create higher engagement and ensure meeting expectations and business objectives (Danfoss A/S, 2018e).

Objectives are set in December for the following year. Goals assigned to employees should be SMART (specific, measurable, actionable, relevant and timely), which makes it easier for managers to cascade organizational objectives to appropriate teams or individuals. Additionally, it ensures that goals and employee's contribution to the organizational

growth is understood by him/her. Each goal is assigned a weight to emphasize its importance (Danfoss A/S, 2018e; Petronijevič, 2018).

Table 8: Explanation of SMART goals in Danfoss Trata (Adapted by Danfoss A/S)

Attribute	Explanation
Specific	Description of tangible and ambitious objectives, enabling collaboration for teams to support the overall organizational strategy; can be modified as new situations or information arises.
Measurable	Details of the expected targets and rating criteria; may be broken down into smaller elements where necessary in order to accurately track achievement.
Actionable	Definitions of the corresponding accomplishments to define not only the steps to achieve individual performance but also promoting cooperation for team achievements.
Relevant	Organizational, team and/or individual objectives linked to the business strategy; objectives should be inspirational and motivational for the employee.
Timely	Objectives should be limited in both scope and duration, with a clearly defined timeline of what is to be achieved when; objectives can be short- or long-term and adjusted when necessary due to unforeseen circumstances.

Source: Danfoss A/S (2018e).

5.2 Individual Development Plan

Individual development plan, as underlined in the interview by Petronijevič (2018), helps employees to gain skills and knowledge that are crucial for their development in their current and future job.

In the first quarter, an employee and his manager make a revision of employee's current and required competencies for his position. For each of listed competencies (adapted accordingly with relevancy for each position), there are specific requirements described for each grade (1–6) that an employee must have in order to obtain a certain grade (Petronijevič, 2018).

Competencies in discussion are grouped into three levels: firstly, corporate behaviors that are used throughout the entire Group, second group is referring to departmental activities (example: supply chain, finance, marketing etc.) and finally, last set is job-specific (Petronijevič, 2018). Examples follow below but details are in Table 15 (in appendix).

Box 5: Competency assessment list for operational purchaser

Example of corporate competence: Communication. Desired level for the position: 3.

- Level 1: Can explain the importance of communication and basic elements in communication (individual and shared understanding, listening, questions, feedback)

 Level 2: … and shows understanding of the communication situation (context, objective, persons involved etc.) and is able to adapt communication (language etc.) to familiar situations

- Level 3: … and is able to adapt communication to unfamiliar situations. Can handle responses to communication in an appropriate way (control own reaction, giving feedback)

- Level 4: … and is able to differentiate situations and thereby adapt communication in nearly all situations. Can vary language, body language and communication method according to what is needed. Can handle responses from others appropriately

- Level 5: … and is able to change own communication style based on feedback from others or own observations. Can train or coach others on communication and behavior in communication situations

- Level 6: … and takes the lead on improving ways or methods of communicating.

Example of functional competence: Use of SAP. Desired level for the position: 4.

- Level 1: Can use basic reports and transactions

- Level 2: Knows also details behind these reports and from where they are sourced, can use operational/usual transactions based on instructions

- Level 3: Is able to use advanced functions (like getting data from tables) and knows the differences between different levels of data (MM, SD, …)

- Level 4: Independent user of SAP, know where to look for information (status of orders, blocks, vendor info, inforecords,…), and understand connectivity within modules and transactions

- Level 5: Is capable of structuring and analyzing nearly all kinds of information. Coaches or trains others in how to use SAP

- Level 6: Is able to structure and analyze very complex information. Is aware of SAP set up and customizing - SAP Superuser

Example of job-specific competence: Purchase order handling. Desired level for the position: 3.

- Level 1: Knows what is a purchase order, EDI, fax order and similar basic things
- Level 2: Has basic knowledge of purchase order handling tasks and understand how stock can help in delivery processes
- Level 3: Has developed independent skills in handling purchase orders and communicating with suppliers; regularly follows up on purchase orders, acts accordingly and informs relevant people in the organization in case of problems
- Level 4: Is able to proactively react to business needs and determine the needed corrections in inventory levels
- Level 5: Is giving useful feedback on what needs to be done to improve delivery performance of supplier
  Level 6: Is transforming the feedback into potential improvements and sharing them with peers.

Source: Danfoss A/S (2018f),

An employee and his manager grade the employee firstly separately and then discuss it together with an aim to agree on a grade. The matrix provides with a graphic presentation of employee's strengths and gaps between current job requirements and employees' competencies (Petronijevič, 2018).

Gaps that occur are addressed with development plan that includes defined actions and training. Developmental process is based on 70:20:10 model – 70% of learning is done with job-related assignments, 20% by colleagues sharing their knowledge, observing others and mentoring and finally, remaining 10% of learning is achieved with participation in formal trainings. The plan is revised and adjusted each quarter (Danfoss A/S, 2018f; Petronijevič, 2018).

Figure 10: Gap between Employee's Current and Required Competences (Adapted by Danfoss A/S)

Competence matrix
Supply Chain Purchase Coordinator
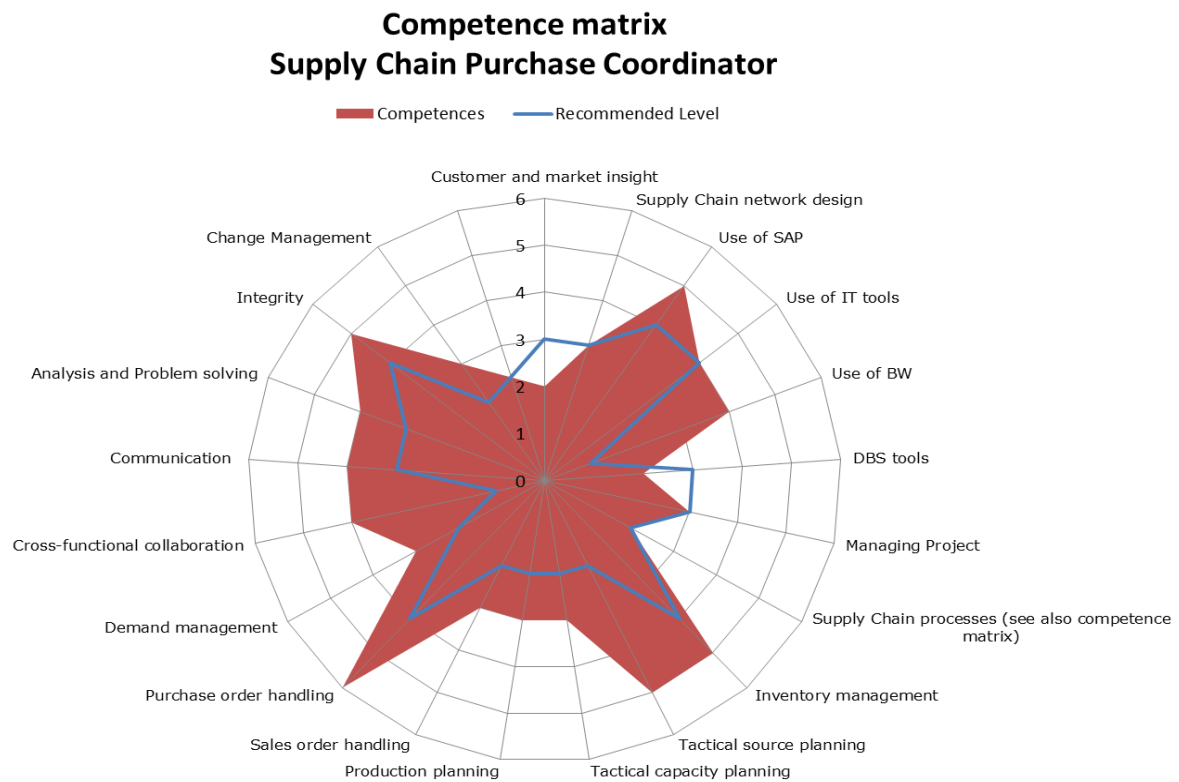
Source: Danfoss A/S (2018f).

5.3   Ongoing Conversation and Assessment

The entire process is interconnected with reoccurring dialogues between an employee and a manager. Conversations between the two aim to keep an employee motivated, engaged and passionate, as well as improve performance, argued Petronijevič (2018). Meetings are private, informal and scheduled as frequently as needed but most commonly every 2 weeks (Danfoss A/S, 2018g).

For every meeting, an employee prepares inputs on achievements, barriers and needed changes whereas manager coaches him on open topics – feedback is a reciprocal form of communication. Managers are highly encouraged to provide continuous feedback and talk about aspirations with their reports. In addition, performance, development plan, work conditions and other things influencing wellbeing at work, are advised to be discussed quarterly. Interviewee highlighted that the outcome of conversations is personal and

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professional growth as well as understanding the connection of employee's work to business strategy (Danfoss A/S, 2018g; Petronijevič, 2018).

5.4   People Review

People Review in Danfoss represents a way for managers to calibrate performance and seek input for development actions and consequently appropriate development for all employees (Danfoss A/S, 2018h). It is the last step that is common to all entities throughout Danfoss Group. It aims to ensure having right people on the right positions with right competences, experiences and knowledge, which drive successful business performance today and for the future. In addition, People Review supports individuals in achieving their career goals as well as exploiting their potential with structured strategic development (Zupanič, 2016). People Review outcomes are:

- calibrated performance rating,
- input for development,
- talent pool,
- potential successors.

It is a meeting held in the first quarter and consists of a group of top managers and HR partner(s). Subject of discussion are all employees with an aim to assess them (their performance) on a scale from 1 (does not meet expectations) to 5 (consistently exceeds expectations). Besides current performance, managers and HR partner discuss employee's development actions that are then considered in next individual development plan revision between an employee and his manager (Danfoss A/S, 2018h; Petronijevič, 2018).

During People Review, each employee is "placed" into Danfoss' Performance-Development-Potential matrix (Table 9) that has been designed especially for succession needs. Based on a grid box an employee is in, it can be determined whether s/he is a talent and consequently a potential successor (Danfoss Trata, 2017; Zupanič, 2016).

Table 9: Performance-Development-Potential Matrix (Adapted by Danfoss Trata and Zupanič)

Development		1	2	3	4	5		Potential
	Move up		John Doe	🟩	🟩	🟩	High	
	Enrich/Enlarge			🟧	🟩	Janez Novak 🟩	Medium	
	Grow in Current Position				Jane Doe 🟧	🟩	Low	
		1	2	3	4	5		
	Performance							

Source: Danfoss Trata (2017); Zupanič (2016, p. 79).

Legend:

1 – does not meet expectations

2 – meets most expectations

3 – meets expectations

Green: most likely to be identified as talents

4 – exceeds expectations

Orange: some of these might be identified as talents

5 – consistently exceeds expectations

5.5   Talent Review

As mentioned, People Review aims to assess all employees in terms of performance, potential and indicate their future development. However, Talent Review focuses only on employees who have been marked as talent in People Review. As indicated in (Table 9)

During People Review, each employee is "placed" into Danfoss' Performance-Development-Potential matrix (Table 9) that has been designed especially for succession needs. Based on a grid box an employee is in, it can be determinated whether s/he is a talent and consequently a potential successor (Danfoss Trata, 2017; Zupanič, 2016).

Table 9, talents are most likely employees who exceed expectations as well as those who meet expectations but show high potential. These employees are then a topic of discussion in the process described below which aims to promote accelerated development of talents and identification of potential successors.

5.5.1 Objectives

It is important for Danfoss to get the right talents for any open positions. Potential employees not only include professionals but also students looking for an internship and graduates looking for an entry position. However, a number of talents is limited to 10% of the entire organization (Danfoss Trata, 2017).

Danfoss Trata (2017) lists below objectives of Talent Review:

- to understand prioritized positions and upcoming succession challenges,
- get to know talents who can drive our strategy for the future,
- agree on specific actions to keep developing talents and move them to positions where they can be high performing,
- identify opportunities to increase diversity for high performing teams.

However, Petronijevič (2018) explained that a measurable objective is to have minimally two successors identified for each position, whereby at least one of them is ready now for 80% of prioritized positions. She adds that this can be achieved by continuous efforts to build and develop employee qualifications through on-the-job learning, courses, workshops, feedback, coaching and other activities.

5.5.2 Talent definition

A person identified as talent "has the ability and orientation to deal effectively with increasingly complex environments, challenges and responsibilities. He or she shows a strong capacity to grow and move up in a medium-term horizon of 3–5 years with a great likelihood of success in new positions with significantly more and different responsibility" (Danfoss Trata, 2017). During the interview, Petronijevič (2018) underlines that a person who has been marked as talent (or even potential successor) is not informed about it – it is a closed process.

Talent consistently demonstrates following qualities (Danfoss Trata, 2017):

- S/he is adaptable to customers' and business needs, drives changes, is willing to leave their career comfort zones for growth and new experiences.
- Intellectual capacity helps to deal with concepts and complexity comfortably, scan for new ideas, absorb them and translate that into productive action for customers and organizations.
- Learning agility by engaging in continuous learning and adapts behavior based on experience, reflections and feedback.
- Decisiveness by being proactive and making effective decisions when faced with risk or uncertainty.
- Has the drive and motivation to advance and succeed as well as the ability to grow.
- Excels in influencing and getting work done without direct authority; is constructive and persistent in collaboration with others.

5.5.3 Scope

All people identified as talents in People Review should be a part of Talent Review where leadership team includes talents from multiple levels: direct reports to leadership, talents reporting to direct reports to leadership and emerging talents from lower parts of the organization. To ensure focused accelerated development, a maximum of 10% of employees is identified as talents (Danfoss Trata, 2017). For a better representation of differences between employees, talents and potential successors refer to Figure 11 below.

Figure 11: Difference between Employees, Talents and Potential Successors
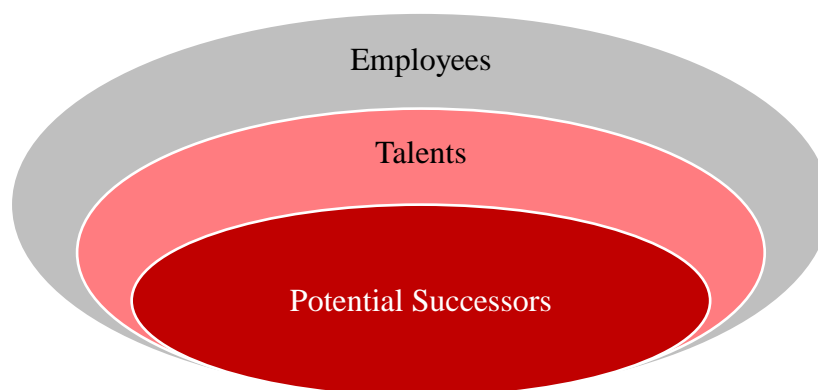
Source: own work.

5.5.4 Responsibilities

During Talent Review, top management, HR business partner and talent managers are present; at the moment the latter two are represented by one person in Danfoss Trata. Below is a list of responsibilities for each of them.

Table 10: Responsibilities of Participants in Talent Reviews (Adapted by Danfoss Trata)

Leaders	HR Business Partner	Talent Manager
• Describe talents in details • Provide appropriate feedback to the talent's manager after the Talent Review • If direct manager: drive talent development, starting with setting and following up on Individual development plan • If not a direct manager: follow up with the talent's direct manager	• Plans for Talent Reviews • Prepares leaders for the Talent Review (inform and train) • Facilitates Talent Review, prepares action plan • Drives follow-up on the outcomes throughout the year	• Build talent and succession competence with HR Business Partners • Facilitates GET Talent Review • Be available to facilitate talent and succession management related meetings

Source: Danfoss Trata (2017).

5.5.5 Setup & Outcome

Talent Review meetings take place each spring, aiming to create a pool of potential successors. Firstly, each manager presents roles that may be critical within three years (preferably five) in his department. This can be beforehand consulted with HR business partner if needed (Petronijevič, 2018).

Secondly, a manager presents talents from his department (if there are any) using talent profile. Talent profile, shown below in Figure 12, consists of three parts: presentation of his characteristics, strengths, weaknesses (development needs), prediction for the future role and definition of short-term development actions that would diminish his weaknesses and prepare him for the future role (Danfoss Trata, 2017; Petronijevič, 2018).

Figure 12: Example of a Talent Profile (Adapted by Danfoss Trata)

John Doe
Sales Manager

Manager	**Jane Director**
Segment	DHS
Region	NER
Last Hire Date	5/1/2010
Yrs. Current Pos.	New (less than 1 yr)
Age	39

Career Preferences

Relocation	**Yes**	Europe
Desired Next Pos.		The next career step should be on a higher level of sales mng maybe as Sales Leader in NER
Long-Term Career Goal		In a long-term perspective I would be interested in driving/implementing the S&M agenda on a regional or global level

Talent Identification

Performance

2017: **Exceeds Expectations**
2016: **Exceeds Expectations**
- Sales growth of 10% in own area
- Good in attracting new customers through energy efficiency agenda
- To improve relationships with internal stakeholders (divisions/BU)

Other talent qualifiers
- Is always focused on improving digital customer experience
- Deals with complexity comfortably
- Makes effective decisions when faced with risk or uncertainty
- Has high ambition
- Is ready to relocate

A talent for what?
- Could be a Head of regional sales in Heating in the next 3-5 years

Talent Development

Development needs/experiences
- To get experience in another Segment (product portfolio, way of working), KAM
- To get experiences across regions
- Leading a bigger team

The best next future role(s)

Key Account Manager

Across more regions

Time to move: end of 2019

Short-term development actions
- Move to Cooling as Country Sales Manager in Q3 2017
- Assign a mentor from Heating LT
- Lead international project xxx

Source: Danfoss Trata (2017).

Based on the presentation, other participants challenge the presenter and contribute to the discussion about each talent. Assessment is therefore based on manager's observation of person's current behavior and team discussion. The goal is to identify potential successors for each critical position, which is done using "two walls". On one wall critical positions are grouped in roles and on the other talents are grouped per current functions. Management team needs to therefore match talents with positions (Petronijevič, 2018).

During the interview, Petronijevič (2018) highlighted that not every talent will have a matching potential future position. Only those who have a match, are identified as potential successors. As mentioned earlier, each position should have at least two potential successors where at least one of them is ready now. This essentially means that even a person who has been chosen as a potential successor might no longer be one in the future, since the pool is continuously revised. The person will still be a subject of accelerated development though, as s/he remains a part of talent pool (Petronijevič, 2018).

When potential successors are identified, managers consolidate action plan for each of them. Action plan supports in achieving promotion indicated in Performance-Development-Potential matrix. Action plan (Table 11) is a simple table indicating potential

successors, desired position for the future, action, due date, responsible for this action (most likely his manager) and current status of the action which is then followed up according to the agreed schedule – normally during conversations (Danfoss Trata, 2017).

Table 11: Succession Action Plan (Adapted by Danfoss Trata and Petronijevič)

Person	Position	Action	Due Date	Responsible	Status

Source: Danfoss Trata (2017); Petronijevič (2018).

5.6 Evaluation of Succession Management Process in Danfoss Trata against Presented Models

Table 12 below summarizes key steps in succession management processes that I presented in this thesis. By quickly glancing at it, we can notice that there is not one model that covers all steps. Consequently, one might think that the perfect model for succession management does not exist – nevertheless, it needs to be pointed out that not every model is suitable for every organization.

Danfoss Trata does not include preparation in its process with an exception of guidelines for managers where their responsibilities are listed. This is not necessarily a red alarm though; as explained by Bersin's maturity model, companies with dynamic, intertwined, organizationally supported HR activities, pool-based decision making and strong employee-development drive tend to execute succession management naturally. Consequently, a step concerning pre-requirements is not always needed. Danfoss Trata has all these qualities, mostly due to well-developed talent management that serves as a starting point for succession management.

Secondly, majority of models focus on identification of key positions. Interestingly, it has been underlined that perhaps organizations should start searching for successors of people, not positions – sometimes it is people who bring the most value to the company (Haroski, 2015; Rothwell, 2010). Anyhow, without being aware, which positions are critical, it

makes no sense to implement the process, since companies do not even know what they are planning for. Trata publicly acknowledges its future recruitment focus, meaning it has a clear idea about what their human resource goal is, where future gaps will occur and how to develop their strategy.

Table 12: Summary of Presented Succession Management Processes

Step/Model	Succession Management Framework (Loew, 2015)	Succession Planning Process (Haroski, 2015)	High-Impact Succession Management Process (Barnett & Davis, 2008)	Seven-Pointed Star (Rothwell, 2010)	Danfoss Trata
Process Pre-requirements			X	X	
Identification of Critical Positions	X	X		X	X
Identification of Potential Successors	X	X	X	X	X
Preparation, Development of Candidates	X	X	X	X	X
Measure Candidate's Progress	X	X			X
Track Alignment of Development and Strategic Requirements	X	X			X
Evaluate Process Effectiveness		X	X	X	

Source: own work.

Furthermore, all processes aim to identify and develop potential successors in a manner to fill key positions when they become vacant. I can conclude that these are the two most important steps in the process. There is a hidden step before identification nonetheless – assessment of employees. Authors of models I presented collectively call for objectivity in the area. Besides the obvious reason – providing with the best candidates for a position – there are several others that companies should take into consideration:

- Objective performance reviews are providing sound reasons for the decision when people are let go (Rothwell, 2010).

- Since succession management is carried out throughout entire organization, such assessments minimize a possibility of overlooking efforts of support staff (Mihel, 2014, p. 4). The latter is not an issue in Danfoss Trata since all employees are discussed at People Review.

- As mentioned by Petronijevič (2018) during the interview, evaluating objectively will most likely prevent (perception of) promotions being done unfairly.

- I can conclude that such assessments are also more believable which helps employees in determining their learning goals. It is crucial for employees to get feedback on their performance since it affects their development and career path according to Hirsh (2000).

Finally, the models differ in follow-ups on the processes. In my opinion, three factors should be evaluated: employee progress, development fit with strategic requirements and process effectiveness. Potential successors are usually subject of (accelerated) development in order to get them ready for when a position becomes vacant. If his/her development is not monitored, then they may be unfit to tackle new tasks. Secondly, same result might occur when an employee is being developed in a different direction that strategic requirements dictate. Consequently, a candidate may not be prepared well-enough or an organization even ends up without any potential successors. As a final point, I would like to emphasize the importance of evaluation of the process against the targets. Such evaluation will reveal weak points of the process that should trigger discussion for modifications and improvements. Some examples are too few potential successors, inability to fulfill positions internally and low retention rate.

By concluding overall evaluation of the process we can focus on specifics that might not be visible at the first glance: openness of the process, connection to other HR activities and diversity.

5.6.1 Openness of Process

Percentage of talents that were given the promotion in comparison to the number of talents in a talent pool has not been measured in Danfoss Trata yet but it has been pointed out at the talent management workshop, that Trata has been "accused" of not keeping their

promises in the past. As mentioned earlier in the paper, it can be tricky for an organization to accelerate development of employees with the most potential without promising the promotion. In order to avoid this in the future, Danfoss Trata has decided to approach their Talent Review process as a closed one – talents will not be told that they have been labeled as talents.

Rothwell (2010) argues that a benefit of including identified talents into a discussion is a high possibility of talents being more motivated and consequently willing to learn more. In addition, it is less likely they will leave the company. Likewise an open process calls for better transparency and objectivity. On the other hand, they might assume the promotion is guaranteed and might stop working as hard or even reject further development. Moreover, if the word gets out, those who were not labeled as talents might lose interest or, since succession management should be a strategic effort, some confidential information might be leaked into external environment.

5.6.2   Overlap with Other HR Concepts

Talent management plays a big role in Danfoss Trata's succession management program. Common points of talent management (presented in 1.5.4) definitions are: development, high-performers, attraction and retention. Perhaps these can be best explained on a case of Microsoft. Then-CEO argued that the setup did not give them enough human resource flexibility. He brought new leaders and allocated their focal project to the best employees. Much of Microsoft's growth came from these areas. As this appeared to be a good practice, they have focused their HR activities on talent management.

Many parallels can be drawn between Microsoft and Danfoss Trata on how they execute talent management and both are a benchmark to other organizations (Čeh, 2016; Dweck & Hogan, 2016). However, it has been observed at a recent workshop on talent management that in Danfoss Trata talent management is used as a tool for succession practices. It was admitted by the Head of Succession that with this process they try to push employees upward in the organization rather than laterally and are consequently focusing more on employees with higher leadership potential. This called for a rather fruitful discussion leading into a concern that many experts (engineers) – who perhaps drive competitive advantage of Danfoss Trata – are left out from the process simply because they do not (necessarily) possess leadership qualities.

5.6.3   Diverse Workforce

Finally, let me touch a topic that succession management indirectly promotes: diversity. At Danfoss Trata workshop, it has been pointed out that globally Danfoss is lacking women in key positions. Rothwell (2010) described succession management as a process that can balance organizational structure in terms of preferring populations that are represented in minority.

How can succession management help in this case? Primarily it facilitates objective assessment. Assuming a male and a female are equally suitable for the job, to promote diversity, a woman will most likely be chosen (Danfoss A/S, 2018c; Petronijevič, 2018).

Moreover, in Danfoss diversity is strongly emphasized since it is considered as a source of competitive advantage – creativity, innovation, skills and perspectives differ between cultures. In addition, it aids in understanding local consumers (Danfoss A/S, 2018c). When filling vacancies (internally or externally) "the objective is to identify at least three qualified candidates who represent diversity in terms of culture, nationality, gender and age. If two or more candidates are equally qualified, Danfoss will aim towards diversity in the workplace in the final selection process" (Danfoss A/S, 2018c). Over 90 nationalities have worked in the group (Danfoss A/S, 2018c).

On the other hand, cultural diversity can as well represent a problem in succession management process. Individualistic cultures (such as the United States) have issues identifying potential successors (talents) when the entire group is high-performing and no individual stands out. Moreover, European firms are often built on the assumption that not everyone is born equal. Consequently, carrying a certain name means you are entitled to carry on your family's legacy (and become an executive, for example) regardless of what succession plans suggest (Rothwell, 2010, p. 51).

6   DISCUSSION AND INTERPRETATION

Succession planning in this thesis was presented as a process of identifying critical positions and potential successors, their development and preparation to be able to undertake tasks from a person leaving his position. Benefits of succession planning were initially extracted on an employee level, however, further works referred to succession

planning on a managerial level (from project managers upwards) as these were believed to be key position.

Succession management, on the other hand, enhances all organizational levels, not just managerial ones. It takes into consideration other key positions as well as ensures having a back-up for each activity on each position. In chapter 1.2 I listed five characteristics which differentiate succession management from succession planning. Now that an entire overview of succession management was presented in theory and in practice, I can elaborate on these characteristics in details.

- Its proactivity is shown in a requirement for continuous feedback and development. This is necessary in order to consider real-time situation and data, which is especially relevant in fast-changing business environments and business dynamics.
- As mentioned above, it tends to be more elaborate than succession planning as it takes into account all organizational levels, consequently making it more complex.
- Therefore, it calls for a detailed process and information as well as specified desired outcomes. It needs to be systematic.
- Nonetheless, it is deliberate. Both, succession planning and management, aim to find potential successors for critical positions and develop them. However, succession management additionally strengthens retention enforcements, which is not primary plan of succession planning.
- Finally, since succession management is such comprehensive concept, it is intertwined and integrated with other organizational activities such as strategy, hiring, performance, compensation and similar.

Following theoretical overview and evaluation of the process in Danfoss Trata, let me guide you through practical application. For better understanding, this section is divided into four subchapters: first three will answer my research questions and the last one will present my thoughts on the process.

6.1   Stage of Evolution of Succession Management in Danfoss Trata

Based on the description of Danfoss Trata's succession management process, its benefits, challenges, trends shaping it and comments on its application, we can make an overall assessment.

In chapter 0 I presented Bersin's maturity model. The model situates an organization in one of the five levels – the higher an organization in the model appears, the more interconnected, systematic and proactive succession management is within the organization.

Interestingly, what I observed during the interview is that HR business partner in Danfoss Trata referred to the process as succession planning. When asked about the difference between succession planning and management, she explained that "planning" is only a terminology Danfoss uses. My reasoning is that terminology did not change when entities started to implement the process in their own organizations also. When succession process existed only on top corporate levels, it was indeed "only" succession planning as lower levels (entities) were not included in the process.

Figure 13: Danfoss Trata Succession Management in Maturity Model (Adapted by Bersin & Associates)
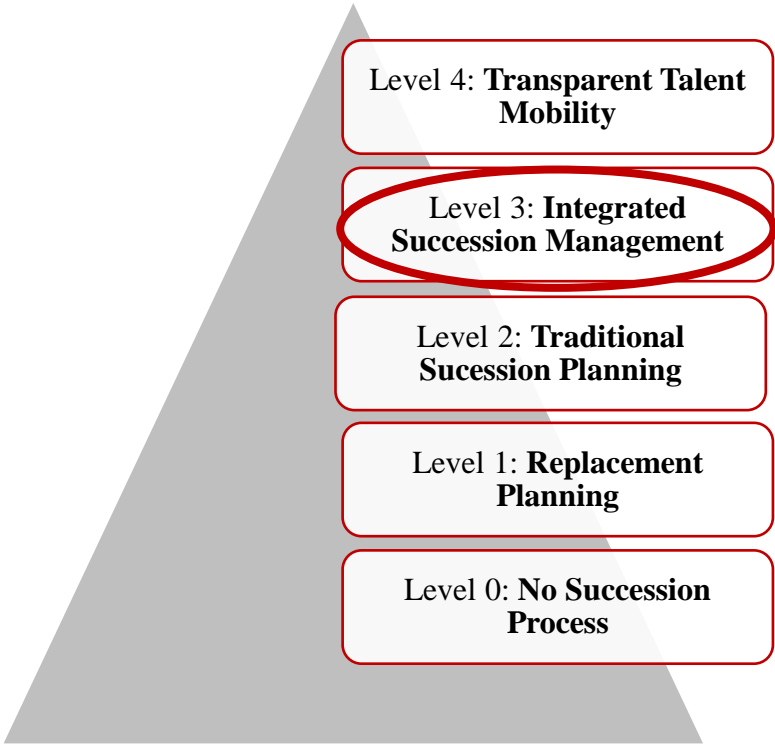
Source: Bersin & Associates (2009, p. 19).

Nonetheless, Danfoss Trata is at level 3 – it has integrated succession management. Key positions can be identified at all levels and every person from every level of the organization is discussed whether it can be a talent and potentially a successor. Connectedness with talent management is obvious. However, it starts with People Review,

where each employee's performance is discussed and consequently influences also other HR activities such as compensation and rewards, future development, staffing etc. Top management is not only supportive of the process – it initiated it. On a corporate level, succession management activities represent two thirds of all HR activities. However, since it has been implemented in Trata only this year, it is not clear yet how much the process will influence strategic decisions.

Finally, direct benefits of succession management were mentioned several times throughout the thesis. What is the bigger picture of benefits Danfoss Trata might obtain though? Since the process has been undergoing its first cycle, I could not have estimated impact of succession management practice on Trata's business. However, as it focuses on leadership positions at all levels – it is a bit lacking on key (non-leadership) positions though – it should gain competitive advantage and face business growth according to takeaways in Table 13. This is of extreme importance during ongoing talent war.

Table 13: Estimated Impact of Succession Management on Danfoss Trata's Business (Adapted by Loew)

Level		Succession Management Focus	Succession Management Impact	Reflection on Business
1	Individual Development Planning	Reactive skill development	Efficient	Operational efficiency
2	Executive Replacement Planning	CEO and other senior leader replacement	Effective	Business process effectiveness
3	Succession Planning and Management	Healthy leadership and key individual contributor bench	Business-aligned	Competitive parity and business growth
4	Talent Mobility and Upgrading	Succession culture based on predictive talent requirements	Predictive	Transformation and sustained business growth

Source: Loew (2015, p. 19).

6.2   Recommendations for Improvement of Succession Management Process in Danfoss Trata

Based on the evaluation of succession management process in Danfoss Trata (chapter 5.6), I can underline two major areas for improvement: succession management measurement and dependency on talent management.

6.2.1 Succession Management Measurements

Zupanič (2016) argues that succession management implementation cannot succeed without appropriate measurement system since it forces organization to follow up on the process closely and therefore ensures sustainability of the system. Although she states that overall business performance and satisfaction of stakeholders rises with the implementation, she (Zupanič, 2016) as well suggests several measurements of succession management (adapted to Danfoss' needs and process):

- percentage of vacancies filled with internal employees,
- percentage of vacancies with identified potential successors,
- retention rate of talents in talent pool (i.e. those marked as talents in People Review),
- number of employees rated with 4 (exceeds expectations) and 5 (consistently exceeds expectations) in People Review,
- percentage of talents that were given the opportunity in comparison to the number of talents in a talent pool,
- percentage of key positions without identified successor in comparison to the number of key positions,
- percentage of all jobs that are covered with succession management process.

These suggested measurements still do not cover relevancy between development plans and organizational needs. In Danfoss Trata, individual development plans are revised quarterly but in my opinion, the question whether debating about organizational requirements once per year is sufficient remains.

6.2.2 Talent Management as a Driver of Succession Management

At a first glance, using talent management for succession management practices seems relevant because it enables spotting employees who could potentially fill future key vacancies. However, as mentioned in evaluation of succession management process in Danfoss Trata, I noticed comments related to "wrong" use of talent management. Apparently, employees feel there has been a development push for those who appear to be potential leaders, neglecting those who were talented in other aspects. Similarly, based on their research findings, Bersin & Associates (2009) estimated that, on average, 60% of

companies can identify all competencies required but succession management process is too focused on development for managerial positions and is lacking support for high technical expertise.

In contrast, Rothwell (2010) observed a shift of power and decision-making towards individuals and teams. Furthermore, several authors, 2017) observed that employees in fact prefer to move laterally rather than vertically (Barnett & Davis, 2008; Oliver Wyman, 2016; PwC Switzerland). In addition, Rothwell (2010) noted that leadership is diffusing and organizations are flattening hence we need to ask ourselves whether such strong focus on leadership is still relevant.

Nonetheless, I will present the issue of a leadership push in reference to talent management using arguments given by Gallardo-Gallardo et al. (2013). They mentioned that talent can be seen from two perspectives: as an object (as a characterstic of a person) or as a subject (as people). Based on the research, I can conclude that Danfoss Trata considers talent as a subject – talent as a person – since they label person as a talent based (among others) on their performance in current position.

On the other hand, talent management in Microsoft is no longer about identifying high-potentials; it assumes that everyone has a talent – it only needs to be discovered. Based on this approach, I can classifying Microsoft into other "talent category" – an object, where talent is an employee's charateristic. The benefit of this approach, that could address Danfoss Trata's issue of focusing only on employees that are performing well in current position, is that such thinking may lead into discovering talents that employees do not show during their daily work. At the same time, this point of view addresses one of the issues in 9-Box Grid – low performers with high potential might have a wrong job or wrong boss. Moreover, below are presented three benefits of such method on a case of Microsoft that can help to increase number of talents in a talent pool.

- In Microsoft, they kick-off talent management with *Talent Talks* program. CEO and senior leadership meet with each divisional leader in order to review employees and discuss how to expand their skills and experiences by moving people across teams, functions and upwards in organization. This program results in people showing their real potential that might be overlooked if an employee is kept in the same position for too long. Consequently, more employees get a chance to find the most suitable job if

not even becoming a leader thus a potential successor. As the program showed promising results, it assists as well in attracting new people (Dweck & Hogan, 2016).

- Moreover, annual hackathon enables employees to collaborate cross-disciplinary, away from their daily jobs. A hack is an idea presented by an employee that might have an effect on business or society. Those interested can join the team and participate in development of the idea by creating a business plan and prototype, which is finally pitched in front of company leaders. Winning team is rewarded with funds for execution of the idea. One of the greatest outcomes, besides the pool of ideas, is that some employees show their skills (leadership, creativity etc.) that they do not at their usual job (Dweck & Hogan, 2016).

- Finally, high-risk projects face high probability of failure but on the other hand, they enable fast learning through tests and mistakes. Thus, according to Microsoft's experience, employees who work on such projects progress faster than average and those who were risk-takers turned out to be great leaders. The company started to stimulate and encourage smart risk-taking by rewarding it regardless whether the project succeeded or not (Dweck & Hogan, 2016).

If I summarize Microsoft's idea: managers should be able to find means to bring out the best of their reports. One of the employees in Danfoss Trata shared similar opinion during talent and succession Management workshop. He argued that the task of the leader is to figure out what an employee's Mount Everest is and then s/he, the manager, needs to find the most appropriate route to climb it.

However, in my opinion such approach has its drawbacks. As I have shown, succession management should prepare the candidates for future positions. Although talent pools are normally not (or less) limited by size than succession pools, I am concerned that finding the job that matches employee's talent might overshadow organizational strategic requirements. In other words, a company might have many high-performers but none of them is able to cover future workforce requirements. In this regard, Trata's approach is more convenient, as it appears to be more aligned with strategic requirements.

Moreover, as shown in this thesis, succession management practices also increase retention, which correlates with development – better development opportunities means better retention. However, as argued by Rothwell (2010), those who know that they are doing their best might become demotivated and stop performing so well. In this regard, I

believe Microsoft's method of finding a job that best exploits employee's talents might be counterproductive – an employee may think that regardless of what competences they develop, they will never be using them as well as they use their talents thus decline further growth opportunities. Consequently, this increases chances of him/her leaving the firm.

6.3 Succession Management in Danfoss Trata as a benchmark to Other Companies

If I needed to answer my third research question (whether succession management practice in Danfoss Trata can serve as an example to other companies on Slovenian market) shortly, the answer would be yes. However, in reality it is not so simple. As a consequence, I will split recommendations for other organizations, which are mostly based on Danfoss Trata's strong activities, into several parts. However, let me firstly make a case for succession management.

6.3.1 A Case for Succession Management

Succession events are unavoidable. As indicated by several researches though (Favaro, Karlsson & Neilson, 2015; Harrell, 2016), market reaction is much more favorable when the process has been planned or when an event occurs in a company that has a good reputation regarding talent/succession programs. If a company wants to develop good candidates, it needs to focus on retaining them. Trends are showing that younger generations, who are taking over workforce market, are not loyal to their employers because they doubt in their ability to reward or challenge them properly. In my opinion, succession management is a great answer to these challenges.

Moreover, what companies might be interested in is how succession management differs across industries. Most CEO changes in 2016 occurred in consumer product industry where one fifth of CEOs (S&OP 500) were newly appointed; the rate has doubled from the previous year (The Conference Board, 2017; Tonello, 2017). Tonello (2017) reasons that it seemed to be the most impacted by quickly-changing consumer characteristics (youth is interested in sustainability and elderly are acquainting with digitalization), expanding middle class in Asia-Pacific, weak emerging markets, strong dollar and the rise of online shopping (Tonello, 2017). On the other hand, manufacturing and service industries had the lowest succession rate (Tonello, 2017).

6.3.2　Implementation Phase

My findings show that Trata's model is not the best reference for companies that are still to implement the process. In such instance, I suggest High-Impact Succession Management model created by Barnett and Davis (page 25) or a Seven-Pointed Star (page 27) by Rothwell. Among all discussed models, these are the only two offering specifics in terms of pre-requirements and provide an insight on how to even approach setting up a succession program. Trata's framework does not offer such information and is more appropriate for companies that already have some basic activities that can be "upgraded" to succession management (such as replacement or succession planning).

Barnett and Davis suggest talking through the purpose of the program and its objectives, key concepts and assessment criteria, as well as process design. Furthermore, it suggests what data needs to be collected in advance and – what is missing in case of Trata – advises to measure potential successors' development and process effectiveness. Rothwell, in addition, underlined the importance of top management commitment to the process.

6.3.3　Ongoing Conversations

Schawbel (2016) observed that younger generations require immediate and frequent feedback. Moreover, most models consider potential and performance as key factors in succession management. However, Haroski argues that willingness of employees is as well relevant. Danfoss Trata aims to recognize those willing to be promoted during ongoing conversations. Although these meetings are informal, managers are provided with guidelines on how to conduct these conversations – normally called *Personal Meetings* in Danfoss Trata.

Conversations work both ways: feedback is received and given. However, feedback can make a difference only when it is effective. Firstly, it should be given in a timely manner. Both parties should be clear, specific, yet focused when describing the situation or behaviors. It should be judged and impact it had on a person should be acknowledged. On the other hand, one should not make assumptions, accusations or be vague. It is advised not to generalize (avoid words like "always" and "never") nor combine positive and negative feedback (avoid using the word "but" or similar) (Danfoss A/S, 2018g).

Day (2007, p. 14) noted that in reality evaluations are typically conducted only once per year and are considered as "episode" thinking – organizations do it only when the need occurs. In order to avoid counterproductive meetings, Danfoss Trata provides employees with guidelines on how to prepare for personal meetings. Below three topics should always be discussed (Danfoss A/S, 2018g);

- "since last meeting": what you have been working on, what went well and what not, what you learnt or would do differently next time, what has been the most motivating part,
- "current state": what are your priorities, what challenges are you facing, where do you need support, how do you feel about your current performance (Danfoss A/S, 2018g),
- "looking ahead": what do you need to work on to grow in current role, close or build on strengths, what kind of work would you like to do in the future, what experiences would help you prepare for your career aspirations, what do you want to follow up on next time (Danfoss A/S, 2018g).

6.3.4 Smart Use of Assessment Tools

On average, 40% of companies cannot identify required competencies, most probably due to unsuitable performance metrics used by organizations (Bersin & Associates, 2009). Based on literature takeaways (Berke, 2005b; Hirsh, 2000; Loew, 2015) I can mark talent profiles, 9-Box Grid or similar, 360 assessment and straightforward grading of skills and knowledge as the most appropriate ones for the purpose of succession management.

In chapter 2.2, I presented a 9-Box Grid. In my opinion, the great thing about it is that it can be used as a basis and each company adapts axes accordingly with organizational needs. For example, Danfoss Trata uses similar approach with 15 grids – performance is measured on a scale 1–5 instead of 1–3. In addition, it added a third dimension – development.

Moreover, the state of Georgia in the United States applied a 9-Box Grid when looking for successors in education sector. Performance component more or less remained (was named "getting the right results") whereas potential has been specified as "doing the right things", reflecting, as they call it, leadership potential (Hanover Research: District Administration Practice, 2014).

Since this paper is focused on internal hiring, let me summarize how an organization can avoid having bad fits at their jobs. Firstly, define metrics for quality of hire. Secondly, ensure candidates' and organization's strategic goals are aligned. Finally, continuously evaluate candidate's performance, progress and devotion to the – just because a person was a top performer once, it does not mean he will remain one. Moreover, keep in mind that individual's results often correlate with departmental results.

6.3.5   Link to Corporate Strategy

Rothwell (2010) argued that an organization should see employees as a corporate asset and show full support for such programs. Many authors agree that the most reassuring way for an organization to fully exploit its potential is to include succession management into strategic plans (Haroski, 2015; PwC South Africa, 2017; Rothwell, 2010).

Workforce issues drive strategy at 70% of companies in the Asia Pacific region – mainly due to Millennials entering workforce – whereas only half of this in the Northern American firms (Oxford Economics & SAP, 2014). As mentioned earlier in the thesis, on average, only 40% of companies align succession management with strategic business activities (Bersin & Associates, 2009). If companies do not incorporate succession management into their strategy, it will be seen solely as an HR responsibility rather than a key driver in attainment of objectives (Bersin & Associates, 2009). In order to prevent that, Rothwell (2010, p. 20) lists five approaches that connect corporate strategy to succession management.

Table 14: Five Approaches to Connect Succession Management with Corporate Strategy (Adapted by Rothwell)

Approach	Driver
Top-down	Corporate strategy
Market-driven	Marketplace needs and requirements
Career planning	Individual career advancement
Futuring	Environmental conditions
Rifle	Individual issues in the company on some levels or job categories

Source: Rothwell (2010, p. 20).

Petronijevič (2018) mentioned that this has been well-supported in Danfoss Trata – the idea of having such system came from top management anyway – hence I would classify it to the first group; top-down approach where driver is a corporate strategy. In relation, I would like to point out some practices of Danfoss Trata that have shown as effective:

- Ensure every participant in the process knows his responsibilities. Trata defined roles in succession management guide that is provided to participant in the process with described tasks and activities they need to undertake prior, during and after Talent Review meeting thus ensuring preparedness.
- HR activities in Danfoss Group are striving for systematic strengthening of leadership, talent pools at all levels and individual development.
- Pool of successors and key positions are continuously revised in order to keep it aligned with business direction.
- It is integrated it into daily operations by giving feedback, coaching and helping employees realize their potential.
- Trata uses a forward-looking profile. They made it (publicly) clear that their future needs are mechanical engineers, supply chain managers and experts in lean production.

6.3.6   Other Factors to Consider

There are some factors influencing succession management that were not debated in relation to Danfoss Trata but need to be taken into consideration by companies trying to execute the program.

Willingness to be promoted. Haroski (2015) pointed out that willingness to accept the promotion should be a part of assessments. What is important to note in this regard is that being promoted normally means working longer (Rothwell, 2010). Different cultures showed different priorities: on average, 70% of leaders in Japan believe their employees appreciate quality of life more than a promising career. On the other hand, the trend is almost reversed in Mexico where, on average, 72% of executives believe good career is valued more (Oxford Economics & SAP, 2014). Moreover, in 2016, work flexibility was top employment benefit globally (Schawbel, 2016) and it played a role in choosing whether to switch or stay with the same employer (Schawbel, 2015).

Burnout. Burnout has been mentioned as one of the reasons why succession management is crucial: it ensures that even when people are absent from work, there is always one person who can undertake his tasks. This benefit might in the future become irrelevant, though. New laws are being introduced that gives employees a chance to disconnect and decrease a chance of burnout as well as ensuring they are paid fairly. In France, companies with more than 50 employees are legally obliged to introduce a timeframe when workers are not allowed to answer their emails (Morris, 2017). Similar measures have been taken in Volkswagen, who disables the server routing emails to employees' Blackberries after their shift (BBC, 2012), and in Daimler, where employees' emails are deleted while they are on vacation (Kremer, 2014). Well-rested employees who have enough free time are more motivated, healthy, satisfied and consequently willing to stay with the company longer (Schawbel, 2017).

Resources. Organizations should be aware that all succession management efforts require lots of time, financial and human resources. Oxford Economics and SAP (2014) conducted a research on 2,700 organizations from 27 countries worldwide with at least $10 million revenues annually that more or less equally represented seven industries. 23% of them admitted they are lacking financial resources for this purpose. Companies are already tackling these investments: majority of them already use contingent workers (McGlashan, Meadows, Power & Spencer, 2015) and according to Oxford Economics and SAP's research (2014), 41% (n=2,700) intended to increase the number of independent contractors or temporarily leased employees. However, the question is to what extent it is healthy for a company to use contingent workers. Surely development of top employees requires more focus and resources but on the other hand these are the people that might potentially bring value to the company. Therefore, if they intend to cut down costs by outsourcing some activities, perhaps they might lose their strengths.

IT. Another investment worth considering is IT support to succession management. It is argued that data is a significant upskill that could help revolutionize HR, mainly in hiring, engaging, retaining and monitoring (McGlashan, Meadows, Power & Spencer, 2015). Modern software helps identifying required and given competences, gathers assessments, facilitates and tracks development of employees and finally, clarifies related decision-making (Rothwell, 2010). Replacing paper-based succession programs with automation guarantees more efficient, consistent strategy across entire organization (Loew, 2015).

6.4   Reflection on the Research Process and Topic

Since bad performance is not tolerated, CEO succession will most likely remain in focus of succession management. Consequently, majority of research is examining CEO succession. I believe in the future this trend will change and more information will be available due to increasing importance of retention and development on all organizational levels, not only top, as a consequence of workforce shortage.

To conclude, I would like to add my judgement on how theorists understand succession management and how it might as well be used in reality. In my opinion there are two perspectives from which we can look at it.

Theories defend that succession management is no longer succession planning when every person in organization is considered in the process of becoming a successor. This can be perhaps explained by its focus on leadership position. The person is in focus thus it is partially an HR activity. It needs to be emphasized that strength of succession management is getting successors (fairly) ready – but if they are not ready sufficiently, can succession management really ensure continuous processes?

What is not taken into consideration is that we can look at succession management from perspective of business processes and put all tasks (rather than positions) in focus. Instead of asking ourselves whether we have all positions covered, we need to have a look at crucial tasks and divide them between several people.

Why this view might work better in practice? Listing requirements for each position that needs a successor will hardly find a complete fit. Even if an organization wants to develop a person into a potential successor, there are chances that s/he would not like the plan drawn for him/her, does not want a promotion or simply will be ill-prepared. However, if we search successors for each task then it is easier to find employees that are willing to develop in required way and perhaps "smaller obligation" will not "scare" them away. In such case, business can continue without major disruptions whilst increasing a pool of potential successors.

Another argument supporting this approach is a fact that Millennials do not want their jobs to be strictly defined and prefer to move horizontally rather than vertically, to gain experiences in various functions (Barnett & Davis, 2008; Oliver Wyman, 2016; PwC

Switzerland, 2017). In addition, organizations are becoming flatter, which will result in fewer leaders needed and consequently minimizing importance for succession management in leadership positions (Haroski, 2015).

7 CONCLUSION

A number of people going into retirement outweighed a number of people entering workforce. In addition, Generations Y and Z are becoming less and less loyal. Therefore, organizations are pressured to fight for the best employees. Recent studies have found that recruitment and compensation are no longer key topics of successful HR practices. Instead, HR should focus on trainings, skill development, job enrichment, retention and empowering. It has been proven that how well human capital is managed correlates with organizational performance.

Succession management can be used to tackles this challenge by identifying current and future key positions and their requirements. These should be objectively measured against abilities and attributes of current employees. The most promising ones (the ones with the highest potential and performance) will be developed to fit with organization's strategic requirements thus making him/her a potential successors. Given the current talent war, succession management should therefore use forward-looking profile in order to identify successors ahead of time.

In the beginning, I listed four goals of the thesis: to provide a clear idea of succession management and differences between similar concepts, conduct an analysis of Danfoss Trata's succession management system then recommend improvements and finally show where it can serve as a benchmark to other companies.

Replacement planning only identifies potential successors and does not focus on development. Succession planning and management both do. The former exists only in top organizational levels whereas management considers all levels. Furthermore, workforce planning is an analytical process, which provides with required headcount for the future thus it is often used as a base for succession management. Human capital management focuses on current stock of knowledge, skills and abilities – succession management identifies future requirements. When used together, a company can identify the gaps and prepare potential successor accordingly. Finally, talent management is often used as a tool

that identifies potential successors – these are usually employees that regularly exceed expectations and show high potential. However, there are two perspectives of looking at talent – as a person or as a person's characteristics.

During my research, I noticed that Danfoss Trata's succession management system identifies potential successors using the first approach – talents are employees with an ability and orientation to deal effectively complexity, challenges and responsibilities, have strong capacity to grow and tackle new challenges with high possibility of success. However, I discovered that such approach has its flaws. Danfoss Trata admitted that talent management serves mainly as a push for leadership positions. This, however, overlooks employees that do not necessarily have leadership qualities but are continuously exceeding expectations – engineers, for example. Moreover, Danfoss Trata's program evaluates performance on employee's current job, which may not necessarily be the best approach if it is not the most suitable for the employee. As I have shown on a case of Microsoft, they rotate employees to find where they can best exploit their strengths.

Furthermore, another weak point I have discovered is a lack of measurement of succession management. Trata measures potential successor's progress and evaluates its relevancy with strategic requirements, however, it does not evaluate the effectiveness of the process. I have proposed several measurements that it could use – share of vacancies filled with internal employees, retention rate of talents and share of key positions with identified potential successors, to name a few.

On the other hand, Danfoss Trata executes some succession management activities that could serve as a best practice to other companies. Ongoing conversations that usually occur every two weeks between an employee and his manager, enable giving and receiving relevant feedback on employee's past, current and future work, aspirations and revision of development plan. I have provided recommendations on how to appropriately give feedback. In relation to the development plan, I would like to emphasize that development plan is drawn based on assessment of employee's performance on current position and requirements for the position. If requirement is higher than employee's ability, development will firstly address these issues.

Finally, having a pool of potential successors is one thing but in order to make it effective, an organization has to tap as much potential from all of its employees as possible. One

solution is to develop them in coherence with business strategy – not only to have more competent and suitable employees but also to keep them motivated. I found three main points that are key to effective alignment: ensuring that employees understand their responsibilities and how they contribute to organizational goals, acknowledging future organizational requirements and regularly following up on a pool of potential successors.

However, the process cannot work without adequate support. Succession management requires lots of financial and human resources – top management support is therefore essential. This can be achieved by tying it to organizational strategy where benefits of succession management become more transparent. As I have shown in the thesis, good employee management increases productivity, employee satisfaction and consequently decreases employee turnover. Succession management supports it in attainment of strategic and operational objectives by having the right people at the right place at the right time doing the right things to achieve the right results.

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APPENDICES

Appendix 1: Summary in English language

Rothwell (2010, p. 6) defined succession management 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" on all organizational levels. Succession management is a resourcing strategy that ensures continuity of tasks by balancing organizational needs in terms of competences and personal attributes with available human resources. It is characterized by

- proactivity, shown in requirement for continuous feedback and development thus being considered in real-time situation and data, which is especially relevant in fast-changing business environments and business dynamics;
- being more elaborate than succession planning as it takes into account all organizational levels, consequently making it more complex;
- requirement for systematic, detailed process, information and specified desired outcomes;
- deliberate enforcement for retention;
- comprehensiveness as it is intertwined and integrated with other organizational activities such as strategy, hiring, performance, compensation and similar.

Speed of change has been increasing, challenges are becoming more complex, talent war has been emerging because a number of employees retiring is high than number of those entering workforce market. One of the key questions that every organization will be facing is how to retain Millennials, who will represent around 75% of global workforce (McGlashan, Meadows, Power & Spencer, 2015) in less than a decade and have a strong focus on the future, progression, attaining skills in various fields and want constant feedback, yet do not provide loyalty in return?

Succession management hold answers to these issues. Some of its benefits are successful job filling, increased retention, objective employee assessment, proactive employee development, encouraged diversity and creation of positive atmosphere.

One of the purposes of the thesis was to provide for a better understanding of what succession management is hence let me clarify the differences between similar expressions.

Replacement planning only identifies potential successors and does not focus on development. Succession planning and management both do. The former exists only in top

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organizational levels whereas the latter considers all levels. Furthermore, workforce planning is an analytical process, which provides with required future headcount and is often used as a base for succession management. Human capital management focuses on current stock of knowledge, skills and abilities – succession management identifies future requirements. When used together, a company can identify the gaps and prepare potential successor accordingly. Finally, talent management is often used as a tool that identifies potential successors – these are usually employees that regularly exceed expectations and show high potential.

Now that I have clarified how succession management differs from other commonly used HR practices in business, let us addressed below research questions that guided me through my case study.

8.   How evolved is succession management process in Danfoss Trata?
9.   How succession management process can be improved in Danfoss Trata?
10.   Can succession management practice in Danfoss Trata serve as a reference to other companies on Slovenian market?

Danfoss entities are a relevant context for exploring succession management as the company treats its employees as one of key factors in achieving business growth. Case study is an in-depth investigation that captures complexity and uniqueness of a subject in real-life context. My main source of information is based on internal material dedicated to succession management and a semi-structured interview with HR Business Partner who is responsible for the process in Danfoss Trata. Furthermore, I took part in talent and succession management workshop held by Head of Succession in Danfoss.

I found that Danfoss Trata's succession management process consists of below steps:

1. Objective setting
2. Individual development plan creation
3. People Review (assessment of employees and identification of talents)
4. Talent Review (discussion about talents' potential and succession needs)
5. Choice of potential successors
6. Accelerated development of potential successors
7. Tracking of performance
8. Ongoing conversations throughout the process between an employee and his manager

During literature review I presented several succession management process models and came to a conclusion there is no such thing as the perfect model that covers, in my opinion, all necessary steps. I have learnt from this and provided recommendation for Trata on how to improve its process to make it more fulfilled but firstly, let us see how evolved the process is in general (first research question).

How evolved is succession management process in Danfoss Trata?

Based on presented Bersin's maturity model Danfoss Trata has integrated succession management. Every person from every level of the organization is discussed as a potential talent and consequently a successor. It is connected to talent management, compensation and rewards, future development, staffing etc. Top management is not only supportive of the process – it initiated it. As such, Table 1it should gain competitive advantage and face business growth. Although the system belongs to the third level out of four, there are still two major areas for improvement: succession management measurement and dependency on talent management.

Recommendations for Improvement of Succession Management Process in Danfoss Trata

Measurements. In my opinion, three factors should be evaluated: employee progress, development fit with strategic requirements and process effectiveness. Trata measures potential successor's progress and evaluates its relevancy with strategic requirements, however, it does not evaluate the effectiveness of the process. Suggested measurements of succession management (adapted to Danfoss' needs and process) are:

- percentage of vacancies filled with internal employees,
- percentage of vacancies with identified potential successors,
- retention rate of talents in talent pool (i.e. those marked as talents in People Review),
- number of employees rated with 4 (exceeds expectations) and 5 (consistently exceeds expectations) in People Review,
- percentage of talents that were given the opportunity in comparison to the number of talents in a talent pool,
- percentage of key positions without identified successor in comparison to the number of key positions,
- percentage of all jobs that are covered with succession management process.

These suggested measurements still do not cover relevancy between development plans and organizational needs. In Danfoss Trata, individual development plans are revised quarterly but in my opinion, the question whether debating about organizational requirements once per year is sufficient remains.

Talent Management as a Driver of Succession Management. At a first glance, using talent management for succession management practices seems relevant because it enables to spot employees who could potentially fill future key vacancies. However, employees in Danfoss Trata feel there has been a development push for those who appear to be potential leaders, neglecting those who had other talents. Gallardo-Gallardo et al. argued that talent can be seen from two perspectives: as an object (as a characterstic of a person) or as a subject (as people). Based on the research, I can conclude that Danfoss Trata considers talent as a subject – talents in Trata are employees with an ability and orientation to deal effectively complexity, challenges and responsibilities, have strong capacity to grow and tackle new challenges with high possibility of success. On the other hand, examples show that when talent is treated as an object, it is often assumed that everyone has one – it only needs to be discovered. If Trata used this approach, it may discover employees with talents that are not shown during their daily work and finds them a job where they can perform better.

Benchmark and Recommendations to Other Companies

Succession events are unavoidable. As indicated by several researches, market reaction is much more favorable when the process is planned. On average, most CEO changes in 2016 occurred in consumer product industry whereas manufacturing and service industries had the lowest succession rate. Short answer to whether succession management practice in Danfoss Trata can serve as an example to other companies on Slovenian market is yes. Summary of recommendations for other organizations, which are mostly based on Danfoss Trata's strong activities, are listed below.

Implementation. My findings show that Trata's model is not the best reference for companies that are still to implement the process. In such instance, I suggest High-Impact Succession Management model created by Barnett and Davis or a 7-pointed star by Rothwell. These are the only two offering overview of pre-requirements and provide an insight on how to even approach setting up succession programs.

Ongoing Conversations. Younger generations require immediate and frequent feedback. Besides potential and performance, willingness of employees to be promoted is as well relevant. Danfoss Trata aims to identify those willing to be promoted during ongoing informal conversations where feedback is received and given (I have provided with guidelines on how to effectively give feedback). Three topics should always be discussed: since last meeting, current state, looking ahead. The latter is mostly seen in relation to the development plan which is drawn based on assessment of employee's performance on current position and requirements for the position. If requirement is higher than employee's ability, development will firstly address these issues.

Objective Assessment. Authors collectively call for objectivity in assessment. A 9-Box grid (or similar) is a commonly used tool measuring performance and potential. Since this paper is focused on internal hiring, let me summarize how an organization can avoid having bad fits at their jobs. Firstly, define metrics for quality of hire. Secondly, ensure candidates' and organization's strategic goals are aligned. Finally, continuously evaluate candidate's performance, progress and devotion.

Connectivity to Strategy. Many authors agree that the most reassuring way for an organization to fully exploit its potential is to include succession management into strategic plans. If companies do not incorporate succession management into their strategy, it will be seen solely as an HR responsibility rather than a key driver in attaining objectives. Trata is ensuring that with several actions: has guidelines that are provided to participants in succession management process with described tasks and activities they need to undertake, pool of successors and key positions are continuously revised in order to keep it aligned with business direction and finally, it uses a forward-looking profile (they made it (publicly) clear that their future needs are mechanical engineers, supply chain managers and experts in lean production).

Burnout. Burnout has been mentioned as one of the reasons why succession management is crucial: it ensures that even when people are absent from work, there is always one person who can undertake his tasks. Well-rested employees who have enough free time appear to be motivated, healthy, satisfied and consequently willing to stay with the company longer.

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Resources. Organizations should be aware that all succession management efforts require lots of time, financial and human resources. One of the main investments organizations should consider is IT support to succession management. It is argued that data is a significant upskill that could help revolutionize HR, replacing paper-based succession programs with automation guarantees more efficient, consistent strategy across entire organization.

Finally, having a pool of potential successors is one thing but in order to make it effective, an organization has to tap as much potential from all of its employees as it is possible. One solution is to develop them in coherence with organizational business strategy – not only to have more competent and suitable employees but also to keep them motivated. I found that key to effective alignment is ensuring that employees understand their responsibilities and how they contribute to organizational goals, acknowledge your future requirements and regularly follow-up on pool of potential successors. However, the process cannot work without adequate support. By tying it to organizational strategy where benefits of succession management become more transparent. As I have shown in the thesis, good employee management increases productivity, employee satisfaction and consequently decreases employee turnover. Succession management supports it in attaining of strategic and operational objectives by having the right people at the right place at the right time doing the right things to achieve the right results.

Appendix 2: Summary in Portuguese language

Rothwell (2010, p. 6) definiu a gestão de sucessao como "um esforço deliberado e sistemático de uma organização em assegurar a liderança em cargos-chave, manter e desenvolver o capital intelectual para o futuro, bem como incentivar o progresso individual" em todos os níveis organizacionais. A gestão de sucessão é uma estratégia de recursos que garante a continuidade das tarefas, equilibrando as necessidades organizacionais em termos de competências e atributos pessoais com recursos humanos disponíveis. A gestão de sucessão e caracterizada por:

- proatividade, revelada pela necessidade de feedback e desenvolvimento contínuo, sendo, portanto, considerada em tempo real, o que é especialmente relevante em ambientes de negócios em rápida mudança;

- ser mais elaborado do que o planeamento sucessivo, pois considera todos os níveis organizacionais, tornando-o mais complexo;
- exige processos sistemáticos, informações e resultados específicos
- esforço deliberado em retenção;
- integração com outras atividades organizacionais, como estratégia, contratação, desempenho, remuneração e outros.

Ambientes mais dinâmicos, os desafios tornam-se mais complexos, a procura de talentos está surge porque o número de funcionários que se aposenta é mais alto do que o número dos que entram no mercado de trabalho. Uma das principais questões que as organizações enfrentam é como reter os Millennials, que serão cerca de 75% da força de trabalho global em menos de dez anos, e terão um forte foco no futuro, progressão, competências em diversas áreas, requerem *feedback* constante, e ainda assim não garantem lealdade ?

A gestão de sucessão contém respostas para estes problemas. Algumas das suas vantagens são o preenchimento de vagas de empregos bem-sucedido, o aumento da retenção, a avaliação objetiva dos funcionários, o desenvolvimento proativo dos funcionários, a diversidade incentivada e a criação de uma atmosfera positiva.

Um dos objectivos desta dissertação é permitir entender o conceito de gestão de sucessão, pelo que de inicio pretendo clarificar as diferenças entre expressões semelhantes.

Planeamento de substituições apenas identifica potenciais sucessores, não havendo foco no seu desenvolvimento. Planeamento de sucessão e gestão de sucessão por outro lado, contemplam o desenvolvimento. Planeamento da força de trabalho é um processo analítico que permite contabilizar recursos e é utilizado como suporte á gestão de sucessão. Gestão de Capital humano tem como foco as competências dos actuais recursos enquanto a gestão da sucessão identifica requisitos futuros. Quando integradas as diferentes técnicas, a organização consegue identificar lacunas e preparar um potencial sucessor de acordo com as mesmas. Por fim, a gestão de talentos é frequentemente aplicada como uma ferramenta para identificar potenciais sucessores, por norma, colaboradores que excedem as expectativas e demonstram elevado potencial.

Tendo em conta a clarificação entre os diferentes termos, consideremos as seguintes questão que serviram de fio condutor durante este caso de estudo.

1. Quão desenvolvida é a gestão de sucessão na Danfoss Trata?
2. Como é que se pode desenvolver a gestão de sucessão na Danfoss Trata?
3. Poderá a gestão de sucessão na Danfoss Trata servir de referencia para outras empresas no mercado esloveno?

É relevante explorar a gestão de sucessão na Danfoss, uma vez que as suas organizações vêm os colaboradores como factor chave para o crescimento do negocio. O caso de estudo e uma investigação profunda que demonstra a complexidade deste tópico num contexto real. A principal fonte de informação é documentação interna dedicada ao tema, e uma entrevista semi-estruturada com o parceiro de negocio RH responsável pela gestão de sucessão. Adicionalmente, participei no workshop de gestão de sucessão promovido pelo líder de gestão de sucessão da Danfoss.

O processo de gestão de sucessão na Danfoss compreende os seguintes passos:

1. Definição de objectivos
2. Criação de um plano de desenvolvimento
3. Revisão de colaboradores(avaliação de trabalhadores e identificação de talentos)
4. Revisão de talentos (discussão acerca de talentos e necessidades de sucessão)
5. Escolha de potenciais sucessores
6. Desenvolvimento acelerado de sucessores
7. Revisão de desempenho
8. Conversas ao longo do processo entre colaborador e chefia

Ao longo da revisão bibliográfica foram apresentados diversos processos de gestão de sucessão, sendo que não existe nenhum modelo que na minha opinião inclua todos os passos necessários. Considerando a minha aprendizagem, apresentei á Danfoss Trata a minha recomendação em como melhorar o seu processo de gestão de sucessão, tornado-o mais completo.

Quão desenvolvida é o processo de gestão de sucessão na Danfoss Trata?

A Danfoss integra gestão de sucessão através do modelo de maturidade de Bersin. Todos os colaborados são vistos como potenciais talentos e por isso como potenciais sucessores. A gestão de topo não só apoia este processo bem como o iniciou. Apesar de o sistema

pertencer os terceiro nível de quatro, existem duas grandes áreas com potencial de melhoria: avaliação da gestão de sucessão e as dependências na gestão de talentos.

Recomendações para melhoria do processo de gestão de sucessão na Danfoss

Avaliação. Na minha opinião, 3 factores devem ser avaliados: progresso do colaborador, enquadramento com requisitos estratégicos e eficiência do processo. A Danfoss mede o progresso do eventual sucessor e avalia a relevância com os requisitos estratégicos, mas não avalia a eficiência do processo. Sugestões de medidas de avaliação ao processo de gestão de sucessão:

- percentagem de posições preenchidas por colaboradores internos,
- percentagem de posições ocupadas por sucessores previamente identificados,
- rácio de retenção,
- numero de colaboradores avaliados com nível 4(excede expectativas) e nível 5 (excede expectativas constantemente),
- percentagem de posições chave sem sucessor identificado em comparação com numero de posições chave,
- percentagem de todas as posições preenchidas através de gestão de sucessão.

As medidas sugeridas ainda assim não abrangem a relação entre os planos de desenvolvimento e as necessidades da organização. Na Danfoss os planos de desenvolvimento individual são revistos a cada 3 meses, mas na minha opinião, a questão é se debater requisitos da organização uma ver por ano é suficiente.

Gestão de Talentos na Danfoss. Numa primeira impressão, utilizar gestão de talentos para gestão de sucessão parece relevante, uma vez que permite identificar colaboradores com potencial para eventuais posições chave. No entanto, os colaboradores da Danfoss sentem que ha um apoio maior para aqueles identificados como talentos em liderança em relação a colaboradores com outros talentos. Gallardo-Gallardo et al. discute que um talento pode ser visto de duas perspectivas: como um objecto (como uma característica de uma pessoa) ou como um assunto (como pessoa). Como base em pesquisa, posso concluir que a Danfoss considera talentos como tópicos - talentos na Danfoss são colaboradores com com agilidade e orientação para lidar como complexidade, desafios e responsabilidades. Por outro lado, há exemplos de que quando um talento é tratado como um objecto, frequentemente é assumido que todos possuem um talento, apenas é necessário identifica-

lo. Se a Danfoss suportasse esta perspectiva, talvez encontrasse talentos que não estão visíveis nas suas tarefas diárias, possibilitando encontrar posições para melhor aplicar esses talentos.

Recomendações a outras empresas

Situações de sucessão vão sempre acontecer. Como indicado em diferentes pesquisas, a reacão é mais favorável quando o processo é planeado. Em media, a maioria das alterações de chefes executivos, deu-se na industria de produtos de consumo, enquanto que as industrias de serviço e manufactura sofreram o menor numero de sucessões. Em resumo, a resposta á pergunta de s Danfoss pode servir de exemplo a outras empresas é sim. O resumo das recomendações para outras organizações segue nos tópicos abaixo.

Implementação. Segundo as minhas investigações, o modelo utilizado na Danfoss n\ao é o mais adequado a impressas que ainda estão a implementar gestão de sucessão. Nesses casos, sugiro que sigam o modelo de gestão de sucessão alto-impacto, criado por Barnett e Davis ou o 7 pointed star. Apenas estes modelos fornecem indicações em como aplicar programas de gestão de sucessão.

Dialogo de acompanhamento. Gerações mais novas, requerem feedback constante e imediato. Alem de potencial e desempenho, vontade e motivação para ser promovido é também relevante. A Danfoss tenta identificar aqueles com tais intenções durante os diálogos de acompanhamento. Nestas reuniões ha 3 tópicos que devem sempre ser abordados, o que aconteceu desde a ultima reunião, situação presente e próximos passos.

Avaliação de objectivos. Uma matriz com 9 caixas (ou semelhante) é frequentemente usada para medir o desempenho e o potencial. Uma vez que este documento é focado em contratações internas, comer por resumir como é que uma organização deve evitar mas escolhas para as suas posições. Em primeiro lugar, definir métricas de qualidade de contratação. Em segundo lugar, garantir que os objectivos do candidato e da organização estão alinhados. Por fim, avaliar, o desempenho, evolução e dedicação do candidato.

Alinhamento estratégico. Muitos autores concordam que é essencial para optimizar o potencial de uma organização, incluir gestão de sucessão nos seus planos estratégicos. A Danfoss assegura diversas acões nesse sentido: descreve aos participantes do processo de gestão de sucessão que actividades devem assegurar, identifica os sucessores e as posições

chave são constantemente revistas de modo a permanecerem sempre alinhadas com a direcão do negocio.

Doença e depressão. a depressão é umas das razoes pela qual gestão de sucessão e fundamental: assegura que mesmo quando um colaborador não esta presente haverá sempre alguém para assegurar as suas tarefas. Colaboradores com descanso adequado, tendem em estar mais motivados, saudáveis e satisfeitos. Consequentemente têm intenções de permanecer na organização por períodos mais longos.

Recursos. As organizações devem estar cientes que a gestão de sucessão requer esforços ao nível recursos humanos, tempo e recursos financeiros. Um dos principais investimentos a considerar deve ser em tecnologias de informação que suportem a gestão de sucessão.

Finalmente, ter um conjunto de potenciais sucessores é importante, mas, para torná-lo efetivo, uma organização precisa aproveitar o máximo possível de todos os seus funcionários. Uma solução é desenvolvê-los em coerência com a estratégia de negócios da organização - não apenas para ter funcionários mais competentes, mas também para mantê-los motivados. Descobri que a chave para um alinhamento eficaz é garantir que os funcionários entendam as suas responsabilidades e como contribuir para os objectivos da organização, reconheçam as necessidades futuras e acompanhem regularmente o grupo de possíveis sucessores. No entanto, o processo não pode funcionar sem o suporte adequado. Como mostrei na dissertação, a gestão dos funcionários aumenta a produtividade e satisfação, o que consequentemente, diminui a rotatividade de funcionários. A gestão de sucessão suporta os objetivos estratégicos e operacionais, tendo aos recursos certas no lugar certo, para fazer as coisas certas e alcançar os resultados esperados.

Appendix 3: Example of Competency Grading

Table 15: Assessment List for Relevant Competences

Competences	Level 1 *Aware of the competence, but requires extensive assistance, guidance, and support to apply it.*	Level 2 *Applies the competence at an elementary level, but needs assistance, guidance, and support in most situations.*	Level 3 *Applies the competence, but needs assistance, guidance, and support when encountering new situations.*	Level 4 *Applies the competence independently in all key elements of the job.*	Level 5 *Displays mastery in applying the competence in nearly all situations, and is proactive in teaching others the competence and the body of knowledge that supports it.*	Level 6 *Masters the competence independently and naturally even in complex, new, and changing situations and is able to coach others and expand the knowledge base that underlies the competence.*	Recommended Level	Employee 's Self-Assesment	Manager's Assessment of Employee	Agreed Level	Gap
Customer and market insight	is aware of the necessity to have constant customer focus. Understands the notion of value and non value adding. Level 1 Has knowledge of the most important competitors (basic overview of the competitors' product ranges). Demonstrates basic knowledge on specific products and applications. Is aware of local market and trends	… and can explain and meet customer needs, based on facts. Can explain what is value and non value adding from customer's perspective. Focuses on activities and quality standards which ensure customer satisfaction. Level 2 … and knows the approximate size, relative market share and potential threat to Danfoss from the most important competitors. Makes use of basic application knowledge. Is able to identify relevant sales information in a daily environment (magazines, advertisements, promotions …) and recognizes market trends when reading professional literature	… and takes personal responsibility for customer issues and ensures follow through. Level 3 … and can explain strengths and weaknesses of competitors, and how they are generally perceived by customers. Can position Danfoss next to competitors. Keeps track of current and new applications. Demonstrates fully updated knowledge on market structure and is able to calculate market size and market shares	… and goes beyond the customer's basic expectations to identify other ways of adding value. Identifies and pursues opportunities to improve customer service. Level 4 … and can segment customers in the market and explore how customers perceive competitors. Uses knowledge to position Danfoss products and value propositions. Can build and use BA application knowledge in nearly all applications. Can predict local and regional market trends, based on global events	… and encourages, coaches and challenges others to maintain customer focus. Level 5 … and can support others in acquiring knowledge of competitors and building up BA related application. Can act on new legislations in the market to propose new developments and define new sales strategies. Is able to explain where the local market is different from other markets and can represent local market in global Danfoss meetings	Develops new ways of improving customer service. Level 6 … and develops and improves methods of expanding knowledge about competitors, market trends and application knowledge. Can find new businesses and innovative ways to create growth in the market.	3	2	2	2	-1
Supply Chain network design							3	3	3	3	0
Use of SAP	Level 1 Can use basic reports and transactions	Level 2 Knows also details behind these reports and from where they are sourced, can use operational/usual transactions based on instructions	Level 3 Is able to use advanced functions (like getting data from tables) and knows the differences between different levels of data (MM,SD,…)	Level 4 Independent user of SAP, know where to look for information (status of orders, blocks, vendor info, inforecords,…), and understand conectivity within modules and transactions	Level 5 Is capable of structuring and analysing nearly all kinds of information. Coaches or trains others in how to use SAP	Level 6 Is able to structure and analyse very complex information. Is aware of SAP set up and customizing - SAP Superuser	4	5	5	5	1
Use of IT tools	See knowledge map	See knowledge map	See knowledge map	See knowledge map	See knowledge map	See knowledge map	4	4	4	4	0
Use of BW	Level 1 Can use standard reports	Level 2 Knows also details behind these reports and from where they are sourced	Level 3 Is able to use advanced functions of reports and prepare custom views for specific purpose	Level 4 Independent user of BW, knows where to look for information (Delivery performance, Stock, Invoiced Sales, Open orders)	Level 5 Is capable of structuring and analysing nearly all kinds of information/report. Coaches or trains others in how to use BW reports	Level 6 BW superuser - has the knowledge to use BW Query designer and Web report creation to prepare new reports for end users	1	4	4	4	3
DBS tools	See knowledge map	See knowledge map	See knowledge map	See knowledge map	See knowledge map	See knowledge map	3	2	2	2	-1

	Level 1	Level 2	Level 3	Level 4	Level 5	Level 6					
Managing Project	**Level 1** Can explain general project management concepts. Knows basic project management tools.	**Level 2** ... and constructs feasible plans, TIP's etc. Identifies and gives attention to important details. Establishes measures for assessing work against the plan. Involves team members in overall objective and scope of the work.	**Level 3** ... and manages resources, tasks, and own work well. Meets deadlines and commitments. Delegates work to team member corresponding with their abilities. Involves team in joint problem solving. Keeps alle stakeholders informed on key decisions and overall	**Level 4** ...and follows up consistently. Initiates corrective actions and changes in plans when necessary and adjusts actions and resources accordingly. Anticipates, prepares for, and effectively deals with problems and roadblocks.	**Level 5** ...and is able to coach and challenge others in their project manager role or train in project management.	**Level 6** ... and develops innovative and creative ways of managing projects	3	3	3	3	0
Supply Chain processes (see also competence matrix)	**Level 1** Knows how to read process maps and understand them	**Level 2** Has basic knowledge of SCOR and how it is used in process mapping	**Level 3** Uses SCOR to map current state processes	**Level 4** Uses SCOR mapping techniques to determine waste activities and design new process flows	**Level 5** Has official SCOR-P Certificate and is able to coach and train others in SCOR	**Level 6** Is able to structure and analyse very complex situations. Masters the SCOR and is the main driver and promoter of process mapping and improvements in the organization	2	2	2	2	0
Inventory management	**Level 1** Knows what is the function of inventory and why is must be controlled	**Level 2** Has basic knowledge of Inventory management methods (SS, EOQ,ROP)	**Level 3** Has such knowledge that is able to identify when certain setup is adequate or it that needs improvements	**Level 4** Is able to use existing tools to determine the right inventory levels in certain location and train peers in using the existing tools	**Level 5** Is able to improve and adapt the tools so that they will be working better in new/different situation (for this detailed knowledge of Inventory theory is a must)	**Level 6** Is able to structure and analyse very complex situations. Masters the Inventory management tools and methods and is able to distribute them to others	4	5	5	5	1
Tactical source planning	**Level 1** Knows what is the function of purchasing and why it is important	**Level 2** Has basic knowledge of Purchasing process and can understand it's visual outputs in SAP	**Level 3** Understands how purchase planning is made (methodology), how it is done in SAP and what affect the changes will have on actual purchase orders to vendors	**Level 4** Is able to use existing tools in SAP to determine the current purchase requirements	**Level 5** Is able to improve and adapt the tools in SAP or in Excel so that they will be working better in new/different situation (What if simulations)	**Level 6** Is able to structure and analyse very complex situations. Masters the purchase planning and methods used and is able to train others or run improvement projects in other locations	2	5	5	5	3
Tactical capacity planning	**Level 1** Knows what is the function of capacity planning and balancing why it is important	**Level 2** Has basic knowledge of Production planning process and can understand it's visual results in SAP	**Level 3** Understands how production planning is made and why capacity balancing is needed	**Level 4** Is able to use existing tools in SAP to balance the capacity on plant/production line level	**Level 5** Is able to improve and adapt the tools in SAP or in Excel so that they will be working better in new/different situation (What if simulations)	**Level 6** Is able to structure and analyse very complex situations. Masters the concept of capacity balancing/planning and methods used and is able to train others or run improvement projects in other locations	2	3	3	3	1
Production planning	**Level 1** Knows what is the function of (production) planning and why it is important	**Level 2** Has basic knowledge of Production planning process and can understand it's visual results in SAP	**Level 3** Understands how production planning is made (methodology), how it is managed in SAP and what affect the changes will have on production, purchasing and stock	**Level 4** Is able to use existing tools in SAP to determine the current production load and plan the requirements	**Level 5** Is able to improve and adapt the tools in SAP or in Excel so that they will be working better in new/different situation (What if simulations)	**Level 6** Is able to structure and analyse very complex situations. Masters the Production planning and methods used and is able to train others or run improvement projects in other locations	2	3	3	3	1
Sales order handling	**Level 1** Knows what is sales order, EDI, fax order, and similar basic things	**Level 2** Has basic knowledge of Order handling tasks and understand how stock can help in delivery processes	**Level 3** Has developed independent skills in handling customer orders and replying to customers when delays are expected, know how to find out what is wrong or who to ask	**Level 4** Is able to proactively react too customer needs and also determine the needed corrections in inventory levels in certain location	**Level 5** Is giving useful feedback on what needs to be done to improve customer satisfaction in area of stock and orders	**Level 6** Is transforming the feedback into potential improvements and sharing them with peers	2	3	3	3	1

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	Level 1	Level 2	Level 3	Level 4	Level 5	Level 6					
Purchase order handling	**Level 1** Knows what is purchase order, EDI, fax order, and similar basic things	**Level 2** Has basic knowledge of purchase Order handling tasks and understand how stock can help in delivery processes	**Level 3** Has developed independent skills in handling purchase orders and communicating with suppliers; regularly follows up on purchase orders, acts accordingly and informs relevant people in the organization in case of problems	**Level 4** Is able to proactively react too business needs and also determine the needed corrections in inventory levels	**Level 5** Is giving useful feedback on what needs to be done to improve delivery performance of supplier	**Level 6** Is transforming the feedback into potential improvements and sharing them with peers	4	6	6	6	2
Demand management	**Level 1** Knows what is the function of demand plan and why it is important	**Level 2** Has basic knowledge of Forecasting tool that is in use and can check in SAP the forecast situation	**Level 3** Understands how forecast is made (methodology), where it is inserted into SAP and what affect the changes will have on production and stock	**Level 4** Is able to use existing tools to determine the best possible forecast for the product and train peers in using the tool	**Level 5** Is able to improve and adapt the tools so that they will be working better in new/different situation (for this detailed knowledge of Forecasting theory is a must)	**Level 6** Is able to structure and analyse very complex situations. Masters the Forecasting tools and methods and is able to train others	2	3	3	3	1
Cross-functional collaboration	**Has a basic understanding of the cross functional nature of business. Has basic understanding of cross cultural issues.**	**… and can explain the importance of cross functional cooperation in every-day operations. Is aware of own contribution to the team climate and the team work. Participates willingly in the team effort and promotes a positive and constructive team climate. Demonstrates an understanding of how decisions may be perceived by people from different cultures.**	**… and is able to facilitate cross functional activities in a way that all contributes and feel involved. Contributes to team spirit and commitment. Shares relevant and useful information and knowledge with team members. Collaborates with other team members in effective way.**	**… and is able to facilitate problem solving on cross functional problems. Participates actively in team processes, raises issues important to teamwork. Encourages and values contributions from other team members. Adopts a global outlook.**	**…and is able to train and coach others to understand and work with cross functional teams and to widen their cross functional knowledge. Shows ability to challenge, train and coach others on their role and co-operation in a team.**	**…and is able handle cross functional issues even in very complex projects. Able to further develop and improve the approach to cross functional cooperation. Takes the lead in improving ways of working in the team and developing new methods on teamwork.**	1	4	4	4	3
Communication	**Level 1** Can explain the importance of communication and basic elements in communication (individual and shared understanding, listening, questions, feedback)	**Level 2** … and shows understanding of the communication situation (context, objective, persons involved etc.) and is able to adapt communication (language etc.) to familiar situations	**Level 3** … and is able to adapt communication to unfamiliar situations. Can handle responses to communication in an appropriate way (control own reaction, giving feedback)	**Level 4** … and is able to differentiate situations and thereby adapt communication in nearly all situations. Can vary language, body language and communication method according to what is needed. Can handle responses from others appropriately	**Level 5** … and is able to change own communication style based on feedback from others or own observations. Can train or coach others on communication and behavior in communication situations	**Level 6** … and takes the lead on improving ways or methods of communicating.	3	4	4	4	1
Analysis and Problem solving	**Level 1** Can explain fundamental analytical skills and problem solving tools	**Level 2** … and takes part in and contributes actively to problem solving	**Level 3** … and breaks problems down to manageable parts and sets major priorities. Extracts data from known sources. Analyses information in a systematic way. Structures problem solving using analytical approaches	**Level 4** … and explores a range of possible solutions to identified problems. Builds scenarios to help analyz issues and develop recommendations. Ensures quality control of analysis	**Level 5** … and challenges, supports and coaches others on analytical issues and problem solving or trains others in problem solving	**Level 6** … and modifies frameworks or analytical approaches to fit purpose of analysis. Builds new, creative and tailored frameworks for gathering relevant data and analyz issues.	3	4	4	4	1

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	Level 1	Level 2	Level 3	Level 4	Level 5						
Integrity	Can explain the basic behavior necessary to exhibit integrity (trust others, trust worthy, clear intentions, high ethical standard)	… and treats others with respect and honesty. Indicates own intentions clearly to others and keeps agreements	… and inspires considerable trust among colleagues and associates	… and maintains high ethical and professional standards, without being unreasonably rigid or inflexible. Challenges any clearly unethical decisions or actions taken by others	… and is able to support and coach others in developing integrity.		4	5	5	5	1
Change Management	Understand the importance of change but requires time to change. Slight hesitance towards the need of organizational or personal change. Takes time to accept change as an opportunity	…Understands the necessity for change in processes and systems but unable to identify the actual change requirements. Is open to change when the detailed implications are explained. Requires support to meet change requirements for self and the team.	…and understands the implications and context for change. Is open to new ideas understands the need for personal change. Is quick to adapt to change and helps the team do the same. Focuses on identifying improvement opportunities in the team. Is generally maintaining a positive approach in the face of setbacks in situations.	…and is focused on continuous improvement. Is able to create excitement among team members to take up new ways of doing things. Can facilitate open communication easily with different kinds of resistances. Encourages team to contribute to improvement. Spontaneous for change. Remains calm in demanding and changing situations	…and is able to anticipate how environment changes can impact the project or team. Encourages team members towards active experimentation with new ideas and opportunities. Thrive in the face of change, sees opportunities in most situations and embrace the opportunities, role modelling the behaviour to others. Challenge and supports others in dealing with change through training	…and, lead and recommends innovative changes to existing set up. Develops new ideas and methods for dealing with and involving others in change. Ensures that the necessary resources are available in the work unit to implement change; revises plans if needed to reflect available resources. Challenge and supports others in dealing with change through coaching. Brings in obvious value to the business with the new ideas recommended.	2	3	3	3	1

Source: Danfoss A/S (2018f).