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The role of top management in CEO succession planning: A study of family-led business in Maldives

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Abstract

This study examines the strategies and challenges of succession planning in family-led businesses within the Republic of Maldives, a small island nation comprising 1,192 coral islands, of which 199 are inhabited. With a population of approximately 543,620 [1], the Maldives faces unique socio-economic challenges due to its geographic and demographic constraints. The study focuses on successful family-run businesses, exploring their approaches to leadership transition, corporate governance, and the role of human capital in sustaining organizational performance. Using qualitative methods, including interviews with CEOs and HR managers, the research highlights the importance of structured succession planning, the impact of corporate leadership, and the vulnerabilities exposed by external disruptions such as the COVID-19 pandemic. The findings offer recommendations for improving succession planning processes to ensure long-term organizational resilience and stability.

Keywords: Agency theory, CEO, Family-led business, Human capital theory, Next in Kin, Succession planning, Sustainable growth. Top Management.

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1. Introduction

The Republic of Maldives is an archipelago of 1,192 coral islands, of which 199 are inhabited, with a population of approximately 543,620 [1]. The capital city, Malé, is home to nearly half of the population, concentrated within a two-square-kilometre area. The Greater Malé region, which includes Malé, Villimalé, and Hulhumalé, is the economic and administrative hub of the country. With 157,560 expatriates working in the Maldives, 44% of whom are employed in the Greater Malé region [2], the nation faces significant challenges in managing its workforce and sustaining its businesses.

Family-led businesses are a cornerstone of the Maldivian economy, with over 50 such enterprises operating across various sectors. While some have achieved remarkable success, others struggle to survive, often due to inadequate succession planning and leadership transitions. This study focuses on successful family-run businesses to understand the factors that contribute to their sustainability and the strategies they employ to ensure leadership continuity.

Succession planning is a critical component of organizational strategy, particularly in family-led businesses where leadership transitions often involve next of kin. While many organizations recognize the importance of succession planning, few implement systematic processes, relying instead on ad hoc decisions by top management. This study explores the role of corporate leadership, human capital development, and the challenges posed by external disruptions in shaping succession planning practices.

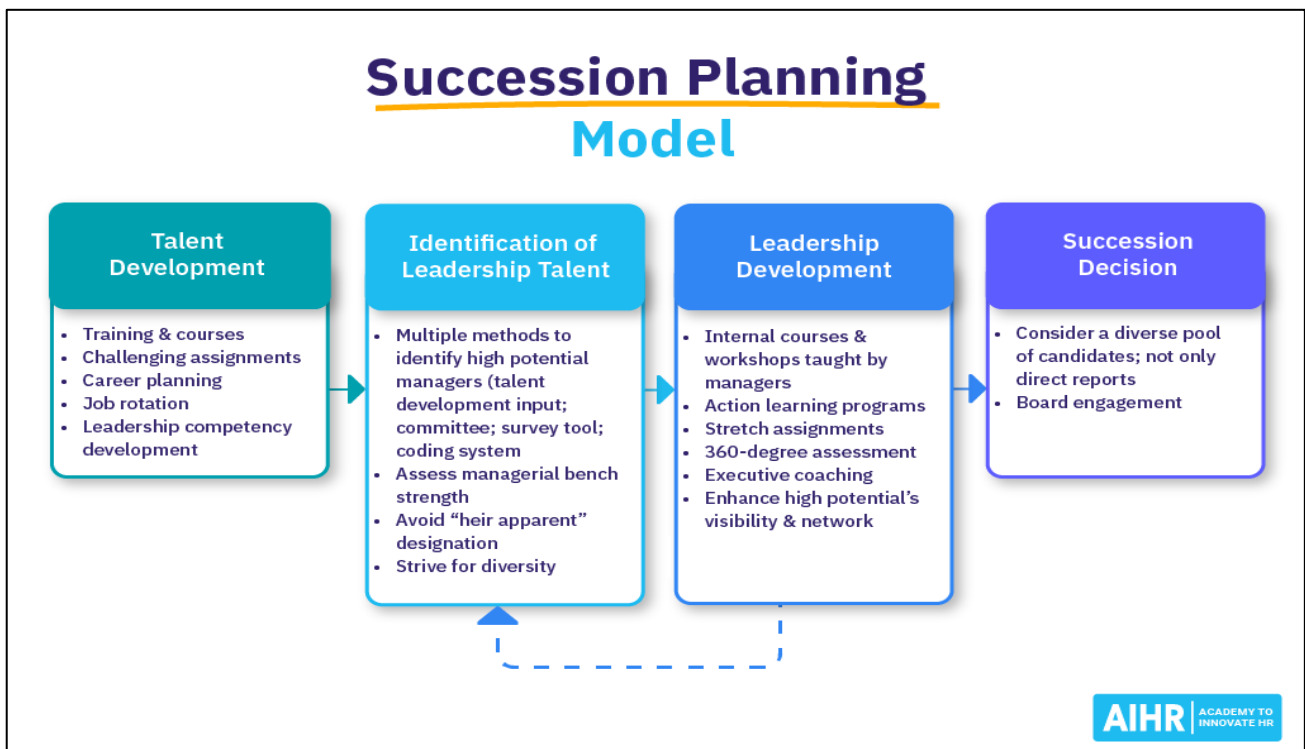


Figure 1.

Groves [3] Succession planning practices in the Maldives.

It is not as easy as publicizing a successor candidate to reduce succession conflict. As at many stages, there will be employee demotivation involved if they do not get selected during succession planning. This does happen at any level, from operations to managerial, to top level, and even with Directors [4]. Having these circumstances in mind, we should also understand that it can only legitimize the process, not the individual as the appointed successor. Management must develop planning procedures and methods that provide a proper framework for leadership transfers to ensure family and organizational cohesion. Communication about the selected successor, on the other hand, may not eliminate all disputes. This may lead to different levels of conflict that need to be resolved collectively.

At any workplace, change is never easy. With every change, conflict may arise that needs to be resolved. Employees may leave the organization, and others might resist following the changes. During leadership transitions, this issue is encountered frequently. Nevertheless, many organizations rely on their pre-established change management methods and policies to address these challenges.

For any organization to be successful, there are several factors that research has identified as critical. According to Handler [5], he concludes that the individual level, interpersonal level, organization, and environmental level influence succession planning. As a result, we expect a favorable relationship between business size and its succession planning. Furthermore, larger firms may hire outside counsel, which can promote succession planning.

In Pfeffer and Davis-Blake [6], research concludes that success may be influenced by demographic factors. These include (i) age, which plays a significant role, encompassing their maturity level for taking over their business and their family responsibilities during the handover period. (ii) The level of education they have acquired is vital for integrating into the organization. (iii) Pre-knowledge of organizational culture is crucial for decision-making. (iv) Skills to overcome

challenges are essential for managing difficult situations. (v) The communication skills of the CEO will impact the organization.

For any organization to be successful, all the employees assigned to the allocated tasks shall have experience, knowledge, and skills to acquire the stewardship of financial performance and humanistic complexity. Therefore, the human capital theory provides a context of career development investment based on each individual's knowledge, skills, experience, and their ability to perform the tasks that are allocated to these individuals. At the individual level, organizations hope that these could bring forward the minimum requirements for them to absorb a tremendous amount of change within the organization.

Succession planning is a well-documented area of research, particularly in the context of family businesses. Studies emphasize the importance of internal talent development, leadership continuity, and the alignment of organizational values with succession strategies [7, 8]. However, research on succession planning in small, geographically constrained economies like the Maldives is limited.

Family-led businesses often face unique challenges, including the integration of family dynamics into corporate governance and the reliance on next of kin for leadership transitions [9]. While internal succession planning can foster loyalty and cultural alignment, it may also limit the organization's ability to adapt to external changes [10]. The human capital theory [11] provides a useful framework for understanding the role of employee skills, knowledge, and experience in driving organizational success. Investments in human capital, such as education and training, are critical for developing future leaders and ensuring long-term organizational resilience [12].

The COVID-19 pandemic has further highlighted the vulnerabilities of succession planning processes, particularly in family-led businesses. Disruptions to training and development programs, coupled with workforce reductions, have exposed the need for more adaptive and flexible succession strategies [13]. This study contributes to the literature by examining these issues in the context of the Maldives, offering insights into the challenges and opportunities for family-led businesses in small island economies.

2. Materials and Methods

This study employs a qualitative research design, utilizing content analysis and semi-structured interviews to collect data. The research adopts an interpretivist approach, focusing on the subjective experiences and perspectives of participants. Data were collected from CEOs and HR managers of three successful family-led businesses in the Maldives. To ensure confidentiality, two organizations requested anonymity, and all identifying details were removed from the analysis.

The interviews explored key themes, including succession planning strategies, corporate leadership development, and the impact of external disruptions on organizational performance. Field notes and observational data were also used to supplement the findings. The data were analyzed thematically, with a focus on identifying patterns and insights relevant to the research objectives.

3. Results

The findings are organized around four key themes: succession planning strategies, corporate leadership development, the succession planning process, and the impact of succession planning on organizational performance.

Succession Planning Strategies

The study identified a structured, long-term approach to succession planning in the participating organizations. Candidates for leadership roles were identified early and provided with educational and professional development opportunities. This internal pipeline approach ensured alignment with organizational values and minimized the risks associated with external hires.

Corporate Leadership Development

A "Maldivians-first" hiring policy was found to play a pivotal role in fostering loyalty and long-term commitment among employees. This strategy created a pool of internal candidates who were well-versed in the company's culture and operations, facilitating smooth leadership transitions.

Succession Planning Process

The succession planning process involved multiple stages, including training, evaluation, and feedback. Candidates were assessed based on their ability to handle challenges, resolve conflicts, and think innovatively. This multi-layered approach ensured that only the most capable candidates reached senior leadership positions.

Impact on Organizational Performance

Succession planning contributed to lower turnover rates and increased employee loyalty. However, the COVID-19 pandemic disrupted these processes, leading to the dissolution of training departments and the redundancy of long-serving employees. This shift raised concerns about the sustainability of leadership development strategies.

4. Discussion

The findings underscore the importance of structured succession planning in family-led businesses. The internal development of leaders ensures alignment with organizational values and fosters long-term stability. However, the study also highlights the vulnerabilities of these processes to external disruptions, such as the COVID-19 pandemic.

The human capital theory provides a useful framework for understanding the role of employee development in driving organizational success. Investments in education and training are critical for building a resilient leadership pipeline. However, organizations must also adopt flexible strategies to protect their human capital during crises.

4.1. Succession Planning Strategies

The family-led business in this study implements a long-term, internal development strategy for succession planning, where candidates are identified early and sponsored for education and training. This aligns with prior research emphasizing the importance of internal development in family businesses to preserve organizational values and ensure continuity [7]. The structured filtering process, where candidates are progressively promoted to higher levels, ensures that leadership is well-prepared, echoing the findings of Ward [8], who suggests that internal candidates are more likely to succeed in leadership roles due to their deep understanding of company culture.

However, the study also highlights the vulnerability of succession planning processes to external disruptions, such as the COVID-19 pandemic. The dissolution of the Learning and Development (L&D) department and the redundancy of long-serving employees led to a temporary halt in succession planning, with the company resorting to hiring foreign workers to fill leadership gaps. This supports the notion that succession planning must remain adaptable to external conditions [13], which was lacking in this case. Main text continues here.

4.2. Establishment of Corporate Leader

The research found that the company's Maldivians-first policy contributed significantly to corporate leadership stability, fostering loyalty and long-term commitment among employees. This practice aligns with studies by Chittoor and Das [14], which demonstrate that family-led businesses often cultivate a sense of belonging and loyalty among local employees, resulting in a dedicated leadership pipeline.

However, post-pandemic, the abandonment of this policy has led to a shift in corporate culture, with foreign employees filling roles previously reserved for local candidates. This has implications for the long-term stability of leadership and the sustainability of corporate culture, as external hires may not align as strongly with the organization's values. This echoes the findings of Van Buul [15], who noted that a loss of internal candidates can dilute corporate identity and weaken leadership continuity.

4.3. Succession Planning Process

The multi-layered process observed in this organization aligns with best practices in leadership development. The evaluation criteria used to select candidates such as their ability to handle challenges, resolve conflicts, and think innovatively reflect the characteristics of transformational leaders, as discussed by Bass and Avolio [16]. The company's strategy of providing tailored training and development plans ensures that future leaders are well-equipped to meet the company's needs, reinforcing research by Groves [3], who emphasized the importance of continuous leadership development through personalized training.

Nevertheless, the COVID-19 disruptions illustrate that even robust processes can be vulnerable to external shocks. The company's reliance on internal development without contingency plans for external hiring in the event of a crisis proved to be a limitation. Succession planning models should therefore include strategies for both internal and external candidates to ensure leadership continuity in the face of unpredictable circumstances [10].

4.4. Impact on Succession Planning on Organizational Performance

The research clearly shows that succession planning has a positive impact on organizational performance, reducing turnover and increasing loyalty. This finding aligns with research by Sambrook [17], which suggests that organizations with robust succession plans experience higher stability and smoother leadership transitions. The development of candidates from within also ensures that the leadership team is aligned with the company's values and strategic goals.

However, the post-pandemic changes in management highlight the fragility of succession planning when not supported by a flexible and adaptive organizational strategy. The company must reassess its approach and consider reinstituting the L&D department to ensure long-term success. As Rothwell [18] suggests, organizations need to continually update their succession plans to account for both internal and external risks, thereby enhancing the resilience of leadership development.

Human capital theory, first introduced by Becker [11], posits that individuals' skills, knowledge, and experience (i.e., human capital) are vital assets that contribute to organizational productivity and economic success. In the context of CEO succession planning, this theory emphasizes the strategic development of internal talent to ensure leadership continuity and maintain a competitive advantage.

4.5. Human Capital Development in Family-Led Businesses

The findings of this research highlight the use of internal development as a key succession strategy in the family-led business under study. The organization invests in candidates early in their careers, sponsoring their education and grooming them for leadership positions. This is a classic example of human capital investment, where the company enhances the skills and capabilities of its employees, preparing them to take on more significant roles in the future [12].

The human capital theory suggests that by investing in employees' education and training, businesses can cultivate a workforce that is more productive and capable of driving organizational success. In this case, the company's sponsorship of studies for potential successors is an investment in the intellectual capital of the firm, aligning with Becker [11] concept that enhanced human capital leads to better organizational performance.

Moreover, the progressive career development of candidates moving from supervisors to department managers, then to general managers or corporate positions, reflects the accumulation of experience and skills over time, which strengthens the company's leadership pipeline. This process exemplifies how human capital theory operates in practice, with continuous skill development ensuring that future CEOs possess both the knowledge and the practical experience necessary for effective leadership.

4.6. Impact of Human Capital on Organization Performance and Succession Planning

Human capital theory also explains the relationship between succession planning and organizational performance. By developing internal candidates who understand the company's culture, values, and operations, the organization benefits from leaders who are aligned with its strategic goals. This creates organizational stability and enhances long-term performance, as suggested by the findings of this research. The lower turnover and loyalty observed within the company can be attributed to the careful nurturing of human capital, which fosters a committed and capable workforce.

Additionally, human capital theory posits that well-developed employees are more adaptable to changes and challenges, contributing to organizational resilience. The candidates in this study were evaluated based on their ability to accept challenges, resolve conflicts, and generate new ideas, all of which are qualities associated with high levels of human capital. This aligns with research by Wright et al. [19], who noted that firms with strong human capital tend to have higher innovation and problem-solving capabilities, leading to better organizational outcomes.

However, the disruption caused by the COVID-19 pandemic underscores the limitations of relying solely on internal human capital development. When the company halted its succession planning processes and laid off long-serving team members, it lost much of its valuable human capital. This event highlights a key point in human capital theory: while investment in internal talent is critical, organizations must also develop adaptive strategies to protect and retain their human capital during crises Barney and Wright [20]. The post-pandemic shift toward hiring low-paid foreign employees to fill roles previously held by locals diluted the company's human capital, weakening the succession pipeline and potentially impacting organizational performance.

4.7. Human Capital and the Role of External Advisor

Incorporating human capital theory into the role of external advisors in succession planning is also relevant. When external consultants are brought in to assist with new leadership roles, they contribute external human capital to the organization. This external expertise can complement the company's internal human capital, especially when new skills or knowledge are required that may not exist within the organization. According to Hitt et al. [21], combining internal and external human capital can provide a competitive advantage by broadening the organization's intellectual and leadership capabilities.

In this study, the involvement of external advisors in creating new positions indicates that the company values the diversification of human capital. However, relying too heavily on external hires without proper integration into the organizational culture may lead to a misalignment of values and strategic goals, potentially weakening the leadership pipeline Coff [22]. Xiao and Vasudevan [23] noted that transactional and transformational leadership styles influence firm performance.

5. Conclusions

These findings highlight the importance of structured succession planning in family-led businesses, especially in maintaining organizational stability and loyalty among employees. While the process has been disrupted due to external factors such as COVID-19, the company's pre-existing framework provides a solid foundation for reinvigorating its leadership development efforts. By addressing the challenges identified in this study, the organization can ensure that it remains competitive and resilient in the long term.

This study explored the role of top management in CEO succession planning within family-led businesses in the Maldives. The research identified the company's internal development strategy as a key strength, enabling leadership continuity and alignment with corporate culture. However, the study also highlighted the impact of external disruptions, such as COVID-19, on the succession planning process.

The findings underscore the importance of structured yet flexible succession planning in family businesses. While the company's pre-COVID strategies were effective, the post-pandemic changes revealed the need for more adaptive planning and the re-establishment of formal leadership development mechanisms. Through a combination of internal talent development, external consultation, and resilience-building training, family-led businesses can ensure the sustainability of their leadership and continued organizational performance.

By adopting these recommendations, the organization can not only recover from the current disruptions but also build a robust and resilient leadership succession plan that will serve it well into the future.

In conclusion, human capital theory provides a valuable lens through which to understand the impact of CEO succession planning in family-led businesses. By investing in the development of internal talent, the company can ensure leadership continuity and long-term organizational success. However, as the study shows, human capital is vulnerable to external disruptions, and businesses must adopt flexible strategies to protect and enhance their human capital during crises. Through a balanced approach that integrates both internal and external human capital, family-led businesses can build a resilient and sustainable leadership pipeline that supports organizational growth and stability.

Abbreviations (If Any):

MRI, magnetic resonance imaging; TEM, transmission electron microscopy; TGF, transforming growth factor

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