BINDURA UNIVERSITY OF SCIENCE EDUCATION

FACULTY OF COMMERCE

GRADUATE SCHOOL OF BUSINESS

MASTER OF LEADERSHIP AND CORPORATE GOVERNANCE

SUCCESSION PLANNING (MLC514)

EXAMINATION PAPER

DURATION: 3 HOURS 30 MINUTES

Instructions and Information to Candidates

1. Section A is compulsory and carries 40 marks.
2. Answer 'Question 1' from Section A and any three (3) questions from Section B.
3. The paper carries six questions.
4. All Questions in Section B carry equal marks of 20 each.
5. The use of cell phones is not allowed in the examination.

SECTION A: [COMPULSORY]

QUESTION 1

CASE STUDY: SNEAK PEEK: WHAT'S INSIDE?

In 2009, in the United States alone, over 1,600 CEOs left their position. This exceeds the 1,257 CEOs who exited in 2008 during the Great Recession and is the highest turnover recorded since outplacement firm Challenger, Gray & Christmas, Inc. began tracking CEO departures in 2002.

CEO succession is inevitable. The question isn't whether your leader will leave, the question is how well prepared your company will be when the time comes. Some CEO transitions are predictable and controlled, others occur out of crises and necessity. The latter can have detrimental impacts on your organization. Studies show that large companies who underwent forced succession in recent years would have generated an estimated US$112 billion more market value in the year pre- and post-turnover if CEO succession had been planned for.

Although many companies struggle with leadership transitions, others use succession planning to execute change strategically and with grace. McDonald's CEO transition in the early 2000s is an exemplary case of how a company can get succession planning right.

The Problem

McDonald's is one of the world's largest and most successful food service retailers. The franchise has over 36,000 restaurants and operates in over 100 countries worldwide. But McDonald's wasn't always this successful. In 2002, price wars in the fast-food industry forced the company to close underperforming restaurants and incur a multi-million-dollar charge to save money on job cuts. The board brought James R. Cantalupo out of retirement to lead the subsequent revitalization effort, but in 2004, Cantalupo died suddenly of a heart attack. Six months later his successor, Charles H. Bell, resigned after becoming terminally ill. How did a struggling company survive the loss of two CEOs in less than a year? They had a third who was ready to rise to the occasion.

What Happened

After Bell's cancer diagnosis and subsequent resignation, James Skinner took on the role of McDonald's CEO. The company successfully continued the turnaround Cantalupo initiated 16 months earlier, and Skinner brought about a new age of profitability. McDonald's share prices more than tripled, reaching an all-time high of $102.22 per share, up from only $12.82 in 2003. Same-store sales increased during each of the seven years of Skinner's tenure, and the company grew at an annual rate of 5%. Among other awards Skinner was named "CEO of the Year" by *Marketwatch,* "2007 Executive of the Year" by *Restaurants & Institutions,* and "2009 CEO of the Year" *by Chief Executive.* He also received the Congressional Medal of Honor Foundation Award, and the Navy's Lone Sailor Award.

What is astounding is that McDonald's not only survived the loss of two CEOs in less than a year, the company then went on to attain what *Fortune* magazine called a "Golden Age for the Golden Arches."

What was the key to Skinner's success as CEO after such turbulence in McDonald's senior leadership? The answer lies in the company's exemplary succession planning.

How They Got There

McDonald's began prioritizing its succession pipeline six years before Skinner became CEO. Charles Bell, Cantalupo's initial successor, was the first to benefit from this process. Bell was Cantalupo's President and Chief Operating Officer, so he was the natural successor after Cantalupo's death. But Bell had also been proactively trained to take on the role. In 2003, when Cantalupo came out of retirement to lead "Plan to Win", he immediately had Bell begin shadowing him. Bell started his career at McDonald's in customer service when he was just 15, and over the following decades he rose through the ranks and held several international positions. This experience, coupled with Cantalupo's mentorship, was what prepared him to take on the role of CEO in 2004.

But Bell wasn't the only successor Cantalupo was grooming, and a good thing too, because James Skinner had to take on the role much earlier than expected. Like Bell, Skinner's career with McDonald's came from humble beginnings. He never graduated from college, spent 10 years in the navy, then started working for McDonald's in 1971 as a manager trainee. Over the course of 33 years Skinner progressed from flipping burgers to Vice Chairman. Alongside Cantalupo and Bell, Skinner was a part of the "Plan to Win" turnaround program launched in 2003. Unbeknownst to him at the time, Skinner's participation in this strategy and execution was what would prepare him to take Bell's place as CEO less than one year later.

Skinner experienced the benefits of succession planning first-hand, so after his appointment he continued to develop McDonald's succession planning process. He built a corporate culture of "[attracting] and [retaining] the best talent," and held on-site leadership development facilitated by the company's executives themselves. One of Skinner's core management beliefs was that leaders should always be grooming at least two potential successors – "one ready now, one ready in future" – with future candidates preparing to take on the role within two years. This concept of bench development is what allows companies to effectively navigate forced succession, particularly when more than one CEO exits unexpectantly, as was the case for Skinner himself.

Today, McDonald's is one of the world's largest and most successful food service retailers, earning over US$21 billion in annual revenues worldwide. This success can only be attributed to the company's deep and well-developed leadership bench. If Bell had not been prepared to replace Cantalupo, and Skinner to replace Bell, McDonald's may not have made it past 2004. But they did, and what followed was an unprecedented "Golden Age for the Golden Arches."

And that's how McDonald's got CEO succession planning right.

Required:

a) Explain the importance of establishing a formal succession plan as outline in the case study. **(10 marks)**

b) Evaluate the value of having multiple succession candidates with reference to McDonald. **(10 marks)**

c) Describe the advantages which McDonald gained from developing and promoting in-house talent rather than hiring externally. **(10 marks)**

d) Describe Skinner's approach to succession planning . **(10 marks)**

[Total: 40 marks]

SECTION B : *Answer any <u>three</u> (3) questions from this Section.*

QUESTION 2

According to Hofstede (1973) national culture cascades to institutions or organizations. Giving practical examples of two organizations of your choice analyze the applicability of this statement in relation to succession planning in Zimbabwean organizations. **[20 marks]**

QUESTION 3

Examine the nine (9) steps involved in succession planning and their applicability to any organization of your choice in Zimbabwe. **[20 marks]**

QUESTION 4

Succession planning in most organizations cannot be discussed publicly without causing problems. Discuss the validity of the above statement giving practical examples from any two organizations of your choice. **[20 marks]**

QUESTION 5

Giving practical examples, discuss any six (6) talent management strategies and their implications for succession planning. **[20 marks]**

QUESTION 6

Examine the 9-box grid commonly used in succession planning as a method of evaluating an organization's current talent and identifying potential leaders. Discuss the implication of the 9-box grid to succession planning. **[20 marks]**

END OF EXAMINATION PAPER