KORN FERRY Institute

The seven CEOs

The essential purpose of succession management.

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Introduction

Succession today means far more than finding that one person to step in and take over. A deeper talent pipeline is needed to find, develop, and supply talent for the top levels and other key roles in the organization. That's why organizations now need seven CEOs—the current senior leader, plus six others at various stages in career development. To achieve such robust succession management, every organization needs to consider: Who are your seven CEOs, and what should you do to prepare them?

A useful analogy for understanding the concept of the seven CEOs is what air traffic controllers refer to as "a string of pearls," visible in the night sky around any major metropolitan airport. The landing flight path reveals a string of airplanes preparing to land, staged miles apart, but visible due to their landing lights. This string of pearls is a visual representation of the plan to control the flow of planes into the airport, which may be altered in response to contingencies.

Similarly, enterprises today need a "string" of seven CEOs to respond to current and future leadership talent needs, as highlighted by the practice of succession management.

What is succession management?

Succession management is a practice designed to identify, assess, develop, and retain the seven potential CEOs within every organization. These candidates, often found deep in the leadership pipeline, are assessed to determine their strengths and weaknesses. Development plans are crafted to close any gaps, and experiences are provided to ensure that each can address the strategies, issues, problems, and challenges of the organization 3, 5, 7, 12, or 20 years from today. Succession management oversees the volume of talent flowing through the pipeline to ensure the organization has the requisite talent ready and able to step into top roles—thus reducing leadership risk within the organization.

Why the obsession with succession?

In many organizations today, there is heightened interest in the topic of succession. One of the primary reasons is the relatively unknown Bulletin 14E issued by the Securities and Exchange Commission in 2009. This bulletin essentially put the boards of directors of publically traded companies on notice. Instead of the historical view that succession management was a prerogative of the C-suite, Bulletin 14E notified directors of publicly traded companies that they had a fiduciary responsibility for a company's effort at succession management (SEC 2009).

Subsequently, the National Association of Corporate Directors (NACD) assembled a blue-ribbon panel to focus on the board's responsibility for the development, retention, on-boarding, and succession of the enterprise's talent. In its report, "Talent Development: A Boardroom Imperative," the panel described the world in which organizations are operating today as volatile, uncertain, complex, and ambiguous—and confounded by a rapidly emerging shrinkage of experienced senior management and executives due to demographic shifts. The report notes:

> *Having the right leadership in place to drive strategy, manage risk, and create long-term value is essential to an enterprise...the talent management challenge goes well beyond CEO succession. Do the company's talent development efforts support its strategy and fit its risk profile? Is there a clear view of management's bench strength—and any gaps in the pipeline—in critical areas of the business? Does the company understand what its talent needs will be in three years—or five years—in a landscape that may look very different from today's? (NACD 2013)*

In light of the SEC Bulletin 14E and the succession imperatives outlined by the NACD, boards of directors are asking their CEOs and chief human resources officers (CHROs) for answers. What many boards may be gathering from recent research is not encouraging:

- **Leadership gaps exist at all levels.** From frontline supervisors through top leadership, there are talent holes. Some 60% of companies report such "leadership gaps" as their primary business challenge (Bersin 2014).
- **Mid-sized companies lag on succession.** Among companies with annual revenue between $50 million and $500 million, just under half have any form of succession plan at all (InterSearch 2013).
- **Organizations lack talent follow-through.** Research shows that 58% of companies either have no talent review or take no action after completing a talent review (KPMG 2013).
- **External executives cost more to hire.** It is very expensive to rely on external candidates—an external can cost 65% more than an internal candidate (Steingraber, Kane, et al. 2011).
- **Talent is frequently misidentified.** In fact, 40% of high-potential promotions end in failure (Martin and Schmidt 2010).
- **The window to spot talent is narrow.** The typical age of those moving into the C-suite is 45–56, which means high-potential candidates should be identified at about age 30. Most companies have no idea who these 30-year-olds are.

Where can organizations find current and future high-potential leadership talent? It starts with understanding the seven crucial roles within the organization and the talent that can be found within each.

The seven crucial roles.

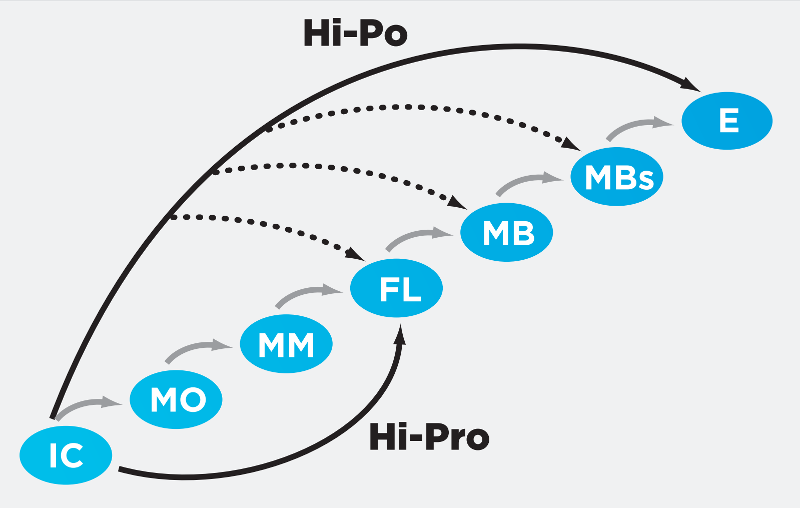
Generally speaking, there are seven critical roles found within organizations. They are:

- Enterprise leader (the C-suite)
- Manager of businesses, who has a portfolio of businesses
- Manager of a business, a classic general managerial role
- Functional leader
- A manager of managers
- A manager of others
- Individual contributor

As you go down the leadership pipeline, these pools of potential CEO candidates expand from 3 to 10, 50, 100, 500, and/or 1,000 or more. Their readiness (their "landing," to recall the airport "string of pearls" metaphor) may be years apart; nonetheless, they are identified, and their development can be shifted as organizational strategies and challenges alter (Charan, Drotter, and Noel 2011).

A graphical representation of the leadership pipeline might look something like Figure 1 (below). This framework allows us to view it in an organization as repositories, or pools, of talent. Further downstream in the pipeline, the "pool" becomes broader with more potential candidates.

Figure 1
The seven crucial roles.



IC – Individual contributor
MO – Manager of others
MM – Manager of managers
FL – Functional leader
MB – Manager of a business
MBs – Manager of a group of businesses
E – Enterprise leader

Those who are "high potentials" (HiPo) could become part of succession management plans all the way to the enterprise level. Those who are "high performers/professionals" (High Pro) are still part of the talent pipeline, but upward mobility may be more limited.

The value of the leadership pipeline.

A compelling example of the value of the leadership pipeline construct to assist in identifying the seven CEOs was the 2001 succession at General Electric, when Jeffrey Immelt succeeded Jack Welch. The process was well documented and reported in the popular financial press. What is less well known is that Immelt had first been identified in 1982 as having the potential to be a GE leader at the enterprise level—though not necessarily CEO.

Immelt's career experiences were then carefully evaluated and guided through the leadership pipeline—as were the careers of hundreds of other executives within GE. After 19 years of preparation, Immelt was one of the three primary internal candidates, and was chosen by the GE board as the one best equipped to address the strategic challenges of the company at the time (Welch 2001).

As the GE example shows, succession management is an enterprise-wide practice to optimize the flow of management talent throughout the leadership pipeline for the benefit of the organization and its individual employees. The primary focus of this practice is to ensure that executive, managerial, and, most importantly, pivotal roles in the organization are filled at all times with competent internal candidates. To accomplish this, succession management includes processes to identify, develop, and deploy talent. The process also assists in the mitigation of risk for the organization and individuals. The organization wants to confirm it has the requisite talent to accomplish its strategic objectives, while not placing internal candidates in harm's way by moving them into positions that exceed their capabilities. The goal is to ensure the organization has the right people, with the right behaviors and skills, in the right place at the right time.

The process of succession management has at its core some well-developed practices including:

- Alignment to the overall leadership and talent strategy of the organization.
- A rigorous and consistent on-boarding process, ensuring a seamless transition into increasingly more challenging roles for the benefit of the individual and the organization.
- Robust talent reviews that are honest, facilitated, calibrated, transparent, and based on strong performance expectations.
- Identification of the capabilities of all talent within the organization, not just a select few.
- A map of talent in which both high-potential and high-professional talent are identified.
- The creation and implementation of research-based development plans that can be accelerated through experiential, relational, and educational approaches, often referred to as 70/20/10 development.
- A transparent process and the brokering of talent for developmental purposes occurring across the organization.

Succession management assists the organization in evaluating its "supply" of talent against the "demand" for talent. This approach is very different from replacement planning and succession planning. The graphic, "Toward succession management," illustrates this distinction (see Figure 2).

Figure 2
Toward succession management.

Process involves...	Replacement planning	Succession planning	Succession management
Identifying successors	Yes	Yes	Yes
Developing successors	Rarely if at all	Top talent pool only	All talent pools
Managerial levels	Top two or three	Top two or three	All levels

Succession plans are usually reviewed annually. Unfortunately, they rarely change much.

In its most common form today, the practice of succession management is simply *replacement planning*, the primary purpose of which is to identify immediate successors to take over a given position in the organization should an emergency occur, whereby the incumbent of the position vacates or is removed from the position and someone must take over. The replacement is sometimes referred to as a "truck" candidate—meaning if the incumbent is "hit by a truck," someone has been identified who can step in and assume the responsibilities and requirements of the position. Replacement planning is most frequently focused on C-suite roles: CEO, chief operating officer (COO), chief financial officer (CFO), and so forth. As a practice, replacement planning is a worthy pursuit. However, the primary fault with it is a lack of choices: The replacement is one person, and frequently that person may be the default replacement for multiple positions. The replacement is assumed to be a simple face-value swap, even though new issues, changes in competitive dynamics, or a shift in strategies requiring different capabilities might suggest a different replacement choice. The replacement plan is devoid of developmental considerations because it typically is focused on short-term needs, not preparing the replacements for future needs.

Succession planning goes a bit deeper. It focuses not simply on an emergency replacement, but it instead considers multiple candidates for a given role in the organization (common practice is three successors for each role). In most instances, strategic consideration is given to the development of the top talent pool. Successors are given comprehensive and rigorous assessments to identify their current strengths and weaknesses, the results of which are compared to anticipated requirements and capabilities of the role as well as the strategic requirements of the organization. Any gaps between skills and requirements are closed through the creation and implementation of a development plan.

Succession plans are usually reviewed on an annual basis. Unfortunately, they rarely change much. They are simply dusted off from the previous year, discussed again, and put back on the shelf.

Successors are identified through a nomination process that is typically a “one-up” process. The incumbent identifies a potential list of successors, which is not debated, calibrated, or validated—the list is taken at face value. Development plans may or may not be implemented.

In contrast, succession management looks at talent at all levels of the organization. This practice views talent as “pools” located along a pipeline, and these pools are aggressively managed to enhance performance, build skills and capabilities, and enhance the overall agility of talent to respond to competitive dynamics. Rather than being an annual event, the succession management agenda is omnipresent. Development is monitored, measured, and managed, just as the organization would do with any other resource crucial to achieving its strategic objectives. Most important, succession management allows the organization to begin identifying its seven CEOs.

The concept of identifying and developing seven CEOs may seem to be a daunting task, especially in large organizations with thousands of employees; it is not. The process requires a disciplined and rigorous change in mindset and practice. The following are time-tested and experienced-based tools and processes for identifying seven CEOs.

The Performance Potential Matrix.

The Performance Potential Matrix (PPM) (see Figure 3) is a common talent management tool used to facilitate the discussion, calibration, and validation of talent within an organization. It is not unique; however, its application and use are often overly cumbersome and complex, and in other situations vague and obtuse. Based upon years of research, assessment experience, and content analysis, the PPM has been refined to more precisely describe talent within a given cell and, more important, to craft research-based development plans designed to enhance performance and/or potential.

Figure 3

The Performance Potential Matrix.

Potential

Long-term performance	lower		higher
higher	**7 High professional** Consistently produces exceptional results in a defined area, but doesn't always easily adapt to new situations. May be promotable to leadership in a functional/technical area.	**8 Versatile talent** Consistently produces exceptional results in many areas, businesses, geographies, functions. Adapts and learns. May be promotable in to lead functional/ technical areas or general management.	**9 Consistent star** Typically in short supply, but in high demand. Performs well at almost everything. Learns fast. Transfers learning from one area to another. Resourceful. Ready for stretch assignments or lateral movement into just about any situation.
	4 Solid professional Meets and occasionally exceeds expectations. Knows current job well. Does not effectively adapt to new situations. Narrow professional interests.	**5 Key performer** Meets expectations of current role and deliberately enhances skills for the near-term future. Comfortably assumes new jobs and roles and performs well in them in time. Probably promotable a level vertically or able to move laterally.	**6 Future star** Meets or exceeds expectations and has the capacity to take on new challenges with ease. Quickly gets up to speed. Has the potential to make career changes into different situations.
lower	**1 Mismatched performer** Is not delivering results as expected and cannot effectively adapt to new situations. People in this cell may require performance action, but the return on development is low.	**2 Inconsistent performer** Appears to have potential but is not fully demonstrating it. Is not meeting performance standards. May be struggling, new to the job or company, or in the wrong job or function.	**3 Emerging performer** Most agree that he or she could do great things for the organization in the future. Might need time or opportunities to develop. May be in the wrong job or a poor fit for the current situation.

The vertical axis represents "performance over time." For our purposes, we encourage executives to consider the performance of an individual talent during the course of the last three years. Annual performance appraisals are notoriously inaccurate and commonly reflect only an individual's very recent work performance—typically the preceding three months. In addition, since the annual performance appraisal is linked to a change in pay, the appraisal can be inflated, allowing executives and managers to avoid the inherent conflict in such a discussion. From experience, asking executives to evaluate the performance over a longer period of time, such as three years, yields a more realistic view of an individual's actual performance level.

Sustained performance over time can be viewed as high, medium, or lower. When we introduce this rating scale to organizations, we define high as being "a towering strength—one of the best ever seen," while medium is considered skilled—on par with most others, and lower is less than skilled—unacceptable or below expectations, therefore triggering an immediate developmental need to be addressed in a timely fashion.

The horizontal axis is potential. Those with high potential have the right mix of formative experiences, leadership traits, aptitude for logic and reasoning, and a personal drive to be a leader (Sevy, Swisher, and Orr 2013). They also share an attribute called learning agility. Learning agility combines self-awareness—knowing one's strengths and neutralizing weaknesses—with the ability to learn from experience. An individual scoring high in learning agility can adapt and adjust effectively for new roles, functions, geographies, strategies, people, and problems. For this reason, a learning agility assessment is an important component to use when gauging potential. Like sustained performance, the same scale can differentiate talent into high, medium, or lower.

Using the PPM, managers and executives can evaluate talent on performance and potential and place the results on the matrix. An individual who rates high in both performance and potential would be considered a high-potential leader, whereas an individual high in performance but lower in potential would be considered a high performer/professional. High-potential leaders have the capacity and interest to develop the qualities required for effective performance in a significantly more challenging leadership role—typically a senior executive or a role two or more levels above their current role.

Talent reviews: finding your seven CEOs.

As the PPM is populated with names, both executives and managers can differentiate talent. However, in and of itself, this doesn't tell you too much. For instance, what are the strengths and weaknesses of a person who occupies a given cell in the matrix? What should be done to develop that person, particularly if he/she occupies a lower or medium cell? These issues are addressed by the Korn Ferry Talent Review, a set of tools used to assist in the calibration, validation, differentiation, and development of talent. This tool draws upon the firm's decades of experience evaluating talent within hundreds of organizations.

Once the matrix is populated with names, the PPM becomes a valuable tool to guide a talent review session—or what we call a Talking Talent® session. Executives and managers within a business unit or functional group discuss each name on the matrix to determine if that person has been placed in the appropriate cell by comparing and contrasting talent against the definition found in the cell. Through this peer group discussion, executives and managers can calibrate and internally validate their supply of talent within the unit.

Talking Talent sessions flow downward through the organization from the enterprise level to individual contributor. The result is a map of the organization's talent illustrating increasingly wider pools of talent who are or will be able to lead at the highest functional level of the organization, as well as those potentially capable of taking on the issues, problems, and challenges of a multifunctional role such as general manager. The ultimate general manager role is the CEO.

Cascading the Talking Talent sessions through the seven levels of the leadership pipeline gives the organization a line of sight to its seven CEOs. Once identified, experience-based development plans can be designed, negotiated with the potential candidates to gain their agreement, and implemented to ensure they build the base of experience necessary to take on ever-increasing challenges as they grow and flow through the leadership pipeline.

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About Korn Ferry

At Korn Ferry, we design, build, attract, and ignite talent. Since our inception, clients have trusted us to help recruit world-class leadership. Today, we are a single source for leadership and talent consulting services to empower businesses and leaders to reach their goals. Our solutions range from executive recruitment and leadership development programs, to enterprise learning, succession planning and recruitment process outsourcing (RPO).

About The Korn Ferry Institute

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

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