

Succession Matters

Effective succession management planning.

Part one of the Succession Matters series.

About the study.

A global survey was commissioned by Korn Ferry and conducted by Hanover Research during August and September 2014. The survey covered 54 countries globally and companies ranging in size from 500 to 50,000+ employees.

It generated more than 1,000 responses from business leaders at the following levels:

- C-suite (41%)
- VP/SVP/EVP (42%)
- Director (11%)
- Other (6%)

Introduction.

For organizations to succeed, they need to identify, develop, and support the leaders that will drive their future strategy. Effective succession management is therefore essential for continued organizational success.

But what do executives around the world really think about their succession initiatives? Do they have a view on what best practices should be? What do they consider to be the benefits of and the barriers to successful succession management?

Korn Ferry commissioned a global research project on succession management. The results raise some significant concerns over the risks businesses are taking, while at the same time presenting real opportunities for learning and change.

Key findings include:

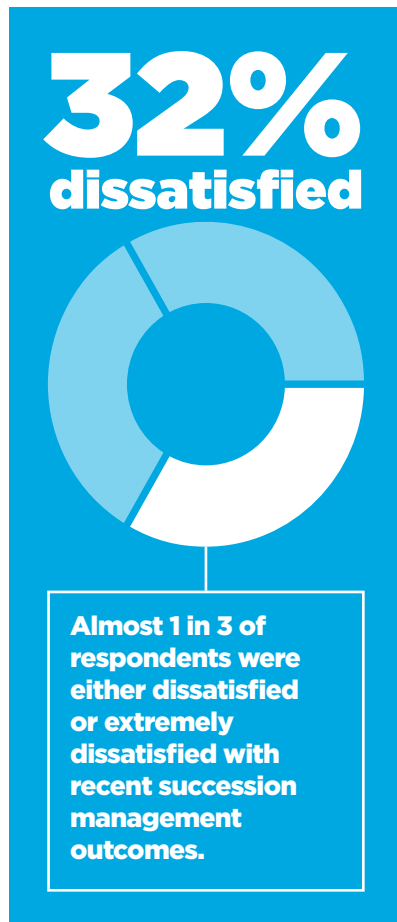
- **Dissatisfaction with the status quo.**
Only 1/3 of those surveyed reported they are satisfied with the outcomes of their succession program.
- **Too much talent “bought,” not “built.”**
Most agreed that a 2:1 ratio of “build” vs. “buy” is preferred, but the majority still end up going outside more often than they would like to obtain the talent they need.
- **Succession planning does not go deep enough.**
Organizations need to look at the complete leadership pipeline to create a sustainable, consistent flow of leaders.

This is the first in a series of reports that discuss the results of the research and implications of the findings. Our goal is to provide you with tangible, proven advice on the succession management processes and talent strategies required to ensure your business has the future leaders it needs.



RJ Heckman
President,
Leadership and Talent Consulting
February 2015

The alarming state of succession today.



There is a markedly high level of dissatisfaction with the current state of succession.

But according to **Jim Peters**, Senior Vice President, Senior Partner, and Global Lead for Succession Management at Korn Ferry, this should not come as a surprise, “Unfortunately, we hear this all the time. Despite all the investment organizations have made in succession management in the last 20 years, there remains a disconnect between the succession management plan and business strategy.”

Joy Hazucha, Global Vice President for the Korn Ferry Institute, agrees, “One-third of the study respondents report that ‘ready’ candidates who are promoted are not producing good results consistently. Why? Because of the disconnect from the business strategy. It suggests a lack of an effective plan.”

Without the right people in the right places, organizations will falter and risk becoming irrelevant in a fast-changing marketplace. Strong leadership has proven to be critical to executing strategy and the ability to maintain sustained leadership is the linchpin for navigating an unpredictable business climate.

Yet it is also one of the most difficult aspects of talent management to get right.

The answer, Peters believes, is “a solid succession management plan that is designed to meet the changing needs of the business and not one static process that produces ‘generic’ leaders.”

This view is echoed by **RJ Heckman**, President of Leadership and Talent Consulting at Korn Ferry, “The companies that win are those that strategically align the succession management plan with the direction of the business. They identify candidates who can change quickly and have the learning agility to move as the target moves for the business’s success.”

What's at risk?

Failed promotions and hires can result in exorbitant costs to the organization due to significant losses in productivity, impact on morale, negative impressions, and disengagement.

The top three risks identified by survey respondents are:

- Losing “ready now” internal candidates.
- Alienating potential successors.
- Naming an ill-fit successor.

These are closely followed by:

- Poor employee morale.
- High employee turnover.
- Competitive decline.

“This all goes to show that a good succession management plan is absolutely key from a future success standpoint,” says **Chuck Feltz**, Senior Partner and President of Global Products Group at Korn Ferry. “You can perhaps get by without one in the short term, but in the longer term, if you’re going to perpetuate and grow that success, it’s absolutely essential.”

However, while those organizations surveyed recognize the dangers of not getting succession management right, more than half feel their organizations are not addressing the risks they’ve identified.

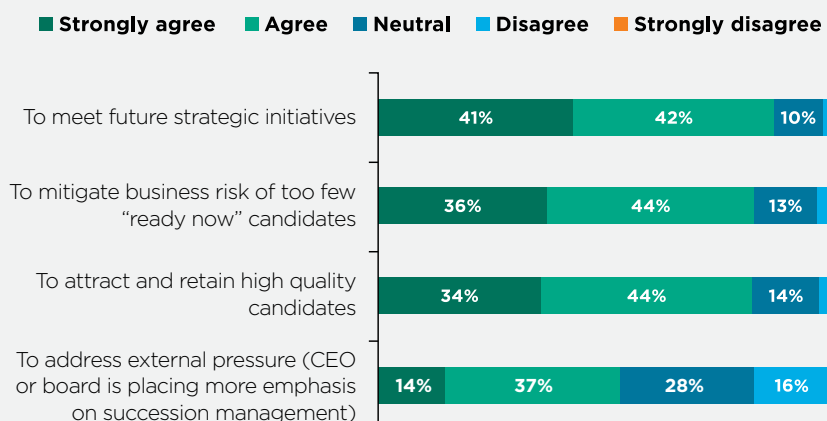
It’s not just the business that is being put at risk but individuals as well. “If you select a high-potential leader who’s a great performer in her current role, send her and her family to China, and two years later she fails because she wasn’t a good fit for the role, you’ve hurt a promising career and a family,” states Peters.

“The cost of disengagement runs into billions in dollars. To reap the full benefits of any succession management program, diversity and inclusion need to be firmly on the agenda.”

Oris Stuart

What drives succession management?

Respondents rated the following as key factors, and weighted them according to their importance.



Build or buy: how are you sourcing your leaders?

While executives believe promoting from within is by far the most desirable option, most end up looking outside for key hires.

According to our findings, organizations emphatically favor “build” (developing within) over “buy” (hiring outside). Yet when sourcing leadership talent, almost half of respondents said they were more dependent on outside hires than internal promotions.

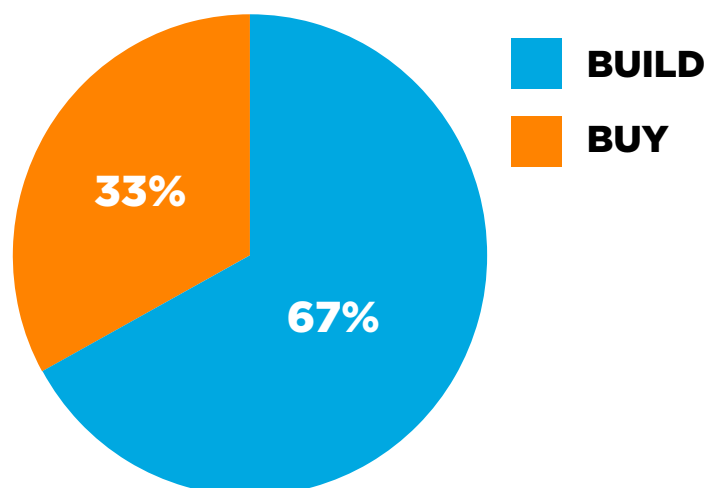
So what is the right mix of build vs. buy?

There are clearly many advantages to internal promotion. It ensures a deep, thorough understanding of the organization, allowing business intelligence to be passed along to the next leader. It enables companies to build the skillsets and leadership styles that meet their precise needs. It also helps with attraction and retention by demonstrating that the organization is committed to growing leaders.

However, there are situations where organizations have to rely on external hires, for example in the case of start-ups, emerging industries, or if the organization is experiencing rapid growth. There are also some unique benefits to sourcing candidates outside the business.

Peters adds, “You never want to select all your candidates from internal pools as that cuts you off from fresh perspectives and new thinking. Each organization is different and you want to find a good balance that meets your needs.”

When looking to fill open leadership positions, what do you consider the ideal mix of build (develop within) vs. buy (hire outside)?



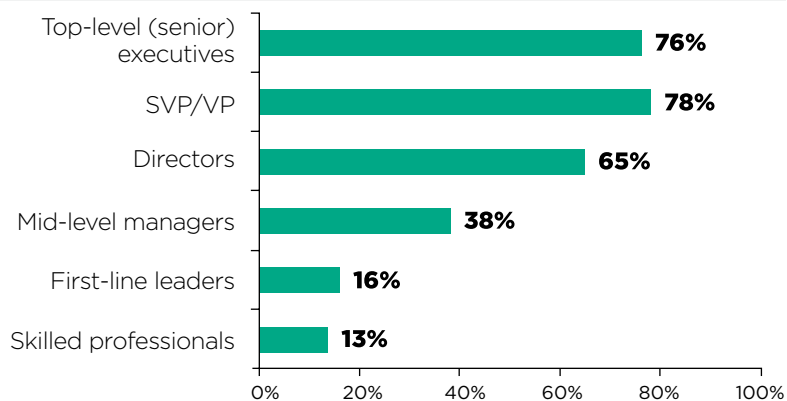
How far down does succession need to go?

“In succession management, you need to look at the complete leadership pipeline, all the way from the senior executive level deep into the organization,” advises Peters. “A succession management plan will look different for lower levels of leadership, but you will find incredibly valuable talent there that you can groom and invest in to secure perpetual successors.”

But as Hazucha points out, “There is considerable evidence in the survey findings that companies are not reaching far enough down or starting soon enough in identifying potential candidates to create a supply of ready leaders.”

The Seven CEOs report, published by Korn Ferry in 2014, found that organizations typically have seven potential CEOs currently within their organization (and also seven layers of potential leadership for other critical roles).

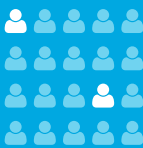
Which of the following levels within your organization are included in your succession management program?



For Peters, the fact that only 13% include skilled professionals, often referred to as high-professional leaders, in their succession management programs is particularly surprising. High-professional leaders are those with skills and expertise that are essential to the success of the business. While they may traditionally have been overlooked for leadership advancement, they have in recent years, according to Peters, become “mission critical.”

Stu Crandell, Senior Vice President of Global Offerings at Korn Ferry and the Korn Ferry Institute, agrees, “These high professionals need to see a viable career path in your organization, because they bring very specialized expertise to the table that you cannot do without.”

What are potential leaders being prepared for?

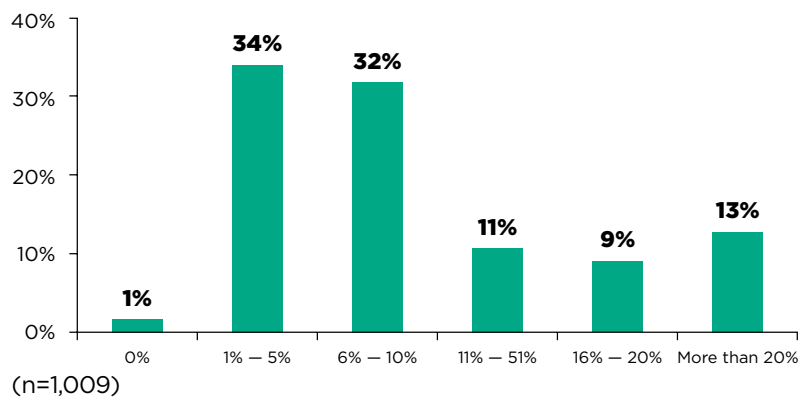
NO. OF POTENTIAL candidates IDENTIFIED FOR key roles in most companies: LESS THAN  10%

Most organizations are failing to match potential leadership candidates with specific roles.

A general pool of high-potential talent can be a rich asset within a company, as long as candidates are matched to specific roles and developed accordingly. Two-thirds of survey respondents, however, say they have identified key company roles for less than 10% of their potential leadership candidates.

As Crandell notes, “How can you ever be ‘ready now’ if you don’t know what you are supposed to be ready for? The disconnect keeps people in a perpetual state of development no-man’s-land.”

Which of the following best describes the percentage of potential leadership candidates identified for key roles at your company?



Define your path to succession.

- **Succession management** encompasses the entire leadership pipeline, from the senior executive level to deep within the organization and across functions.
- **Succession planning** takes into account the second or third generation of individuals who could replace the C-suite, with some development actions.
- **Replacement planning** is a formal or informal understanding of who would take over a CEO or C-suite executive’s role in the event of a crisis.

So what does effective succession management look like?

Given the dissatisfaction reported in our findings, what then is the approach of those organizations who offer successful succession management programs?

Organizations with the most mature talent management practices tend to:

- Have a succession management program that goes deeper than the top levels.
- Define what talent is needed to support their business strategy.
- Accurately identify leadership potential.
- Provide holistic development opportunities.
- Check for promotion readiness, with targeted development to fill gaps.
- Offer transition support when a leader is promoted.

Effective succession management ensures minimal disruption when vacancies occur, a consistent transfer of mindshare, and continuity of leadership culture.

It also creates the conditions for intentional strategic change and mitigates the risk of loss during unexpected crisis or sudden absence of leadership.

Ignite your workforce.

The lack of diversity within senior executive teams is a critical issue for many CEOs and CHROs globally.

As **Oris Stuart**, Senior Partner, Workforce, Performance, Inclusion and Diversity, at Korn Ferry explains, “The right performance environment and organizational culture need to be in place so that employees of all backgrounds, experiences, and other diversity dimensions can advance and contribute at the highest possible level.”

Korn Ferry’s Workforce Performance, Inclusion and Diversity solutions can help organizations drive employee engagement so that they can benefit from a diverse mix of talent.

The secret to getting succession right: have a plan.

Your talent review.

One of the most effective succession planning tools is a talent review. However, many processes do not include the systemic and holistic approach needed to gain a complete, clear, and actionable view of talent.

Your talent review should:

- Accurately assess long-term potential.
- Identify mission critical competencies.
- Incorporate development plans through strategic job assignments, targeted learning experiences, coaching, and mentoring.

The Korn Ferry Talent Review uses a Performance and Potential Matrix, Talking Talent sessions to discuss succession considerations and decisions, and Talking Development sessions to create development plans.

Developing and maintaining an effective succession management plan begins with knowing what type of leaders you need in specific roles to achieve your organizational strategy.

This requires an organization to:

- Agree on strategic direction. Discussions about future business leaders will stall if everyone on the board has a different perspective on the future of the business.
- Describe the types of leaders you need. What kind of people will be able to execute your strategy over the next five years?

The next step is to:

- Create a coherent, formal process for evaluating internal and external talent. This is essential in identifying all those elements that are needed to drive business strategy.

The benefit of an effective succession management plan is that it provides you with a common language for talent, potential, development, and expectations.

It also provides key intelligence on:

- Your most critical roles.
- The business impact of vacancies.
- The traits and drivers of your people.
- Where the talent gaps are.

This succession insight is key to helping you identify, develop, and successfully promote a steady pipeline of “ready now” leaders.

What does “ready now” actually mean?

Having a steady stream of global “ready now” leaders is the ultimate goal of any succession management plan. However, our findings reveal that **half of respondents do not feel that their organization has a sufficient “ready now” talent pipeline.**

Developing leaders who can be officially deemed “ready now” takes consistency, accountability, and a systemic approach. This can be difficult for organizations that do not have an effective succession management plan and lack a clear picture of the current state of their talent’s true readiness.

It is common for such organizations to struggle with leaders who have been on the succession chart for years and whose development lags as a result. Likewise, when a position opens, it can often go to a candidate who is not on the succession chart, creating disruption not only to the business but to teams, culture, and morale.

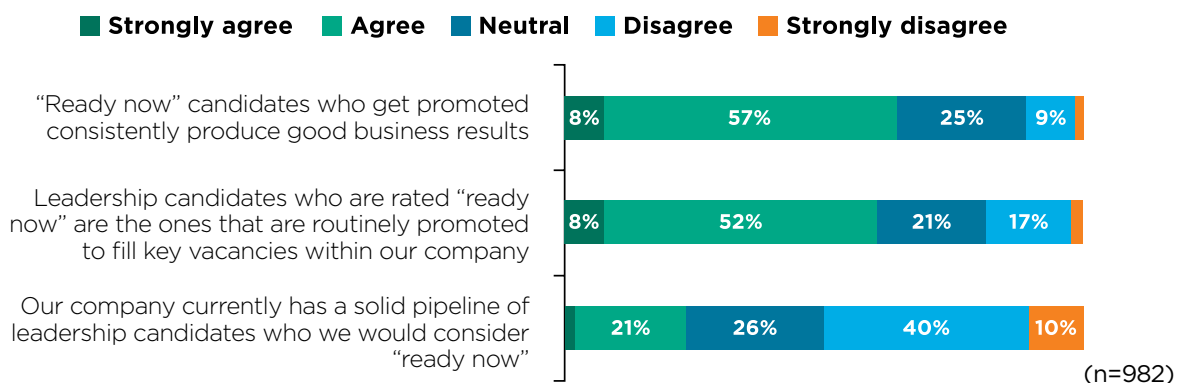
For **Steve Newhall**, Senior Partner at Korn Ferry, developing “ready now” leaders requires organizations to articulate more carefully what is needed to succeed, by evaluating gaps and holding regular talent reviews. “The approach many companies take,” he explains, “is to say ‘this leader will be ready in x amount of time’. But it is far more effective to say ‘this leader will be ready when x has occurred,’ for example, when he or she has managed a full P&L.”

Leadership qualities.

To succeed in leadership roles, individuals must be:

- Accurately identified as high-potential candidates.
- Aligned to future positions.
- Developed specifically to be successful in those roles.
- Evaluated for readiness and given further targeted development to close gaps.
- Deemed “ready now” once those gaps have been closed.

Please indicate how strongly you agree or disagree with the following statements.



Take a holistic approach.

Performance, engagement, and culture are all driven by a deep understanding of people. **The Korn Ferry Four Dimensions of Leadership and Talent** provides a complete picture of the individual qualities that drive performance and engagement, and forms the basis for all our solutions.

This comprehensive framework, anchored by research on talent at all levels, addresses the foundations of human behavior: **Traits, Drivers, Experiences, and Competencies.**

It is used in multiple ways to:

- Establish and augment profiles that define success for specific roles.
- Identify gaps between the leaders you have and the leaders you need.
- Pinpoint key qualities to select and promote against, and target development.
- More accurately identify high performers.
- Take the guesswork out of your most important talent decisions.

Competencies

Skills and behaviors required for success that can be observed.

FOR EXAMPLE

Decision quality, strategic mindset, global perspective and business insight.

Experiences

Assignments or roles that prepare a person for future opportunities.

FOR EXAMPLE

Functional experiences, international assignments, turnarounds and fix-its.

Traits

Inclinations, aptitudes and natural tendencies a person leans toward, including personality traits and intellectual capacity.

FOR EXAMPLE

Assertiveness, risk taking, confidence and aptitude for logic and reasoning.

Drivers

Values and interests that influence a person's career path, motivation and engagement.

FOR EXAMPLE

Power, status, autonomy and challenge.

Conclusion and recommendations.

An effective succession management plan is critical for any organization. It's a way of ensuring you have the right talent in the right place at the right time to activate, drive, and execute your business strategy.

As you evaluate your organization's current state of succession management, we recommend that your organization follows this three step process:

1. What leadership talent do you need?

Organizations need to align their talent and business strategies so that they can accurately pinpoint those key skill requirements.

Questions to consider:

- What is the success profile for business critical roles?
- Does leadership development focus on the right skills?
- Is the person being prepared for the challenges of a different role?

2. What leadership talent do you have?

Awareness of the talent gaps will enable organizations to assess and identify their current and future capabilities.

Questions to consider:

- Are you engaging in conversations with your leaders about their career options?
- Do they actually want to be considered for promotion?
- Have leaders been identified for specific roles? Has their readiness been assessed?

3. How do you close the gaps?

Execute your talent management strategy and start to fill key leadership roles.

Questions to consider:

- Are "ready now" leaders being kept engaged with robust development experiences?
- When the time comes for promotion, is there support for the leader's transition?
- Is development being targeted to fill any gaps?



“We can’t stress enough how important it is to get succession right. It is the lifeblood of an organization and there is no reason that organizations can’t plan a successful program that produces the leaders they need.”

Jim Peters

It is also important to remember that the succession process is a means to an end.

“At the end of the day, what really matters to the CEO and board of directors is not the succession process itself,” explains Crandell. “It’s ensuring that succession produces the leaders they need to take the business where they want it to go.”

Up next: Identifying the right candidates in your succession management program.

A robust planning procedure will prepare you for the next phase of succession management.

In the second report of the “Succession Matters” series, we look at the risks and cost implications of talent misidentification and the reasons behind succession management failure.



ONLY
13%



of skilled professionals are included in succession programs.

RISKS OF FAILED PROMOTIONS/HIRES:

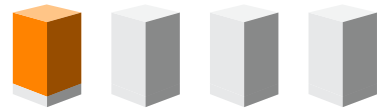
- MISSED OPPORTUNITY
- LOST TALENT
- LOW MORALE
- COMPETITIVE DECLINE
- EXORBITANT COSTS**

NO. OF POTENTIAL
candidates
IDENTIFIED FOR
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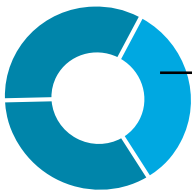
LESS THAN **10%**

Less than 1 in 4

companies believe they have a "ready now" talent pipeline.



SUCCESSION PROGRAM SATISFACTION:



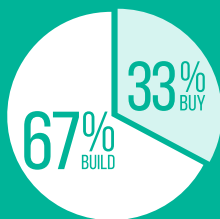
32% dissatisfied

Almost 1/3 of respondents were either dissatisfied or extremely dissatisfied with recent succession management outcomes.

“The companies that win are those that strategically align the succession management plan with the direction of the business.”

RJ Heckman, President of Leadership and Talent Consulting at Korn Ferry

Build vs. Buy:



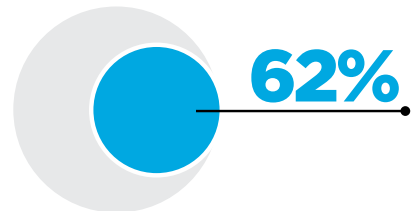
Ideal mix

Yet...



ALMOST
50%

are more dependent on outside hires than internal promotions.



DO NOT

INCLUDE **MANAGERS**
IN SUCCESSION PROGRAMS

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.

If you'd like to find out more, please visit Korn Ferry at www.kornferry.com or www.kornferryinstitute.com for articles, research and insights.

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