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Do You Know Where Your Next CEO Is?

Use a supply-chain model to identify and develop potential successors to the CEO. They're probably already working for you

by Bob Eichinger

Do you know who your next Chief Executive Officer will be? What about the one after that? There's a good chance you don't. There's also a good chance he or she already works for your company.

How many viable CEO candidates do you have in your CEO supply chain? Your goal: Find leaders early in their careers.

To be consistently successful generation after generation, companies need to take a longer-term approach to identifying CEO talent. For example, Jeffrey Immelt, Jack Welch's successor at General Electric (GE), was originally identified as a potential successor in 1982–shortly after Welch himself was chosen as CEO. Immelt didn't take over for almost two decades, but the fact that he had been identified in 1982 made a big difference when he took over GE in 2001.

THE CHALLENGES AHEAD ARE CLEAR

Studies and surveys report that companies aren't very prepared for CEO succession. A survey conducted by the National Association of Corporate Directors found that nearly 50% have no CEO succession plan. Another survey from PricewaterhouseCoopers surveyed CEOs in 364 of the fastest-growing companies in America, and of those CEOs who are planning to step down during the next five years only 22% had given succession planning a lot of thought, while 19% revealed they hadn't thought about their successor at all.

We all know about the upcoming demographic challenge. During the next decade, more than 50% of baby-boomer managers and executives will be retiring. CEOs are retiring younger. A Booz Allen Hamilton study found that 17.5% of the CEOs who retired in 2004 were 55 years old or younger. This is further complicated by the fact that the job of CEO is getting tougher. Most companies are fully global. Competition is keener. Industries are consolidating. Speed has increased. Shareholders are looking for higher returns. Stakeholders are more active. Boards are less patient.

REDEFINING BENCH STRENGTH

These factors make it even more important that CEOs and boards be proactive. And they can improve the chances that future CEOs will succeed by looking deeper in the organization to identify and prepare their full CEO supply chain of top talent. Every large organization could have the next seven CEOs on board today. A Booz Allen Hamilton study found that the average global tenure of CEOs is 7.6 years, and, because of natural age gapping, there are potential CEOs in every age and experience category, down to the newly hired summer intern. That means there are potential CEO candidates who are now 52, 48, 42, 36, 30, 24, and 18. It would never happen in that perfect sequence but it's the supply-chain idea that's important. Because of candidate loss and turnover, you would need to have multiple candidates at each milestone. Think of it like a pyramid: As far as potential CEOs go, you should have two 52-year-olds; four 48-year-olds. eight 42-year-olds, and so on.

From a research standpoint, the requirements for well-prepared leaders are clear. Great leaders learn from the diversity of assignments; the more diverse the better. They have worked with a variety of bosses and have been exposed to different functions, issues, challenges, geographies, and cultures. Because of the global nature of the job, they need to have worked beyond their own home country and in more than one line of business. They have learned about Wall Street, Fleet Street, Bay Street, and the global investment community. They have managed primary stakeholders, including key customers. They have dealt with the political system and regulators. They have established useful networks both inside and outside the organization. They have done startups, turnarounds, and stints in headquarters.

RETHINKING YOUR SUCCESSION-PLANNING TIMELINE

A key to all of this is to start early or at least earlier than most companies do now. You have to identify potential talent and start the disciplined process of managing careers sooner. One way to start the succession-planning process earlier is by going deeper. Most organizations do horizontal succession reviews, with top management and the board of directors looking at company directors and above. A better method is that of "vertical reviews," which prepare more than one candidate in the supply chain at a time as you move further down into the organization and across multiple levels of seniority. The principle of "vertical succession planning" – identifying and developing talent early, deliberately, and systematically – is a very long-term talent management strategy.

If you could identify talent sooner, and you knew who your next seven CEOs might be, what would you do differently to get them prepared? Would you give them any special attention? Would you give them any special assignments? What extra experiences would you provide? Would you introduce them to senior leadership sooner? Would you assign senior mentors? Executive coaches? Give them international exposure earlier? Introduce them to the board sooner? The answer to all these questions is yes.

Securing a successful future requires managing a supply chain of multiple CEO candidates at various stages of their careers and customizing their assignments, experience, and exposure to get them ready for ascension by the age of 52 or younger.

All of the above applies to all of the senior positions in the organization. You might have seven chief financial officers, seven chief marketing officers, seven top sales executives, and seven chief people officers. You have an officer supply chain that needs to be managed vertically.

The earlier you start, the higher your chances of continued success.

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