

# Selecting the Next CEO

A Choice between Value Creation  
and Value Destruction

**TALENT**  
INSTITUTE

# The Stakes

Business survival is about more than just staying out of trouble; it is also about creating new and future value to ensure the highest return on investment.

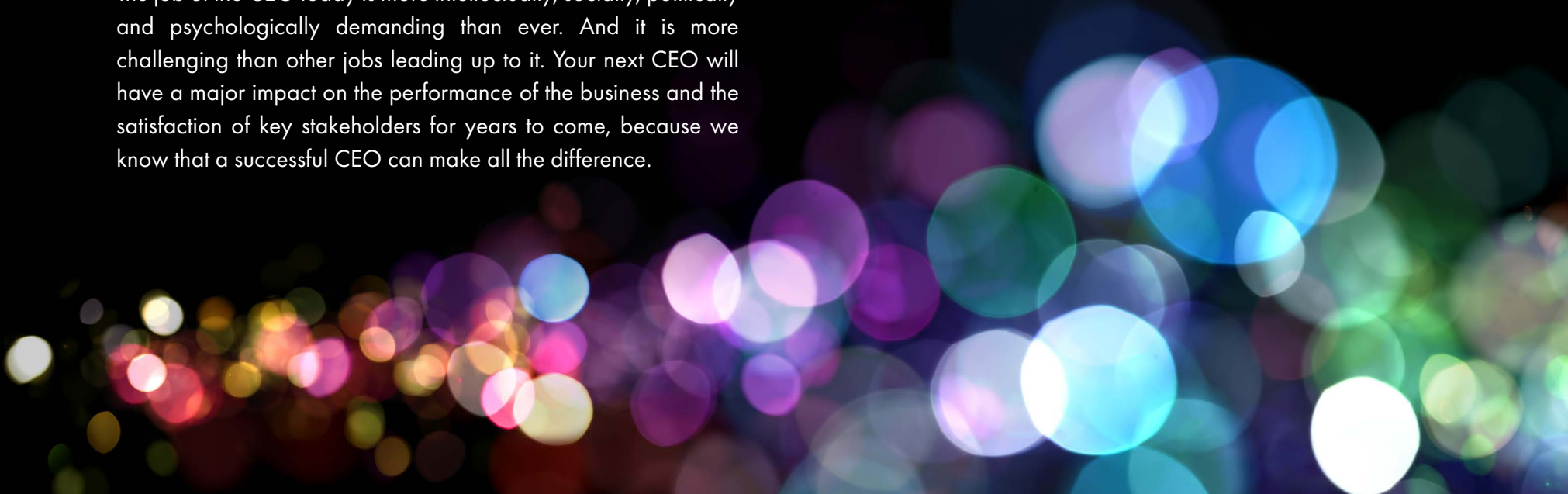
New business models, shifts in the competitive landscape, consumer preferences and behaviours, and new technologies all demand agility and resilience. And amongst all of these, the CEO takes front and centre stage.

However, it is risky to be the CEO of a business today. The average tenure is growing increasingly short, while the media is filled with stories of 'fallen idols'. CEOs have gone from the lists of 'most admired' to those of 'least trusted'.

The job of the CEO today is more intellectually, socially, politically and psychologically demanding than ever. And it is more challenging than other jobs leading up to it. Your next CEO will have a major impact on the performance of the business and the satisfaction of key stakeholders for years to come, because we know that a successful CEO can make all the difference.

On the other hand, a poor fit results in great cost – decline in the share price, reduced customer confidence, lost opportunities, loss of key talent, and a dented reputation.

“CEOs are the primary determinant of corporate performance.”



## Common Mistakes

A study of failed CEOs has revealed several mistakes that are common. These include:

- **Not responding** effectively to competition
- **Being unable to define** a clear vision or direction
- **Failing to execute** a brilliant strategy
- **Communicating poorly** with the Board and other stakeholders
- **Losing talent people** and being unable to replace them.

However, research into **personality** during the past two decades is painting a picture that adds another dimension.

## Why CEOs Fail

It is now recognised that leadership failure is a behavioural phenomenon. It is not just the result of a downturn in the economy, or other events over which we have little control.

Instead, leaders fail because of who they are and how they act in certain situations. Especially under stress, they respond with a pattern of behaviour that can sabotage their jobs and careers. They rely on a specific way of thinking, speaking and acting that ultimately causes them to fail. These dysfunctional dispositions, or interpersonal tendencies are usually invisible during selection interviews.

Examples of leadership derailers include:

- Arrogance
- Volatility
- Excessive caution
- Preference to micro-manage
- Eagerness to please
- Habitual distrust
- Inability to learn from mistakes.

These derailers contribute to the single most common reason for failure: *An inability to build or maintain a team.*

# The Role of the Board

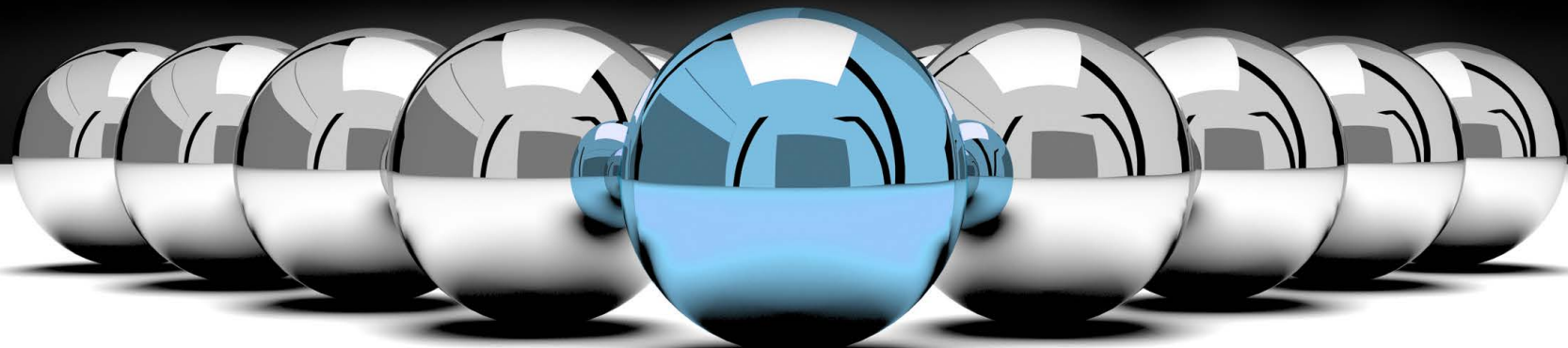
Boards play a critical role in selecting CEOs to lead organisations in an increasingly turbulent environment.

However, CEO-selection is often a political contest, and an ideological struggle among the powers within the organisation and the Board. Frequently this is a struggle over defining the corporate agenda and strategy. Invariably this contest and struggle impact the quality of the selection decision, which in turn has vast implications for the performance of the enterprise.

Boards tend to appoint a 'safe' replacement, rather than someone who will question their own role. They also frequently fail to define, or stick to an objective set of selection criteria, allowing themselves to be swayed by force of personality.

A wrong appointment can trigger the collapse of a company.

A right appointment can herald a period of growth and prosperity.



# Horses for Courses

CEO-selection starts with an assessment of strategy, and the translation of that strategy into executive competencies required for exemplary performance in the role, also taking into consideration the significant impact of organisational culture. Ideally a success profile should be developed for the CEO-role.

The CEO has the major role in shaping the firm's strategy and competitive advantage. In making the most appropriate selection choice, the situational challenge facing the incoming CEO should be clearly defined and considered.

The CEO-designate is usually faced with one of five situational challenges:

- Getting a new business off the ground (*Start-up*)
- Saving a business that is in serious trouble (*Turnaround*)
- Managing a rapidly expanding business (*Accelerated growth*)
- Reenergising a previously successful business (*Realignment*)
- Coming in on the heels of a highly regarded leader with a stellar track record (*Sustaining success*).

The specific challenge should influence the candidate choice.

# Attributes of Successful Leaders

According to research successful leaders are perceived as having five characteristics in common. They:

- Have integrity
- Are decisive
- Are competent
- Are visionary
- Can deliver.

# Transition Risk

Success at one organisational level does not necessarily translate into success at the next level. The level of complexity and the challenges at the next level are different. The CEO-elect needs to make a transition from one level to the next.

Some transitions are more complex and tougher than others. The challenges of any transition are heightened because of the larger thresholds that the leader must simultaneously cross and manage. The more there are of these, the greater are the risks and pressures the leader will have to face. This will impact on the time it will take for the new CEO to prove his/her worth to the rest of the organisation.

Significant thresholds the CEO-elect must cross include:

- **Entering a new sector**, or industry
- **Moving from one organisation to another**, but within the same sector
- **Moving from a functional role** (typically CFO) into a business leader role.

In making the final selection decision, the selection panel must carefully consider the extent of transition risk, and the scope of coaching required for the CEO-elect to settle successfully into the new role.

# Mitigating Risk – A Comprehensive Assessment Process

Our CEO-assessment process provides an accurate and independent view of a prospective CEO's capability, strengths and risk factors. The output is a comprehensive risk analysis that weighs each candidate against the role requirements and contextual factors.

The assessment process consists of:

- An **in-depth interview** – to develop an understanding of the candidate's portfolio of experience, accomplishments, behavioural style, aspirations, fears and motivation
- **Top-end psychometric measures** – to gain insight into the candidate's personality attributes, high-level strategic reasoning and complex problem-solving abilities, and business judgement
- A challenging **business simulation** that immerses candidates into the CEO-role of a fictitious company, the purpose of which is to evaluate specific competencies (e.g. strategic thinking)
- An assessment of the candidate's ability to **master increased levels of complexity**, and exercise judgement when making decisions in the face of uncertainty and ambiguity.

The entire process is delivered virtually and executed by senior psychologists.

## A Rich Developmental Experience

At this level it makes for good reputation management to provide feedback to both internal and external candidates. The feedback focuses on their strengths, specific ideas for how to handle a potential transition more effectively, and suggestions on useful further development and/or experience.

To ensure a smooth transition, coaching is available for the CEO-elect.

## How it Works

We begin by having conversations with select members of the Board, and the current CEO if applicable, to develop a contextual understanding of the business, critical long-term strategic issues, the challenges the business faces, specific criteria for CEO-success, the expectations inherent in the CEO-role, and the goals for the process.

Armed with this foundational understanding, the planning for the assessment process is initiated. Once introduced by the client, we have a virtual briefing with each shortlisted candidate. The briefing, which explains the process and the outcomes, provides the opportunity for the candidate to ask questions and receive answers.



## Insightful Decision-making

Once all the candidates have been assessed, the Board (and current CEO if applicable), will receive a dashboard report that contains comparative data in respect of all the candidates. This report describes strengths, development areas, and risk factors in respect of each candidate, as well as clear development recommendations.

A high-level candidate risk assessment provides an at-a-glance picture of the client organisation's potential risk exposure if it was to appoint a particular candidate.

Our lead consultant will have a debrief with the selection panel to ensure full understanding of the results, its meaning and its implications.

## Benefits of Rigorous Assessment

The process provides insight into the:

- **Suitability** and fit of external candidates for an immediate need
- **Readiness** of internal executives with CEO-potential
- **How to accelerate** the development of internal executives being groomed for the CEO-role.

The real value of the process lies in the fact that it alerts the selection panel to decision risk, which is translated into the possible impact a particular candidate profile may have on the organisation and its future performance.

# About the Talent Institute

The Talent Institute is a privately held boutique professional services firm that specialises in strategic talent management consulting. Specifically, we focus on helping clients develop and implement strategies and practices to more effectively manage the selection, deployment, development and retention of talent to support current business strategies and to prepare for future challenges.

Our core competency lies in our ability to interpret talent analytics in the context of strategy and business impact, and the use of predictive intelligence to inform risk mitigation, capability development and talent investments.

Grounded in organizational psychology, we leverage research, analytics, expertise and industry insights to enable business performance by removing the guesswork from making decisions about people.

## Your Contact

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