

Selecting the Next CEO

A Choice between Value Creation
and Value Destruction



TALENT
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The Stakes

Enterprise 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 enterprise 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 a number of mistakes that are common. These include:

Not
responding
effectively
to competition

Being unable
to define
a clear vision or
direction

Losing talented
people
and being unable
to replace them

Failing to
execute
a brilliant strategy

Communicating
poorly
with the Board and
other stakeholders

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:



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 have a tendency 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:

Start-up

Getting a new business off the ground

Turnaround

Saving a business that is in serious trouble

Accelerated growth

Managing a rapidly expanding business

Realignment

Reenergising a previously successful business

Sustaining success

Coming in on the heels of a highly regarded leader with a stellar track record

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

Are able to
execute



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 has to 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 has to 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 the
frontline leader role**

In making the final selection decision, the selection panel needs to 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



Standardised inventories and ability measures – to gain insight into the candidate's personality attributes, high-level strategic reasoning and complex problem solving abilities, and business judgement



Challenging **business simulations** that immerse 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

Certain measures are administered online.

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 more effectively handle a potential transition to the CEO-role, and suggestions on useful further development and/or experience.

In addition, we facilitate a development planning meeting between each internal candidate and the current CEO or the Board, where a development plan is presented, refined and agreed.

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

How it Works

We begin by working with 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. Each candidate receives beforehand a fact sheet that explains the process and answers frequently asked questions.

The assessment can be conducted at any location nominated by the client. At this level candidates are usually assessed individually.



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 on several candidates. This report describes strengths, development areas, and risk factors in respect of each candidate, as well as clear recommendations.

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

Our lead consultant will have a review session 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 translates 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 boutique professional services firm that specialises in helping clients develop and implement strategies to more effectively manage the acquisition, deployment, development and retention of talent to support current business strategies and to prepare for future challenges.

The Next Step

In many instances short-term concerns are allowed to dictate the succession timetable, with the decision driven by external pressures rather than the needs of the organisation.

The appointment of the next CEO is a process that should not be rushed. If you require professional support in selecting your next CEO, or should you want to proactively put in place a CEO-succession strategy, you may wish to contact:

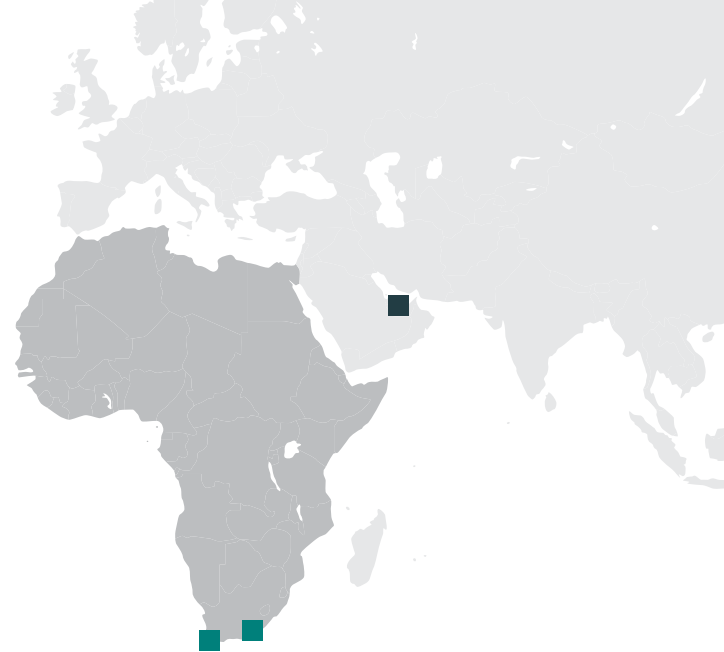
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