Leadership competency: The missing component in board's selection of CEOs

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ABSTRACT

A substantial amount of literature made the case for the critical role of sound leadership at the strategic level of any successful organization. This paper provides an overview of the research available by reinforcing the role of the board in ensuring that chosen CEOs exhibit leadership though their behavior from experience, and not through general statements and opinions. In the context of CEO leadership, the literature coverage ranges from blaming failures on the members of the board to highlighting the weakness of the individual CEO.

Keywords: Leadership; Competency; Board; CEO; Diversity; Equity; Inclusion; Soft Skills

INTRODUCTION

Throughout history, strong leaders have been described by their heritable attributes that differentiated leaders from non-leaders and explained individuals' effectiveness as leaders (Derve et. al., 2011). In effect, this explanation of leadership has established that characteristics such as demographics, charisma, personality, or leadership styles predict leadership effectiveness. Management scholar and writer Peter Drucker, examined leadership competencies and claims that "charisma becomes the undoing of leaders." That is, it makes them inflexible, convinced of their infallibility, unable to change" (Drucker, 1988). In one study, the authors found that the greatest predictor of success for leaders is not their charisma, influence, or power. The one thing that supersedes all these factors is "positive" relational energy: the energy exchanged between people that uplift, enthuse, and renew them (Seppala & Cameron, 2022). Furthermore, another study conducting an analysis of in-depth assessment of 17,000 executives uncovered a large disconnect between what directors think makes for an ideal CEO and what leads to high performance. For example, the authors disclose that charisma, confidence, and pedigree all have little bearing on CEO success (Botelho, et. al., 2017).

THE SEARCH FOR LEADERS

What to Avoid

Over the past few decades, technological innovations and globalization have swept in and upended legacy businesses in industry after industry. Specifically, the new economy is faster, vastly more digital, more global, less hierarchical, less predictable, and with more government interventions, both national and global (Schawbel, 2015). Today, a leader's role is how to navigate the organization through environmental turbulence. In the selection of CEOs, the board are not always willing to see change. According to Warren Buffett, "…choosing the wrong people to lead an organization is the No. 1 risk for business." To Mr. Buffet, these selected leaders tend to be "… personable, the directors like'em – they don't know what they are doing. That's the biggest single danger" (Cutter, 2021). That might explain the call for more rigorous selection of board members. For example, a survey from PwC of around 800 corporate directors found that 47 percent believe a fellow director on their board should be replaced, and of those almost one-fifth (18%) believe multiple directors should leave (Kidwai, 2021). Boards often lack the strategic understanding of the business necessary to give due diligence to the CEO selection process. For example, while it's the board's responsibility to hire the CEO, doing so without transparency and input from constituents/stakeholders can lead to backlash and lack of trust in the new leader (Kelderman, 2022). Consequently, they rely too heavily on executive search firms, which are less informed about the business than they are (Wiersema, 2002). Today, however, the role of boards has changed from oversight to engagement on strategy, digital, risk, talent, M&A, IT, marketing, and the degree of difficulty continues to rise (McKinsey & Company, 2016).

Given the prevalence and cost of failed leaders, board directors often act reluctantly. Board members feel uncomfortable pushing aside a chief executive whom they chose and like (Lublin, 2017). One estimate revealed that the percentage of new CEOs do fail within their first 18 months (Ciampa, 2016). But firing the CEO is a tough decision. It implied that the board made an imperfect choice, overestimating a candidate's abilities or hiring someone whose skills set doesn't fit the context. This lack of purpose-driven board leadership may lead to subtle bias in the selection process of CEOs. Some call it "Choice-Supportive Bias" which refers to defending a choice even though it is clearly a flawed decision. As a result, leaders need to deactivate this bias by being more listeners, welcoming feedback which provides self-awareness, and have the respect for different point of view. Terminating a CEO requires that the board of directors focus on facts and circumstances to satisfy the decision (Album, 2022). One study estimated that it costs organizations an average of $136 million to lose a CEO rather than having planned retirement. In addition, when a CEO is fired amid controversy, the cost to an organization's reputation and market may be even higher (Dean, 2019).

What to Seek-Out

Leaders are increasingly called on to lead, initiate, and direct change. This includes creating a dynamic and competitive vision, developing political support among stakeholders, managing the transition, and sustaining momentum in a turbulent environment. Leadership qualities are very specific. It means focusing on a recruitment strategy that specifically looks for those all-important leadership skills. One study interviewed 1,087 board members from 286 organizations that fired chief executives. The results reveal that most CEOs get fired for "soft issues." Thirty-one percent of CEOs got fired for poor change management, 28 percent for ignoring customers, 27 percent for tolerating low performers, 23 percent for denying reality, and 22 percent for too much talk and not enough action (Murphy, 2015). Soft skills related to human interactions and included interpersonal skills and personal attributes. Employers are increasingly aware of the significance of soft skills (Rao, 2012). Effective leadership is the most important aspect of an organization and its team's success. Leaders cannot lead effectively without the cooperation and expertise of their organizational members and external constituencies. The following is a profile of the competencies of effective leaders:

- Unquestionable Character

Great leaders have alignment between who they say they are, and how people experience them. In short, leaders who are authentic are viewed as credible and trustworthy (Bourgeois, 2019).

- Real Humility

Humility is the capacity to keep yourself from putting the self before others. Humility help build trust with team members. Instead of hiding problems, share them. In some cases, you may want to admit that you don't know how to solve the problem. This demonstrates your commitment to transparency and building trust (Petraeus, 2022; Pengg et. al., 2020; York, 2022).

- Clear Communications

Leaders must communicate with their constituency using easy-to-understand language. Learning how to communicate will instill trust, credibility, and secure transparency (Vozz, 2022; Chung, 2017). Overall, leaders are responsible for a variety of internal and external communications that impact stakeholders.

- Unwavering Accountability

It can be difficult to hold people accountable. Specifically, a leader should make sure that everyone in the organization is accountable, and should focus on productivity instead of the game of politics. Furthermore, accountability should not absolve leaders from the outcome of their decisions (Technology HQ, 2020).

- The Capacity for Empathy

Effective leaders can understand and cope with the unexpected emotional reactions of others to win their cooperation. Empathy is particularly important in interpersonal communication, conflict resolution, discrimination, and intercultural relations (Dore, 2023).

- Appreciating Diversity, Equity, and Inclusion (DEI)

An important part of the future is how leaders deal with workforce diversity, equity, and inclusion. An organization can have the best vision and strategy, but it will not be able to execute them unless the DEI culture is aligned with strategy (Ready, 2022). For example, businesses are spending more money on DEI initiatives than ever before. According to one estimate, the global market for DEI reached $7.5 billion in 2020, and it is expected to more than double by 2026 (Lee, 2022). Successful leaders make a point of personally connecting with DEI culture to cultivate trust. Sometimes this is called “fit”. Does a leader mesh with the organization’s values and the ways of working (Manville, 2016).

Putting it All Together in a Context: Sentiment Analysis

The six competencies to profile an effective leader discussed in the previous section suggest that board members may have to rely on individual opinion resulting from a personal feeling, in most cases. While selecting a CEO and assessing his/her credentials, a board member would have to rely on a subjective analysis based on sentiment. The text analytics field offers an approach called “Sentiment Analysis”. This tool attempts to detect favorable -positive- and unfavorable -negative- opinions while keeping in mind the difference between a fact -objectivity- and an opinion -subjectivity-. The sentiment analysis tool uses two dimensions of polarity. These are Objective(O)-Subjective(S), and Negative(N)-Positive(P). Among the six competencies suggested to profile a leader, those that lend themselves to subjectivity are “Character”, “Humility”, “Empathy”, “Communication”, and support for DEI. However, “Accountability” could rely more on facts. Hence, it is more on the objective side.

The sentiment analysis utilizes values ranging from 0 to 1 for quantifying opinions related to the two dimensions of polarity O-S and N-P. To employ this text analytics tool for the purpose of selecting a successful CEO, we propose that each board member should provide a “written opinion”, borrowing from the Supreme Court’s context. This statement of opinion will be used as an input to a process of opinion mining or appraisal extraction. This mining process starts with scanning the text of each member’s opinion, to evaluate the existence of a minimum level of subjectivity, then provide a numerical value. The next step would be to assign a numerical value that reflects the negative/positive aspect of the statement. The output of this process is a table to aggregate the results.

The context proposed here may prove to be a useful framework to support the board members. However, it cannot be the only source of information for the selection process. There should be a fact-based process to evaluate the past performances and accountability of the individual candidate. Board members should strike a balance between the two processes of sentiment analysis and fact-based.

CONCLUSION

The critical role played by the board in ensuring the selection and hiring of qualified CEOs couldn't be emphasized further. Board members must learn from past experiences. Individual candidates seeking the position of CEO must be open and candid with themselves first. Both board members and CEOs must tackle hard questions of leadership skills from the start, as the costs are a lot higher at the other end. Otherwise, they will be left in the past. This article suggested the data analytics tool sentiment analysis to further strengthen the selection process. Sentiment analysis has been applied in a variety of domains such as marketing, finance, human resources management, and politics. Future research could assess the implementation of this tool to support the selection of a CEO.

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