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CEO selection: A capital perspective

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ABSTRACT

Since the Global Financial Crisis, there are suggestions that companies are re-thinking the capitals required for a high performing CEO. One hundred and twenty chairpersons, executive recruiters and CEOs completed semi-structured interviews to determine the CEO capitals valued by boards, including how the volumes and structures of CEO capital interact with the corporate context in board assessments of candidate fit. Results revealed a narrow set of highly context dependent capitals with social capital playing a determinative role in all CEO appointments. CEO capitals were valued by firms only where they were developed in specific industry or organizational contexts. A CEO candidate's track record was the dominant lens used to validate the CEO capitals gained across different business cycles and contexts. The critical role of social capital in CEO appointments was also identified as having significant implications for models of work experience and career development. Finally, we offer a preliminary model of the complex and reciprocal relationships at work between various key stakeholders towards validating the capital of CEO candidates.

Introduction

Two topics have captured academic and public attention in recent times: the role played by CEOs in causing the Global Financial Crisis (GFC), and the qualities required of today's CEO to ensure sustained strong performance in the post-GFC economy (Huntley, 2013; Visser, 2010). Conceptions of CEO leadership began to be questioned after the spectacular collapses of Enron and WorldCom in 2001/2. Since then public and scholarly interest in CEO character, style and competence has remained a focus. For instance, many commentators argue that highly remunerated and often heroic CEOs, lacking in moral or ethical values, were in a large part responsible for the numerous corporate collapses witnessed during and after the GFC (Basin, 2015; McCann, 2013; Sykes, 2010). Such 'heroic' CEOs (see Khurana, 2002) exhibit many of the traits identified by House and Howell (1992:81) as being embodied by personalized charismatic leaders, including 'self-aggrandizing, non-egalitarian and exploitative' behaviors.

A number of writers believe that we are witnessing a move away from these personalized charismatic or heroic leaders that dominated CEO hires prior to 2001 (Khurana, 2002), towards leaders who embody models of leadership which are more ethical, shared and distributed (Gronn, 2002; Johnson, 2011; Mehra, Smith, Dixon, & Robertson, 2006; Pearce & Sims, 2002). In line with this transition, regulatory bodies have focused more attention upon the issue of CEO competence, arguing that successful board management of the assessment of the CEO's qualities and effective succession planning are central to commercial outcomes, as well as reducing the risk of regulatory non-compliance (D'Aloisio, 2010; Greenspan, 2002; Lucy, 2007). Pressures for change in CEO competencies have also occurred in response to a more interconnected knowledge economy that requires CEOs to deal with greater degrees of complexity (Uhl-Bien, Marion, & McKelvey, 2007). Leadership behaviors fostering collaboration and facilitating employee participation are seen to be more suited to managing a firm's social assets in this complex and interactive world (Uhl-Bien et al., 2007).

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Whatever might be the underlying causes for the change in desired CEO competencies, there is little question that change has occurred, raising several key research questions focused upon in this paper and reflecting the discussions now occurring in board rooms. In particular we address what the boards of large companies view as the essential capitals that they want to see in CEO hires and whether these capitals align to contemporary models of leadership. Additionally we explore how boards assess the nature and authenticity of candidate capital in order to assure candidate fit with organisational context.

Post GFC, debates about the qualities now required of those who lead our major enterprises have referenced constructs associated with ethical leadership (Brown & Trevino, 2006; Ciani, Hannah, Roberts, & Tsakumis, 2014), transformational leadership (Vinkenburg, van Engen, Eagly, & Johannesen-Schmidt, 2011), and authentic leadership (Gardner, Cogliser, Davis, & Dickens, 2011; Neider & Schriesheim, 2011). In addition, regulatory authorities have made reference to similar constructs in their discussions of the competencies required in CEOs (Claessens & Kodres, 2014; Gibson, 2009; Lucy, 2007). Moss (2008: 27), speaking as a leading business figure and company chair, noted that it is critical for the relationship between the board and the CEO to be based upon "mutual trust, openness, honesty and candor." Authentic leaders meet some of these criteria and are identified as displaying the resilience and courage to stand by their values and lead by example (Algera & Lips-Wiersma, 2012; Avolio, Gardner, Walumbwa, Luthans and May, 2004:807). As a "root construct" (Avolio & Gardner, 2005: 328), authentic leadership may be at the heart of what regulators in many countries are advocating and that boards are seeking in their CEO candidates, whether or not they are familiar with this academic conceptualization of leadership (see Guerrero, Lapalme, & Seguin, 2015; Nichols & Erakovic, 2013 for further support).

Getting the best CEO for a firm is critical for many obvious reasons. From a stakeholder perspective, stock prices and firm capitalization rise and fall on the news of the hiring and firing of a CEO (Tian, Haleblian, & Rajagopalan, 2011). For example, recent results from a meta-analytic study by Hambrick and Quigley (2014:487) reveal that the effect that CEOs have upon company performance is 'appreciably greater' than previous work might suggest, accounting for 38.5% of return on assets and 46.4% of market to book value. The CEO appointment is described as more important than any other appointment in a firm (Boerner, Eisenbeiss, & Griesser, 2007). To some commentators, it is a defining moment in a firm's history (Khurana, 2002; Pissaris, Weinstein, & Stephan, 2010). In addition, markets expect boards to get CEO succession right (Bligh, Kohles, & Pillai, 2011; Glick, 2011). For instance, studies of more disruptive CEO transitions (e.g. appointing interim CEOs) reveal strong stakeholder disapproval and subsequently higher rates of board turnover (Marcel, Cowen, & Ballinger, 2013).

Kesner and Sebora (1994) report that CEO succession studies can be summarized into three categories: succession antecedents, succession events and succession consequences. Their view is that the succession event, and particularly the selection criteria and the means of assessing the CEO candidate, have received the least attention. While prior studies have attempted to uncover the relationship between a range of CEO candidate characteristics and their appointment or succession, typically studies examine only one or a small number of individual antecedent characteristics or environmental conditions rather than adopting a holistic approach to the appointment event itself. For example, previous studies have examined industry structure and CEO characteristics (Datta & Rajagopalan, 1998; Parrino, 1997), leader integrity (Peterson, Galvin, & Lange, 2012), candidate insider/outsider status (Boeker & Goodstein, 1993; Cannella & Lubatkin, 1993), salience of firm versus industry antecedents (Zhang & Rajagopalan, 2003), board preferences and processes (Westphal & Zajac, 2013; Zajac & Westphal, 1996), board social and human capital (Cannella & Lubatkin, 1993; Tian et al., 2011), previous employment affiliations, firm size and firm strategy (Higgins & Gulati, 2006), self-efficacy and values (Kaplan, Klebanov, & Sorensen, 2012), contextual experiences (Elsaid, Wang, & Davidson, 2011) and CEO age, tenure and other demographic features (Guthrie & Datta, 1997), to name just a few. Additionally, there is ongoing debate about the relative contribution of these characteristics to their appointment and the firm's subsequent performance. Pitcher, Chreim and Kisfalvi (2000: 625) attribute this lack of understanding to the almost exclusive reliance in previous studies upon secondary data, used as proxy measures, and the use of measurements which are "weak in their explanatory power" rather than obtaining data directly from those involved in CEO selection decisions.

With the exception of a few studies (see Glick, 2011; Hoffman, Schniederjans, & Sebora, 2004 and Khurana, 2002) there have been few attempts to take a holistic and/or multivariate view of the role of CEO capital in CEO appointment events and nor is there agreement on what might comprise valuable CEO capital. As Glick (2011:171) notes, 'research on the role remains ambiguous, conflicted and outdated.' This may be due to the lack of studies that have accessed insights directly from the field (see Khurana, 2002 for an exception). In addition, there is little empirical research to date into understanding two other key issues. The first issue is the link between CEO candidate capital and its assessment and validation by board chairs. These chairs are principally responsible for this assessment (Aras & Crowther, 2010), while executive recruiters can play a pivotal role in supporting chairs and their boards in the CEO search and placement, especially with the larger corporates (Boyer & Ortiz-Molina, 2008). The second being that, little is known about the actual volumes and structures of the capitals that are considered to be most valuable relative to the strategic and situational demands on an organization. Associated with these areas are how specific volumes or structures of capitals facilitate, but also possibly limit, access to particular CEO roles (see also Kaplan et al., 2012; Peterson et al., 2012).

Context cannot be ignored in exploring the nature of CEO career capital. For instance, Cao, Simsek, and Jansen (2015) found that CEO social capital from internal and external social systems had different effects depending upon the levels of environmental instability facing the firm. Also context was found to matter significantly in Duberley and Cohen's (2010) study of the career capital and career progression of female scientists. They concluded that, even within occupational fields, the notion of capital must be seen as differentiated, not only around its meaning and expression in a field, but also in terms of its availability. Their findings, together with those of Fitzsimmons, Callan, and Paulsen (2014) in their examination of CEO career paths, emphasized the importance of the availability of access to key experiences and networks that build specific volumes and structures of valuable career capital.