Is your CEO right for the job?

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A survey of over 1,000 CEOs has revealed how the most successful spend their day, but the highest performers might not be the best fit for every organisation

Identifying the attributes that make the ideal CEO has been a long-standing challenge for boards, recruiters and researchers. Their efforts have typically focussed on what makes a prospective CEO a good fit for the role, but what matters just as much is the type of organisation they are in charge of.

Thanks to new data sources and analysis methods, it is now possible to see what the most successful CEOs do all day, and how they make a difference in the particular companies they lead.

Analysing CEO behaviour is the subject of recently published research I conducted, alongside my colleagues Professor Oriana Bandiera from the London School of Economics, Professor Andrea Prat from Columbia University and Professor Raffaella Sadun from the Harvard Business School.

> 17 per cent of CEOs are ultimately not suited to their firm

To get an insight into what a successful CEO does, we looked at how over 1,100 spend their working days. Previous attempts to do this have been quite limited; shadowing a large number of CEOs as they go about their work, and then analysing the information collected, is a near-impossible task. Instead we shadowed their diaries, using their schedule to find out exactly what they do, with whom, and whether meetings are planned in advance or not. This allowed us to compare the behaviour of many leaders from several countries, including Brazil, France, Germany and India.

All this data is far too difficult to manually analyse, so instead we used machine-learning algorithms to categorise CEO activities, compare their behaviour and identify trends.

Leaders and managers

Unsurprisingly, CEOs spend most of their time in meetings. In our sample, which consisted exclusively of CEOs in the manufacturing sector, the most common department they met with was production, with marketing and finance following a close second and third.

More interestingly, we found CEO behaviour can be divided into two broad categories that are very similar to John Kotter's definitions of "managers" and "leaders".

Managers focus on monitoring and implementing tasks, and subsequently take a hands-on approach to their job. They spend a lot of their time interacting with lower-level employees and people directly involved in the supply chain.

> Many managers also run very successful businesses, although they tend to be smaller and simpler

Leaders instead prioritise high-level functions within an organisation. They spend a lot of their day meeting with C-suite executives communicating broad strategic priorities to get different departments working together towards the same goals. CEOs were categorised on a scale, placing each one at a point between these two extremes.

So, which type is better?

We found that CEOs who lean on the side of leaders generally run companies that are more productive and profitable. This is not a coincidence; we compared companies before and after appointing a leader-type CEO and found comparatively increased sales several years after they were hired.

The right person for the job

This sounds like leader CEOs are the secret to success, but their potential depends on the type of organisation they are in charge of.

Leader CEOs make the biggest difference in large organisations. For example, a multinational corporation exporting its product to a new market needs someone who can address complex issues, communicate ideas at a high level and navigate bureaucracy, which leaders are best equipped to do.

Many managers also run very successful businesses, although they tend to be smaller and simpler. They are better suited to challenges like setting up a new manufacturing plant, which needs someone who is well-versed in technical knowhow and capable of working directly with people on specific production processes.

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Seeking out a leader is not going to help a business solve its on-the-ground issues, and problems arise when CEOs are mismatched to the company they lead. Since managers appear to be much more common than leaders, this occurs quite a lot. Our figures indicate 17 per cent of CEOs are ultimately not suited to their firm, largely thanks to the shortage of leaders in the market.

The greatest difference in supply and demand for leader CEOs is seen in low- and middle-income countries, where they are particularly rare. This poor distribution could account for up to 13 per cent of cross-country differences in labour productivity.

Businesses currently store a wealth of unstructured data, which has the potential to be used for many new types of research. I was recently awarded a grant by the European Union Research Council to do more work in this area, and future projects will focus on applying similar techniques to other projects. An upcoming study is examining CEO job listings to see what businesses prioritise as the most valuable qualities. This, and other projects that take advantage of unstructured data, offer a view into a world of business that was previously impossible to see.

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Stephen Hansen is Visiting Professor in the Department of Economics & Public Policy. He is Professor of Economics at University College London and was previously Associate Professor of Economics at Imperial College Business School.

His research focuses on organisational economics and monetary policy. Increasingly, he draws on unstructured data sources and machine learning methods to address questions in these areas.