



# The Perth Leadership Institute

*“Learning To Succeed In Leadership”*

## **Emerging Growth Companies: Why CEOs Fail and How to Improve CEO Performance**

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Founders/CEOs of emerging growth companies fail with monotonous regularity. Despite their being, in the main, persons of high intelligence, driven, motivated, passionate and ethical, most founder/CEOs fail to take their company to the next stage, or much beyond. The most frequent scenario is that they are dispensed with after they have brought in outside capital from professional (as distinct from angel) investors, to be replaced by the much-feared, serial “professional” CEO.

We have worked with numerous CEOs in this situation. In our experience, around half of those CEOs fired just did not possess the personal skills to be successful in a CEO position. However we believe that the other half would have succeeded had they been aware of certain factors, which we are going to discuss here.

The fundamental principle in this discussion is that the particular type of business personality of a CEO leads fairly predictably to certain business outcomes, most of which are adverse, that is, of the failing kind. We have seen predictable patterns of CEO profiles, which are associated with different and predictable types of failing patterns. The good news is that, as long as the CEO has the right modicum of personal skills, and a good deal of humility, of which more later, he or she has a good chance of implementing solutions so that the outcome is prevented.

### **Why The High Failure Rate**

What explains the high failure rate of CEOs? First, we have to recognize that not everyone is suited to be the CEO of an emerging growth company. There are certain issues of both a professional and personal nature which predispose certain people to not being suitable and others being so. And in the heat of the battle, particularly where there are highly motivated outside investors with a short monetary fuse, the stakes suddenly get much higher.

And whether or not the CEO has had any business training does not necessarily appear to have any positive impact on the outcome. To the contrary, in our observation, an MBA is usually not correlated with success in emerging growth companies since this training focuses on large companies, which are entirely different to small startups. Furthermore MBA courses do not, in general, provide much, if any training in leadership, or being a CEO of an entrepreneurial company. In our experience the only training of an academic nature that could help are the emerging courses in entrepreneurship in many universities, but even here, real experience in the field is unusual so the chances of the student picking up training that will be of real assistance is, while certainly not non-existent, will still be relatively low.

In addition we have some interesting investor dynamics at work. Most startups attract capital from friends and family, and other so-called angels. These, by and large, are themselves not experienced and do not provide material guidance to the entrepreneur. Worse maybe, is that frequently, since they provide the funding based on a relationship rather than on objective study, they give an entrepreneur a false sense of security in feeling that if they can get money from these people, it will be the same sort of job to get if from someone else, such a professional

investor. Angels are not noted for their tough love and companies at an early stage funded by them, often in a state of optimism about their product and fortunes, are not good at being self-critical either.

Finally, if and when professional investors do come in, they apply a totally different set of criteria to the founder than he or she has usually experienced. Furthermore the type of criteria applied by the professional investor will take into account the type of factors, which we are reviewing here, namely the business personality of the founder and whether or not he or she has the personal profile, the skills and the flexibility they require for the CEO to continue to enjoy their support. In other words, the sorts of criteria that we apply formally in our methodology for assessing CEO performance mirror those applied, albeit informally, by professional investors.

### **The Perth Leadership System**

Our proprietary methodology is based on a series of principles of leadership. Briefly, these presume that there are strong associations between different types of business personality profiles and the eventual business outcomes, and the valuation of the company led by the founder. Our approach categorizes these business personality profiles and links them with particular types of business outcome.

Our approach is based on our long-standing observation that different types of business personality tend to focus on certain areas of business performance to the detriment, and sometimes even to the exclusion, of others. In other words, the CEO's business personality tends to bias him or her to focus on different types of business performance and outcome. We see this every day in our work with all types of entrepreneurs, and indeed, more experienced CEOs, technical, sales-oriented and the rest. There is a relatively high degree of predictability associated with these patterns. Any CEO has a series of levers they can apply to make the company move in the direction they want. Over the years we have noticed in our work that the business personality of CEOs tends to act as a filter concerning the sorts of controls he will apply. Certain profiles tend to prefer to use certain sorts of levers and to avoid others, hence the bias towards particular business performance outcomes. Again, we have seen a high degree of

predictability associated with this use of management controls.

The good news is that once we are aware of the particular business personality of the CEO, we can apply controls and techniques that are well recognized as counter-acting the bias in the personal profile. Thus we can implement a variety of measures that have a good chance of restoring the correct balance to the CEO's approach. This maximizes the chances that the company will not fail due to the inherent bias in the personal profile of the CEO. An outside investor can be reassured that the inherent bias in the CEO's business personality is being counteracted in a mature and constructive manner.

### **The Impact**

In carrying out our work with CEOs, we are careful in our claims as to what our approach can and cannot do. Our approach is designed to counteract the basic bias in the business personality of the CEO so that the necessary focus is put on all vital business performance goals and measures. As such it is not designed to lead a CEO to succeed – this involves factors such as the market, the product, the competition – that are well outside our control and purview. Rather, our approach is designed to help a CEO not fail. In our experience, the major challenge for most companies is not how to succeed, but how not to fail. As such, our approach is designed to help the CEO achieve the minimal level of performance, at which he or she avoids the basic mistakes and counteracts the basic biases inherent in his personal profile that would otherwise have misled him, to the ultimate detriment of the company.

This being said, a lot can be achieved, and as long as it is, it can set the basis for company success, which could not otherwise have been achieved. For many young CEOs and founders – not to mention those that are not so young – this material will be novel. Many, if not most, will not be aware of the specific impact of their business personality on the direction of the company and its impact on specific areas of business performance. Without long experience as a CEO, or as an observer such as an experienced investor or board member, it would be very difficult for them to possess this knowledge. And, as we have mentioned above,

no standard business courses will cover this body of knowledge and experience.

Armed with this knowledge, it is possible for a CEO to implement specific and practical measures, which will squarely meet the issue of bias in the business personality. It is possible for the CEO to undertake specific courses of action in a variety of areas within his control that will improve the situation. Such action will frequently avoid absolute failure of the company and in almost all cases improve the CEO's and the company's performance.

### **The Difficult Issues**

This is not to say that all is easy in the land of CEO training. The difficulty, as always, lies in the attitude of the CEOs themselves to such coaching and advice. For many founders and CEOs, the act of being coached is somehow seen as an admission of failure or weakness, instead of, how it should be viewed, as a demonstration of maturity and strength. Many CEOs can see the value in an approach such as that set out in this article but simply cannot bring themselves to participate in such a process. Ego, insecurity, face, lack of maturity can all play a part. Unfortunately, if they do not, and lacking this knowledge and discipline, they will be subject to a higher and more summary authority, the outside professional investor, who will in any case perceive the biases in their business personality and, if they lead to company dysfunction, as is so often the case, will take action to remove the CEO. This is a situation that we observers of emerging growth companies see often. We will not solve this problem in a hurry, but we can at least draw it to the attention of founders and CEOs.

### **Our Vision**

The Perth Leadership Institute has been involved in emerging growth companies for the past 20

years. We believe in them and their contribution to business and society. We laud and love the vision, drive, passion and chutzpah of the young entrepreneurs who put all on the line for an idea that they believe can change things in a significant way, socially as well as commercially. We do not want such ventures to fail. Our observations have been made so that we help many succeed where they might otherwise have failed. There are many paths to failure and if we can avoid some, the overall efficiency of the entrepreneurial and company growth process will have been improved, and the world will have become a better place. That is the basis for our work and our own research in the area of improving CEO performance.

### **Our Work**

We carry out leadership training aimed at performance improvement for CEOs using our proprietary methodology as well as providing advice on strategy for them in the areas of growing sales and increasing their attractiveness and valuation in preparation for an outside capital raising. Often the coaching needs to take place in order for the advice to be given and received constructively, but not always. We run CEO Boot Camps and seminars for groups of CEOs and top executives of larger corporations to provide them with insights such as the above that they would otherwise not have seen. We lean heavily on the personal experience of Dr. E. Ted Prince, who has been a CEO emerging growth companies for the past 20 years and has been on numerous boards of such companies, both public and private.

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