

An Investor's Least Favourite Statement – “Oops, Wrong CEO”

BY LESLIE PRATCH

It is possible to identify executives who are likely to act with consistently high integrity and who demonstrate sound, timely judgment when they occupy positions of power. These executives – as distinct from others who have similar backgrounds and temperaments – have specific *underlying motivations and coping tendencies*. Understanding ‘active coping’, as I define it and measure it, is central to predicting leadership.¹ Executives can also learn how aspects of their personalities and particularly their coping styles might adversely affect how they work and use that knowledge to make themselves (and their colleagues) much more effective.

Effective leaders must meet challenges and resolve them productively, day after day, for many years. They must constantly adapt to the unforeseen – and must mobilise, coordinate, and direct others. But when hiring executives, how do you know which candidates possess such qualities? When they all look good on paper, how do you make a choice? Given the frequency of CEO turnover, and the frequent cases of CEO failure

after long, successful careers in the same place where they became CEO (e.g., Jeffrey Immelt at GE, David Pottruck at Schwab, Doug Ivester at Coke), it's apparently not that easy. But it can be done, by including an analysis of executives' readiness to acquire new skills and strategies for coping with complexity and change – in other words, their active coping.

Active Coping is a Style of Approaching Life, Baked into Who you Are

How a person approaches life's challenges develops as a result of nature and nurture. Some people run from problems, some lash out at others, and some passionately wait and hope that problems (or even opportunities) will just go away.

Active copers, by contrast, are built to be capable and eager to deal with whatever obstacles and opportunities they face. Active coping is being ready and able to adapt creatively and effectively to challenge and change. Active copers continually strive to achieve personal aims and overcome difficulties, rather than passively retreat from or be overwhelmed by frustration. They move towards the problems and

opportunities with open hearts and open minds.

In business, unexpected events occur, for which no playbook has been written. Active copers do not lose their footing in such cases, but rather thrive on the opportunity to seek out information about what is happening, rally the right team, and learn as part of the process of steering towards success.

Leaders with other personalities and styles may do as well in circumstances that can be predicted in advance, but active copers are the best people to have in place when the unexpected occurs.

Whereas active copers seek to confront and resolve, passive copers are reactive and avoidant. Passive coping is refusing to tolerate the full tension that a situation imposes, for instance, reacting before the facts are sufficiently understood. Passive coping is retreating from reality, tuning out information, and resisting change. It's dealing with minor problems in order to avoid confronting the anxiety of major problems. In a crisis, passive copers will be prudently hoping that the problem goes away, or trying to do what they did before in vaguely similar circumstances.



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7 TRAITS OF ACTIVE COPERS:

1

Awareness

2

Courage

3

Resiliency, toughness, and the ability to learn from experience

4

Energy, fortitude, and the willingness to persevere

5

Resourcefulness

6

Decisiveness

7

Executing a Plan

Predictive Validity and Utility

Using the methodology that I have researched, developed, tested, and validated at the University of Chicago and in my practice,² I have been assessing senior executives for public and privately held firms for 20 years. I have assessed over 450 corporate executives and over 50 partners at private equity firms. I know what motivates and impedes business leaders and especially what it takes to make it in the world of private equity.

My assessments have a documented predictive validity of 98%. That means that over all of the situations in which I've assessed executives and made recommendations, in 98% of cases, the client who observes the executive's subsequent performance says that my analysis and conclusions capture the key elements of the person's performance and of the challenges of working with that person.

In an assessment, I learn what conscious and unconscious characteristics make the person succeed or fail – not just whether he succeeded in the past. I come to understand how he approaches and manages (well or poorly) key relationships, and the challenges in how he leads that he will have to overcome, work around, or have other people work. When a private equity sponsor has me assess a CEO as part of due diligence, pre- or post-close, then I become a uniquely capable resource for also monitoring and coaching the company's most valuable human capital

Skills and Traits associated with Active Coping

I've found in my 20 years working to evaluate executives that active coping is an attribute of a healthy personality structure. This means that the 'activity' is not always overt and observable; sometimes it takes place internally, in decisions made, visions developed, and conflicting drives resolved. An active coping stance, however, often gives rise to certain observable traits and skills. These should be sought out in anyone

being courted to run a business. They include:

- *Awareness.* Active copers are able to see reality, including their own needs, capabilities, and limitations.
- *Courage.* Active copers are brave. They seek out new experiences; they are not intimidated by challenges.
- *Resiliency, toughness, and the ability to learn from experience.* Active copers, like all humans, make mistakes. Life is too complicated to anticipate every possible contingency. Active copers regroup and recover.
- *Energy, fortitude, and the willingness to persevere.* Active copers summon the energy to continue to move forward even under the most trying circumstances.
- *Resourcefulness.* Active copers invent solutions to problems by creatively pulling together the resources they have at hand or by developing new ones.
- *Decisiveness.* Active coping gives a person the fortitude to handle conflicts among competing goals. Making a choice means giving up an alternative. Active copers face that loss and move on.
- *Executing a Plan.* Active coping involves planning. Active copers anticipate, strategise, and weigh the risks of potential actions. Then they act. Active coping combines introspection and action.

These are the kinds of traits active copers show and business leaders need to have for dealing well with fast-changing and always uncertain situations.

Common Mistakes Employers Make When Considering Candidates for Leadership Roles

A very common belief is that past performance is the best predictor of future performance. But all that past performance shows is that the person was able to do what was demanded in the past; it says nothing about what the person could do with new challenges.

Another is hiring someone who looks like me. People like people they can communicate easily with, and feel that a common background reduces uncertainty about who this other person is – which is not an effective way to choose leaders.

A third example is not defining well enough what a company is looking for. You need to know the challenges that the person is going to have to deal with. For example, many investors do not have experience leading the sort of company they have invested in, and so they lack a feel for the challenges of dealing with the rest of the management team, customers, and even the other investors.

What are some examples of leaders in business (and elsewhere) who seem to have excellent active coping skills? What about the opposite?

It's hard to tell from people's public personas or even from their actions whether they are active copers, but I will hazard a guess about people whose public image seems consistent with active coping.

Nelson Mandela decided to get smart rather than get angry when imprisoned. He used the time to learn Afrikaans to be able to understand the oppressors. He kept his eye on his goal and was willing to switch tactics, embrace opponents, invent new forms of interaction, and generally do what it took to move forward – and he did it all with style, charm, and balance.

Lewis and Clark. In 1804, these men headed west from St. Louis with a group of 33 men to find a water route to the Pacific. They had no good maps and little information to go on. Over a period of two years and a few months, they journeyed successfully to the Pacific and back, through territory filled with potentially hostile American Indians. They prepared well, but just about everything was unexpected. They succeeded, and only one member of the expedition died.

Jim Lovell, who commanded Apollo 13. Although the safe return from space was clearly a group win, the crew was a key part of the response. As Lovell explained, "We were given the situation to really exercise our skills, and our talents to take a situation which was almost certainly catastrophic, and come home safely."

In the world of business, Jim Collins put together his list of the 10 greatest CEOs. Although he wasn't looking necessarily for active copers, one of his choices was Katharine Graham, a terrific active copper. In 1971, as chief of the Washington Post, she considered the risks of publishing the Pentagon Papers, the leaked Defense Department study that revealed government deceptions about the war in Vietnam. If the Post published, it risked being prosecuted for theft of government secrets, which, in turn, could doom its pending public stock offering and other businesses. Graham wrote, "I would be risking the whole company on this decision."



Nonetheless, she approved publishing and the Post still had an extremely successful IPO.

For non-active copers, we can certainly start with plenty of executives who appear to have a narcissistic personality. I won't name names but a quick Google search for 'narcissists' and 'CEOs' will show where others have made the link. Narcissism can be extremely successful but extreme narcissists are not active copers. Why? They lack empathy. They are not seeing the reality of the world; they're seeing the world filtered through a view of themselves as the grandiose center of the world, assuming that whatever action they take will be praiseworthy.

Can Active Coping Be Learned?

Active coping is something that is learned over a lifetime. It *is* something that someone can get better at, but the improvement process is slow, incremental, and mostly internal. It means learning much more about the ways you've learned to protect yourself from what you fear – by retreating, by lashing out, by neurotically doing X – and then choosing to abandon those techniques because there's a better approach available.

Active coping is helpful wherever it's not likely that everything will go as planned – that is to say, everywhere and anywhere. Active copers experience each twist and turn in life – even unavoidable losses such as the death of close relatives or their own impending death – as an opportunity as well as a loss. With each new moment, active copers ask: What can I learn from this event? How can I use it to strengthen my commitment to the ideals I pursue? What's really happening now, and

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what is the healthiest response I can make?

Active coping is important not only for leaders and companies evaluating people for leadership positions, but also for leaders who can benefit from understanding their coping style to improve their own performance.

Active coping lets a leader go farther and faster more surely. Consider an analogy with a car. We can get where we need to go driving an ordinary, inexpensive car, and we can make it through life with a less than optimal coping style. But to drive on curvy, treacherous roads in dark and foul weather, we need a superbly engineered car, and that car will get us farther, faster, with less likelihood of accident or breakdown in other situations. A strong framework of active coping enables a leader to survive the rough spots and also to perform better than others would in ordinary times.

If you'd like to improve your active coping, some of the most important things to keep in mind are:

(1) Know what you want; (2) recognise sources of threats or frustration; (3) possess the psychological freedom to act – take the action that is in your own best interest, not the action that feels easiest; (4) be ready to deal with resistance and overcome threats; and (5) pursue what you want in a way that is consistent with your values and ideals. 

About the Author



Leslie Pratch is the founder and CEO of Pratch & Company. A clinical psychologist and M.B.A., she specialises in helping private equity investors and management committees and boards of directors of public and privately-held companies identify whether the executives being considered to lead companies possess the psychological resources and personality strengths needed to succeed. In addition to her consulting work, Leslie actively conducts research and publishes in peer-reviewed journals in the area of successful business leadership and personality assessment. Her first noteworthy book, *Looks Good on Paper?*, was published by Columbia University Press in July 2014.



Gender, Coping, and Leadership

In our research, we found that women leaders need to be even better at active coping than men to be seen as effective in their roles³ because a female leader faces certain higher barriers to reaching any goal than a male leader does, and active coping is about overcoming barriers to goals. Specifically, a woman will have a harder time getting and keeping followers than a man will.

Here's why: A woman's followers will have mixed thoughts about her when she is strong and directive, and mixed thoughts about her when she is collaborative and interested in others. A man's followers, on the other hand, will laud him for being strong and directive, and give him a pass when he is collaborative and interested in others. It's not fair, but it's reality.

A female leader trying to achieve the same goal from the same starting point as a male leader has a harder task, simply because of this tangle of attitudes, which stem from typical expectations about men, women, and leaders. As a result, a female leader needs to be a better active copier than her male counterpart would.

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Endnotes

1. In research funded by the University of Chicago Graduate School of Business, I led the first systematic effort to identify in advance individuals with the psychological resources needed to be successful business leaders. This research established the ability of measures of active coping to predict leadership beyond conventional standards of chance occurrence among already high-achieving leaders (e.g., Pratch & Jacobowitz 1996, 1997, 1998, 2007). We subsequently conducted the first-ever empirical study into the personality characteristics of successful CEOs of private equity-funded ventures (Pratch & Jacobowitz 2004) and have continued to refine our predictive model through ongoing empirical research in the field (e.g., Pratch & Jacobowitz 2007, 2008, 2010).
2. Pratch and Jacobowitz (1996)

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