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Changing the C-Suite: Opportunities and threats for leadership diversity and equality

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ABSTRACT:

This study examines the decision-making processes surrounding C-Suite changes, to help understand the extent to which these processes may help or hinder progress towards greater diversity and equality at Board and senior leadership levels.

Since acquisition of corporate entities by PE investors is known to trigger more frequent changes in leadership than in other corporate situations, and its influence on global corporate structures continues to expand, it was targeted as a critical context for exploring the issue. In-depth semi-structured interviews were undertaken with 23 senior investors from 19 different PE firms, examining how incumbent leadership capability is assessed, how decisions regarding changes to incumbent leaders are made, and how existing approaches might influence leadership equality and diversity.

The findings reveal a common reliance on informal approaches for informing decisions regarding C-suite changes, on subjective and/or anecdotal opinions of leadersâ€™ suitability, and an over-reliance on past experience rather than capability or potential when identifying suitable replacements. Evidence of heuristics and biases emerged, including a bias for maintaining incumbent leaders, even in light of concerns regarding their capability or suitability, thereby inhibiting efforts to improve diversity and perpetuating inequality.

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This paper explores the decision-making processes undertaken within organisations to determine C-suite changes, a relatively unexplored area, which plays a key role in the upward mobility of a diverse workforce. The study engages directly with decision-makers to examine real-life decision-making situations and explores the findings with reference to theory from occupational psychology and behavioural economics, providing a rich exploration of potential limitations and consequences of current practices for equality and diversity.

Running Head: Changing the C-Suite

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1. INTRODUCTION

Progress towards achieving greater diversity at Board and C-Suite levels has been slow, with women and people of colour remaining significantly underrepresented. The 2022 review of board ethnic diversity in the UK (Parker, 2022), for example, reveals that 45% of FTSE 250 companies still do not have a single director of colour on their Boards. Similarly, although Goal 5 of the United Nations' widely-acknowledged and influential Sustainable Development Goals (UNSDG) [1] aims to ensure women's full and effective participation and equal opportunities for leadership at all levels, the World Economic Forum notes a persistent lack of women in leadership positions, estimating that women represent just 27% of all managerial positions (World Economic Forum, WEF, 2021). Furthermore, these data do not yet fully reflect the impact of the pandemic, which is estimated to have had an additional, significantly detrimental impact on women's career development (WEF, 2021; Grant Thornton, 2021) and which threatens to reverse the limited progress made towards gender equality (United Nations, 2020).

Since women have equivalent, if not stronger, leadership attributes (Glass and Cook, 2016; Player et al., 2019) and similar career aspirations (Watts, Frame, Moffett, Van Hein, and Hein, 2015) than men, their failure to be appointed to top leadership roles can be argued as reflecting underlying prejudice regarding their leadership capability. Indeed, evidence reveals that the stereotypical association of a good leader with masculine and agentic characteristics leads to prejudice against women (Eagly and Karau, 2002; Koenig et al., 2011), a phenomenon also now demonstrated as extending to gay men in terms of perceived lack of fitness for leadership (Liberman and Golom, 2015; Pellegrini et al., 2020).

Significant bias is known to influence the processes involved in the hiring and promotion of leaders (Player et al., 2019), highlighting the importance of exploring the leadership succession and appointment decision-making processes adopted within organisations. It has long been suspected that opportunities greater diversity at senior levels may be hindered by the structure of decision-making (Thomas and Gabarro, 1999), resulting in women and people of colour being systematically, although not necessarily consciously, screened out (Caver and Livers, 2020). This relatively unexplored area of research could play a key role in eradicating prejudice regarding leadership appointments, promoting the upward mobility of a diverse workforce (Virick and Greer, 2012), and consequently, making progress towards UNSDG10, to reduce inequalities [2], a goal widely accepted and invoked as centrally important across a range of national and international policy contexts. It is only by exploring the processes via, and grounds upon which such critical decisions regarding leadership appointments are made, that we can tackle prejudice in this domain and bring an end to historical inequalities that inhibit progress towards gender and race equality in leadership.

We examine these issues in the context of Private Equity (PE) acquisitions, which necessarily require consideration of leadership capability, suitability and potential changes in leadership for delivery of the investment thesis. Given the growing significance of the PE sector in global corporate governance due to the expanding proportion of corporate assets under PE management, this sector has become an increasingly important area of focus for management scholars. Against the backdrop of relatively slow progress in addressing global inequality goals, particularly in the context of diversity at the most senior levels across global corporations, the PE context also presents an important opportunity for accelerating progress. However, very little is known about the details of the decision-making processes which lead to changes to leadership in corporate entities, such as following acquisition by PE investors.

Due to this combination of factors, it is important to bring to light these hitherto opaque practices, to form a better understanding of their operation and consequences for leadership diversity and equality. It is, of course, recognised that an understanding of process is only part of the picture, operating alongside factors such as corporate governance arrangements, shareholder activism and governance codes. However, it is reasonable to argue that leadership selection, assessment and evaluation processes are centrally important in understanding the nature and consequences of decision-making in this context for diversity and equality. Consequently, this paper seeks to address the following research questions:

1. What are the typical processes adopted to determine incumbent leadership capability, suitability, and the potential need for changes in leadership?
2. What are the potential limitations of current approaches to leadership assessment and decision-making regarding leadership change and subsequent appointments?
3. What are the consequences of current practices in terms of their implications for diversity and equality?

We investigate these questions through in-depth interviews with senior PE executives across a range of PE firms, responsible for making decisions regarding leadership appointments across large portfolios of corporations under management, collectively worth hundreds of billions of dollars. The findings shed light on a number of consistent characteristics of decision-making regarding leadership capability, suitability and change which have significant implications for diversity and equality, the consequences of which are discussed.

The paper proceeds as follows. Section 2 outlines prior research and theory relating to the evaluation of leadership capability which underpins decisions regarding the retention of, or changes to, leadership arrangements. Section 3 outlines the method adopted in this study to gain more detailed insight into the decision-making process surrounding changes to leadership. This involves direct engagement, via interviews, with private equity leaders to gather intelligence on the nature and operation of existing practice. Section 4 documents the findings, drawing particular attention to how and to what degree leadership capability is actually assessed and how such assessments inform the nature of decisions on leadership. The insights gained from the interviews inform a conceptual model which sees decision outcomes as influenced by decision context, decision-maker characteristics and decision process, with features of each of these areas of influence identified as either promoting or working against leadership equality and diversity. Section 5 discusses the implications of these reported processes for leadership diversity and equality.

2. PRIOR RESEARCH & THEORY

Decision-making regarding leadership capability and potential

Leadership succession decisions form one of the most critical decisions an organisation must make, and greater understanding of the processes by which C-suite appointments are made is critical in helping to understand why more progress has not been made towards improving board and C-suite diversity. However, the decision-making process surrounding the replacement of CEOs and other senior leaders is rather opaque and poorly understood.

Whilst formal assessment processes are widely used for assessing and informing decision-making regarding appointment of mid-level managers and high-potential employees, historically there has been what Church and Rotolo (2013) describe as an assessment 'glass ceiling' at more senior leadership levels, perpetuated by several generally accepted beliefs. These are the beliefs that (1) leaders at senior levels feel that assessments are beneath them; (2) organisations value experience over competence; and (3) politics trump precision, particularly at senior levels (Stamoulis, 2009). Although 60% of organisations report using formal processes to identify high-potential employees, the most common method reported within this process is the opinion of senior executives (59%), with only a minority of organisations employing methods shown to have greater levels of reliability and validity such as psychological testing (14%), cognitive measures (9%), assessment centres (7%) and business simulations (4%) (Hagemann and Mattone, 2011, reported by Church and Rotolo, 2013). This is consistent with claims that organisational decision-makers overestimate the validity of intuitive judgement in personnel decision-making, whilst simultaneously undervaluing the validity of more formal and structured methods such as psychometric tests and assessment centres (Dries, 2013). These trends in assessment and selection practices, used for both internal appointments and succession as well as external appointments, place leadership appointment decision-making processes at increased susceptibility to bias and prejudicial attitudes regarding leadership suitability and potentially, therefore, of producing decisions which perpetuate current inequalities. As argued by Church and Rotolo, this trend may have begun to shift in the early part of the last decade, perhaps as a result of the costly high-profile CEO exits from major global corporations in previous years, in combination with increasing pressure on improved corporate governance, transparency and equal opportunities, although there is little research into current practices to confirm or refute this.

To improve the validity, transparency and fairness of senior leadership appointment decisions, and in light of the increasing attention on improving board diversity and equality globally, a number of countries have updated their corporate governance codes in recent years to include more explicit guidance on the process for determining how individuals are appointed to boards. The UK Corporate Governance Code (Financial Reporting Council, 2018) is arguably one of the most explicit, incorporating the recommendation that*:*

> *'Appointments to the board should be subject to a formal, rigorous and transparent procedure…Both appointments and succession plans should be based on merit and objective criteria and, within this context, should promote diversity of gender, social and ethnic backgrounds, cognitive and personal strengths.' (p.8)*

However, there remains considerable ambiguity and scope for variation in interpretation and application of these recommendations; for instance, in determining what constitutes a rigorous process, what constitute objective criteria, whether the assessment is formal or informal, conducted internally or by an independent entity.

The absence of clear guidance regarding the most valid and reliable means of assessing leaders increases the risk of over-reliance on past experience as a proxy for capability, since years of experience can be considered an objective measure. This is highly problematic because whilst years of experience may be an objective and independently verifiable metric, there are a number of issues with its validity as an indicator of leadership capability. A fundamental limitation is that past performance does not accurately predict future success in significantly different situations (e.g. Silzer and Church, 2009). Indeed, leadership derailment research has demonstrated that large numbers of executives derail because they over-rely on strategies that have enabled them to succeed in the past, but fail to adapt to new situations or demands (e.g. Hogan, Hogan and Kaiser, 2011; McCall et al., 1988). Alternatively, an individual's ability to learn from experience has been found to add substantially to the prediction of an individual's ability to perform in a future role, beyond that predicted by past job performance (e.g. Dries, Vantilborgh and Pepermans, 2012), and is considered a fundamental component of leadership potential (e.g. Church and Silzer, 2014; Dries and Pepermans, 2012). However, despite its value as an indicator of future leadership capability, assessment of a leader's ability to learn is more complex than simply totting up an individual's years of experience in leadership positions. Not only does over-reliance on past experience present a risk in terms of leadership capability due to the potentially erroneous assumption that past leadership experience predicts future success, but it also threatens to perpetuate inequalities. By making past experience in senior leadership roles the main, or even, only criteria for appointment, we immediately exclude those who may possess the potential to be effective leaders, who have not previously been given the opportunity.

In the absence of established evaluation protocols and resulting data regarding leadership capability and potential, decision-makers are more likely to rely upon heuristics, which are particularly attractive in the context of complex or urgent decisions and involve simplifying (or over-simplifying) large and diverse sets of decision-relevant data (see Gilovich, Griffin and Kahneman, 2002). Many different types of heuristics and biases are known to influence the reliability and validity of personnel selection decisions (see Whysall, 2017). For example, confirmation bias (the tendency to interpret new data in ways that reinforce existing opinions or to ignore data that conflict with them), in-group or similar-to-me bias (a preference for people who are more similar to ourselves in terms of the groups we identify with, such race, ethnicity, gender, nationality, profession or interests, see Hewstone, Rubin, and Willis, 2002, for a review), and halo or horns effect/bias (attributing an overly positive or negative impression to a candidate based on a small detail, rather than a nuanced picture based on data specific to different dimensions). Inappropriate heuristics may lead to decision outcomes which are systematically biased, sub-optimal, or both. The purpose, therefore, of formalised assessment and selection processes is to reduce the impact of bias, by focusing judgements on relevant criteria only, and in providing a more objective assessment of an individual's capability against those criteria, to inform those judgments.

Perceived leadership suitability

A critical consideration when it comes to prejudice regarding perceived suitability for leadership positions is reflected by role congruity theory (Eagly and Karau, 2002), which highlights that the traits typically associated with effective leadership (e.g. dominance and assertiveness) are not stereotypically attributed to women. Thus, informal, subjective opinions are likely to bias leadership appointment decisions because they will be driven by the assumptions that, firstly, to be effective all leaders must be assertive and dominant, and secondly, that women (and gay men, as highlighted by Liberman and Golom, 2015; Pellegrini et al., 2020) are unlikely to possess these characteristics. Formal processes, in contrast, will test both of these assumptions. First, by assessing the role to determine the qualities required to perform effectively in the role, and secondly, to assess the individual in terms of the extent to which they either possess or have the potential to develop those qualities.

The challenges encapsulated by role congruity theory are further confounded by one of the key tensions in the talent management literature; beliefs regarding the extent to which personal attributes such as leadership capability are rigid or malleable (Dries, 2013; Dweck, 1999; Dweck 1986). Implicit person theory (e.g. Chiu, Hong and Dweck, 1997; Dweck, Chiu and Hong, 1995) suggests that people hold important implicit beliefs (implicit theories) regarding human capability or 'talent', which can be categorised into two contrasting types: entity or incremental person theories of talent. One subscribing to entity theory of talent (also termed a fixed mindset; Dweck, 2006) believes that personal attributes are largely fixed; for instance, in a leadership context, that some people are 'born leaders'; that people largely "are who they are" and do not change significantly. An entity theorist would subscribe to the view that a good CEO is likely to succeed in any context, and therefore if it is deemed that an incumbent leader does not 'have what it takes', the preferred course of action would be to replace them with a leader who has proved that they are an effective leader elsewhere, in the past. As discussed, not only is past experience not necessarily always predictive of future performance, but evidence also suggests that talent is not always transferable and 'star hires' may not perform effectively until at least a year or more into role in a new organisation (e.g. Groysberg, Lee and Nanda, 2008). Furthermore, an entity theory perspective on talent, may act as a barrier to new entrants into leadership roles, perpetuating historical homogeneity at the top levels of an organisation by requiring that leadership positions are filled by those who have demonstrated their leadership capability in the past. Those with the potential but not the past experience are not given the opportunity to demonstrate their capability because they are not seen as leaders. Furthermore, decision-makers with an entity theory perspective of leadership talent would also be less likely to question a hitherto successful leader's capability, even in light of evidence that they may now be under-performing. There may be a tendency to persist with leaders who they consider to be 'good leaders' even in the face of evidence to the contrary, leaving prejudicial attitudes unchallenged and further contributing towards a maintenance of leadership inequality.

In contrast, individuals with an incremental person theory perspective (also termed a growth mindset; Dweck 2006) tend to believe that an individual's capability is largely determined by the lessons they learn from experience, that people develop capability such as effective leadership skills, and can change even at a late stage in their career (see Dweck, 1999; Heslin, Latham and Vandewalle, 2005). An incremental theorist, therefore, would be more inclined to support individuals to develop their skills rather than replace them with someone who has already proven their inherent capability, and be more inclined to give opportunities to those who demonstrate potential but have not yet had the opportunity to prove their leadership capability, thereby helping to diversify the leadership population.

Leadership change

As discussed, research with internal decision-makers within organisations has detected an assessment 'glass ceiling' whereby decisions regarding senior leadership candidates or roles are driven more by informal views, a situation that is perpetuated by several generally accepted beliefs. These are the beliefs that (1) leaders at senior levels feel that assessments are beneath them; (2) organisations value experience over competence; and (3) politics trump precision, particularly at senior levels (Church and Rotolo, 2013). Given the relatively slow progress towards achieving greater leadership diversity, changes to incumbent leaders present an important opportunity to reverse the status quo and redress this historical imbalance. Thus, it is critical to investigate the process through, and grounds upon which, decisions are made regarding leadership capability and change within corporate entities.

The acquisition of corporate entities by private equity (PE) groups is commonly known to trigger changes in leadership, and consequently, it presents a highly significant context for exploring decision-making relating to leadership appointments. In the majority of cases, incumbent CEOs are replaced within two years following acquisition by a PE firm, with an average two C-suite changes 6-30 months after deal completion (Bililies, Warren and Roger, 2017; Epsen Fuller, 2016; Gong and Wu, 2011). However, whilst replacing members of the top management team is reported as one of the most commonly employed routes to value creation adopted by PE firms (Gompers, Kaplan and Mukharlyamov, 2016; Kaplan and Strömberg, 2009; Bain, 2019), little is known about the basis upon which such changes are made, the data used to inform these decisions and the process through which they are determined. As the global PE industry continues to grow and attract increasing volumes of investment (Bain, 2021), the significance of its collective impact on the global leadership landscape increases, making it a critical sector for researchers and practitioners to explore and understand.

Having reviewed existing literature relating to the issue of senior level leadership selection and assessment, its role in leadership replacement and retention decisions, and the implications of those decisions for equality and diversity, it is clear that attitudes towards leadership assessment, especially at senior levels, vary and whilst the prudence of conducting formal assessment may be evident, in practice there may be resistance to close scrutiny of credentials. The particular context of PE as a setting where the issue of leadership capability is acute is explained, reinforcing the importance of the research questions outlined and, in particular, the need to develop a richer, evidence-based understanding of approaches to leadership assessment and appointment-related decision-making in practice.

3. METHODS & DATA

In exploring the issue of decision-making regarding changes to leadership within corporate entities, we engaged directly with senior PE representatives to establish how they perceive and address the inherent challenges of determining leadership capability and the potential need to change the leader of an organisation. First, a list of global PE firms was compiled, through compiling a list of all PE firms, based on knowledge of the sector and supplemented by desk-based research using common internet search engines such as Google and online network platforms such as LinkedIn, resulting in a list of 42 firms. Within these firms, selection criteria for individual interviewees were threefold. Firstly, we targeted senior representatives (SVP level and upwards) whose roles involved direct engagement with and/or management of portfolio companies (as opposed to in-house HR specialists who deal primarily with internal HR issues within the PE firm as opposed to their portfolio companies). Secondly, we aimed to obtain a combination of participants from large and mid-sized PE firms in terms of market capitalisation (value). Thirdly, we targeted both deal side and portfolio side participants, to ensure that the full range of experience was collected from pre-deal selection and evaluation, to deal completion, through to post-deal management of the organisation. In some instances, more than one individual was approached within the same firm, to capture this range of experience. Invitations to participate in the research were sent directly to targets via email, explaining the purpose of the research and inviting individuals to participate in an interview conducted either over the phone or where feasible, face-to-face.

In total, 76 invitations were sent to individuals at 42 different firms. Where no response was received, a follow-up email was sent approximately two weeks later. After the second follow-up, no response was received from 44 individuals, 3 declined participation, 3 declined participation but recommended a colleague, 26 agreed to participate but 3 of these subsequently did not respond to requests to schedule the interview. Thus, the final sample comprised 23 interviews representing 19 different PE firms. For two large firms, two individuals agreed to participate. Since the individuals not only represented different roles (the third selection criteria) but also different global regions for their organisations, both were included in the study to capture these differences and reflect their firms' scale in terms of representativeness. Characteristics of the individuals and firms represented are outlined in Table 1. Where individuals had a deal (investment) or portfolio focus this is specified either in job title or provided in brackets next to job title. Where it is not specified in Table 1, the individual oversaw both deal/investment and subsequent portfolio management. To set the context for the questions that were to follow, all interviewees were asked about the extent to which, within their firm, changes tend to be made to incumbent leaders upon acquiring an organisation, which they provided as an average estimate across all of the companies within their investment portfolio. The results are included in Table 1.

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Semi-structured interviews were undertaken, where the structure was underpinned by research questions and the conceptual and theoretical framing of the issues described above. This allowed for open, non-directive exploration of the issue identified, whilst enabling a degree of comparison across firms. Accordingly, we focused on exploring how acquiring PE entities assess the suitability of incumbent leaders, the extent to which they tend to make changes to incumbent leaders upon acquiring an organisation, and the decision-making process through which required changes to leadership are determined. The process was explored in terms of the extent to which the decision-making process appears to be influenced by heuristics and implicit beliefs regarding leadership capability and/or effectiveness. Specifically, it explored if and how PE firms assess the capability and/or suitability of incumbent management teams and the extent to which existing approaches to leadership assessment may give rise to potentially biased decision outcomes.

Interviews were conducted over the course of three months (Jan-March 2018), all over the telephone, lasting between 30-60 minutes each. Each participant was interviewed once. All interviews were audio-recorded and later fully transcribed, prior to analysis.

Data analysis was structured against the three main research questions (to examine the typical processes followed to assess incumbent leadership capability and suitability and determine the need for changes in leadership; second, to identify potential limitations of current approaches to leadership assessment and decision-making regarding change, and thirdly, to identify the consequences for diversity of employing those methods and approaches in terms of the outcomes they generate. First, the transcripts were read and re-read to achieve familiarisation, including listening back to audio recordings where clarification of meaning or intonation was needed. Secondly, a thorough inductive content analysis was performed against each of the primary research questions, drawing from the basic principles of Grounded Theory (Strauss and Corbin, 1998) and using constant comparison techniques (Glaser and Strauss, 1967). Using NVivo12 software, coding was conducted to identify recurrent, dominant themes in relation to the primary research questions. The data were first organised into thematic clusters or categories (open coding), using in-vivo codes (Strauss and Corbin, 1990) where possible, or a simple descriptive phrase where an appropriate in-vivo code was not available. Secondly, axial coding was conducted to enable the identification parent and child nodes to reflect any relationships between themes and subthemes. Rather than following a strictly linear process, this was undertaken using an iterative process (Locke, 2001), moving back and forth between the raw data and the emerging cluster groupings and parent-child notes to review and revise the thematic structure until agreement was reached. A number of steps were taken to strengthen the trustworthiness of the data and analysis, following Lincoln and Guba (1985), starting with a robust data management plan ensuring safe storage of data and associated contact records, and incorporating peer debriefing whereby researchers not involved in the study were engaged to discuss emerging patterns in the data and serve as a critical friend in challenging interpretations or posing alternative conceptualisations to assess the validity of the thematic structure and resulting interpretations. The following section presents the detail and insights elicited from the interviewees in their reflections on the processes underpinning leadership decisions.

4. FINDINGS

Processes adopted to determine leadership capability, suitability, and the potential need for changes in leadership

In relation to current approaches (RQ1), the majority (around two-thirds) of interviewees reported a reliance upon informal methods for forming judgements about leadership capability and determining the need for a change of leadership. Reliance on personal opinions and/or acquaintances' subjective views on a leader's performance over formal leadership assessment data was articulated by numerous interviewees. For example:

> *"There's no structured assessment but there are ongoing discussions with members of the deal team as to what we think about the management team, what we think we need to have."*

and:

> *"In terms of managing human capital in the portfolios, it's based on anecdotal information."*

Particular trust was placed on informal views from the Chair of the Board with regard to incumbent CEOs' capability, the need for changes in leadership, and potential suitable replacements, since the Chair of the Board was considered to have an independent and objective viewpoint:

"...we strongly believe in the role of an independent Chairman who can help us make that call, helps us form our views as to the capability of the team, brings some objectivity because they won't be shooting from the hip..."

Thus, decision-makers appear to place a higher level of trust in close advisors' informal opinions on leadership capability than in those from trained independent specialists in leadership assessment, formed on the basis of formal assessment processes. Since it is the methods employed by the latter that are more likely to identify and reduce potential prejudice in appointment decisions, this is highly problematic and likely to play a significant role in maintaining leadership inequality.

The main reason given for avoidance of formal, structured leadership assessment methods, emphasised by many interviewees, was the sensitivity around formal leadership assessment, and the perceived risk of damaging the relationship with incumbent leaders by introducing it:

"Obviously there's a lot of sensitivity during the deal process to make sure you don't do anything to jeopardise that relationship. If you put it in that context, perhaps you can understand why it hasn't always been as rigorous as perhaps it could have been or should have been."

Although formal assessment has the potential to play a strong role in human capital due diligence, for some, close scrutiny of incumbent management's performance was reported as too uncomfortable or at-odds with the primary aim of completing an acquisition, and therefore they refrained from formally assessing leadership capability, either entirely or until sometime after the acquisition had been completed despite reluctance to change leadership at a later stage in a deal (as discussed later):

"There is quite a lot of nervousness around intrusive assessment… if they're involved in selling the business we want to come across as friendly people who are good and productive to work with. I think there's a concern that putting a senior person through quite a challenging assessment is not really in line with that. So there's definitely some strategic decision being made here, and trading off of some risks, in as much as if it loses us the deal

that's terrible, if we end up having the wrong CFO it's not quite as terrible… there's definitely some sensitivity around it."

Limitations potential current approaches to leadership assessment and change

Regarding limitations of current approaches (RQ2), ironically, although driven by the prioritisation of financial motives in terms of securing the deal, this reluctance to assess leadership capability meant that often leaders were retained in situations where it was later became apparent that change would have been beneficial to company performance, something that was highlighted by a number of interviewees as a common mistake:

"*The mistake is to pay too little attention to it [human capital] at the beginning, so we've tried not to do that…People just don't value it as much. I see a lot of people say, we have to focus on the numbers, etcetera, and this is kind of the soft thing we can worry about later, kind of approach.*"

and:

"It's an observation about the industry generally – human capital is not a thought when investing. People underestimate what is costs to get the right talent to deliver the thesis."

Consequently, not only is it ethically and morally right, but making decisions based on objective data rather than biased, subjective opinion is likely to be financially beneficial too, since this will increase the chances of identifying the best individual for the job, without prejudice.

Incumbent Bias

Further confounding this situation was the tendency for investors to "*fall in love with the management team*", identified as leading to a pronounced bias in favour of retaining the incumbent leadership team regardless of their suitability, and therefore maintaining the status quo in terms of leadership:

"[there's a] *general desire to like the management team because you are buying it so there's a bit of love at first sight, and then it's hard to change your mind once that has happened."*

and:

> *"There's always a sense that you have to be net positive of everything to get a deal through… people probably convince themselves, and specifically with regard to human capital, that people are better than they are."*

Given the lack of diversity at senior leadership levels discussed at the outset of this paper, this incumbent bias may present yet another contributing factor towards hindering diversity progress, and allowing prejudiced views about effective leadership to persist. Many interviewees alluded to a subsequent optimism bias and/or confirmatory bias regarding incumbent management teams' capability, plus potential attribution errors regarding their influence on organisational performance, all of which are likely to inhibit changes to incumbent leadership. For instance:

> "*Not recognising, and not grasping underperformance early enough; we're all guilty of that…They can blame other things, the market, competition… It's a natural defence mechanism to blame something else*."

and:

> "*We give people a second chance, and a second chance…In a lot of cases, we haven't been decisive enough to move to that decision pretty quickly…the general feeling is that when we end up asking a CEO to leave, we always say we should have done it earlier*."

The problem becomes whether to accept an initial error of judgement and replace the relevant individual(s), with associated performance and potentially reputational consequences, or to persevere with them and seek to mitigate their shortcomings. This is illustrated below:

> "*A lot of post-rationalisation goes on, because if you've backed somebody, then to say that they're not up to the job means somewhere along the line you were wrong. So I think people get that wrong, they don't really want to face up to the fact that they've made a mistake*."

In addition, this may also increase the risk that decision-makers over-attribute dips in company performance to external factors, as a means of rationalising decisions to persist with leaders previously judged to have the necessary capability:

> *"If an investment is off track in some shape or form, a common mistake is to attribute it to the market rather than to the performance of the chief exec or other members of the management team, and secondly to hope that the issue will be addressed and will go away, rather than addressing it up front. Its human tendency to either ignore a problem or acknowledge a problem and not act on it, and believe it will be addressed in due course."*

Without objective assessment of a leader's capability or performance, it is impossible to connect leadership attributes with organisational performance outcomes. This, in turn, allows existing biases and prejudice regarding leadership suitability to persist, and even, be reinforced.

Maintaining the leadership status-quo

Additional limitations of the reliance upon informal assessment processes for informing leadership decisions (RQ2) were revealed to be exacerbated by the decision-making context. Relative to other strategic changes, such as new markets to enter or new products to launch, changes to leadership appeared to be perceived as fundamentally more risky, a view that in some circumstances drove maintenance of the status quo in terms of leadership, even in light of concerns about incumbents' suitability:

> *"There's a lot of caution about making people changes because there is a lot of uncertainty…People represent a huge risk – it's that thing of, better the devil you know, rather than bringing in someone who's completely unknown, untried and untested."*

To a large extent, this appeared to be underpinned by a perception that it takes longer to embed and realise the benefits leadership changes in comparison to other strategic changes; the importance of which is amplified by the relatively short timeframes of PE investment (relative to corporate change in general), and drive to create value for shareholders within a relatively short period of time. As articulated by this investor:

> *"…there is a big fear of 'yes, we don't have the exact right management team that we need but we can't change it now, or we're not sure what we might get or we need someone who has 20 years industry experience so that he will be accepted by the team etc, so they [the*

deal team] kind of see the human capital risk as different to other risks… they're not entirely sure of what they could be getting…"

and another:

"*To bring someone new in, there's going to be a period of time – you could be looking at a year before they're operational and making an impact*."

In addition to apprehension regarding the time it may take for a new leader to have a positive impact within a business, reluctance to change leadership despite concerns over capability also appeared to be compounded by a belief that there is an insufficient supply of capable leaders in the external talent market. In the absence of any definitive evidence on capability, these factors fuel a reluctance to 'rock the boat', reinforcing the status quo, again allowing prejudicial beliefs about leadership suitability to go untested. As voiced by this interviewee:

"the fear of not finding new talent…If you're hiring into the c-suite, it's probably a year from when you find someone to when they're really adding value, through notice periods and all that stuff? So how bad does it have to get before you make that decision? Despite what one hears about PE, there's quite a big tendency to stick with mediocrity. So if it takes you a year, that's 20% of your hold period… So 6-7 months to hire someone, 5-6 months to get them in and running."

And another:

"We [either] can't actually find anyone that has the right experience, in the right industry, and who we believe is good enough."

Beliefs about leadership capability

The perception that there is a shortage of capable leaders 'out there' in the market is consistent with the existence of prejudicial beliefs regarding leadership talent and capability, and emerged as an additional limitation of current approaches (RQ2). The data reveal strong evidence of a prevailing entity theory perspective of talent among investors, characterised by the assumption that leadership capability is relatively fixed rather than developable, and therefore hard to find, and very difficult to develop. For instance:

> *"If you only had restructuring roles…and then you're supposed to run a software growth business, I think this is an uncoachable challenge for you. Or at least it takes too long to coach you in that role to make sense for an investor. It may be ok for a family-owned business, someone who looks for the team for the next 20 years, but for a PE investor, who needs to…develop the firm over 3-5 years for exit, there's no real time to teach a CEO how to do what you want him to do."*

and:

> "*When CEOs don't cut it, my sense is that the gap or the failure is at the level of leadership incompetency and not skills…competencies are not things you can turn around in 3-6 months time. It doesn't happen. And it certainly doesn't happen with very senior people, who have their way of doing things. And to some extent, while you may be able to play around, and there may be some cosmetic adjustments and so on, what happens is that all of the symptoms go away, some symptoms might change in the way they look, but the disease remains*."

Consequences of current practices in terms of their implications for diversity and equality

The consequences of this fixed view of leadership capability (RQ3) rendered the field of suitable replacements was narrowly focussed on those with a previous track record of success in that context. As expressed by this investment director:

> "*We need someone who has 20 years industry experience so that he will be accepted by the team*."

Clearly, this approach is problematic for improving diversity and equality, given that the historical lack of opportunities offered to those of underrepresented groups has prevented those individuals from demonstrating their leadership capability at this level, and from gaining a track record. The prevailing belief that the most important prerequisite for new C-Suite members is that they must have a long track record of C-suite experience presents an obvious barrier to entry for new comers, and consequently, for broadening the diversity of boards.

This section has reported a range of insights offered by senior representatives of the PE sector on the nature of leadership evaluation, selection and change in the context of PE investments. The insights generated touch on various aspects of context, decision-maker mindsets, decision process, and outcomes influencing decision outcomes regarding leadership appointments. In seeking to capture the significance of this exercise in explaining the persistence of bias and prejudice in leadership selection, it is instructive to draw upon the insights generated to inform post-hoc development of a conceptual model. In keeping with the concept of pragmatic empirical theorizing (Shepherd and Suddaby, 2017), this allows us to digest the lessons of this range of insights in a more organised manner. The model presented below identifies four key elements, with decision context, decision-maker characteristics and decision process each seen as influential in determining decision outcomes. Each panel identifies characteristics of each element which lead to a greater or lesser propensity to diversify and a reduced or increased tendency for decisions to lead to prejudicial outcomes.

[INSERT FIGURE 1 ABOUT HERE]

The model firstly reflects the influence of characteristics of the decision-context on outcomes, both via their impact on decision-maker mindsets and attitudes, and on the decision-process itself, with the context described on the right-hand side more likely to bring about prejudiced outcomes or allow for prejudice to influence decisions. These factors include the sense of urgency and prevailing culture and values, highlighted both in this study and previous literature (e.g. Gilovich, Griffin and Kahneman, 2002), and the importance of transparency, as reflected by the UK Corporate Governance Code (Financial Reporting Council, 2018). Prejudice can also be reflected in decision-maker characteristics, particularly beliefs about talent and effective leaders (Eagly and Karau, 2002; Dweck, 2006), are likely to strongly shape the subsequent processes adopted, including how narrow or wide the search for replacements is focussed, and indeed, the type of individual that is sought. Critically, these beliefs, including stereotypes or prejudiced opinions associating a good leader with masculine and agentic characteristics (Eagly and Karau, 2002; Koenig et al., 2011), influence the qualities sought in potential candidates, and the approach employed to inform appointment decisions, including valuing experience over competence (Church and Rotolo, 2013; Dries, Vantilborgh and Pepermans, 2012), as reinforced by the findings of this study. In terms of the decision-process, as our data show, unstructured and informal approaches are the norm at this level, confirming suspicions articulated in previous literature (Church and Rotolo, 2013; Dries, 2013). As previous literature argues, and is illustrated by our data in the clear valuing of experience over competence, this allows for greater bias and prejudice to influence the hiring and promotion of leaders (Church and Rotolo, 2013; Player et al., 2019; Thomas and Gabarro, 1999), resulting in women and people of colour being systematically, although not necessarily consciously, screened out due to the historical lack of opportunities offered to them to gain this experience (Caver and Livers, 2020). This also extends, our data suggest, to the approach adopted for ongoing performance management, which can provide further opportunities for testing and challenging any assumptions made about leadership suitability, by helping to evaluate the relationships between leadership capabilities, leadership performance, and business outcomes. Thus, prejudice regarding what an effective leader must have or be, not only influences the decision process in terms of the type of qualities or person that is sought, and what and how those qualities are assessed, but also makes it less likely that robust performance management processes are implemented to monitor or confirm those assumptions. After all, this is the definition of prejudice; we already know that this is what an effective leader looks like, we do not need to check. Instead, the absence of robust methods for measuring and monitoring leadership performance leads to "*[n]ot recognising, and not grasping underperformance early enough*" and prevents capability or person-environment fit issues from being identified. As identified in this study, "[*w*]*e give people a second chance, and a second chance…*" further inhibiting changes to incumbent leadership to appoint leaders who have the capabilities required to deal effectively with the new leadership challenges that face leaders today. Feedback loops within the model reflect that unless existing processes are adjusted to require more objective data, the current situation is likely to persist, since there will be little evidence to challenge existing decision-maker prejudices regarding leadership suitability or trigger any changes in the prevailing decision context. If or when it is eventually acknowledged that an incumbent may not having the necessary qualities to lead effectively in a particular context, fixed mindset beliefs about talent and leadership capability act to further reinforce the assumption that this reflects a shortage leadership talent: *"We [either] can't actually find anyone that has the right experience, in the right industry, and who we believe is good enough."* This reflects a version of the streetlight effect, whereby people only search for something where it is easiest to look. As reflected by the well-known anecdote: A policeman finds a man searching for something under a streetlight and asks what he has lost. He says he lost his keys so they both look under the streetlight together. After a few minutes the policeman asks if he is sure he lost them here, and the main replies, "no, but this is where the light is". Whilst the search for suitable replacements remains narrowly focussed on those with a previous track record of success in that context, the more diverse pool of individuals with the potential to be effective leaders will remain untapped and overlooked. The search must be directed by the qualities required to be effective in this context, not where it is easiest to look or by the criteria easiest to measure.

5. DISCUSSION

In the context of PE, where leadership changes are made at a relatively high rate, the opportunity exists for helping to address the historical inequity of opportunities at the most senior levels of leadership in global corporations. However, this study identified a number of forces likely to hamper that opportunity, in the form of biases and fixed assumptions which prevail as a result of the wide use of informal and highly subjective processes employed to inform decisions regarding leaders' suitability and capability, allowing prejudice to go unchallenged.

Broadly speaking, the findings reinforce the notion of an assessment 'glass ceiling' at senior leadership levels (Church and Rotolo, 2013), revealing that decisions regarding leadership appointments in this context are commonly achieved via an informal process using subjective data in the form of opinions from the investment team and/or Chairperson. This increases the risk that these critical decisions are influenced by bias and prejudice relating to leadership suitability, examples of which emerged from the interviews and are discussed below. The implications of these findings for the promotion or repression of enhanced leadership equality and diversity are explored.

Of the beliefs posited by Church and Rotolo (2013) as likely to perpetuate the eschewal of formal leadership assessment methods and data in the selection and appointment processes for senior leaders, some commonalities were identified in the present study, in addition to some nuances. Firstly, in alignment with Church and Rotolo, the findings of the current study revealed that investors do indeed appear to value experience over competence, or at least place more confidence in years of experience as a predictor of the likelihood of future success in comparison to other data such as an independent assessment of competence or leadership potential. This is problematic, since past performance does not necessarily accurately predict future success, particularly in different contexts (Silzer and Church, 2009). In fact, many executives derail because they over-rely on strategies that have enabled them to succeed in the past, but fail to adapt to new situations or demands (e.g. Hogan, Hogan and Kaiser, 2011; McCall et al., 1988). Not only is this problematic in terms of ensuring that those appointed to leadership positions are likely to be effective future leaders, but it is also problematic from an equality perspective. An over-reliance on previous years' experience as a 'ticket to entry' renders the top tiers of leadership difficult to penetrate, serving to perpetuate entrenched inequalities and maintain the status quo.

The second and third factors identified by Church and Rotolo as perpetuating resistance to formal leadership assessment were organisational politics, and a belief that senior leaders feel that assessments are beneath them. These influences were observed in a slightly more nuanced way in the investment context, with reluctance to introduce formal assessment instead underpinned by concerns that it may lead to the deal falling through. Reluctance to assess leadership capability upfront was acknowledged as leading to the retention of leaders in situations where their capabilities were not ideally suited, a preservation of the status quo that will hamper progress in addressing historic prejudice regarding leadership suitability.

Furthermore, once acquired, a number of other dynamics were identified as coming into play. As a result of a combination of having 'backed management' and due to the apparent belief that changes to leadership are inherently more risky and slower to derive benefits from than other major strategic changes, cognitive biases such as optimism bias and confirmatory bias appeared to be triggered, leading to bias in judgement in favour of incumbent leadership and preserving the status quo, even in light of concerns about their suitability. In diversity and equality terms, the absence of objective consideration of incumbent management capability, combined with a bias towards retention of incumbents, represent significant barriers to change.

In addition, findings support the influence of decision-makers' implicit person theories of talent on decisions regarding leadership capability and change. Evidence emerged of a prevailing entity theory of talent among investors, characterised by the assumption that leadership capability is largely fixed rather than developable, and therefore a rare commodity. This appeared to increase the likelihood that incumbent leaders are retained, firstly because a decision-maker holding an entity theory of talent is less likely to question a hitherto seemingly successful leader's capability, even in light of evidence that they may now be under-performing. Secondly, where leadership capability is considered to be more innate than developable, this narrows the pool of potential replacements to those who have previously demonstrated capability in similar contexts. Each of these factors suggests that the typically employed processes in terms of leadership assessment and related decision-making are at best unpromising in the promotion of greater equality and diversity. This is both concerning in itself, but also in terms of the performance benefits sacrificed by excluding serious consideration of the potential contribution of particular groups.

With this paper, we have sought to enrich understanding of the judgements and decision-making processes relating to leadership change when corporations are acquired, and the implications of these for prejudice in leadership appointment decision-making, and the subsequent implications for diversity. This has involved reviewing existing work in the area, which demonstrates an absence of consensus on the process of leadership assessment and a lack of detailed examination of the decision processes relating to c-suite changes. These issues are addressed by application of a method which elicits detailed accounts of practices and processes, including rationales for their use and insights into their shortcomings, from private equity leaders. Following a pragmatic theorising approach (Shepherd and Suddaby, 2017) to understanding the emerging phenomena, a post-hoc conceptual model is presented, and the implications for the mitigation of inequity and lack of diversity are considered. The findings highlight important attributes of the processes employed, particularly where process informality suggests greater risk of decisions being led by heuristics and biases, which makes the case for further research, particularly studies adopting experimental designs, to examine specific cases and investigate predictive relationships between decision-maker characteristics and decision outcomes and consequent implications for diversity. This study also draws attention to the often stark contrast between theory and existing research in relation to evaluation process and how practice plays out in this context, as reported by those responsible for leadership decisions. To the extent that this calls into question the wisdom of established practice, it invites consideration of how this could be modified, a theme which is considered in the concluding section.

It is important to note that around one third of interviewees reported routinely using formal assessment to evaluate the capability of C-suite leaders of businesses they are either in the process of, or have recently acquired, in order to determine the need for changes. In addition, a number of other interviewees acknowledged shortcomings in current approaches and one reported being currently in the process of trying to introduce more formal assessment into their decision-making process. It may be that in the future, the number of firms using formal assessment to strengthen their leadership due diligence, demonstrate robust and ethical leadership assessment and selection practices, and more strongly leverage human capital as a source of competitive advantage could reach a tipping point, prompting adoption of more formal processes across the remaining firms. On the other hand, it may be that additional external pressure will be required, for instance from the shareholders investing in PE funds, to achieve greater equality, rigour and transparency in these processes.

6. CONCLUSION

The theoretical and empirical insights discussed here suggest that the consequences of contemporary practice frequently inhibit the fair and reliable assessment of leadership teams and frustrate decision-making regarding leaders' suitability and change, often to the detriment of both equality and subsequent performance. The findings point towards a number of potential interventions to improve practice, prospects for greater diversity and equality in leadership and, through this, stronger corporate performance:

1. Despite the UK Corporate Governance code 2018 recommending that appointments to the board should be subject to a formal and rigorous procedure, and notwithstanding that the sample in the current study was not limited to UK-based investors, these data suggest that informal procedures remain common. Consequently, these findings emphasise the importance of sharpening recommendations and governance codes regarding the selection and appointment of corporate management teams and Boards to provide greater clarity around what constitutes a formal and robust procedure. Use of formal leadership assessment by independent, qualified assessors should be encouraged, undertaken at an early stage in acquisition or corporate contexts, to more reliably and objectively inform decisions regarding leadership capability and change. Moreover, decision-making criteria should be made explicit, and avoid over-reliance on the past track record of leaders and more on their capability and potential to lead a business moving forwards. This should include consideration of the leadership challenges likely to present the business in future,

which may differ from those of the past. A more rigorous reporting requirement, along the lines of the `comply or explain' model adopted in previous corporate governance codes, could serve to focus organisations on the importance of transparent, robust and fair processes. Better reporting would also empower shareholder groups to bring pressure to bear on companies which are reluctant to share details of their processes.

2. Development of the conceptual framing and practical implementation strategies should involve identification of, and challenge to, the factors sustaining current orthodoxies and prejudices not only regarding leadership suitability, but also leadership assessment and evaluation practices. A reframing of leadership assessment is needed to acknowledge it as not simply a risk mitigation strategy, but as an additional means of value creation. Recognition of the consequences of existing approaches, and purposeful development of processes which actively promote diversity and equality, should be seen as beneficial in widening the available talent pool and thereby enhancing performance and corporate reputation as a responsible and inclusive organisation.
3. Contributing to the challenge of point 2, above, is the need to improve the quality of human capital analytics (as previously highlighted by the Chartered Institute of Personnel and Development, CIPD, 2017) to critically examine, using robust research designs, the impacts (and therefore value) of human capital analytics across a range of business outcomes. Equally important is the translation of this information to the decision-makers responsible for determining whether, and what form of, leadership assessment is conducted and how it is used to inform leadership decisions and outcomes. More explicit recognition, through greater transparency and more sophisticated analytics, of the distinctive assets of under-represented groups could be an important catalyst of greater diversity.
4. Finally, for any changes in leadership selection and appointment decision-making processes to be sustainable, enhanced efforts are needed to support leadership transitions and onboarding into new roles. This includes practical support for leaders transitioning into new

roles, and systemic interventions to address the entrenched cultures which can inhibit successful transition for certain groups. Ongoing efforts are needed to challenge prejudice regarding leadership suitability. Just as research has shown the benefits of challenging fixed assumptions about talent and capability amongst other populations including teachers and middle managers (e.g. Yeager et al., 2019; Heslin and VandeWalle, 2008), efforts to challenge fixed assumptions about the rigidity or malleability of leadership ability may help reduce reluctance to make leadership changes where they are reliably identified as being required, and also broaden the pool of candidates perceived as suitable.

[1] UNSDG 5, Gender Equality https://www.un.org/sustainabledevelopment/gender-equality/

[2] UNSDG 10, Inequality https://www.un.org/sustainabledevelopment/inequality/

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Table 1. Interviewee participant and firm characteristics

	Role	Investment focus	Investments to date[1]	Reported estimate of leadership change
1.	Senior Investment Director (Portfolio side)	Mid-market	150+ investments	10-20% of deals result in changes to the management team
2.	Head of Portfolio Development	Large	350+ investments	66% (“two-thirds”) of cases will change a senior member of the management team
3.	Managing Director (Portfolio side)	Large	500+ investments	“I don’t want to put numbers on it, but we make a significant amount of management change in our top teams”
4.	Managing Director	Mid-market	120+ investments	N/A - Declined to estimate
5.	Managing Director	Large	280+ investments	It depends…between 40-90% of deals result in changes to the management team
6.	Portfolio Talent Director	Mid-market	400+ investments	It depends on the deal; too hard to say.

7.	CEO and Managing Partner	Large	240+ investments	66% ('two-thirds') result in a change of CEO
8.	Managing Director (Portfolio side)	Large	280+ investments	CEO change in approx. 50% of deals, CFO in approx. 80%
9.	Partner (Portfolio side)	Large	130+ investments	Around 50% of deals result in changes to some executives
10.	Operating Director	Mid-market	50+ investments	"Very little"
11.	Portfolio Manager	Small to Mid-market	70+ investments	Expect to change executives in around 50% of cases, but often ends up being more
12.	Operating Partner	Large	200+ investments	"Virtually all" deals result in changes to the management team
13.	CEO	Large & Mid-market	50+ investments	Likely to make some changes to the management team in most deals
14.	Managing Director (Investment)	Mid-market	100+ investments	60-70% of deals result in changes to the management team

15.	Managing Director (Investment)	Large	As 8 above	CEO change in approx. 50% of deals, CFO in approx. 75%
16.	Senior Managing Director	Large	100+ investments	75% of deals result in changes to the management team, particularly the CFO
17.	Partner (portfolio side)	Mid-Market	250+ investments	"Very little"
18.	Managing Director	Small to Mid-market	30+ investments	N/A - Did not answer
19.	Operating partner	Large	As 12 above	66-75% ("between two-thirds to three-quarters") of deals result in changes to the management team
20.	Operating partner	Large	As 3 above	"We usually change CEOs or CFO in most of the companies we buy"
21.	Senior VP	Mid-Market	85+ investments	We rarely change CEO, but change CFO more regularly
22.	Managing Director	Large & Mid-Market	30+ investments	It depends, in growth businesses very little, but in around 80% of underperforming assets
23.	Director (Investment)	Mid-Market	70+ investments	Change at least 1 member of the management team In around 50% of deals

[1]*Investment figures are approximate*

Figure 1. Leadership appointment processes, bias and prejudice