Why Boards Misjudge Internal CEO Candidates (and Pay for It Later)

An insight from THEPA on CEO succession in investor-backed businesses

In investor-backed businesses, CEO succession decisions are rarely taken lightly.

By the time a board is considering internal candidates, those individuals are typically high-performing, trusted, and deeply embedded in the organisation. On paper, they often appear to be the obvious choice.

And yet, these are precisely the situations where misjudgements most frequently occur.

Not because boards choose the wrong people — but because they misjudge what the role actually demands.

1. The step to CEO is not incremental

One of the most common assumptions is that the move from C-suite to CEO is simply a larger version of the same role.

In practice, it is a fundamental shift.

The CEO role introduces a level of exposure, ambiguity, and accountability that is qualitatively different — particularly in investor-backed environments where scrutiny, pace, and expectation are significantly heightened.

Success in a functional leadership role does not automatically translate into the capacity to operate at enterprise level under sustained pressure.

2. Familiarity creates false confidence

Internal candidates benefit from a known track record.

Boards have seen them perform, trust has been established, and there is often a strong desire to reward proven leaders.

However, this familiarity can obscure important gaps.

What feels like the “safe” option can, in reality, carry the most unexamined risk.

3. The real question is rarely asked

In many succession discussions, the focus remains on capability, experience, and performance to date.

These are necessary, but not sufficient.

Can this individual hold the psychological weight of the CEO role in this specific context?

These qualities are not always visible in prior roles, and often only emerge once in position.

4. The cost of misalignment is delayed — and expensive

The decision often appears sound at the outset.

Only over time does misalignment begin to surface — affecting decision-making, confidence, and momentum.

By this point, the cost is already significant.

A recent example

In a recent engagement, an investor-backed SaaS business was assessing two internal candidates — a CTO and a Chief Commercial Officer — for the CEO role.

A deeper, psychology-led assessment revealed that while each candidate was highly capable, neither demonstrated full alignment with the demands of the role.

The findings informed a board-level decision not to proceed with an internal appointment, preserving flexibility at a critical moment.

Final thought

The risk in CEO succession is rarely obvious.

It lies in the gap between proven success and the untested demands of the role.

Boards that recognise this — and examine it closely — make better decisions.

THEPA works with boards and investors to support CEO selection and succession decisions where the stakes are high and judgement matters.