THE QUALITY PULSE

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The CEO Test

What a change at the top reveals about leadership, capital allocation and lasting business quality

Jensen Huang helped build NVIDIA into a defining company of the AI era. His departure as CEO and director on 11 November 2026, followed by the appointment of CFO Colette Kress as interim CEO, turns an abstract investment question into a live test: how much of a company's success depends on one exceptional leader, and how much survives in the organisation that leader built? NVIDIA's search for a permanent successor will test the depth of its management team and the resilience of its governance. [9]

A successful business gives its CEO choices, and shareholders live with the consequences. Cash can fund a better product, a new market or an acquisition; it can also be spent defending an idea that no longer works. Management quality matters because competitive advantages need both protection and renewal. The task calls for leaders who understand what customers value, see where the business can develop, and turn that judgement into investments that earn attractive returns.

Steve Jobs combined product judgement with unusual focus. After returning to Apple, he narrowed its computer range to four core products, explaining that this let the best teams concentrate and develop new generations faster. [1] Huang's distinctive contribution was to pursue a computing platform beyond graphics. NVIDIA introduced CUDA in 2006, allowing developers to use its chips for wider computing tasks, six years before AlexNet demonstrated their potential for AI. [2] Both committed talent and investment to opportunities whose value was not yet obvious in the accounts. Their examples show why evaluating leadership requires looking beyond next year's earnings. Huang's departure also shows why investors must assess whether that strategic capability is institutional or concentrated in one person.

INVESTMENT PERSPECTIVE

The quality of a management team shows in its decisions: where capital is invested, at what price shares are repurchased and how openly setbacks are explained. For investors, it is important to follow these decisions over several years and to consider how well the organisation is prepared for a change of leader.

Sources numbered [1]–[10]: full references on page 3

TURNING VISION INTO INVESTMENT

Such decisions are capital allocation in practice. They determine where money and talent go, and which opportunities are left behind. Growth creates value when the return on the resources committed exceeds their financing cost. A larger business is therefore not necessarily a better investment. The CEO must also distinguish between a promising project that needs time and one that deserves to be stopped. Reviewing investments against their original assumptions makes that distinction more disciplined. [3]

Simon Wolfson, NEXT's CEO since 2001, offers a less celebrated example. The British retailer sells clothing and home products, but it also supplies other brands with websites, warehousing and delivery services through Total Platform. [4] The attraction is understandable: capabilities built for NEXT can earn income from other businesses too. This gives investment in infrastructure a purpose beyond opening more shops. Its success still depends on what customers will pay and how much additional capital the expansion requires.

NEXT applies similar reasoning when returning cash. It prioritises investment in the business and protects its investment-grade credit rating. Its January 2026 annual report specifies an 8% minimum "equivalent rate of return" for buybacks: expected pre-tax profit divided by market capitalisation. Cash that cannot be used for qualifying repurchases can instead be returned through special dividends or other capital returns. [4][5] The policy makes the price paid an explicit condition of the decision.

A buyback spreads future earnings across fewer shares, but an expensive repurchase buys less earnings for each pound spent. The illustration below holds the business constant and changes only the price. NEXT's hurdle is an earnings-yield test, not a promised investment return; future profits can still disappoint.

How price changes the buyback decision

Share price	Pre-tax earnings yield	Against an 8% hurdle
£100	10.0%	**Above the threshold**
£125	8.0%	**At the threshold**
£150	6.7%	**Below the threshold**

Illustrative pre-tax earnings of £10 per share, held constant. Not NEXT estimates or prices. Yield = earnings ÷ price.

ILLUSTRATIVE EXAMPLE

Academic research supports treating management quality as more than a personality judgement. Demerjian, Lev and McVay (2012) develop a measure of managerial ability based on the efficiency with which managers turn resources into revenue. They find that replacing a CEO with a manager assessed as more capable is associated with subsequent improvements in firm performance, while the reverse is associated with deterioration. This is evidence of an economically meaningful management effect, not proof that any one CEO explains a company's success. Industry conditions and inherited competitive advantages still matter. [10]

WHAT INCENTIVES REVEAL ABOUT PRIORITIES

The same attention to consequences belongs in the pay package. A bonus based on sales can reward expansion even when it earns too little on the capital required. Earnings per share can rise after buybacks without an improvement in total profit. NEXT's annual bonus uses pre-tax EPS, so its repurchase discipline and underlying trading performance need to be assessed together. [5] Incentives can support this discipline by rewarding profitable reinvestment and cash generation over several years, with meaningful share ownership exposing executives to the subsequent results of their decisions.

Pay, however, influences only part of everyday behaviour. A CEO also determines whether colleagues feel able to question a forecast or report a failing product. If bad news is unwelcome, a small mistake can become an expensive commitment before it reaches the board. This is why culture has financial consequences. Investors cannot see every internal discussion, but they can examine how candidly management explains setbacks and whether its response changes the outcome.

Sources numbered [1]–[10]: full references on page 3

NEXT provides a useful example here too. Its report acknowledges closing an unsuccessful brand and exiting smaller licences, while explaining that separate brand teams remain accountable for sales and profitability. [5] That combination allows experimentation without making every project permanent. The willingness to discuss failures gives investors evidence to examine, although management's account should always be checked against subsequent performance.

WHY PAST SUCCESS NEEDS CONTEXT

Bracken Darrell's career shows why that assessment must remain open. At Logitech, he supported a stronger internal design capability, helping a maker of computer accessories develop more distinctive products. By FY2020, which ended in March 2020, revenue had reached $2.98b versus roughly $2.1b in FY2013, and GAAP operating profit had recovered from a loss to $276 million. The starting loss included substantial impairment and restructuring charges. [6] The improvement preceded the main pandemic demand surge, giving substance to his reputation.

His move to VF in July 2023 brought a different challenge: restoring growth at an apparel and footwear group whose brands include Vans and The North Face. [7] In the quarter reported in October 2026, adjusted operating margin excluding Dickies improved by 1.7 percentage points year on year and net debt fell 20%, but Vans sales still declined 9.8%. [8] Financial repair is progressing; brand recovery remains incomplete. Leadership deserves credit for what it changes, while the starting business, industry conditions and time required also shape the result.

A CEO's quality is best assessed through decisions and their consequences over time. Strategic imagination matters, as Jobs and Huang demonstrate, but it must be supported by investment discipline and an organisation that learns. NVIDIA now offers a particularly visible test: can its technology roadmap, customer relationships and capital-allocation discipline endure without the founder who shaped them? Strong current results cannot yet answer that question. Developing capable successors is part of leadership responsibility, not an administrative afterthought. For shareholders, the strongest evidence is a business that keeps earning attractive returns while preparing its next source of growth – and remains capable of doing so when its leader leaves.



THE PULSE

Great CEOs create value. Exceptional leadership builds an organisation capable of creating value long after the CEO has gone.

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SOURCES

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