

Finding Leader Character:

The Foundation of Good Governance

How important is character in the boardroom? In 2013, four professors from Western University's Ivey Business School published an article arguing that directors consider character extremely significant to board effectiveness, even though they seldom apply it in their selection or performance review processes.

Now the academics have added some hard data to support their ideas.

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Crossan presented their ideas on character for informed discussion across the country at nine chapter meetings of the Institute of Corporate Directors. Almost 800 directors and aspiring directors attended one of the sessions, allowing the scholars to put their ideas on trial and to obtain feedback to sharpen their premises and conclusions. In addition, 219 of the participants later responded to an Internet-based survey on the subject. The authors hope to use the insights to influence teaching in business schools, executive education and board development programs. They have outlined their findings below and their full report is available online in ICD's governance library:

<http://www.icd.ca/leadership>.

Dimensions of Leader Character



LEADERS IN THE PUBLIC, private and not-for-profit sectors that we interacted with over the past five years readily agree that character in organizational leadership matters. They also told us that they seldom refer to character in conversations or use it in recruiting, promoting and developing leaders. We have initiated an ambitious research and outreach program to address the challenges with bringing leader character into workplace conversations.

Our data show that when it comes to corporate governance, leader character is considered important, that it is possible to assess it through deep reference checking and expert interviewing for new directors and through candid, forthright reviews of current board members. Yet, boards don't spend enough time and effort to assess it. Why not? There are at least two explanations.

First, there has been a great deal of ambiguity around the construct of

leader character. Individuals may perceive character to be a highly subjective construct and do not have access to a contemporary, practice-focused vocabulary with which to address character in the workplace. We have addressed this issue by developing a leader character framework (see diagram) and developing both a self-assessment and 360-degree feedback instrument of leader character. Practitioners were involved in this process to ensure we got the language right.

“ Many directors believe that it’s just fine to hire on reputation; others have found that reputation to be either wrong or, more likely, to cover only some of the criteria that need to be fulfilled. ”

Second, all-too-often, boards are searching for “rare” candidates based on experience, gender, lack of conflicts of interest if appointed, their status in the business or governance community, their international experience or other criteria. When you want someone to join your board there is a reluctance to go through a process of thorough and systematic interviewing in case the nominee is somehow “put-off” by the process. Without doubt, good, behaviorally based interviewing that could expose character strengths and deficiencies takes time and, unless done very skillfully, may upset a candidate unless that candidate actually sees it as something that a responsible organization should do.

We think that very few directors who sit on search committees are themselves trained in good interviewing techniques. Developing these skills is not a trivial exercise and setting up and conducting such interviews requires dedicated time and effort. One of the authors conducted a three-day workshop on behaviorally-focused interviewing and discovered that, on the evening following the program, the CEO of the company – who was the sponsor of the interviewing skills program and attended all three days – hired a senior vice-president after meeting him for a couple of drinks in the hotel bar! When asked about it, his response was: “He’s a known quantity in the industry – no risk there.” The newly hired executive lasted a year and

was let go “because of lack of alignment of values.”

Boards and their selection committee are also confronted by a “reputation smokescreen” which is, in effect, the age-old problem of the “halo” effect that often obscures reality. The more experienced a potential director is, the more she or he is well known, the more they have a reputation and the less likely they are to be the subject of probing interviews and deep reference checking. Good, probing interviewing is often viewed as challenging to that reputation even though it often confirms it. Similarly, deep reference-checking is confounded by a strong reputation that often gets in the way of objective observations. Many directors believe that it’s just fine to hire on reputation; others have found that reputation to be either wrong or, more likely, to cover only some of the criteria that need to be fulfilled.

“You need to be careful what the world is telling you about other people,” George Cope, president and CEO of BCE Inc. said in an interview. He cited a personal example of working with Nadir Mohamed, at the time the CEO of BCE’s top competitor, Rogers Communications, to acquire Maple Leaf Sports and Entertainment in 2011.

“It was very important for me to determine whether the CEO was someone we could work with. We met, got to know each other as people, and realized that while we and our companies must compete fiercely in

the market every day, we could indeed work together on this project,” Cope said. “You may have impressions of people from the media, and other information sources, but I’ve learned not to pre-judge people. Go and talk to them - get to know them directly.”

Searches are often truncated when the potential nominee is known to, or even recommended by, a current board member. Many directors are suggested by sitting board members and such recommendations carry overwhelming weight if the sitting board member is influential within the board. Deferring to such recommendations often leads to an abbreviated formal candidate evaluation. Because of such self-censorship (e.g., for political or self-preservation reasons) groupthink may occur.

Based on anecdotal data and comments made by search experts at the ICD chapter meetings, we believe that few companies actually discuss character elements with the search consultants they hire to recruit a pool of candidates. They “assume” that character will be addressed and also assume that an “absence of negatives” indicates positive character dimensions. But these are not the same things. To say “I’ve heard nothing bad about X or Y” does not mean that they have demonstrated courage, transcendent thinking, excellent judgment, or other valued character dimensions.

Another theme that was discussed during the chapter sessions was that there tends to be an over-emphasis

on collaboration amongst board members, often at the cost of courage, accountability and the quality of decisions. Individuals refrain from disagreeing with other board members even when they should. A board member in one session stated that: “I think the one dimension that boards experience in excess is collaboration. Boards are natural breeding grounds for groupthink – the persistent belief that we need to come to consensus; boards are expected to come together. I think collaboration is an admirable goal, but in its excess is detrimental to the board and the decisions it produces.”

Board members also recognized the place of judgment as being pivotal to effective boards and that, without judgment, decisions can be potentially disastrous. One board member articulated that: “It’s amazing how good people can do bad things. What is it in the context that people miss? This comes down to the central role that judgment plays – you can have all the [other] 10 dimensions of character but if you exercise poor judgment, you can still end up with disastrous situations.”

Recommendations

We have some recommendations for director search, evaluation, performance review and renewal processes.

- Be explicit about the search criteria and include the character dimensions along with competencies; make sure that if you are using a search consultant they know and understand the character dimensions that are important to the board.
- Ensure that whoever does the interviewing is, in fact, a good interviewer and, if they’re not, insist that they take some training.
- When multiple interviews are done sequentially, ensure that each

interviewer has a set of questions so that the sessions are comprehensive but not repetitive. Furthermore, schedule a session of all involved in the process to share their observations. As the chair of the selection committee, check to ensure that all the criteria have actually been covered in the aggregate and that no key criteria have been ignored.

- Task the search consultant, if one is used, to develop a comprehensive list of referees who actually know the potential nominee rather than just his or her reputation and be thorough in requiring the consultant to fully share the content

of the references, checking that they have actually probed for character strengths and deficiencies.

- When asking a referee whether they “know” someone, care must be taken to understand the context of that knowledge. Has the referee actually observed a potential director in their role as director, as a competitor, as an executive, as a customer or supplier, as someone who has worked for them and so forth? Or, are they relying on reputation?
- If a candidate resists or resents discussion about character, then you should resist the candidate! You should be looking for candidates

A Demand for More Character

94%

agree that the character of the CEO has a tremendous impact on the effectiveness of the board

92%

believe that a critical role of the board is to evaluate the character of their CEOs and C-suite level executives

70%

of respondents believe that boards spend insufficient time addressing or assessing the character of potential nominees to their boards

79%

agree that it is difficult to assess character compared with assessing competencies

60+%

believe that both good interviewing and deep reference checking can be used successfully to assess character

64%

believe that the educational system does a poor job of developing character

92%

believe that business schools need to address character-related issues more than they do

66%

believe that character can be changed after someone becomes an adult

Results from the Ivey Business School’s Internet-based survey of 219 people, accounting for 443 boards, on the issue of character in the boardroom.

who themselves consider discussion about character to be important and, if asked the right questions in the right way, will feel good about the organization they are being asked to consider serving.

- We urge boards that have adopted formal director review processes to include the character dimensions we described in our paper in those reviews. If, as suggested in this study, directors view them as important then surely they would consider any review process that did not address them as deficient.
- There are still many boards that do not have formal processes for character, preferring a more informal occasional or periodic discussion between each director and the board or governance

committee chair. We urge those doing these reviews to think about the importance of these character dimensions and feed them into the discussion with individual directors. We also see some value in directors doing a personal, character-based self-evaluation that they may want to discuss with others or simply reflect on themselves.

- While boards quite properly seek diversity of experience, perspective, gender, ethnicity or other criteria, this should not extend to character. It is not sufficient to have some directors with accountability and others who lack it; or some who are courageous while others are timid; or some who lack good judgment while others have it; and so on. Good governance requires

these character dimensions in each director and hence in the board as a whole.

When someone is appointed as a director they have to work immediately with other directors, who may be complete strangers, on important matters requiring trust, discretion, independent thinking and excellent judgment. If there are doubts about character, the board will not function well. Once appointed it is very difficult to terminate a director and the longer inappropriate or dysfunctional character-driven behaviors are accepted and tolerated, the harder they are to remediate. A thorough, complete and expert assessment of character will not guarantee board performance but will go a long way toward it.

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