

# Leadership Character and Corporate Governance

By paying more attention to what defines “character,” directors can improve the quality of leadership in their organizations

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WHEN IT COMES TO SELECTING AND assessing CEOs, other C-suite level executives or board members, the most important criteria for boards to consider are competencies, commitment and character. This article focuses on the most difficult of these criteria to assess – leadership character – and suggests the key dimensions of character that directors should consider in their governance roles.

## Competencies, Commitment and Character

Corporate directors look – or should look – for three things in the C-suite level executives they hire, assess and occasionally have to fire: competencies, commitment and character (see Figure 1).

*Competencies matter.* They define what a person is capable of doing; in our assessments of leaders we look for intellect as well as organizational, business, people and strategic competencies. *Commitment is critical.* It reflects the extent to which individuals aspire to the hard work of leadership, how engaged they are in the role, and how prepared they are to make the sacrifices necessary to succeed. But above all, *character counts.* It determines how leaders perceive and analyze the contexts in which they operate. Character determines how they use the competencies they have. It shapes the decisions they make, and how these decisions are implemented and evaluated.

While specific competencies may differ with the role, we believe that these same criteria should also be considered in director recruitment, selection, evaluation and turnover.

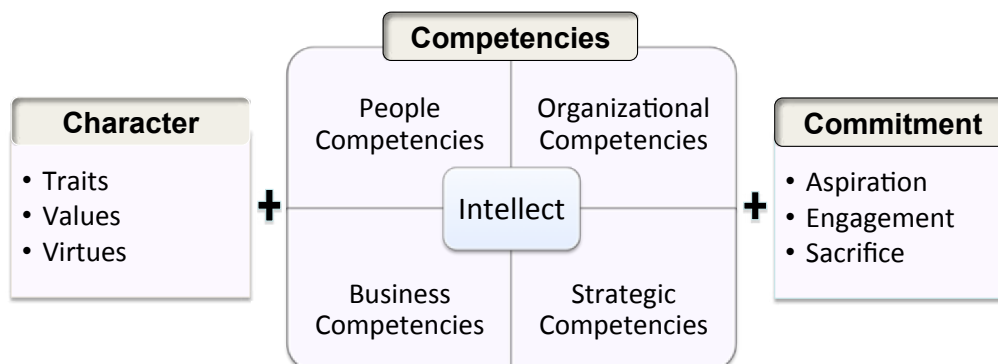
## Focus on Character

Our research has focused on leadership character because it's the least understood of these three criteria and the most difficult to talk about. Character is foundational for effective decision-making. It influences what information executives seek out and consider, how they interpret it, how they report the information, how they implement board directives, and many other facets of governance.

Within a board, directors require open, robust, and critical but respectful discussions with other directors who have integrity, as well as a willingness to collaborate and the courage to dissent. They must also take the long view while focusing on the shorter-range results, and exercise excellent judgment. All of these behaviors hinge on character.

Our research team at Ivey was made very conscious of the role of character in business leadership and governance when we conducted exploratory and qualitative research on the causes of the 2008 financial meltdown and the subsequent

Figure 1: Who Good Leaders Are



recession.<sup>1</sup> In focus groups and conference-based discussions, in which we met with over 300 business leaders on three continents, participants identified character weaknesses or defects as being at the epicenter of the build-up in financial-system leverage over the preceding decade, and the subsequent meltdown. Additionally, the participants identified leadership character strengths as key factors that distinguished the companies that survived or even prospered during the meltdown from those that failed or were badly damaged.

Participants in this research project identified issues with character in both leadership and governance. Among them were: overconfidence bordering on arrogance that led to reckless or excessive risk-taking behaviors; lack of transparency and in some cases lack of integrity; sheer inattention to critical issues; lack of accountability for the huge risks associated with astronomical individual rewards; intemperate and injudicious decision-making; a lack of respect for individuals that actually got in the way of effective team functioning; hyper-competitiveness among leaders of major financial institutions; and irresponsibility toward shareholders and the societies within which these organizations operated. These character elements and many others were identified as root or contributory causes of the excessive buildup of leverage in financial markets and the subsequent meltdown.

But the comments from the business leaders in our research also raise important questions about leadership character. Among them:

- What is character? It's a term that we use quite often: "He's a bad character"; "A person of good character"; "A character reference." But what do we really *mean* by leadership "character"?
- Why is it so difficult to talk about someone's character? Why do we find it difficult to assess someone's character with the same degree of comfort we seem to have in assessing their competencies and commitment?
- Can character be learned, developed, shaped and molded, or is it something that must be present from birth – or at least from childhood or adolescence? Can it change? What, if anything, can leaders

do to help develop good character among their followers and a culture of good character in their organizations?

### Leadership Character Dimensions

We define character as an amalgam of traits, values and virtues. *Traits*, such as open-mindedness or extroversion, may be either inherited or acquired; they predispose people to behave in certain ways, if not overridden by other forces such as values or situational variables such as organizational culture and rewards. *Values*, such as loyalty and honesty, are deep-seated beliefs that people hold about what is morally right or wrong or, alternatively, what makes the most sense to do, or not do, in running a business. *Virtues* (such as courage or accountability) refer to patterns of situationally appropriate behaviors that are generally considered to be emblematic of "good" leaders.<sup>2</sup>

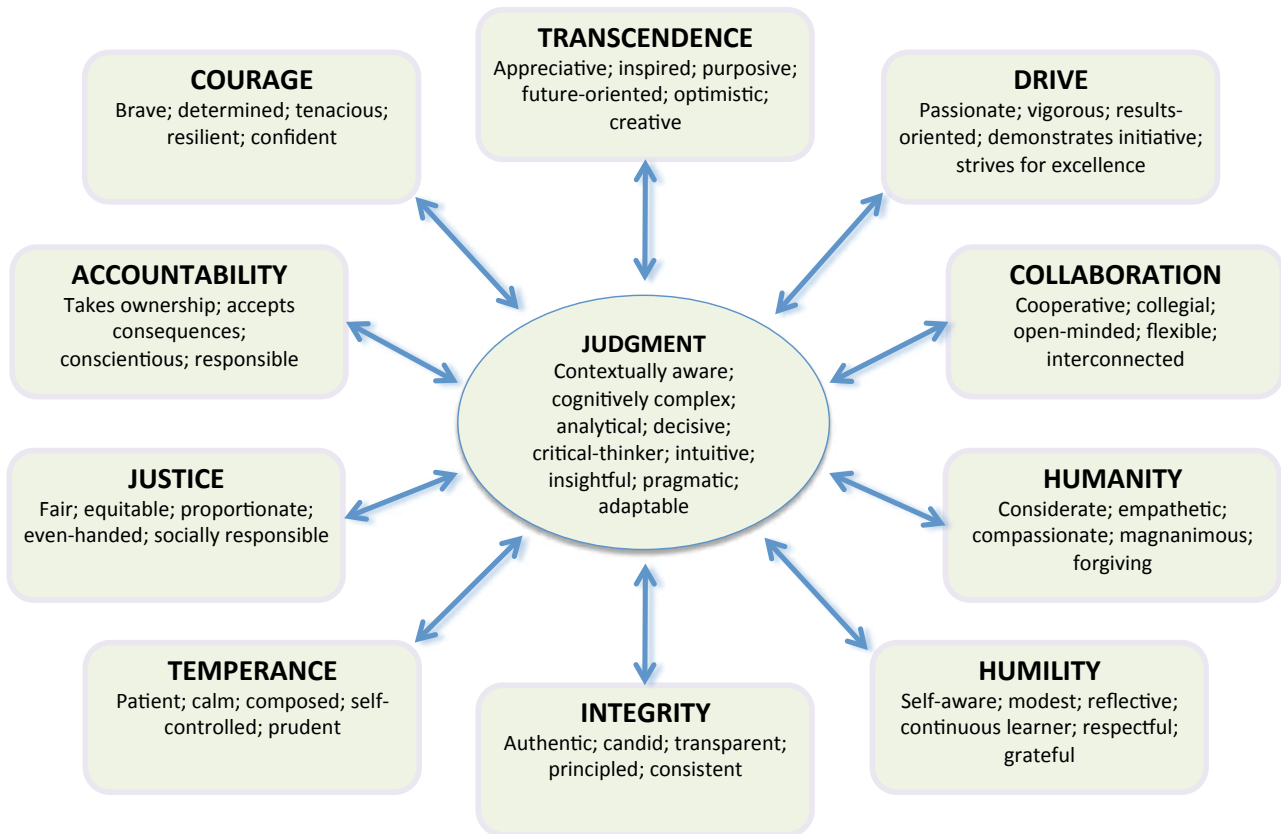
In Figure 2, we posit character as consisting of 11 dimensions: *integrity, humility, courage, humanity, drive, accountability, temperance, justice, collaboration, transcendence and judgment*. If we were to take just one of these dimensions – accountability, for example – we could say that it is defined by traits such as self-confidence and internal locus of control, *values* such as a deeply-held belief that good leaders should take ownership for their actions, and the near-universal view that good leaders readily hold themselves accountable for results. Each of these 11 dimensions has a similar underlying structure of traits-values-virtues, and each could be extensively deconstructed and discussed in greater depth.

The following set of dimensions, together with an illustrative set of elements that describe each dimension, is unique in that it attempts to integrate age-old concepts from philosophy with more contemporary thinking from the fields of psychology, sociology, anthropology, evolutionary biology, management and leadership. The wording of these dimensions is heavily influenced by the language used by the executive- and board-level participants in our "Leadership on Trial" research, subsequent qualitative and quantitative work with leaders, managers and students to ensure that we had identified relevant dimensions, as well as endless debate within our own

1 Gandz, J., Crossan, M., Seijts, G. and Stephenson, C. (2010). Leadership on Trial: A Manifesto for Leadership Development. London, Ontario: Richard Ivey School of Business. <http://www.ivey.uwo.ca/research/leadership/research/LOTreportpreview.htm>.

2 We acknowledge the great influence of the work by pioneers in researching character: Peterson, C., and Seligman, M. E. P. (2004) Character Strengths and Virtues: A Handbook and Classification. New York, N.Y.: Oxford University Press.

Figure 2: Dimensions of Leadership Character



research group.<sup>3</sup> This analysis differs from many other discussions of character in that it extends the definition of character to embrace other aspects of personality traits, values and virtues, rather than focusing exclusively or primarily on its moral dimensions.

*Drive* is essential in leaders so that they will establish stretch goals and the plans to achieve them, behaviors highly valued by boards. Leaders with drive demonstrate initiative, a passion to achieve results, the vigor to motivate others, and a desire to excel. We prefer to think of good leaders as having drive that comes from within, rather than “being driven,” which suggests some external force. Drive should not be confused with hyper-competitiveness, a destructive excess that can impede required collaboration, or with complacency, a dysfunctional deficiency that can lead to underperformance.

*Accountability* includes a sense of ownership, being conscientious in the discharge of leadership mandates, and accepting of the consequences of one’s actions. Good boards demand this of their executives; shareholders require boards and individual directors to demonstrate high levels of accountability for results and the ways in which they are achieved. However, taking the whole world on one’s shoulders is an excess that can result in burn-out or paralyze people from taking action. On the other hand, ducking legitimate responsibility results in negligent and reckless conduct that will lose any leader or director the respect of their peers, those whom they report to, and those who work for them.

*Collaboration* is highly prized as a dimension of leadership character. It is essential for leaders to form effective teams, to cooperate with others, and to work

<sup>3</sup> We see this set of character dimensions as a “work in progress.” The more we talk about it to individual leaders and groups of executives and directors, the more they want to add, modify or sometimes subtract. We anticipate more modifications as we engage the governance community in discussion and debate about the nature and importance of character.

collegially. They have to be open-minded and flexible so that they can cooperate with those in their own organizations as well as in external groups. However, collaboration for its own sake may result in endless deferral of decisions until consensus is reached, while lone-wolf decision-making squanders the opportunities to benefit from a diversity of views, better-quality ideas and smoother implementation of decisions.

*Humanity*, which we describe as consideration for others, empathy, compassion, magnanimity and the capacity for forgiveness, is essential to developing followership. Without it, a person can be an effective boss, but never a good leader. We do not view humanity as a soft or weak dimension of leadership character but, rather, as a fundamental strength that is often at the core of fostering quality, candid conversations, and is essential in supporting other dimensions of character. However, we recognize that being tenderhearted may induce paralysis in decision-making, especially in situations in which some people may be disadvantaged, such as downsizing. We also recognize that being hardhearted, callous, or indifferent destroys human relationships, and usually results in leaders being rejected by their followers.

*Humility* has long been regarded as an essential quality for leaders; without humility, it's impossible to learn from others or from one's own mistakes. This dimension embraces a degree of self-awareness, the capacity for reflection, and a sense of gratitude toward those who have helped one learn or achieve success. Boards eventually lose patience with CEOs or fellow directors who don't have an open mind, or who are arrogant and contemptuous of others. However, as with the other dimensions, it is important to guard against excessive humility, such as might lead to self-abnegation. This is actually a failure to recognize personal strengths that can undermine the self-confidence that leaders must have.

*Temperance* allows leaders to be calm when others around them panic, to think things through, and act in the best long-term interests of the organization. It helps them avoid over-reacting to short-term success or failure, and to assess both the risks and the rewards of alternative courses of action. Temperance as a dimension is one that is often not top-of-mind for directors, until some risk blows up in the board's face – then it becomes highly prized! However, boards must

be concerned when temperance is so strong that it contributes to undesirable temerity. Boards actually want leaders to take risks, provided that the leaders understand these risks and know how to manage them.

*Justice* is a dimension of a leader that is central to followers' decisions to accept an individual's leadership. This construct incorporates fairness and even-handedness in both procedures and outcomes, such as the allocation of work and dispensation of rewards. It includes a sense of proportionality with respect to praise or censure and – in a broader sense – recognition of the requirement of a leader to contribute to the growth and development of the societies within which they operate. Boards sometimes struggle with this dimension of character, recognizing its importance but wondering about its role in a profit-maximizing context. But leaders who act unjustly soon find themselves violating societal expectations; they court reactions such as over-regulation and excessive controls that will likely undermine long-term performance. We see this happening in the financial sector today, where executive compensation in many organizations that were bailed out by government support during the financial crisis has emboldened regulators and their political masters to push for even more stringent controls on “too-big-to-fail” banks.

*Courage*, both mental and sometimes physical, is a requisite character dimension for leaders. It includes preparedness to take risks, to challenge the status quo, to test uncharted waters, to speak out against perceived wrongdoing, and to be prepared to admit to concepts such as “I don't know,” or “I screwed up.” Sometimes it requires courage to adopt a lower-risk strategy, forgoing the immediate returns of a higher-risk route. It may include a degree of resilience as leaders fail in their first efforts to accomplish something. Boards appreciate courage in their CEOs and fellow directors, although they want to avoid the extreme of recklessness. They realize that absence of courage results in compliance with authority, a moral muteness that allows wrongdoing to go unchallenged and unreported, and average or even mediocre returns.

*Transcendence* is the dimension that allows leaders to see the big picture and take the long view. It means doing what's right for their organizations rather than pursuing the expedient or momentarily satisfying route,

climbing above petty rivalries or personal feelings. It often requires creativity. Transcendent leaders are optimistic: they focus on the future and inspire others to do the same. Boards look for transcendent leaders who keep their feet on the ground while looking over the horizon. Transcendence is not a detached other-worldliness, which may detract from focus on the here and now. Nor is it the pursuit of perfection to the point where the organization fails to achieve acceptable results in the shorter term.

*Integrity* is essentially about wholeness, completeness, and soundness of leadership character. It is most readily apparent in principles such as honesty, authenticity, transparency, candor, and consistency, but it is also used to describe high moral standards. It's knowing who you truly are, being true to yourself, and ultimately being complete, together, and morally sound. It's both saying what you think and doing what you say. Still, there are times when people with high integrity display rigidity of thinking and lack of good judgment when required to make decisions or take actions in complex and ambiguous circumstances that require the reconciliation of opposing principles.

*Judgment* has a central place in defining an individual's character. Each of the other dimensions of character represents reservoirs of varying depth – people may have lots of courage or a little, or great integrity or not so much. How an individual's character influences their actual behavior in a particular context depends on their judgment. It serves to moderate and mediate the way that the other dimensions determine individuals' behaviors in different situations. It acts like the air traffic controller, determining when courage should be shown and when it is better suppressed; when collaboration is appropriate and when a leader should go it alone; when it's appropriate to demonstrate humility and when to demonstrate great confidence; when to be temperate and when to be bold; and so on.

### Talking About Character

In our original "Leadership On Trial" research, participants had little difficulty talking about the role that character appears to have played leading up to the financial crisis. Yet those we have interviewed over the years almost always wondered why such issues were seldom addressed prior to the crisis. They noted the absence of ongoing meaningful discussions about character in their own organizations,

even in critical issues such as talent recruitment, selection, development and retention and succession management.

We think there are several reasons for this inconsistency:

- Decades of time and many millions of dollars have been spent by private- and public-sector organizations developing competencies profiles and ways of measuring competencies. No such effort has been placed on character. However, we are confident that this is changing. Whether it does or not is largely in the hands of the governance community itself, and we sense that it is ready for the challenge.
- Competencies are manifested in behaviors and we can actually measure them, however imperfectly. Character, on the other hand, addresses a capability in individuals that may not yet have been tested and the evidence for which is frequently vague. Here again, work is underway to develop better assessments and measures. Our discussions with members of the global governance community suggest that directors would welcome this development.
- Character is a loaded word. We tend to avoid talking about character in the workplace because it seems such a subjective construct. It does not have to be so – especially if we are able to describe the good and bad behaviors associated with these character dimensions in the appropriate business contexts. This is the focus of our ongoing research.
- Too often, discussions of character have required people to buy into some particular school of philosophical, ethical, psychological or managerial thought. We have tried to minimize this problem through balance, transparency, careful wording, and clear definitions.
- To date, the language of character has been complicated and inaccessible to those unversed in philosophy, ethics, and advanced psychological terminology. It is often viewed as a "soft" and certainly a non-quantifiable construct in a world that looks for hard data. However, we don't think that it has to be this way. We believe some adept translation of arcane terminology into contemporary managerial language, which we have tried to do in our framework, is a starting point to making the discussion of character easier and ultimately more valuable.

### Where Character Comes From

Some elements of character, especially basic personality traits, are inherited, while others are acquired through early childhood development, education, experiences in both work-related and socially-related organizational settings, as well as later-in-life experiences that mold character. People cite such life-changing experiences as being hired and fired; working with “good” or “bad” bosses; marriage and divorce; success and failure; illness and recovery. These crucible events only contribute to character formation if individuals have the degree of humility and self-awareness that allows them and motivates them to seize the opportunity for self-improvement. Other “character-forming” experiences include working in different international, industry or corporate cultures, as well as having great critics and mentors who are prepared to have the tough discussions that also shape character development.

### Assessing Character Strengths

Character is revealed by how people behave in situations. For example, we don’t know whether someone has courage until they’ve faced a major challenge or danger and done the right thing. Similarly, we don’t know if they have humility unless they’ve experienced failure, acknowledged it and learned from it. Whether or not they have integrity can only be assessed by how they have responded to situations that tested that integrity under pressure.

While it is standard for directors to establish selection criteria for competencies, we believe it’s rare for them to discuss the character dimensions they expect in qualified candidates. Nor is it common to address character dimensions when reviewing executive performance or doing peer reviews of other directors. Most of us lack the vocabulary to have these discussions behind closed doors, let alone in face-to-face discussions.

Regrettably, systematic and thorough character assessment is seldom done well, often relying on an “absence of negatives” rather than focusing on positive character dimensions. A full character assessment requires a deep and extensive examination of a person’s life and work history over an extensive period of time, through the highs and lows of a business cycle, and the asking of very specific, pointed and often intrusive questions in both the interviewing and reference-checking processes. We all know how difficult this is

to do – especially when the candidate has achieved positions of leadership prominence, enjoys a sterling reputation, and may even be a personal friend. It’s even harder when the candidates clearly possess the competencies that you urgently need, or have a track record of success.

We look to character to attempt to predict how someone will behave in future circumstances. It is much better to ask well-constructed, probing questions about how candidates have behaved in similar situations in the past, or how they believe they would behave in specific situations in the future, than to settle for impressions formed from loosely-structured interviews, or basing hiring decisions on individuals’ reputations. This focus on behavioral interviewing is not a new idea, but emphasizing character assessment underscores its value and importance.

### Building Character

There are several ways that directors can influence character development in the organizations they govern. They can talk about these dimensions, especially in their formal processes of CEO appraisal and succession management. They can press management to develop formal leadership profiles that address competencies, character and commitment. They can also introduce character-focused discussion into their own board assessments. Since CEOs are almost always board members, such discussions should start to rub off on their own internal talent reviews.

Boards are in a pivotal position to alter the way businesses are run. If boards put character on the corporate agenda, organizations will have to respond. Boards can begin the process by ensuring that the senior leaders of the organization are selected, evaluated and promoted based on character as well as commitment and competencies.

### Conclusion

We are encouraged by the number of business leaders who feel that they themselves must surmount these obstacles to talking about character, and who believe that boards should focus more on it – just as we are sometimes discouraged by stories of character-related scandals, from bribery and corruption to money laundering and near-insane risk-taking in capital markets, that are emerging on a regular basis. We are conscious that we must guard against the cynical

assumption that there is, somehow, a natural cycle of wrongdoing (recognition, learning, improvement and relapse) as we go through business cycles and forget the last crisis and why it happened.

There is a lot we don't know about the role that character plays in governance and effective leadership in organizations. We would like to get a better sense of how boards actually address character-related issues. We also need to improve how we assess character dimensions and measure them more accurately. The holy grail of this line of leadership research is an empirical assessment of whether or not the character of an organization's leadership is significant in determining its success or failure; there is much work to be done before we can pronounce on that. We are committed to engaging members of the global governance community in this future research.

We recognize that we must be careful and responsible in asking busy directors and executives to master new

language and new methods of assessment. But we believe it will pay off in better leadership. In short, while competencies matter, while commitment is critical, character really counts; it must be embraced as a major concern by boards and the governance community.

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