

June 12, 2015

LOL Journal: The Character of Leaders

The old line that “leaders should have character not be characters” is especially true in the investment world. Given how many leaders FCG has worked with, we know that many of them are both. In a way, that’s good news because it means they do have character, in the positive sense. Unfortunately, too many leaders in our industry do NOT care about leadership character. In fact, they don’t seem to care much about leadership period! For many, if a person knows how to make money, that’s what counts.

Fred Kiel’s new book, **Return on Character: The Real Reason Leaders and Their Companies Win** is excellent in this regard. It’s a sequel to his first book called **Moral Intelligence** in which he discussed what he believes are the four core values of a person who has character:

1. **Integrity**: words and actions align. A person of integrity makes and keeps clear agreements. They are a person of their word. (For more on Integrity, see the excellent piece, “Putting Integrity into Finance” by Erhart and Jensen, Rotman magazine)
2. **Responsibility**: conscientious behavior. They take responsibility for their life, their actions, and the consequences. They don’t blame others. They are concerned for the common good.
3. **Compassion**: living with empathy. They can put themselves in another’s place. They genuinely care about people. They look for win/win outcomes.
4. **Forgiveness**: understanding that we are human, we all make mistakes. They ease up on perfectionism. They cultivate the skill of “letting go.” They give themselves and others a second chance. A fresh start.

Kiel is 75 years old and has been studying and thinking about the character of leaders for three decades. He’s getting the hang of this subject. In the new book, he has carefully researched “the inextricable link between CEO character and value creation.” He calls the leaders of high character “**Virtuoso CEO’s**” and the leaders who scored lower in the surveys (taken by employees) “**Self-Focused CEO’s.**” Kiel’s study shows:

*“There is an observable and consistent relationship between character-driven leaders and better business results. Leaders with stronger morals and principles do, in fact, deliver a Return on Character (ROC). Leaders that rank high on the ROC character-assessment scale achieve nearly **five times** the return on assets that leaders who fall at the bottom of the curve achieve.” (pg. 3)*

So, how is character defined? Here is Kiel’s working definition: “**an individual’s unique combination of internalized beliefs and moral habits that motivate and shape how that individual relates to others.**”

Interestingly, the study reveals a huge blindspot for the Self-Focused CEO's: they rate themselves just as highly on the character-assessment scale as the Virtuoso CEO's! Think about that for a moment. The bad leaders delude themselves into thinking they are every bit as virtuous as the good ones!

The scores are as follows:

| Comparison of CEO's self-ratings vs. employee ratings of the CEO's | | |
|--|-------------|------------------------|
| Character scores for: | Self-rating | Employee rating of CEO |
| Self-Focused CEO's | 83 | 68 |
| Virtuoso CEO's | 84 | 87 |

Note that the employee ratings of Virtuoso CEO's is even higher than the CEO's self-rating. Modesty seems to be another trait of character-driven leaders! Obviously, these results speak to the importance of objective feedback for all of us. FCG runs 360 feedback surveys on many investment leaders to help them get beyond their biases to see a more objective picture of themselves.

For Kiel, character is both nature and nurture. The combination of life experiences and the person's DNA determine character principles and habits. Fortunately, the plasticity of the brain allows us to improve our character at any stage in life. Through accurate feedback from colleagues and friends we can assess how we are doing on the core four character traits: integrity, responsibility, compassion, and forgiveness. To the extent we are weak in one, we can address it and improve it. The research from Kiel shows that this effort is well worth it. Because WHO we are as leaders matters greatly. Character counts.

The second aspect of leadership involves what leaders DO. A key aspect of FCG's consulting approach is to make things, "crayon simple." In the case of leadership, the crayon simple statement is: Good leadership consists of WHO you are, and WHAT you do. Kiel's work on the "WHO" piece is very useful in this regard. But he also describes what leaders do.

Specifically, good leaders do the following:

- They create and communicate compelling **visions of success** (what does the future look like?)
- They create clear **strategies** for realizing the vision of success (How will we get there?)
- They **execute** on their plans. (How will we make things happen?)

In this way, Kiel's book dovetails nicely with another leadership expert that FCG knows and likes: Dave Ulrich. (Author of many books on leadership, including **The Leadership Code** and **Leadership Brand**) Ulrich also acknowledges the importance of character (the WHO piece). He writes, "All leaders must excel at personal proficiency. Without the foundation of trust and credibility, you cannot ask others to follow you." And in Ulrich's leadership self-assessment, one of the items is, "I model character and integrity." In contrast to Kiel, though, Ulrich is much more interested in defining and describing the "what" not the "who" of leadership.

The reassuring overlap between these two authors is two-fold:

- 1) Kiel and Ulrich agree that good leaders must have character, with integrity and trust as core pieces.
- 2) They also overlap nicely on what leaders must DO. Kiel and Ulrich both emphasize vision, strategy and execution.

In addition to these key overlaps, Ulrich emphasizes:

- **Talent management.** Leaders identify, build, and engage talent to get results now
- **Build the next generation.** Leaders create succession plans to ensure future success

Kiel adds three additional capabilities that leaders must excel at:

- **Decision making.** Good leaders must make good decisions. (This one seems so obvious, and yet many leadership experts don't spend much time discussing it.)
- **Create a culture of accountability.** This draws on the character traits of integrity and responsibility. Good leaders spell out expectations and boundaries so that employees have clear guidelines, including an awareness of consequences for violating them.
- **Build a strong executive team.** The CEO must select qualified individuals who share the core character values (integrity, responsibility, compassion, forgiveness) and build them into a high performing team.

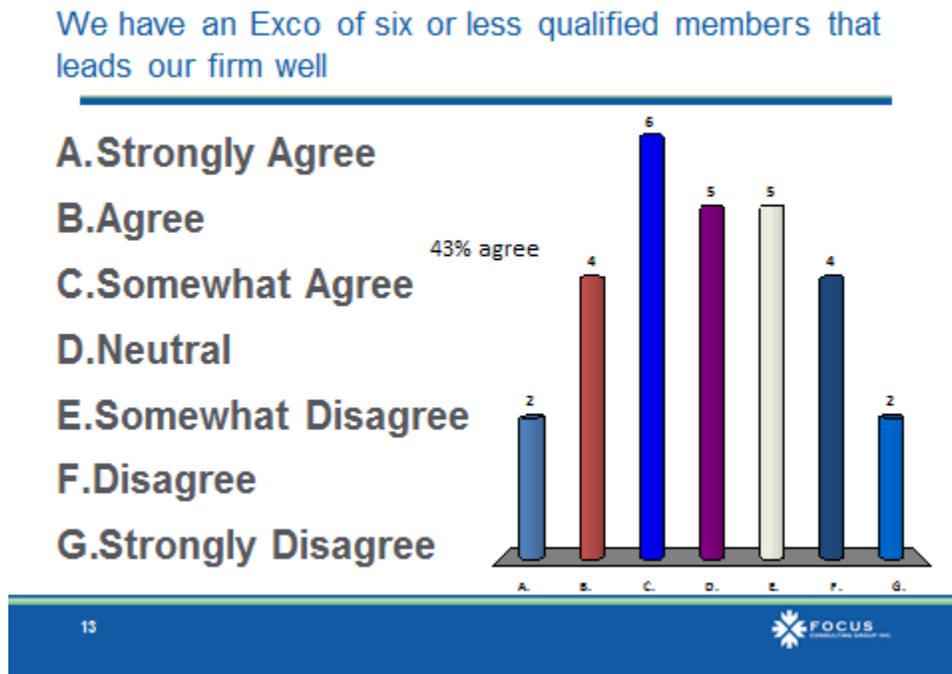
The Focus Elite firms that FCG selects and studies all have highly functioning executive committees ("exco's"). The chart below compares the Focus Elite exco's with the industry average. All of the differences are significant at the 99% confidence level.

| Success Factors for Top ExCos | | | |
|--|-------------|----------|------------|
| Team Factors | Focus Elite | Industry | Difference |
| I feel fairly compensated for my contributions | 5.99 | 5.18 | 0.81 |
| We have the right team members to accomplish our goals | 6.15 | 5.41 | 0.75 |
| There is a high level of trust among team members | 5.98 | 5.30 | 0.68 |
| Our team openly debates issues | 5.79 | 5.21 | 0.58 |
| As a team we value and appreciate one another | 6.08 | 5.55 | 0.53 |

7 point scale: 7 = strongly agree, 1 = strongly disagree

Note that selecting the right team members and building high trust levels are critically important to a high functioning exco. Kiel writes, “To achieve Viruoso-level results, leaders need A-level executives on their team from the start. It’s better to have a temporary vacancy on the team than to tolerate a player with mediocre skills or weak character habits. [FCG calls these people Red X’s] A lackluster senior executive team will eventually fail or, at best, achieve only modest results.” FCG agrees. In fact, the quickest way to build strong culture is to build a strong exco. CEO’s often ask us about building culture and our crayon simple answer is: build a great exco. The positive effects will cascade through the organization.

So, how are investment firms doing at building great exco’s? Not so well. Here is a voting slide from a group of CFA’s who attended a recent FCG presentation. Note that the results for this audience mirror the global results (11 CFA societies) of 43%:



Asset management firms still don’t take leadership very seriously. Results like the one above provide ample evidence that investment technicians still believe they can lead the business. Interestingly, the younger generations—Xers and Yers—are voicing the message with increasing volume that they want to be trained and developed as leaders. And FCG is getting more requests to help firms meet these mentoring demands. In response, we have created a curriculum to develop “good enough” leaders. This term is borrowed from the parenting expression: “good enough” parenting. Because parenting—and leadership—are not exact sciences, the idea is to do the job well enough so that your kids—or employees—can succeed. Put differently, your influence is at worst neutral!

So, if you are interested in becoming a good enough leader, then consider the advice from Kiel: concentrate on the four core values that define character. Then ask yourself, have I built a good senior team? And have we clearly defined our vision and strategy? And remember, it's ok to be a character, as long as you have character. And now you know what character is: integrity, responsibility, compassion and forgiveness. It's so simple. And it only took me six decades to figure it out.

Curiously, JW