LEADERSHIP
MEASURING THE RETURN ON CHARACTER

CEOs who are rated high on four moral principles deliver better financial results than those who aren't.

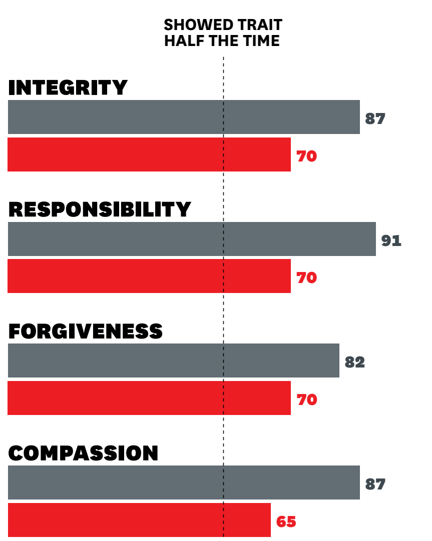
When we hear about unethical executives whose careers and companies have gone down in flames, it's sadly unsurprising. Hubris and greed have a way of catching up with people, who then lose the power and wealth they've so fervently pursued. But is the opposite also true? Do highly principled leaders and their organizations perform especially well?

They do, according to a new study by KRW International, a Minneapolis-based leadership consultancy. The researchers found that CEOs whose employees gave them high marks for character had an average return on assets of 9.35% over a two-year period. That's nearly five times as much as what those with low character ratings had; their ROA averaged only 1.93%.

Character is a subjective trait that might seem to defy quantification. To measure it, KRW cofounder Fred Kiel and his colleagues began by sifting through the anthropologist Donald Brown's classic inventory of about 500 behaviors and characteristics that are recognized and displayed in all human societies. Drawing on that list, they identified four moral principles—integrity, responsibility, forgiveness, and compassion—as universal. Then they sent anonymous surveys to employees at 84 U.S. companies and nonprofits, asking, among other things, how consistently their CEOs and management teams embodied the four principles. They also interviewed many of the executives and analyzed the organizations' financial results. When financial data was unavailable, leaders' results were excluded.

HOW LEADERS SCORED

Employees rated their CEOs on four key traits using a 100-point scale, where 50 meant that the leader displayed the trait "about half the time" and 100 meant "always." The gap between the top scorers (dubbed "virtuoso CEOs") and the lowest ones ("self-focused CEOs") persisted across the board.



SOURCE KRW

At one end of the spectrum are the 10 executives Kiel calls "virtuoso CEOs"—those whose employees gave them and their management teams high ratings on all four principles. People reported that these leaders frequently engaged in behaviors that reveal strong character—for instance, standing up for what's right, expressing concern for the common good, letting go of mistakes (their own and others'), and showing empathy. Examples include Dale Larson, who took over his family's storm door business decades ago after his father died of cancer, growing it from about 30 employees to more than 1,500 and gaining a market share of 55%; Sally Jewell, a former CEO of REI, America's largest outdoor retailer; and Charles Sorenson, a surgeon who moved into management at Intermountain Healthcare when the company began to grow and eventually took on the top job.

At the other end of the spectrum, the 10 lowest scorers—Kiel calls them "self-focused CEOs"—were often described as warping the truth for personal gain and caring mostly about themselves and their own financial security, no matter the cost to others. This group includes the CEO of a public high-tech manufacturing firm, the CEO of a global NGO, and an entrepreneur who heads a professional services firm. (All study participants were guaranteed anonymity from the beginning. Only a third later gave permission to use their names.) Employees said that the self-focused CEOs told the truth "slightly more than half the time," couldn't be trusted to keep promises, often passed off blame to others, frequently punished well-intentioned people for making mistakes, and were especially bad at caring for people.

Early in the project the researchers expected to find a relatively small relationship between strength of character and business performance. "I was unprepared to discover how robust the connection really is," Kiel says. In addition to outperforming the self-focused CEOs on financial metrics, the virtuosos received higher employee ratings for vision and strategy, focus, accountability, and executive team character.

Do leaders who need to work on their character know it? In most cases, no—they're pretty deluded. When asked to rate themselves on the four moral principles, the self-focused CEOs gave themselves much higher marks than their employees did. (The CEOs who got high ratings from employees actually gave themselves slightly lower scores—a sign of their humility and further evidence of strong character.) Fortunately, Kiel points out, leaders can increase their self-awareness through objective feedback from the people they live and work with. But they have to be receptive to that feedback, and those with the biggest character deficiencies tend to be in denial.

How can such leaders get past their denial and overcome their character deficits? Seeking guidance from trusted mentors and advisers helps a great deal, Kiel says. He discovered that firsthand early in his own career. After earning a PhD in psychology, he built two large clinical practices and briefly served as the CEO of a publicly held company. Back then, he says, he was more like the self-focused CEOs than the virtuosos: "While I never engaged in any illegal behavior, I'm sure many of my colleagues in those days felt that I was more than willing to throw them under the bus if it meant success for me." As Kiel reached middle age, though, he began to feel a sense of moral and spiritual emptiness—and he knew he needed to change. It was a long, difficult process. After all, he was trying to undo deeply ingrained habits. But with practice and counsel he succeeded, and he was inspired to help other business leaders do the same.

If Kiel's experience (and his clients') is any indication, character isn't just something you're born with. You can cultivate it and continue to hone it as you lead, act, and decide. The people who work for you will benefit from the tone you set. And now there's evidence that your company will too. ⛉

Learn more about KRW's findings in *Return on Character,* by Fred Kiel (Harvard Business Review Press, 2015).

THE IDEA IN PRACTICE

"I'M SUSPICIOUS IF A REPORT CARD IS TOO GOOD"

Charles Sorenson, the president and CEO of Intermountain Healthcare, was one of the highest-scoring leaders in KRW's study on character. He spoke with HBR about what he learned from the results. Edited excerpts follow.

COURTESY OF INTERMOUNTAIN HEALTHCARE

Do you think KRW measured the right principles—integrity, responsibility, forgiveness, and compassion? There are two I might add. One is the pursuit of excellence. That's partly included in the definition of responsibility—the desire to leave the world a better place. It's especially important in health care. The other is the courage to do the right thing even when it's difficult or painful. To make changes in a field as deeply entrenched as health care, you need to stick your neck out.

How have you incorporated the feedback? We've made some changes in leadership—put in people who model these values. In medicine and surgery, most of us just remember the last five episodes of patient care and extrapolate incorrectly from them. So it's wonderful to have an objective measure of culture and behavior.

What struck you most about the responses? We had some room for improvement—but that's OK. I'm suspicious if a report card is too good. One person wrote that it doesn't always feel safe to disagree with management. We've made progress there, so I was a little disappointed. There was also a comment about conservative attitudes toward women. That's an oucher for me. We have a lot of terrific women in senior positions.