A compilation of INSEAD Research

Effective Leadership in the Board Room

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Editorial

Assembling an effective leadership team at board level is a big challenge for any organisation. Team selection is already a difficult task in sports. In comparison, the challenge for boards should be regarded as an even greater challenge: boards do not play a single game, with known rules - in fact it is not even clear which game is being played - the game and the context change regularly. There is also less transparency in business, including in the scoring, where short-term indicators can be at odds with long-term survival. There is a conundrum here: though the challenge is substantially more complex, less time is typically spent assembling a board than is typically the case for assembling a winning sports team. Something has to give: boards have to raised their game!

Our latest series of executive summaries is focused on **'effective leadership in the boardroom.'** It showcases a number of executive summaries of research papers by INSEAD faculty that present diverse comments on leadership by the board and at board level. These comments are not intended to be exhaustive or to give a full overview of the topic; please view them as a number of distinct pictures on the subject.

A good conceptual start for this topic is an understanding that there are a number of dualities at the heart of board work, that render the task most complex and whose management are at the core of effective board functioning: execution versus oversight, individual versus team, CEO versus Chairman, my culture versus your culture, my personality and ego versus yours... When not properly managed, these dualities become as many challenges to effective leadership by the board.

The first condition for leadership effectiveness in such a context then lies in the bridging of these dualities in such a way that one avoids being positioned at the extremes: the correct 'middle' position (or balance) needs to be found. This ought not to be interpreted as 50-50 position, but rather as first staying away from the 'all or nothing' extremes. Each of the papers below sheds light on how to travel these bridges to effective leadership in the boardroom.

The major challenges facing any board are commonly known: how to create unity from diversity, how to create commitment through challenge, and, more broadly, how as a board to improve execution and make success more sustainable? What is the place for effective leadership in such a setting and what form does it take?

As a seminar participant stated when we discussed effective boards: "I like what I hear and I am all for it, but how can I be one of these?" The papers below, rather than answering the key question of leadership effectiveness by the board, aim more at growing our understanding of the challenge of the task, which is a necessary and first step on the path towards better answers.

Professor Ludo Van der Heyden
Chaired Professor in Corporate Governance and Strategy
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From our Faculty: Effective Leadership in the Boardroom

Board-CEO dynamics

In their work on The Support-Challenge Tightrope in Board-CEO Interactions, **Professor Jean Francois Manzoni, with his co-authors Paul Strebel and Jean-Louis Barsoux**, looks at one fundamental duality in board-CEO dynamics: the need to strike the right balance between supporting (chief) executives and challenging their performance. This is a dynamic and subtle balancing act. If the relationship is to deliver the best results for the company it requires the right 'doigté' on the part of the Chair and of all board members as good intentions may quickly lead to very poor outcomes once human factors are at play amongst actors whose ego is often oversized. The purpose of this contribution is to increase a board's awareness of this duality and to provide pointers so as that help avoid bad outcomes while maximizing the chances of chairs leading their boards and CEOs to effective mutual engagement.

Multiplicity of leadership roles, collective leadership ethos and psycho-dynamics

In their research on Psychodynamic Approach, **Prof. Manfred F. R. Kets de Vries and Alicia Cheak,** look at various leadership characteristics that nicely describe the tasks that boards must accomplish. As such the paper is useful in offering a useful checklist for the eight dimensions of effective board leadership. This is a good place to start any reflection on leadership.

At the most macro level, effective leaders have two roles: charismatic and architectural. In the charismatic role, leaders envision a better future and empower and energize their subordinates to work toward this vision. In their architectural role, leaders address organizational design, processes, and systems. Both roles are necessary for effective leadership, but here is then the immediate challenge: a single person is typically not equally talented in both roles. That is where team competence and board ethos kick in. The question then becomes: does the board become shared and complementary leadership group? This remains a formidable challenge particularly amongst individuals with endowed hyper-developed ego's.

Streamlining the board process for high performance leadership

Most often business ineffectiveness is a symptom whose root cause resides in board ineffectiveness. A key imperative then is to make the board process effective, and hopefully in a sustainable manner. This requires a method (as well as the discipline to stick to it). One such method is provided in the paper entitled Setting a Tone of Fairness at the Top, by **Prof. Ludo Van der Heyden**.

The method of 'Fair Process Leadership' (FPL) is a prescriptive five-step process that groups can follow for effective decision-making and that increases the chances of successful execution of the decisions. It underlines the need for thoroughly engaging the group on effective framing of the issues – or diagnosis - before exploring possible answers. FPL is an adaptation of the Japanese Kaizen method (successfully used in factories all over the world) to the boardroom. It largely reduces the negative psychodynamics associated with bad board meetings.

Effective fair process leadership contributes to more effective board work, and as importantly, generates positive emotional dynamics amongst board members thus increasing the chances of high performance board work. Fair process requires leadership that is fair. FPL typically lasts as long as the leader is guided by the right fairness values. Board effectiveness is thus first ensured by a leader with the right values: The first check for board effectiveness is a check on the chair's values.

What about our values?

Prof. Ian C. Woodward and Samah Shaffakat talk about that the importance of Understanding Values for Insightfully Aware Leadership. In the current business world, there is a heightened interest in corporate social responsibility, governance, ethics and sustainability.

The paper issues two caveats: much of the training on these topics excessively emphasizes regulations, standards, and compliance rather than engaging on personal values, understanding them, and developing them. The bridge needs to be crossed to understand personal values for board members' commitment and trust to grow. The second caveat is that being insightful on personal values, understanding and conversing on them is necessary to develop trust and teamwork at board level.

Developing value awareness and sensitivity are a must on the board agenda.

Facing the Narcissistic CEO

The relationship between the CEO and the board has long been a central issue in corporate governance research. A lot of research and discussion can be found on the influence of the board on CEO selection. The other feedback loop has been examined less: how much can the board – in tone and eventually in composition - be influenced by the CEO, and specifically by the CEO's personality?

That is the topic of the research by **Profs. David H. Zhu and Guoli Chen**. It confirms that a powerful CEO can secures the board's support by selecting directors who are in favor of the CEO's narcissistic tendencies. These CEOs are schallenge from their boards when they making excessive risk-taking decisions.

The appointment of a Lead or Senior Independent Director is one measure that counters the risk of board becoming manipulated by a narcissistic CEO.

An evolving cultural imperative

The world is globalising, yet local differences endure. Leaders must be effective in more places than before, and need to understand how cultures continue to shape the world.

In their research, Global Leaders in East and West - Do All Global Leaders Lead in the Same Way? **Caroline Rook and Anupam Agrawal** confirm the 'convergence hypothesis': that global leaders across the world display similar patterns of leadership behaviour. However, global leaders also need to show 'cultural relativism' namely understand the degree to which differences in behaviours remain. Leaders mindful of cultural differences are deemed more effective by the multicultural people they lead.

Awareness of cultural contexts is particularly relevant in a world where companies often remain very local at the top.

Developing one's game: practice makes perfect!

Many sports teams attain effectiveness and eventually excellence as the result of much practice and simulation of the 'big game'. In contrast, boards hardly practice. Understanding effective leadership can be fostered through the Board Process Simulation, an exercise developed by **Prof. Stanislav Shekshnia** for directors. Stanislav reminds us that what makes directors effective in the board room is not necessarily what brings them latter to the board room in the first place.

What makes directors effective in board room discussions are soft skills (listening, clarity in communication, emotional intelligence …). Directors ought to be tested for their soft skills prior to their appointments – for one particularly toxic board member can destroy the spirit of a board. A simulation exercise allows this needed self- and peer assessment of a director's soft skills, as well as those of the chair.

A statement by IDP-C Johannes Luef

As part of his INSEAD programme, **Johannes Luef** went through the board process simulation. He was given the Chair role in a disguised, yet real company, where he had to lead his board through a merger discussion. "I was quite nervous; at the end of the meeting I was convinced that I'd actually flopped as chairman. A 360° survey and coaching is part of INSEAD's directors program, providing a unique opportunity for learning about oneself through peer group feedback and coaching. The key for me was to learn how to move from the habits of a very hands-on CEO to those of a director, while also using my previous experiences and skills of mentoring and coaching."

Taking care of others

Prof. Henri-Claude de Bettignies is one of INSEAD's great builders, who amongst other accomplishments, opened the doors to Asia for INSEAD. His article Developing Responsible Leaders gives us a glimpse of the wisdom he acquired over the years.

In this article he shares his concern about the shortage of 'responsible leaders' and the threat this poses to our planet's future. He pleads for leaders that integrate the 'Common Good' into their organisations. He compares this to acquiring wisdom: a lifetime calling.

The bottom line of Henri-Claude's plea to boards is the internalisation of a golden rule: "care for the other". We are moving away from the false premise of caring only about shareholder returns.

Professor Henri-Claude's mantra 'AVIRA'- Awareness, Vision, Imagination, Responsibility, and Action – is also his legacy leadership programme for executive and non-executive boards.

The Support-Challenge Tightrope in Board-CEO Interactions

Boards must strike the right balance between supporting chief executives and challenging their performance if the relationship is to deliver the best results for the company.

People who look at Boards and CEOs from afar might be tempted to assume at that level, discussions and decisions are all about rational facts and figures. The reality, for those of us who work with directors and high level executives, is that in spite of good intentions, very human factors often end up playing very significant roles in discussions at the top.

One of the main challenges boards face is the striking of a good balance between support and challenge of the CEO and management team.

Boards must challenge the CEO and management team – that's one of their major roles and one of the ways they help management to optimise decisions and performance.

They must also support the CEO and management team. Life at the top of organisations is demanding and can be lonely. The CEO needs to have "a place to go to" for advice and support. Also, human beings tend to accept more challenge from people who they believe have good intentions toward them. The support given by the board to the CEO hence helps to make the board's challenge more acceptable for the CEO.

Boards should be aiming for the "high-high" quadrant in the matrix below.

	Low Support	High Support	
	"Challenge Trap"	Support *and* Challenge	High Challenge
	Absentee Board	"Support Trap"	Low Challenge

- CEOs tend to be proud and competitive individuals who are not always the best "feedback receivers" in the world. In the absence of certainty, it may be better to shy away from potential controversy and maintain a harmonious relationship with the CEO.

- Boards typically know less about the business than management and as a result can lack confidence in their ability to challenge effectively.

- Boards often feel close to the CEO they chose and would very much prefer him/her to succeed, as failure by the CEO might reflect badly on the board's CEO selection.

- Boards are not always aligned in their view of the CEO's performance. Challenge by some members may expose disagreements within the board and create an awkward situation for the board, management and shareholders.

(See, for example, the recent tension at the top of the VW group triggered by the [now] ex-Chairman, Ferdinand Piech who unilaterally reported a disconnect with the CEO).

The support trap

"The challenge is compounded by the fact that board members, like all human beings, suffer from confirmatory biases. Once they have labelled an individual a solid performer, they are likely to perceive and interpret reality in a way that "confirms" their label. They are hence likely to notice the CEO's successes a lot more than their difficulties. When forced to look at the difficulties, they will have a tendency to minimise them and/or attribute them to external causes. Research even shows that our memory can be similarly affected, leading us to remember events and situations in biased ways.

This "support trap" often leads boards to be overly patient with CEOs and to pay insufficient attention to early warning signals. I'm sure we can all remember a few cases like this. For example, a few years ago I wrote a case on Bob Nardelli's tenure as the CEO of Home Depot. More recently, the board of Barclays was criticised for being insufficiently challenging of CEO Bob Diamond, and the board of Pfizer was similarly criticised for their handling of Jeff Kindler. (Interestingly, in both cases the board selected these CEOs in spite of dissenting voices trying to discourage them from doing so. Such controversial selections then need to be "defended", which can lead to unconscious efforts to reduce cognitive dissonance by inappropriately reducing or even dismissing the dissonant information).

The challenge trap

But sometimes the evidence pointing to problems becomes sufficient to start worrying the board. The board is no longer sure that the CEO is the right individual to lead the organisation. Once this doubt becomes sufficiently strong, it acts as a cancer and quickly starts polluting the relationship between board and CEO. At that point, boards often switch to the top-left quadrant of the matrix above and succumb to the "challenge trap". Their confirmatory biases lead them to perceive the CEO's actions and results through a negative prism, leading to much more attention to failures than to successes, attribution of failures to the CEO's limitations and successes to external factors, and correspondingly biased memories. In addition to the perceptual aspects, boards also start acting much more vigorously toward the CEO – asking more questions, challenging responses, data and interpretations. This more forceful attitude can be met by two responses from the CEO:

The more typical for CEOs is the "aggressive response", where the CEO stands his/her ground, pushes back on the board and "refuses to let themselves be bullied". This aggressive response generally fails to reduce the board's misgivings. In fact, it generally fuels the board's doubts and resolve, leading to a rapid escalation of intensity in the relationship. Some CEOs respond more passively; they try to avoid conflict and gradually withdraw from interaction. Unfortunately this attitude also fuels the concerns of the board, thus also triggering a vicious circle of increased board challenge leading to more of the same behaviour from the CEO – in this case withdrawal and disengagement. In both cases, the board's label becomes self-fulfilling. As does the CEO's labeling of the board, of course. Somewhere along the way the CEO starts to label negatively (some members of) the board – as meddlers, unreasonable, ignorant, antagonistic… and behave toward them in ways that are more likely to attract negative, rather than supportive, responses. The CEO also starts to perceive reality and board member behaviour through a confirmatory prism, over-emphasising challenging behaviour, attributing more negative motives and selectively remembering events and situations.

Life is, of course, more complex than this stylised summary, but I think this analysis is directionally correct and captures the essence of many situations. boards often start by erring on the side of support before erring on the side of challenge when they start losing confidence in the CEO. The board's active challenge triggers a vicious circle of increasing tension and decreasing performance and turns the board's doubts on the CEO's performance into a self-fulfilling prophesy. In the next post I will review two recent cases of CEOs being pushed out by their board. Like explained above the process will be self-fulfilling and self-reinforcing, but unlike today the main reason for the board's annoyance will not be performance as such.

This post builds on work conducted with Paul Strebel and Jean-Louis Barsoux (IMD)

Jean-Francois Manzoni is he Shell Chaired Professor of Human Resources and Organisational Development and a Professor of Management Practice at INSEAD, where he is also the co-director of the International Directors Programme, one of INSEAD's executive development programmes.

Find article at
http://knowledge.insead.edu/leadership-management/the-support-challenge-tightrope-in-board-ceo-interactions-3975#50qluLLP6MGQDGQ5.99

Psychodynamic Approach

By Manfred F. R. Kets de Vries and Alicia Cheak

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Bringing together the perfect team of directors on a board is one of the biggest challenges for organisations. Various parameters are evaluated when selecting a director, such as industry knowledge, educational and experiential qualifications, network and membership strengths, soft skills, etc. The corporate board has the oversight and foresight mantle, and hence it is imperative that the leadership dynamics of the team, as it steers the company, be understood better. This chapter looks at different prototype leadership characteristics and how they work together. Effective leaders have two roles - a charismatic one and an architectural one. In the charismatic role, leaders envision a better future and empower and energize their subordinates to work toward this vision. In the architectural role, leaders address issues related to organizational design processes, and control and reward systems. Both roles are necessary for effective leadership, but it is a rare leader who can fulfill both roles seamlessly. Usually, alignment is only achieved within a leadership group that enables different members to take different but complementary roles.

On a board, a diverse group of carefully selected directors can be structured to become a highly effective team that delivers much more than the sum of its parts. The first step is to identify each individual's personality makeup and leadership style, and then match their strengths and competencies to particular roles and challenges. This sort of creative team configuration can energize and enhance the boardroom's effectiveness for the organization.

We propose an approach to understanding leadership that looks at the underlying irrational processes and dynamics governing human behavior. Indeed much of what we do is driven from our subconscious, and only in understanding ourselves and our drivers can we truly understand the complexity of the system in which we live and work. The psychodynamic approach not only provides us with better self-knowledge, but this knowledge can also be used in our interface with other organizational actors in a way that allows us to shape, influence, and leverage organizational dynamics.

So, what are the archetypes of leadership styles that would complement each other in the boardroom?

The Strategist

Strategists provide vision, direction and outside-the-box thinking to create new organizational forms and generate future growth. They can see the big picture, anticipate future developments, and respond quickly to change. However, they are not always good at taking the next step, i.e. aligning strategy with execution; also, they may not be good communicators. Besides joining forces with coaches, processors and communicators can be very helpful to them.

The Change Catalyst

Change-catalysts function best in the integration of organizational cultures after a merger or acquisition or when spearheading re-engineering or turnaround projects. Unlike strategists, they have the talent to align vision, strategy and behaviour. They are both outcome and process-oriented. The flip side is that change-catalysts can quickly become bored in stable situations and are not suited to participating in small, incremental change efforts; they are not always politically sensitive enough to handle complex organizational problems. Some of these problems can be avoided, however, if they team up with coaches.

The Transactor

Extremely dynamic and enthusiastic, they thrive on new challenges and negotiations; they like novelty, adventure, and exploration, and they have high risk- tolerance. They are impatience with structures, processes and systems means that they are often poor at organization-building. Being good deal-makers and negotiators, they are frequently hard to read - an asset in negotiation which can confuse collaborators. They need others, such as strategists, processors and coaches, to compensate for their limitations.

The Builder

Builders enjoy starting and building their own organizations or setting up 'skunkworks' and other intrapreneurial ventures inside a large organization. They have a powerful need for independence and to be in control; are creative, decisive, focused, single-minded, and persevering, and they have a great capacity to deal with setbacks. They also have a high, but calculated, propensity to take risks, and they are quick to adapt when they see opportunities; and know how to get other people to produce results. Although a builder's leadership can be inspirational, poor communication and a culture of domination and control can contribute to dysfunctional decision-making. They need others, such as processors and coaches, to be their sparring partners.

The Innovator

Extremely curious, innovators want to learn more about anything and everything that grabs their attention. Innovators are the most reluctant of all the leadership archetypes to do things in a particular way simply because that is how things have always been done. Adept at logic and reason, they typically lack the usual social graces and may not always express their feelings appropriately. They are poor social sensors, unskilled at decoding body language, sensing others' feelings, or recognizing hidden agendas, thus making a rather 'nerdy' impression. Moreover, innovators' driven way of working means that they have trouble conforming to organizational norms and may be treated as outsiders. In going their own way, they may lose sight of the financial realities and limitations, thus endangering the viability of the organization.

The Processor

Processors like to create order out of disorder and are adept at helping organizations make an effective transition from an entrepreneurial to a more professionally managed stage. Talented at setting boundaries and creating the structures and systems necessary to support the organization's objectives, they have a systemic, practical outlook and dislike unstructured situations. Because they tend to be adaptable and collaborative, processors complement most other leadership styles and thus play an important role in any leadership team. Sometimes, however, a processor's need for order,

Image courtesy: phanlop88; www.freedigitalphotos.net

Unlike strategists, the change catalysts have the talent to align vision, strategy and behaviour. They are both outcome and process-oriented, but are not suited to participating in small, incremental change efforts.

systems and rules can shade into stubbornness and inflexibility, so they can be slow to respond to new opportunities or even hinder them. Not only will it be helpful for processors to be paired up with coaches, strategists or innovators can also help to bring in an element of out-of-the-box thinking.

The Coach

Coaches are very good at instituting culture change projects to address organizational alienation and loss of trust. They are exceptional people developers who possess empathy, are extremely good listeners, and have high emotional intelligence. They create high-performance teams and high-performance cultures. The downside is that their sensitivity to others' feelings can make them overly careful when giving feedback: they may find it hard to be tough when needed, and they may shy away from dealing with difficult underperformance and personal issues. In crisis situations, some coaches may be slow to act or may procrastinate about important issues, a danger when speed is a competitive advantage. Given the organizational context, teaming coaches with executives who possess other archetypes can be highly effective.

The Communicator

With their ability to express a vision strongly and powerfully, communicators can inspire people at all levels, and are very effective in building alliances and enlisting the support of other people. However, a communicator's preference for looking at the big picture, rather than dealing with details means that they need others, such as strategists and processors, to make their dreams become reality. Expert in looking out for number one, they are also not averse to obtaining excessive perks and other benefits for themselves. They sometimes latch on to others for support and even take credit for other people's achievements, a self-serving style that can contribute to organizational disintegration. As in the case of coaches, when balanced with other leadership prototypes, communicators can play an essential role in a team.

Conclusion

It would be useful for an organization's selection committee to look at this aspect of a potential director's psyche. There is a leadership archetype questionnaire available that can be used for both self and team assessment. Working out the type of leader you are and what kind of people you have on your team can be very useful for a team's effectiveness. It helps in recognising how you and your colleagues can each make their best contributions towards a more effective board.

"Builders have a powerful need for independence and to be in control; and they have a great capacity to deal with setbacks. They also have a high, but calculated, propensity to take risks, and know how to get other people to produce results."

Image: arztsamui; www.freedigitalphotos.net

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Full publication available at:

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Setting a tone of Fairness at the Top

By Ludo Van der Heyden

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"Fair play boards tend to be more performing, and fair play companies tend to attract and ultimately retain better directors and also executives."

The imperative of fairness in governance is key for keeping corporations, their directors, executives, shareholders and many stakeholders 'glued' together in a common spirit of trust and commitment. Over time, the sustained practice of fair process leads to greater value creation for a corporation's stakeholders and increases the trust that society awards the business. Fairness is not an option: it is fairness for board and ultimately business performance.

Fair Process versus Fair Share

Fairness in business often is a vague ideal to be pursued. This paper argues that it can be operationalised to become a daily practice. This requires two clarifications. The first to underline the distinction between what is termed as 'fair play' or fairness in process and 'fair share' or fairness in outcome or result. Directors and executives are typically unclear about this distinction, often thinking instinctively of fairness only in terms of 'fair share'.

The determination of 'fair share' is the object of a field called **'distributive justice.'** Philosophers have argued about fairness for more than 2,000 years and have identified three principles - and only 3 - for a fair division of 'the pie': a) **merit** - where a person's share is proportional to that individual's contribution to the making of the pie; b) **equality** - where shares are equal regardless of contribution; and c) **needs** - where an individual's share is proportional to that individual's need.

These definitions of 'fair share' are substitutes as they lead to different shares for the individuals concerned. A distribution based on merit leads to very unequal shares (as observed in private markets), and will ignore individual needs. Not for-profit organisations and also families are largely driven by the goal of meeting needs. Democratic societies are governed by the principle of equality, most forcefully stated as 'one person, one vote'. Public shareholders insist on equality of information and dividends (per share); mothers distribute their time and love unequally, the most needy children receiving most of the mother's attention.

The major argument against the 'fair share' principle is that it requires the determination of a clear collective goal, to which individuals contribute. But that is a big requirement - most shareholders do not automatically agree on goals, CEOs and boards do not immediately agree on a 'fair remuneration principles', most individuals in a family do not agree on what are legitimate needs, and even in society, giving everyone an equal vote, does not necessarily lead to a collective optimum. That is why 'fair process' is a necessary antecedent to 'fair division'. In fact, differences in outcomes will become acceptable if they are the result of a fair process; they will be heavily counteracted otherwise. Secondly, some people will refuse favourable outcomes (e.g. in a plea bargain process) because their first preference is for a fair process to take place where they can express their grievances and hear the guilty ones condemned publicly.

An important clarification is to operationalise what might be a 'fair process'. It is remarkable that an entire academic field (called **procedural justice**) has been developed without reference to any process. That is the clarification that my work in collaboration with others, has brought to the field and the result is termed **Fair Process Leadership** (FPL).

Image courtesy: ambro www.freedigitalphotos.net

The virtues of fair play are most easily argued by invoking cases of non-fair play, for example at board level. Bias, a lack of transparency in decision-taking, the censure of speech, rigidity of stance, and finally, a suspicion of hidden or personal agendas all impede board effectiveness.

How to ensure 'fair play' (the 5 C's)?

Longstanding debates have led to the identification of five complementary and mutually reinforcing characteristics of fair play:

- **Consistency** – or uniformity in the treatment of people, issues and across time;
- **Clarity** – or transparency;
- **Communication** – or the ability to give all a voice which - and this is key - they can exercise without fear of retaliation of what is being said;
- **Changeability** – or the ability to change course as a function of new facts or new evidence; and, finally,
- **Culture** – or the commitment to aim to 'do the fair thing' not only superficially, but deeply and authentically.

Contrary to the three mutually exclusive principles defining fair share (merit, equality and needs), the five criteria of fair play are complementary: they must all be validated for people to perceive fair play.

The virtues of fair play are most easily argued by invoking cases of non-fair play. Bias for short term, against certain people or for certain issues, always leads to friction. So does a lack of transparency, censured speech, rigidity of stance (ideology), and finally, a suspicion of hidden or personal agendas. All these impede a board's effectiveness.

Fair play attracts and commits people to constructive board confrontations that help the shared establishment of the decision while unfair play puts stress into the process, resulting in defensive reactions and ultimately disengagement.

The theoretical contribution of fair play is that it is not just a good idea, it is a scientific social fact: fair play groups (including boards) tend to be more performing, fair play boards and companies attract and ultimately retain better directors, executives, and employees.

Disciplining the Board: The Process (the 5 E's)

It is well known that any group, to be performing, needs good process. My work with colleagues, informed by the decision-making literature, propose a 5-step process:

- **Engaging, Seeing and Framing:** Nothing is as critical as defining the right question submitted for consideration and decision. Many disasters result from framing the question incorrectly. In fact, the surest path to value destruction consists in forcefully executing the right answer to the wrong question. Doing this step in 'fair play' fashion allows individuals concerned with or impacted by the process to be engaged at an early stage. The benefit of wider exchange on 'what people see' reduces the risk of erroneous framing.
- **Generating, Exploring and Eliminating Options**: The quality of planning is a function of both the creative ability to generate better answers to the questions identified at the previous stage, and the group's ability to explore these answers and reject the inferior ones. The confrontational debate of 'pros' and 'cons' allows a thorough exploration of the options generated. Board competence and diversity are of the essence here.
- **Deciding, Explaining and Setting Expectations**: Being presented with a finite and distinct set of options, the leadership can now focus on decision making, with full knowledge of the pros and the cons of each option. This is a real step, and not just a decision moment: the decision makers will spend sufficient time explaining the decision and its rationale to stakeholders which allows preparation for execution, and also further refinement of the rationale, should new information be obtained (e.g. reaction of stakeholders); decision makers can take more time, or even change their mind (based on adequate evidence).
- **Executing, Realizing and Rewarding**: Execution of decisions can now start with the concerned people being clear on what all actors are supposed to do. Execution being well prepared, results are being realized at this stage. Marginal adaptations are typically required; should major deviations from expectations be necessary, leaders can move to another option if that is part of the plan, or even

decide to stop execution. The step ends with rewards or sanctions, whatever may apply, as announced at the decision step.

- **Evaluating, Learning and Adapting**: 'Post-mortem' evaluations can now start both on the results achieved and on the process that generated these outcomes. Lessons are learned and the organisation adapts as a consequence, so that going forward, errors are avoided. The latter prohibits a repetition of value destruction.

Benefits and Implications for Board Effectiveness

The value of such a formalised approach to fair process is to ensure that board members understand the way their input will be sought and used, making them co-creators of the decision, together with other stakeholders. Self-determination theory asserts that people will forcefully contribute to decisions they have co-created, whereas they tend to resist decisions that are imposed upon them. As a result of this co-creation, resistance to change is much reduced and is replaced with willful contribution to implementation, or at least consent. Decisions that go against particular interests or agendas can be implemented, precisely because the latter have been put forward and adequate explanations have been provided to counter them.

The Fair Process model further clarifies the dual roles of non-executive (NED) and executives directors (ED). Executives typically do most of the analysis and fact-finding, having more time and also competence. NEDs help bring perspective and objectivity to decisions. All of us are biased; a fair process invites biases to be made explicit and countered, for greater effectiveness of collective decision-making.

When one examines board work, one can validate that board effectiveness is often the result of fair process, whereas bad decision-making is associated with fair process failures. Fair process thus becomes necessary for board effectiveness. A good board will ensure that it adopts fair process as a discipline, which then turns into a culture for the board and the organisation it supervises.

Benefits and Implications for the Chair

Finally, the Fair Process model provides a clear operational template for the Chair. No process survives a bad leader, and for fair process to be sustainable ,it requires the continued guidance of a fair play leader. That is the meaning of the third descriptor of FPL, namely leadership. On the board, the Chair is typically the fair process leader – though (s)he may give that task to another board member, e.g. the Senior Independent Director. The FPL leader will have a certain detachment regarding outcomes – and be open to input from board colleagues.

The application of the Fair Process Leadership framework will result in more effective engagement and commitment of directors with each other, and with executives. The effects of asymmetries - in accessibility to information and time commitment by executive and non-executive directors to company activities - will be positively mitigated.

Conclusion

It is important to conclude with a point on compliance. Compliance is not solely a matter of following a prescribed set of rules or procedures. Chairs and their boards are well advised to comply with a value-based practice that has been well tested in society, namely that of due or fair process leadership or FPL. This is not merely a virtuous wish. There is a large amount of scientific evidence to back up the conclusion that boards and their Chairs who follow and apply this prescription – taking into account contextual factors such as time and culture – will serve their organisations better.

"The application of the Fair Process Leadership framework by the Chair will result in the more effective engagement of directors with each other, and with the executives."

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A good board co-creates a decision – which is a key success factor for implementation.

Understanding Values for Insightfully Aware Leadership

By Ian C. Woodward and Samah Shaffakat

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"Leadership is a potent combination of strategy and character. But if you must be without one, be without the strategy." General Norman Schwarzkopf.

In the current business world, actions and decision-making in top management is more international and increasingly crossing cultural boundaries. With a heightened contemporary interest in corporate social responsibility, governance, ethics and sustainability, major organisations across nations see the importance of paying more attention to their workplace rules, values and philosophies as a way to enhance sustainability and engagement, and be acknowledged for their social responsibility. Although leaders understand the urgency of defining and executing work values and their impact on ethicality in operating global organisations, the reality is that more focus is put on ethics education and training that emphasises regulations, law, standards, and the issuance and enforcing of compliance, rather than communicating, engaging and understanding personal values.

Our research advocates the significance of knowing and understanding personal values as a path to a deeper level of self-awareness that constitutes a major aspect of leadership development. In so doing, we present an overarching framework that captures the relationship between different value types, their sources, values hierarchy, value congruence and conflict, and the related work behaviours. These can give business leaders a more 'holistic view' of their personal values and how they apply to their leadership skills, marked by cultural, gender and generational diversity. Critically understanding values is directly relevant to different types of leadership theories and approaches including: authenticity, emotional intelligence, charismatic leadership, transformational leadership and values-based leadership.

The ability to identify and communicate values is critical to self-awareness and leadership development

Values are the principles and standards that motivate us in life. They are our basic convictions; our beliefs that tell us what is right, good, or worthy. They guide our thinking and actions like an internal compass. Values serve as standards through which all decisions are assessed. They are the 'givens' that map out the choices before and during the decision-making process. They are with us throughout the journey of leadership.

Most people have an idea about what they value, although the reasons behind their values are not always clear. By really knowing and articulating our values, we gain deep insights into our behaviours, the way we interact with others, and the lens through which we make our decisions. Exploring values forms a critical basis for self-awareness – which is essential for leadership success. Understanding values is a key element of what we describe as, 'insightfully aware leadership'.

Understanding Values

By identifying our own individual set of values – whether personal, work or organisational – we can better recognise and accomplish the goals that are truly important. Although values are abstract (such as trust, respect, integrity,

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achievement, making a difference and so forth) they are witnessed through our concrete behaviours and actions.

Studies show that values impact employee satisfaction, commitment, productivity and performance. Values influence perceptions of satisfaction with leaders – and intentions to stay or leave. Values affect organisational behaviour, ethics and citizenship. In a work scenario, successful leaders need to communicate, define and role-model shared values with others, to create a cohesive team striving for a common purpose.

Given the important impact of values in all areas of our life, it is crucial to understand exactly what they are, how they operate, and what influences them. Through extensive research, we developed an integrated model of the '*Personal Values System*'. This builds on the leading values theories proposed by more than twenty different scholars in academic research during the past four decades. In particular, we expanded on the work of social psychologist and cross-cultural researcher, Shalom Schwartz. He specifies values as voluntarily enduring standards or benchmarks that provide the stability needed for social interaction and group survival. His model identified 10 value types: ***self-direction, stimulation, hedonism, achievement, power, security, conformity, tradition, benevolence, and universalism***. Through our research, we added another two: **ethical judgment** (such as 'integrity') and *highly abstract* (such as 'ultimate happiness' or 'bliss' that is the person's inner state when their other values are satisfied). Both the Schwartz model, and our 'personal values system', place these 12 values types in a circle and acknowledge that relationships - both compatibility and conflicts – can exist between the different values we hold. An explanation of the full system of values-type clusters can be found in our research.

Personal values relate directly to work and organisational settings. This is why the capacity to understand values is of critical importance in leadership development and business performance. Individual values and organisational values are linked through the idea of work-value compatibility and conflict – impacting behaviours and organisational functioning. For example, when leaders and organisations clearly define and live their values, it is easy to translate workplace expectations to dealing with customers, employees' roles, and tasks.

When we understand our organisation's values and direction we can test whether these resonate with our own personal values system. Sometimes our personal values and organisation's values are not aligned. This 'work-values conflict' tends to lead to negative behaviours, marked by frustration, disengagement, and poor performance.

An insightfully aware leader

When values are understood and communicated, much more transparent conversations can occur for leaders and managers. These include discussing the dilemmas they face, and feedback from peers about the consequences of decisions and actions.

From an individual perspective, having clear and conscious values is a key element of 'insightfully aware leadership'. It helps executives to increase openness and better understand [one]self [themselves?], others and situations. Values are central to 'authentic' leadership, where the leader is deeply aware of how he or she thinks and behaves, and is perceived as being aware of his or her own, and others', values and strengths.

An 'insightfully aware' leader has a profound and clear understanding of his or her purpose and the reasons behind it. Self-awareness of values helps leaders to reflect upon their emotions, goals, needs and motives. Individuals who are able to identify and articulate their values will generate meaningful insights about how they see

themselves, the circumstances they face, the behaviours they display, and their potential reactions to specific situations. Comprehending their values (personal, work and organisational) enables leaders to know and accomplish what they believe is important.

Therefore, values exploration holds an important place in any leadership development initiative, be that coaching, leadership training, executive education courses or reflection activities. For example, this is one element of INSEAD's Advanced Management Programme. Here, understanding values helps senior executives to develop profound insights about their 'strengths, weaknesses, drivers and blockers' as leaders.

As a CEO has expressed, "*Our organisation's values are not really the nice text we find in the company's website, posters and brochures - they are what we live and breathe through actions and deeds as individuals and as a team in the business.*"

Once armed with deep knowledge of who they are, and what they can be, a transformative blueprint for effective personal leadership and development can be created and implemented. In work and life, self-aware leaders make tough decisions that will be guided by core values. One very simple way people can start the journey of thinking more deeply about their values is to remember some specific moments of success, fulfilment, anger and frustration in their personal and professional life. Then reflect on what values were present in these. Try articulating these values and see what insights are generated.

Conclusions

Values control the choice of organisational goals thereby serving as standards through which decisions are assessed. They constitute the 'givens' and map out the choices before the process of decision-making starts.

Leadership, organisational and team performance is profoundly influenced by values. With respect to leaders' perspective, values might not essentially affect the choice of a purpose, but they act as means through which that purpose can be monitored. They can guide leaders by shaping ideas about potential directions, and helping them to understand, as well as decide, what they will be comfortable with in relation to organisational strategy, functioning and direction. It is important for organisations to clearly define and rate their values, which form the basis of organisational practices and strategies.

With an increased contemporary interest in leadership grounded on values, this paper gives assurance that an emphasis on recognising and understanding values is a necessity. Our review offers a comprehensive report of classic and recent literature on values and work values. The objective is to understand different conceptualisations of values and work values; to look into the role of different factors that impact people's values; and report studies around issues relating to value change, conflict and congruence.

Finally, we believe that deriving the integrated 'Understanding Values Framework' as presented in the paper, together with a usable definition and descriptions of values, their attributes and role in our lives, can make a constructive contribution to leadership development that seeks 'insightful awareness'.

"Values control the choice of organisational goals thereby serving as standards through which decisions are assessed. They constitute the 'givens' and map out the choices before the process of decision-making starts."

Image courtesy: ambro; www.freedigitalphotos.net

When values are understood and communicated, much more transparent conversations can occur for leaders and manager. These include discussing the dilemmas they face, and feedback from peers about the consequences of decisions and actions.

Full publication available at:

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Narcissism, Director Selection and Risk-Taking Spending

By David H. Zhu and Guoli Chen

Strategic Management Journal (Forthcoming)

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Although the relationship between the CEO and the board has long been a central issue in corporate governance research, behavioural research on this important issue has not considered how it may be influenced by the CEO's personality. While CEO narcissism clearly impacts strategic decision making, whether this is good or bad for the firm is still controversial. Assuming that not all directors would appreciate a narcissistic CEO, this research reveals that a powerful CEO can secure the board's support for their narcissistic leadership by selecting new directors who tend to support narcissistic CEOs, leading to a stronger tendency for narcissistic CEOs to take risks. The CEO's personality thus has important implications on board composition, independent board control over major managerial decisions, and the effectiveness of directors.

Post financial crisis, regulators have been challenged to transform the way firms are governed, and many rules have been laid down to make the board more accountable and effective. However, looking at publicly listed US firms, it is found that despite the many measures taken, such as increasing structural independence of boards, removing social ties in director selection, increasing board diversity and separating the role of CEO and chairman, there continues to be a failure to improve independent board control over excessively risky decisions taken by the CEO. This research shows how the CEO's narcissistic personality influences the composition and functioning of the board, explaining why boards often fail to control CEOs' excessive risky decisions.

This research studied 1,849 new directors selected by 292 Fortune 500 companies in the US between the years 1998 and 2006, and the subsequent risk-taking spending of these firms. Although evidence suggests that most Fortune 500 directors are qualified individuals and board independence has improved significantly in terms of the representation of outside directors, their fewer social ties to management, and their demographic difference from the CEO, independent board control over CEOs' excessively risky decisions has not been substantially improved through the selection of new directors.

The Influence of the Narcissistic CEO

Prior studies have established a few facts about narcissistic CEOs:
- They tend to manage firms very differently from their less narcissistic counterparts.
- They seek to have their self-view continuously reinforced.
- They tend to take bold and risky actions, and deliver extreme performance outcomes.

A narcissistic CEO interviewed in earlier studies demonstrated how clearly he was aware of his own narcissism: "*If you hear a negative word about me, let me know, because I'd be shocked. It's probably a weakness, but if someone asked you if you knew me and you answered simply yes, I would be very disappointed. It's very*

Because CEOs are aware of their narcissistic tendencies, they are concerned about whether a new director will be supportive of their leadership style and corresponding strategic approach. Therefore, they are interested and influential in the selection of new directors.

In the US, where this research has been carried out, governance reform efforts and shareholder activism have tried to reduce CEOs' influence over new director selection in publicly listed firms, yet CEOs continue to have significant influence over this important decision. For example, CEOs can have a greater influence over director selection decisions when they have relatively long tenures and greater ownership of the firm. In addition, on the boards of most US corporations CEOs still simultaneously serve as board chairs. Since the board chair presides over board meetings and has formal authority over board committees, a CEO who chairs the board can have substantial influence over director selection by influencing the existence and composition of the nomination/governance committee.

While SEC regulations require the nomination/governance committee to be composed entirely of independent directors, data provided by IRRC show that the large majority of US public boards do not have a nomination or corporate governance committee in the post-SOX era, allowing many CEOs to directly influence director selection decisions.

Fellowship of Leadership

A CEO interviewed commented: "*Selecting a new director is an important decision, so I do know the background [of the new director] fairly well. [When asked if he was aware of the narcissistic tendencies of other Fortune CEOs tied to a new director:] Yes, I have some ideas. They are highly visible in general. You sometimes even get to see them on TV or during conferences. When I try to know a new director's background, I'll definitely pay special attention to what type of leaders they are.*"

CEOs with greater power can influence what kind of directors join the board. Because director selections are under close public scrutiny, CEOs are pressured to look for candidates outside of their direct social circle. A narcissistic CEO is likely to look for other cues to reduce the uncertainty that new directors may not support their leadership and decision making. The current research suggests that there are two important cues that CEOs are likely to use – they are likely to look at whether a candidate has a similar narcissistic personality to them, and they are likely to consider whether a candidate has worked with other similarly narcissistic CEOs.

A narcissistic CEO tends to favour a narcissistic director – a slightly counterintuitive finding - similarity attracts. This is because a narcissistic director is more likely to understand and support a narcissistic CEO's strategic approach and leadership style. Although one could rightly assume that there should be more conflicts between two individuals with high levels of narcissism, in the context of the present study, a narcissistic director is unlikely to compete with a narcissistic CEO in the boardroom because social norms among directors discourage such behaviour - directors in the US are widely expected to defer to the CEO's authority in the boardroom and those who violate such norms can be socially sanctioned by fellow directors. The findings from this research indeed show that more powerful CEOs appointed new directors who are similar to them in narcissistic personality.

The current study also shows that CEOs look for directors who have had experiences working with other similarly narcissistic CEOs, especially when

"The CEO's narcissistic personality influences the composition and functioning of the board, explaining why boards often fail to control CEOs' excessive risky decisions."

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If you hear a negative word about me, let me know, because I'd be shocked. It's probably a weakness, but if someone asked you if you knew me and you answered simply yes, I would be very disappointed. It's very important to me that you say, 'Oh, God I love him. He's great, he's just the best.'

their demographic characteristics are very different from the CEO's. This is because a narcissistic CEO may assume that a director candidate who worked well with other similarly narcissistic CEOs will work well with him or her - the CEO may further give such prior experience of a director more weight when the director's demographic difference from the CEO increases the risk that the director may not see things in the same perspective as the CEO. Interviews with CEOs and directors also confirmed that other CEOs' narcissistic tendencies are publicly visible – for instance, a director who was a partner of a major consulting firm commented: "*As a director, I am very aware of the narcissistic behaviour of CEOs. When I worked at [a major consulting] company, there are some client CEOs who are clearly narcissistic. Partners at our company for sure talk about client CEOs' personalities. [When asked how she got to know CEOs' highly narcissistic tendencies:] The way they interact with people gives you the feeling that they feel like the greatest men. Huge offices, big fancy cars, and a large number of assistants are all indicators [of their narcissism]. They go with big M&As. They initiate lots of things, but don't care much about the details. You can tell that they take criticism as personal attacks*."

And finally, the findings from this research suggests that these two social cues that CEOs look at indeed help them garner support from new directors. New directors who are similar to the CEO in narcissistic personality or have prior experience with other similarly narcissistic CEOs indeed showed support for the CEOs' bold and risky decisions - the positive relationship between CEO narcissism and risky spending becomes even stronger following the selection of these new directors.

Conclusions and Challenges

While prior studies highlight that the effectiveness of boards may be compromised due to the high level of impact of powerful CEOs in the director selection process, the present study shows that powerful CEOs are relying on increasingly subtle strategies to manage their relationship with the board. Given that they are constrained from appointing friends and acquaintances to their boards, CEOs tend to favour new directors with similar narcissistic personality or with experience working with other similarly narcissistic CEOs to secure new directors' support for their leadership. As many are puzzled by the fact that efforts to improve board independence have failed to increase board control over CEOs' risk-taking decisions that resulted in the recent financial crisis, this research offers a theoretical explanation for this puzzle: powerful CEOs are selecting new directors who are likely to support their risky decisions by virtue of their similar narcissistic personality or their prior experience with other similarly narcissistic CEOs. This research also highlights a major challenge - limiting CEOs' power may reduce their ability to effectively run their firms, but powerful CEOs seem to be able to find new ways to manage the board despite numerous efforts to improve board control over managerial decisions.

"The large majority of US public boards do not have a nomination or corporate governance committee in the post-SOX era, allowing many CEOs to directly influence director selection decisions."

Image: imagerymajestic; www.freedigitalphotos.net

As a director, I am very aware of the narcissistic behaviour of CEOs. When I worked at [a major consulting] company, there are some client CEOs who are clearly narcissistic. Partners at our company for sure talk about client CEOs' personalities.

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Global Leaders in East and West - Do All Global Leaders Lead in the Same Way?

By Caroline Rook and Anupam Agrawal

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Emerald's Advances in Global Leadership series, April 2014*

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We found that while global leaders across the world display similar patterns of leadership behaviour, there are significant differences in some behaviours that can be attributed to cultural origins. Is there a great global leader who could parachute in and be effective anywhere? According to our research, leaders who are mindful of cultural differences are deemed more effective by the people they lead. To be an effective global leader, it's imperative to be aware of the cultural context.

We compared the leadership evaluations of 1,748 global leaders by superiors, peers and subordinates in 10 national clusters to see whether global leadership styles differ between cultures. The data were gathered from top and middle management executives who attended leadership development programs at INSEAD between 2001 and 2007; consisted of 81% men and 19% women who were on average 40 years old; from diverse industries in the private and public sectors such as banking, consulting and telecommunications. We wanted to answer the question, 'Do global leaders in the Eastern Hemisphere display different leadership behavioural patterns from their counterparts in the Western Hemisphere?'

What makes a Successful Global Leader?

This research is based on the Global Executive Leadership Inventory, developed by Professor Manfred Kets de Vries, who established 12 main leadership characteristics of successful global leaders.

For several decades now leadership scholars have been attempting to outline crucial global leadership skills; a number of leadership qualities are recurrent in the literature, which seem to apply to global leaders: envisioning, building relationships with others, inspiring others based on living one's values, the ability to build and maintain an organizational network, and hardiness, i.e. resilience. In general, most effective leaders simultaneously fulfill two roles. First, the *charismatic* role encompasses envisioning, empowering, and energizing, which helps followers find direction, inspiration, and motivation. Second, the *architectural* role encompasses, for example, designing and aligning. World-class executives combine these roles and focus on 12 main behaviours, which are: Visioning, Empowering, Energizing, Designing and Aligning, Rewarding and Feedback, Team Building, Outside Orientation, Global Mindset, Tenacity, Emotional Intelligence, Life Balance and Resilience to Stress.

We discovered that while the leaders of companies generally display similar patterns of behaviour, those in eastern and western economies displayed differences in four of the 12 main leadership characteristics: resilience to stress, emotional intelligence, outside orientation (responsiveness to stakeholders and customers), and designing and aligning (implementing company strategy). In all four of these areas, leaders who are from eastern economies displayed more of the actions associated with successful leadership than their western counterparts.

Cultural differences in Leaders

The research found that there are definite differences between the two big geographical clusters, which we labeled 'East' and 'West'. For example, visioning is

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Visioning is an important leadership capability in all countries, but leaders from south-east Asian countries showed visioning more than leaders from a country of the Anglo-cluster, which seems to indicate a greater expectation for this behaviour.

an important leadership capability in all countries, but leaders from south-east Asian countries showed visioning more than leaders from a country of the Anglo-cluster, which seems to indicate a greater expectation for this behaviour.

This doesn't necessarily mean that the western leader cannot be better at these skills, since the measures used looked at enacted behaviour rather than ability as such. Therefore, results of differences in ratings between different national clusters may provide a rough sketch of the leadership values that each culture considers most important. Rapid growth in global businesses demands leadership that acknowledges and is able to mix these varied styles for a welcoming work culture.

When studied in more detail, the data shows that business leaders in the Anglo-cluster (UK, USA and other English-speaking nations) are likely to be rated lower for visioning (articulating a compelling vision, mission and strategy), empowering (sharing of information and delegation), rewarding and feedback, and team building. Leaders from Nordic countries excel in displaying global mindset characteristics, while those in Eastern Europe are particularly strong in the areas of tenacity and empowering. Leaders in the Middle East are likely to be rated higher on emotional intelligence but are less likely to have a good work-life balance.

Recommendations for Effective Leadership

- Enact the set of leadership behaviours that are commonly displayed by successful global leaders. These ideal characteristics are seen by all cultures as important, although some are more endorsed in certain cultures than others.

- When encountering a global team, be aware of the influence of your own culture and the others' culture in terms of expectations. Avoid behaviour that is not highly valued. Mindfulness plays an important role. Leaders need greater self-knowledge and self-awareness in order to adapt behaviour according to the context.

- Though being mindful of cultural differences is important, culture origin is only one aspect of a person's leadership style. When leading others, it is important to take the whole individual who you are working with into account. Consider their experience, what their strengths and weaknesses are, and avoid stereotyping. Cultural sensitivity and a holistic approach to individuality are equally necessary when you want to successfully lead or engage with people. Strike a balance between the cultural aspects, organisational norms and individual aspects.

It seems that cultural sensitivity and a holistic approach to individuals are necessary qualities, in addition to enacting the twelve global leadership skills, when a global leader has followers from different countries. For aspiring global leaders, the key takeaway from the research is that leadership is culturally and context-driven.

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Board Process Simulation
By Stanislav Shekshnia

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As part of the INSEAD Directors Programme (IDP), we have developed a board process simulation to help the participants go through an experience of their roles with a view to determine their strengths and shortcomings as directors. This simulation is a new approach, set in a real environment, and very similar to what might be expected of them on an actual board. And yet, it is a safe environment for them to try different things. Here, they can see how their colleagues operate as directors and this is very useful because often when you look at others, you can understand yourself better. Furthermore, this simulation exercise provides useful feedback and specific recommendations from their peer group.

After, the board simulation which is held on the second day of the last module of the IDP there is a small groups coaching session on the last day. The group size for the simulation is between seven to 12 people; the group dynamics change considerably if there are less than seven directors on a board.

There are four scenarios for the simulation, where all the roles are the same except for the Chair of the board: 1) The Chair is the CEO; 2) The Chair is the Owner; 3) The Chair is the CEO of the Holding Company/Shareholder representative; 4) The Chair is Independent.

The Chair makes all the difference

Interestingly, in spite of everything else remaining the same – i.e. same material, same questions – *the board arrives at very different decisions depending on who is the Chair of the board*, implying that this role makes a lot of difference. Furthermore, we find that when the Chair is less experienced, the board meetings do not go as well as compared to meetings with qualified and experienced Chairs. We measure the quality of the decisions and process, satisfaction of the board, individual director attribution and personal work satisfaction.

Though the results are often dependent on the quality of the personal differences of each director, there are some general tendencies such as focus on collaboration and people really try and work together, with discussions dominating over presentations - this is a good practice that participants take away from the IDP. And finally, we find that people really do listen to each other.

In regard to cultural differences, we find that initially people do tend to conform to cultural norms, with Asians tending to be quieter and don't speak unless called on by the Chairman, while North Americans and Scandinavians are outspoken. However, depending on the group dynamics, and when the Chairman is more effective, more of the directors contribute to decision making and discussions, even behaving outside their normal cultural norms. The positive outcomes are related to the spirit of the group and the kind of Chair who is in charge of the board.

The challenges of finding yourself

Many participants shared their experience with the simulation saying that it gives them, even those without previous authority, an opportunity to practice leadership skills, as equals. A director cannot use his former authority to show leadership skills and must look for other instruments of input in this setting.

> *"The board arrives at very different decisions depending on who is the Chair of the board."*

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Most companies look for certain traits in directors, such as hard skills and affiliations, they don't pay enough attention to soft skills. However, in reality when a director gets to board room discussions, it is the soft skills that make him or her effective.

The 360 degree feedback session for directors is different than the one for executives, since the work of directors is different - managing vs. governing. Directors are expected to work more behind the scenes and need to have a different mind-set. Interestingly, one of the challenges is that many executives who become directors continue to operate like executives, which is not healthy or effective. That is why we need to devise a specific programme to help directors' work effectively.

Some of gaps and need to improvement in director skills were in regards to hard skills that an industry expert needs, especially with risk and talent management; the strategist's role which requires a mind-set that is able to understand the complex picture of the industry and company. Another skill that needs improvement is the role of a mentor who guides executives, and since many of the directors come from executive position, you would think they might empathise and understand, but actually they are not great at coaching or helping other people, which is an important director skill. And finally, an important role that needs development is the core role of the owner who works for the organisation as a whole, not shareholders, not share price and not employees.

Carl Jung once said, "*Meeting oneself is probably one of the most unpleasant meetings of your life*", and this is what our 360 degree feedback and coaching brings to our directors. We provide them with a mirror through other directors at work, because often people can themselves better through their peers. Their profiles are rated in each of the roles - it is a quality discovery and an identification of specific areas where improvement is needed.

Some of the top feedback they receive is - how not to be an executive, but a director and how to achieve this transformation, what is the right level of involvement for a director; communicating in a different manner by listening and asking the right questions rather than telling people what to do; and understanding the importance of industry knowledge.

The directors also confirm what makes them happy - enjoying the vibrant atmosphere of working with their colleagues, seeing the impact of real change due their participation and the company progressing well. They also talk about how much they enjoy their own personal learning journey about things that they would not have thought about, for example indirect leadership, new industry, new geographies and people, etc. The impact of good leadership are on three levels – one that creates meaning for board members, because a good an effective director is not only an effective one but also somebody who is happy; and then there are conversations about how the board can impact the organisation and the larger society.

What makes you effective?

One of the big governance challenges that the board needs to be more explicitly aware of is in regard to the information gap challenge between the knowledge and data that is with senior management compared to the directors. A good director needs to be able to spend at least 16-20 days a year in a company, without this minimum time he or she cannot close the knowledge gap. This becomes even more important with the emergence of new types of risks, such as global risk, environmental risk, regulations risk, etc.

Interestingly we find that what makes you effective is not necessarily always what you bring to the board room, because most companies look for certain traits in directors, such as hard skills and affiliations, they don't pay enough attention to soft skills. However, in reality when a director gets to board room discussions, it is the soft skills that make him or her effective. There needs to be a balance between these skills, since without the hard skills companies will not recruit you as a director but without the soft skills you won't be an effective director.

This Board Process Simulation is part of the INSEAD Directors Programme

Johannes Luef (IDP-C), International Director

The Author

Johannes Luef,
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"In the boardroom today, we need to go beyond thinking out-of-the-box, we must actually remove the box!" emphasises Johannes Luef, a recent certified director from INSEAD, explaining, "board members are often constrained by their own minds and experience, but we need to believe nothing is impossible."

Austrian born, 64-year old Johannes Luef has lived and worked in Denmark since 1974 and has had a long career and in-depth experience with managing and supervising complex large IT projects and solutions. This former CEO of VP Securities A/S for 14 years, has also served on several boards: ECSDA (European Central Securities Depositories Association), Link Up Markets (Direct Cross-Border Access), VP Services and VP LUX; and is one of the relatively few Austrian-Danes who can call himself an international professional director.

"I am now entering a career path as Independent Non-Executive Director and strategic advisor and consultant within the financial industry, CSD's, Issuer Services, CCP's and EXCHANGES and the world of ERP industry," Mr Luef envisions.

His recent training at INSEAD's corporate governance programme for international directors changed Mr Luef's paradigm of the board's crucial role and duties in organisations, especially that of the chairman and independent directors. Reflecting back on his own experiences which were further decoded and clarified through the training, Johannes advises strongly, *"The chairman should not be controlling, but in fact be a skilled listener and one who is able to draw out the group wisdom of the board. Also, one of his or her most important tasks is to help bring together and build the right and diverse team of directors for the company."*

He also shares an interesting experience of a chairman who used to record all board meetings and afterwards reviewed the video to reflect on how the time could have been used better, if the supporting material useful, etc., even bringing in the CEO if necessary.

Board Process Simulation and 360 Degree

Interestingly, as part of the INSEAD programme, Mr Luef had to go through a board process simulation, during which he was given the role of chairman, of a disguised real company, where he had to lead a group of his peers in a board room discussion to decide on a merger. "I was quite nervous and at the end of the meeting was convinced that I'd actually flopped as chairman. But my fellow students, all talented and experienced directors from around the world, conveyed that it was a great meeting because they were able to speak their minds freely and we had lots of diverse discussions. Though we did not conclude on everything, the comprehension of the board was that it was a good meeting."

Carl Jung once said, *"Meeting oneself is probably one of the most unpleasant meetings of your life."* The 360 degree survey and coaching that is part of the IDP, involves learning more about oneself from your peer group. Mr Luef explains, *"It was a tight session with five of us in a group coaching session, so not only did I learn from their experiences, I also received some good insights about myself such as the importance of listening well to understand conflicts better, to learn how to move from*

the habits of a CEO who is very operational focused to being a director, and using those previous experiences and skills to be a mentor and coach."

Other key takeaways from the training were the following:

- *Besides overseeing the company and being able to see the big picture, the board should be more self-reflective, be less involved in operational activities and in fact coach the CEO and other executives in a proactive manner.*
- *Unfortunately, boards are not involved enough in strategizing for the company, and tend to leave it to the management. This needs to change and boards must understand that strategy work is its responsibility, in close collaboration with the CEO and senior management.*
- *Independent directors are vital for a board, but they must bring in their own experiences, not hesitate in asking questions and making proposals, and in fact they should demand rationale explanations if their suggestions are not accepted.*
- *Generally for directors to become more effective, they need to spend time in self-assessment, be more open-minded, fair, strategic and global thinkers. And evaluate every board meeting, asking how we could have done better.*
- *On the interplay between the board and management, the former should support fast and efficient decision making for the CEO, thus contributing to high performance, and committees and task forces should help focus on specific areas of greater importance.*

International Class

Though Mr Luef commends the module on cultural differences that explains how understanding is the key, and confesses that there are similar courses available in Denmark, it is the real international experience in the classroom in Fontainebleau that makes all the difference. *"The 41 fellow-students from 19 different countries, including United States, Canada, Australia and Nations in the Middle East, Africa and the rest of Europe, bring in the diversity of thoughts that is absolutely irreplaceable. It is something else, when you are together with so many different nationalities - each person bringing their own cultural understanding of a situation which takes the training to many dimensions, and though there may be conflicting opinions, somehow we manage to come up with the answers."*

His own journey of becoming more 'international-minded' started with his move from Austria, which is a more formal command-control style of leadership, to Denmark, a more bottom-up and informal culture. Now understanding both cultures well, has led to Luef being a consultant on project by the Austrian government to make Denmark more appealing for business for Austrian suppliers, who are traditionally used to dealing with Germany and England, and assume Denmark is the same as the rest of the Nordic countries. Furthermore, his experiences working with Americans, Europeans and Mexicans on various boards have expanded his cultural understanding and adaptability.

Insightful Leaders

Talking about the importance of industry knowledge for a director, Mr Luef has a counterintuitive perspective. *"It is assumed to be crucial, and in my process to acquire board membership, I'm often confronted by this, but my personal opinion is that this is not that important. I have been in various industries and found it quite easy, because when it comes to the big questions, there is a lot of commonality in how you make decisions and strategize; the industries are not that different. In fact, some of the best chairmen that I've witnessed do not come from the industry of the companies that they are successful in. The insightful leader today needs to have the deeper tools of soft power, ethics, fairness, negotiation skills, etc. There is more awareness of business' role in society and we need to look at things that we have not done before."*

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Developing Responsible Leaders: Who is Responsible?

By Henri-Claude de Bettignies

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"Corporations that lose the trust of their stakeholders – customers, suppliers, employees or shareholders – are doomed to quickly lose competitive advantage. Long-term, they cannot thrive."

Recent surveys in a number of countries demonstrate that confidence in business has steeply decreased. Business is suffering from a pronounced low level of trust. The Edelman Trust Barometer 2012 finds on average less than 50% of the population trusting that business is "doing what is right" – that is, that corporations are working in the best interests of society. In some countries trust in "business" is at historic lows – for example, in France (28%), Spain (32%), Germany (34%) and the United Kingdom (38%) – while the United States is at 50%."

The consequences are huge. Trust is the indispensable basis of human relationships and the cornerstone upon which societies are built and function. Corporations that lose the trust of their stakeholders – customers, suppliers, employees or shareholders – are doomed to quickly lose competitive advantage. Long-term, they cannot thrive. Virtue – like wisdom - must start at the top. Leaders must be trustworthy if they wish to have followers.

A small path toward globally responsible leaders

Over many years of listening to and working with business leaders around the world, we have learned that five dimensions have to be developed if we are to develop this much-needed pool of responsible leaders. These dimensions are: Awareness, Vision, Imagination, Responsibility and Action. Each of them must be explored by the leader at three levels:
a) The Person: with my different roles in the human experience.
b) The Firm: the complex organizational system where I work.
c) The Society: in which I live, or of which I am citizen

Enhancing Awareness

As a person, how can I become more aware of my strengths and weaknesses, more insightful about my leadership style? At the organizational level, how can I enhance my awareness of what is happening in my firm? How can I enhance transparency in the organization to boost awareness? At the societal level, how can I increase my awareness of the dynamics of the society in which I live? By enhancing awareness at these three levels, leaders become more aware of the multi-causality behind the problems they face. They become better able "to make sense" of complexity, "to give meaning". In turn this leads them to realize that if they wish to be part of the solution they should acknowledge that they are also part of the problem.

Developing a Vision

A vision helps to pull people together, gives meaning to action and builds confidence in leaders who "make" sense and "give" sense. If the present is the offspring of the past, it should not be used as an alibi for escaping responsibility to the future. In fact it may be said that the present is the consequence of the future. We behave in a certain manner today because we have a vision of tomorrow: we anticipate what our objective for tomorrow implies for us to do today (e.g. because I want to be CEO tomorrow, then I need to do XYZ today). We humans are future-driven animals, and it is critically important for us – given the speed of change and the uncertainty - to define a vision of what that future should and might be. The responsible leader's action is shaped by the vision of tomorrow that he/she has today. At the individual level, I need to have a vision of what I, myself, would like to be - or what I think I will be - in five years from now. At my

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Responsible leaders maintain a clear vision of the future, but their course of action is in the present – right now. As they seek to create value through entrepreneurship and innovation, and as they imagine creative ways to deal responsibly with the multiple challenges that lie on the road to implementation, they must have courage to take action.

workplace, how do I see my organization in five or ten years? Where is society heading? What is my vision of our planet in five to ten years from now? And beyond?

Cultivating Imagination

Mankind is never short of imagination, as our race has demonstrated again and again, for better or for worse. However, most organizations (unlike Apple or Google) tend to freeze imagination through rules, regulations and norms that shape employee behaviour. Most often, corporate cultures tend to create homogeneous environments where individual behaviour is subsumed into values that rarely encourage dreaming. Leaders need to balance dreams with reality and lessons from history with visions of the future. We've got to imagine beyond the here and now. At the individual level: could I see myself being a different person, a different manager, a different leader? Could my organization be a different corporate animal with different values and another corporate culture? What kind of society do we want to leave to the grandchildren of our grandchildren? Could I conjure up ideas for an alternative society? Are we prisoners in a 9-dots situation from which only imagination and abandonment of established models can spring us free?

Strengthening Responsibility

Ominous noises are rising up from society. People are expecting more transparency from corporations, more accountability and responsibility from their leaders. Less double talk; less influence peddling; more truth in advertising; more openness in management - both within the company and toward the world at large. Satisfying these expectations can go a long way to overcoming civil society's distrust of business and its leaders. People today demand responsibility toward all stakeholders, including those without the voice to call for it themselves (Jonas, 1990). True responsibility is planetary, and it stretches into the distant future, out to the grandchildren of our grandchildren – and this is not even to speak of Mother Nature who is sorely suffering from our abuse. Though I cannot be nannie to the world, I need to know the extent and limit of my responsibility in each of my several roles in society. As a leader, not only do I need to maintain and strengthen my own sense of responsibility, I need to promote it in fostering teamwork at each level of my organization (subsidiarity principle) and in the society where I live.

Taking Action

Responsible leaders maintain a clear vision of the future, but their course of action is in the present – right now. As they seek to create value through entrepreneurship and innovation, and as they imagine creative ways to deal responsibly with the multiple challenges that lie on the road to implementation, they must have courage to take action. The responsible leaders of tomorrow will be men and women imbued with the skill and determination to make the most difficult choices without flinching. They will have cultivated the strength of character that will inspire trust. Only then can they be said to be truly worthy of the power invested in them. Power obliges! In today's fast changing and uncertain environment, leaders at every level of an organization, not just the top, need courage to take action while giving voice to their values. How else can they develop a corporate culture or a societal environment where no one cops out, passes the buck or dreads the risk of action?

Conclusion

If our current shortage of "responsible leaders" is a threat to our future, how might we go beyond standard organizational practices and regulatory inducements to reach the goal of integrating the Common Good into the organization and its practices? This is an all-encompassing undertaking and – like acquiring wisdom - it continues for a lifetime. Learning responsibility starts in the family. The bottom line is the internalization of a golden rule: "to care for the other".

Full publication available at:

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