



HMThinking

# Judgement call

The new standards of integrity, and courage, required in leaders.





# Hedley May

When we started the research which has led to the writing of this paper we thought this project would focus mainly on leaders' integrity. And integrity – the capacity to be honest and consistent and to hold yourself accountable for actions, even when nobody's watching – remains at the heart of it.

But bubbling up through so many of our conversations with FTSE100 and FTSE250 Chairs and executives has been another element of leadership: courage. Without courage, mistakes may be swept under the carpet and decisions may be made in accord with the most powerful voice in the room. When a leadership team lacks courage, bad behaviour may be tolerated for too long.

In this discussion about leaders we want to look at these essential qualities: the integrity to see what is right, the courage to act in accordance with that and the impact of both these factors on judgement. Integrity and courage inform and shape judgement, and it is judgement under pressure that counts.




## Who is in charge?

In business it is a perilous time to be a leader. Scrutiny is intense, and there is limited tolerance for mistakes or failures of judgement. Leaders' behaviour is under a microscope in a way that it never has been before: what they say, and what they do. Stakeholders' expectations have increased.

A Chief Executive is ultimately accountable for the performance of the business. Organisations are complicated; if they are operating in several jurisdictions, even more so. A leader's decision-making abilities matter enormously, of course. But the competence and character of the top team is also crucial. What quality of advice is the boss getting? Who is there to make alternative suggestions, or warn that a proposed course of action may be unwise? And crucially who has the courage to do so and, if necessary, take a stand?

When we talk about integrity in leadership then, we need to think about the qualities displayed by the senior figures who are there to support the CEO, as well as focusing on the boss him or herself.





## Research

We set our research against the backdrop of a changed business landscape. The narrow ‘maximising shareholder value’ mantra is less fashionable than it was – even if in practice share price performance and profitability remain non-negotiable priorities for business leaders.

What is different is the reduced tolerance among a range of stakeholders for irresponsible actions and unethical practices – bad behaviour and bad judgement – wherever they are found. This is one reason why it is not just the competence of a leader that matters, but the character too.

In this short paper, we will be looking at some of the key themes to emerge from these extensive conversations. These are:

Hedley May has been conducting a series of wide-ranging interviews with corporate leaders from FTSE100 and FTSE250 businesses, along with some other expert commentators. These have revealed an acknowledgement of the growing importance of integrity – and courage – in leadership, and the ways in which courage and integrity inform judgement. Whatever your views on the burgeoning and sometimes controversial ESG debate, that ‘G’ for governance includes the risk factor of bad leadership, and especially behaviour that fails to measure up to today’s demands for good conduct.

- 1. The character of a leader<sup>1</sup>**
- 2. The interview - can you test for integrity?**
- 3. Who is in the top team?**
- 4. Apologise...or resign?**

1. There is a wider theme, beyond the scope of this paper, around the leadership skills required for this changed business landscape. The stereotypical image of the business leader is of a strong, forceful and confident individual who sets direction and drives hard in pursuit of it. That model of leadership seems somewhat outdated for this era. We believe one key measure of success for those organisations genuinely attempting to move beyond ‘maximising shareholder value’ will be the leadership attributes, and specifically the character, of those who progress their careers into senior leadership roles.



## Executive Summary

As a result of our research we have identified the following:

1. That the landscape for CEOs, and for all those in positions of authority, has changed. The character of a leader is as important as their competence. The consequences of a deficit in integrity are potentially severe, and the likelihood of this being exposed has increased markedly.
2. Recruitment processes need to become more rigorous as a result – this necessitates being intentional about where the time is spent, and the tools to be used, to assess any given candidate.
3. But acknowledging that no process is foolproof means that the insurance policy is in the leadership team around the CEO, particularly the functional leaders. Understanding the character of those individuals, and their willingness to exercise judgement and be courageous, is just as important as understanding the CEO. Assessing for these attributes in our functional leaders, and monitoring them, requires as much attention as the assessment process for appointing a CEO.
4. When mistakes happen, whether it is a matter of an apology or resignation, time will be of the essence. Clear rational decision-making focused on the needs of the business, and not those of the individual, has to be paramount. All those tasked with the decision must be ready to step up to the plate.

# 1. The character of a leader



One FTSE250 CEO was unequivocal on the changed expectations they were facing:

**“We are less tolerant of inappropriate behaviours. What is defined as inappropriate behaviour has changed over the years...What people expect of a CEO has also changed.”**

But it is not just personal behaviour that is coming under greater scrutiny. Business performance is too.

**“How success is determined by the Board has also changed,”** this CEO said. **“Ultimately, there is a more holistic view of what a CEO needs to do. The Board are now more connected with the organisation and the different stakeholders who exist within it, and which external stakeholders the organisation serves. As a result, the performance criteria for a CEO are broader.”**

Ultimately, as another CEO comments, the question by which behaviour and business performance are measured **“has changed over the years – from ‘Does the behaviour damage our ability to make money for shareholders?’, to ‘Does it damage our ability to deliver for all stakeholders?’”**

The result is that as one FTSE100 Chair told us: **“There are some CEOs who have lost their job now and would have done so before, but others who might not have done.”** Times, and standards, have changed. Investors and other stakeholders are less permissive than they were in the past.

## Character vs Competence

When hiring to fill the top job, or any senior position, the initial instinct may be to look primarily for competence, the essential skillsets and capabilities needed to perform in an important role. That is understandable, not least because it is easier to test for. But there is a risk that we ‘over-index’ on competence at the expense of character. At a time when there is a premium on integrity in leadership, we can no longer afford to be casual over the question of character.

In the past, as one of our academic interviewees notes, **“Integrity was assumed”**. We cannot afford to make such an assumption any more. A FTSE100 Chair pointed out: **“Those who want public roles of leadership are interested in the limelight.”** We want confidence at the top. But we do not want too many corners to be cut.

A FTSE100 CEO, a NED themselves, recommended working with the other NEDs to get as good a view as possible on how the CEO and senior executives are **“showing up”** in the business among employees and wider stakeholders. **“The other channel that we have found increasingly effective is for the Board to review the ‘Speak Up’ reporting line”**. As important is how the CEO then responds to any issues reported.

It is one thing to spot a red flag. Having seen one, it is necessary to act. Ambitious people in top jobs may believe that normal rules of conduct do not apply to them. (We see this often enough in politics as well as in business). But the Chair or other senior colleagues should understand that improper behaviour cannot be tolerated and, in any case, will become public sooner rather than later – another growing phenomenon in today’s world of uncontrollable social media.

In other words: beware **“the cover-up that kills”** (see section four Apologise...or resign?). Taking action – the brave thing to do – while likely feeling uncomfortable, will invariably be the wise and the right thing to do.

## Sustainable Performance

There is a paradox, or perhaps a trade-off, to be navigated here. We want leaders who will take judicious or justified risks and look to beat the competition. That may come with a degree of boldness but if it morphs into recklessness that could be disastrous for the business.

A FTSE100 NED told us: **“One of the very interesting tensions is that every company wants to deliver [financial] performance. You are trying to choose a CEO who will run the business in a way that will deliver performance. But if you get people who are too focused on performance, at the expense of other things, that is when problems occur.”** We need, this NED argued, leaders who can balance these conflicting requirements.

To add to the complexity, business leaders are now expected to comment on societal issues, particularly those that affect their employees. A number of our interviewees discussed the US Supreme Court’s decision to overturn Roe vs Wade and the challenge of navigating their organisation’s approach to it. The climate change agenda similarly throws up challenges for a CEO. Under pressure from stakeholders to ‘do the right thing’, it would be easy to make commitments now, which will not be tested while they are still CEO. Being transparent about the trade-offs that come with these commitments requires integrity and courage.

## 2. The interview – can you test for integrity?

In case of fire, break glass – and hope to goodness that the extinguisher will work. The integrity of a candidate is a bit like those glass-encased fire extinguishers. You have to hope that when the crucial moment comes their integrity is intact, and functions.

That is perhaps a slightly too negative way of putting it. However, the uncertainty facing the Nomination Committee and those leading the recruitment process is hard to deny. Try as hard as you like to assess a candidate, the ‘known unknown’ remains how the appointed candidate will react under severe pressure – at their moment of greatest weakness.

This is not to say that you cannot, and should not, get closer to the answer.

Against this backdrop, there is a real risk that Boards appoint ‘politicians’, identikit CEOs who fail to confront difficult issues and have too limited an appetite for risk. **“We don’t want our CEOs to be ‘corporatised’. We don’t want avatars”**, explained another academic interviewee. This is why the supporting top team of functional leaders – CFO, HR Director, General Counsel, Chief Risk Officer, Chief Compliance Officer, and Corporate Communications Officer – is so important. Leadership is a team activity, and functional leaders provide the necessary balance and perspective. These colleagues have to recognise when to speak up, and how to speak up. They must possess the courage to do so. (We will say more about this in section three of this paper.)

As one FTSE100 Chair said, **“we look at how their team reacts to them [the leader]. Is there ‘followership’ [too much can be as dangerous as too little] and do they talk about other people in unselfish ways? Do they give other people credit? How they view others is a good reflection of the kind of leader they are. You always need others around you as a CEO, and the self-awareness to see that you need to rely on a team. The ego is not the antithesis of integrity. But how you deal with others is a crucial part of integrity.”**



The starting point is being clear on how you will use the time available for assessing the candidate. Recognising that it is also a wooing process, and an excessively lengthy recruitment exercise is a deterrent to potential candidates, a typical CEO process will give you about 10 to 12 hours of face-to-face time with any given candidate.

Getting the balance right between assessing for character versus competence is critical. A number of our interviewees confirmed that in processes they have been involved with, assessing for character, and certainly integrity, tends to end up being secondary to experience and whether they “can do the job”. It is also common for interviewers to duplicate their questioning and therefore the information they glean.

## Failure, Self-Awareness and Team

A strong recruitment process will have 'failure', 'self-awareness' and 'team' at its core. Specifically, you want to understand the candidate's failures en route to becoming the person sitting in front of you, and how they handled these setbacks. You are testing for humility, resilience and their approach to learning.

Self-awareness is also fundamental. Everyone has some skills and attributes they are stronger at than others, along with biases that can skew decision-making. The key question is whether a candidate is aware of these and how he or she ensures they are factored into decision-making. It is also important to understand whether the candidate has an awareness of the situations which cause them to feel the pressure, and their appreciation of what it is like for others to work with them at these moments.

The key to mitigation of their vulnerabilities is the team around them – how does the candidate build teams and ensure that complex decisions are made with multiple inputs to maximise the chances of an effective decision? How do they ensure that those around them are willing to challenge?

## External Inputs

As important as the interviews themselves are the inputs that come from outside of the interview. A number of our interviewees highlighted detailed due diligence and referencing. **"Formal referencing is not that helpful"** commented one, and certainly it needs to be treated with a high degree of caution. A number mentioned investing in reports such as those produced by Hakluyt – **"it's money well-spent"** – and many of those who contributed to this paper are converts to the level of insight they are able to glean from these reports.

Whilst not all our interviewees for this report were converts to psychometric testing, at Hedley May we strongly advocate for it. The data points provided can stand alone but are best used to either corroborate or contradict findings from a structured interview assessment. Taken together, and in conjunction with skilled referencing, they increase the chances of really understanding a candidate's behavioural traits.

## Avoiding Confirmation Bias

Confirmation bias is a hazard of any recruitment exercise, rendering the data points that emerge later in the process as something to be dispelled rather than explored. Every data point is valid, for instance, how the candidate interacts with the receptionist and how they handle the remuneration

discussions, and remaining alive to these throughout the process is so important. You might not get the answers you want at the later stage of the process, but as the recruitment process continues, the guard is more likely to drop – what you glean later on is potentially far more insightful than what you learn first up.

But there are no guarantees. Once the new hire is in place, and if the proverbial hits the fan, it is only then that you will find out how predictive those reports and assessments really were.

## Assessing for Integrity

Hogan Dark Side – HDS is the most trusted and widely used tool for assessing how a candidate reacts when under pressure. It does not though test for integrity.

One tool that does measure integrity is the psychometric assessment, Giotto. The classic virtues or vices of integrity it assesses include Prudence vs Folly, Fortitude vs Inconsistency, Justice vs Injustice, Faith vs Infidelity, Charity vs Envy and Hope vs Despair.

There is also a 360 tool, the Bates Executive 360 (ExPI). This reports on three dimensions of a leader – their Character, Substance and Style. The Character dimension explores qualities that are fundamental to the leader as a person – his/her identity, and trustworthiness on the strength of their Authenticity, Integrity, Humility and Concern.

Many organisations also use case studies as a way of understanding a candidate's approach to exercising judgement. Whilst not directly targeting integrity, an individual's behavioural traits do shape the decisions they make and so there may be some useful clues that emerge from this style of exercise. Hogan also has developed a psychometric tool for assessing judgement.

<https://www.hogandarkside.com/>

<https://www.getfeedback.net/products/detail/giotto>

<https://www.bates-communications.com/what-we-do/assessments-expi/the-bates-model-of-executive-presence>

<https://www.hoganassessments.com/assessment/judgment-assessment/>



### 3. Who is in the top team?



Leadership, as we asserted earlier, is not just about one individual, but about the contribution of the top team. While individual leaders may be crucially important, it is fanciful to believe that one human being alone determines the success or failure of a large organisation.

The best leaders have always known this, and do not pretend to do everything as a heroic soloist. US President Franklin D. Roosevelt had at his side for almost thirty years a colleague and adviser called Louis Howe, whom FDR labelled his “toe-holder” or “no-man” – a sober restraint on the President’s more excitable and over-ambitious ideas.

This echoes the point made earlier about the need to balance a risk-taking CEO with a brave top team that knows when to say “no”. Rather than seeking out a cookie-cutter, low-risk boss, the better leadership combination might be a more energetic and exuberant CEO backed up by a courageous yet realistic top team equipped with excellent judgment.

These factors are particularly important when a new boss from outside joins an established leadership team. A FTSE100 HRD told us: **“If you’re looking for an easy fit you may find that you get less change, conversely if you want real change it may be a bit bumpier...it is important for the executive to take responsibility for how new people land, and with that to be very clear about the extent of change they want.”**

A FTSE250 CEO agrees. **“There is room for a maverick CEO, as long as the people around the table operate as a check and balance to this personality”,** he said. **“For instance, if you have a CEO who is more of a maverick, then you are probably looking for a more stable CFO to balance this.”**

And not just a CFO: General Counsel, Chief Risk Officer, HR Director, Chief Compliance Officer, Corporate Communications Officer – these are the people who, free from the direct responsibility of delivering the numbers, need to support the boss, sometimes with wholehearted and energetic endorsement, and sometimes with the judgement and courage to urge caution.

This CEO added: **“I am most focused on cognitive diversity...Diversity of teams is critical, this is more important than CEO diversity. We need to look at a leadership team’s character as a whole rather than just the CEO as an individual.”**

Also, **“the role of the Chair is critical. The Chair has to be brave and must make sure the behaviour of the CEO and senior leadership team is in the interests of the company...it might not be the CEO who has to be brave in making a call, it might be the Chair.”**

The Chair, though, is quite dependent on the inputs they are getting, and that leads us back to those who are, in the final analysis, willing to tell the CEO what they really think, and if necessary to break cover and tell the Chair what is really going on – strong functional leaders who are independent of the CEO. You need individuals who have the judgement for this fast-changing landscape to recognise that what looks acceptable today may not be viewed so favourably tomorrow; individuals who are alive to ‘norm evolution’ – the simple cutting of a corner (or moral slippage) that has evolved to become an embedded practice with a detrimental outcome to a particular stakeholder.



### 4. Apologise...or resign?

Even with the highest quality of leadership team, mistakes will be made. That is the reality of business life.

The critical question is how to respond. Replacing a CEO is not a task that is ever taken lightly. As one FTSE30 HRD explained **“It is very disruptive to change the CEO. They should be long-term appointments because it is not a good outcome if the board has to intervene...It is not a mark of success.”** In this context, it is understandable that the decision on whether an apology will suffice, or

something more serious is required, will weigh heavily on all those involved. The challenge for the Chair then is recognising the moment that a line has been crossed and the line maybe blurred. As one FTSE100 Chair explained, **“It is often not a simple case of whether someone got something wrong, it can be more a case of whether they got everything right.”** The changed landscape necessitates formulating an approach to where the line is, ahead of time. One thoughtful CEO explained **“The key question for me is**

– does the CEO’s behaviour damage the company’s ability and credibility to deliver for its stakeholders? If we look at the spectrum from a senior executive caught speeding, to something which is more obviously reputationally damaging, [then] framed against my question, it would only be a real issue if the business in question is a driving school. If we move, for instance, to consider an affair with a colleague, there is a stronger argument that this does damage the company’s ability to deliver for its stakeholders.”

With any given approach there may be a grey area. One FTSE100 Chair told us, “Bad judgement and integrity can be confused. I do not see integrity as the same as having made a bad judgement call...Mostly you get small things that begin as misjudgements, but might be misperceived as poor character.” A series of even small misjudgements, however, can escalate. Determining the extent to which

these occurred as a result of a leader’s competence versus their character, and the impact on the individual’s ability to deliver for stakeholders is required.

What is clear is that there is no room for sentimentality – clear rational decision-making focused on the needs of the business, and not those of the individual, has to be paramount.

Collegiality at the top is a strength. Good CEOs create some degree of followership. But there may come a time when even the closest colleagues have to be blunt and unflinching with each other. This is a skill that must be on stand-by mode. Decisiveness in a crisis situation is critical because, in a media-fueled world, control of the agenda can run away from you very quickly.



## Conclusion

Integrity and courage, leading to better judgement: this is the hat-trick of qualities we need to see at the top of our businesses and organisations. Some of this can develop, with good leadership, organically from within. And sometimes it needs to be brought in from outside. Either way, there is no substitute for it. Today all eyes are on the leader and the leadership team. There is nowhere to hide.

As a result of our interviews and producing this paper we have identified three key actions for organisations, which may appear subtle, but the impact of which could be very significant.

1. Recognise that the landscape for CEOs, and for all those in positions of authority, has changed. The character of a leader is as important as their competence. The consequences of a deficit in integrity are potentially severe, and the likelihood of this being exposed has increased markedly.
2. Recruitment processes need to become more rigorous as a result – this necessitates being intentional about where the time is spent, and the tools to be used, to assess any given candidate.

3. But acknowledging that no process is foolproof means that the insurance policy is in those around the CEO, in the shape of the leadership team, and particularly the functional leaders. Understanding the character of those individuals, and their willingness to exercise judgement and be courageous, is just as important as understanding the CEO. Assessing for these attributes in our functional leaders, and monitoring them, is just as important as the assessment process for appointing a CEO.

Firms that are well led – with courage, integrity and judgement – will avoid many of the pitfalls that surround our organisations today...and in the event that the CEO’s integrity is brought into question, such that drastic action is required, will be equipped to take the tough decision in the right timeframe.

And we believe there is a fourth action for our organisations – cultivating an environment where it is easy to be courageous; where there is a high degree of psychological safety. In such an organisation people will more readily say what is on their mind. It would be fanciful to believe that courage will no longer be required, but it then becomes a legitimate expectation and understanding for all those in senior leadership roles that, in the words of one functional leader, “**you only get to ‘sell out’<sup>2</sup> once**”.

2. An expression for the compromising of a person’s integrity, morality, authenticity, or principles by forgoing the long-term benefits of the collective or group in exchange for personal gain, such as money or power.

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## About Hedley May

Hedley May is a specialist executive search firm focused on the appointment of functional leaders – HR Directors, Chief Financial Officers, General Counsel and Company Secretaries, Corporate Communications and Corporate Affairs Officers, Heads of Internal Audit, Chief Risk Officers, Chief Compliance Officers and Chief Sustainability Officers.



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