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farro Biomed: Effective Oversight when Leader Character is A Risk

Dawn Oosterhoff wrote this case under the supervision of Professor Gerard Seijts solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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Farro Biomed (Farro) was an independent reference laboratory that provided high-volume routine and specialty testing in the health care sector. While hospitals typically maintained their own diagnostic laboratories, other facilities such as nursing homes and physicians’ offices depended on private, commercial lab facilities for testing. Farro also provided private sector testing for life insurance companies, executive health services, and mail-in diagnostics, such as ancestry DNA. Profits depended on a delicate balance of volume per contract and fees per test. Farro negotiated its contracts and fees with investor-driven health care insurance providers, various health care facilities, some government agencies, and, increasingly, with companies needing private sector testing. Competition in the field was intense, but Farro had successfully negotiated and renegotiated lucrative long-term contracts with most of its clients.

Farro’s board of directors consisted of 12 members. Several directors were physicians or scientists who specialized in laboratory medicine; one director was a lawyer, and another was a retired investment analyst. The chief executive officer (CEO), Jonathan Galt, was hired not for his experience in laboratory medicine but for his experience in one of Farro’s target markets: the health care insurance industry. Galt was publicly an affable and outgoing man, charming and benevolent. He laughed easily, often at himself, and breezed in and out of conversations with a light spirit. But in the office, Galt was known for what the staff called “management by chaos.” He believed that creativity came out of disorder and that professional maturity came from negotiating conflict; it was not uncommon for Galt to intentionally provoke turmoil as an approach to issues management.

Galt did not believe in advocating for any staff person, but he openly favoured one or two people on the management team and on the board. One of his favourites on the board was a new director—a young, intelligent physician who seemed comfortable asserting her place on a male-dominated board. She was candid, outspoken, and unabashedly beguiling; the other board members willingly played along with her teasing, which she used to sway them to her point of view. She and the CEO openly treated each other as favourites in professional and social contexts. Their shared banter created an aura of partnership, friendship, and even, at times, sexual tension.

Derek Titan, the chief operating officer (COO), was almost the opposite of the CEO. Titan had an imposing personality and a big voice. He had been on staff for more than 20 years and led most of the negotiations for fees. Titan was well known by current and previous board directors and was highly respected for his negotiating skills. He sustained collegial relationships with many of the directors, even years after they had finished their terms on the board.

Titan had expected to become CEO when the board did their search a few years earlier, and while many directors did support Titan for the position, the board eventually chose the newcomer. Speculation was that Titan was too valuable as a negotiator; rumours suggested he did not have the leadership skills to be CEO. Whatever the reason, Titan did not take the decision well, but the new CEO did not insist that Titan resign. The result was a constant tension between the two executives, exacerbated by their widely varying personalities. Senior staff needed to carefully side with one or the other executive; to stay neutral was to guarantee a stalled career.

Titan’s imposing nature manifested differently in his interactions with staff. With them, he was bullish; he regularly and openly ridiculed women in management meetings and would, on occasion, also attack mild-mannered men. His targets were usually competent middle managers striving to show their professional maturity and advance their careers through the open conflict between the two executives. Galt never addressed or corrected Titan’s behaviour.

According to some whispers, when away from meeting rooms, Titan compensated for his boorish attitude with attempts at intimacy—unwanted touching, sometimes as potentially innocuous as a shoulder rub and other times more forward with sexual innuendo. However, no formal complaint had ever been filed, and all members of the negotiations team—male and female—were generally known for collegial “boys will be boys” behaviour.

One manager, Margaret Phoenix, was a favourite target of the COO. Responsible for the executive offices and governance secretariat, Phoenix reported directly to the CEO, so by harassing Phoenix, Titan extended his animus toward Galt. It would have been a useless and risky exercise for Phoenix to take up the issue with Galt—he would never advocate for a staff person and would likely consider the manager unsuitable for future opportunities if she was unable to deal with her own conflict. Fed up with Titan’s behaviour and the toxic environment, Phoenix decided instead to seek support from the human resources (HR) leader, a woman who was a long-term employee and had worked with Titan for years. She informed Phoenix that the COO “was just like that and had always been like that” and Phoenix should not take Titan’s actions personally.

A few months later, Phoenix returned to HR with the same complaint, this time documented in writing. The HR leader lauded the manager’s intelligence and competence, filed her letter, and suggested that perhaps Phoenix’s role was to change Titan’s behaviour by reacting differently to his offensive actions. The HR leader recommended that she and Phoenix spend some time exploring how Phoenix could respond in different situations to redirect Titan’s boorish behaviour.

Phoenix’s work, usually exemplary, deteriorated over the following months. Performance from the corporate secretariat began to decline and the CEO’s favourite board director complained. Galt, unwilling to take sides, confront anyone, or upset the board director, set out to dismiss Phoenix. Without extensive evidence of poor performance, Galt instead eliminated the manager’s job and offered her a severance package. But Phoenix, now pushed past the point of tolerance and released from the need to perform, responded with a demand from her lawyer for a larger payout. She claimed the work environment was toxic and that she had been bullied and sexually harassed by Titan. Her demand for a larger settlement suggested she might not be willing to endure the agony of a formal complaint or legal action, but the demand was large enough that Galt had no choice but to take the matter to the board of directors and seek their direction.

The board members had been unaware of any untoward actions in Titan’s relationship with the staff. What actions should the board take now? Had there been any warning signs that the directors should have noted? How does reputational risk factor into the plan of action – both internally and externally – going forward?

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