

Higher-Ambition CEOs Need Higher-Ambition Boards

By Edward Ludwig, Elise Walton, and Michael Beer

Are you a board member with a higher ambition? Are you and the company you serve driven by a sense of purpose to build an organization that succeeds over multiple generations by earning the commitment and trust of all your primary stakeholders?

If you answered yes to either question, please read on.

Over the past several years, forward-looking CEOs and their companies have adopted a higher-ambition approach to strategy and leadership. These “higher-ambition CEOs” are driven by a sense of purpose that goes beyond achieving financial success. They aspire to build organizations that succeed in the marketplace by earning the respect, trust, and, commitment of their people, customers, communities, and investors. Higher-ambition leaders commit to simultaneously meeting financial targets and fulfilling broader needs in society. They are also realistic about the challenges.

They are joining a larger trend toward more responsible and transparent corporate citizens.

Research has shown these companies outperform their peers in terms of economic, social, organizational, and stakeholder return (including shareholder returns).

Higher-ambition CEOs build short- and long-term strategies that enable the company to do well by creating trust and commitment-based relationships with principal stakeholders. By focusing on policies, practices, and alignment with

enterprise purpose and values, these leaders leave a legacy: a responsible institution that succeeds over multiple generations.

There is considerable variability, however, in how higher-ambition companies are able to sustain their distinctive success model. Many factors can derail higher-



ambition companies, so boards of directors play a unique and critical stewardship role in sustaining the higher-ambition model. Through their numerous decisions, boards have the power to protect and sustain the core higher-ambition values and practices from one CEO to the next, from one market life cycle to the next. They also have the ability to destroy those higher-ambition values and

practices—intentionally or otherwise. In short, higher-ambition CEOs need to be explicitly supported by higher-ambition boards. This is where you as a board member come in.

The questions addressed in our research are: What do higher-ambition boards look like? And how can they be strengthened or built? We set out to discover the practices and behaviors differentiating boards that have successfully sustained a higher-ambition company over decades and generations. Specifically, we wanted to understand how they view their role and commitment toward higher ambition. Do these boards go beyond the standards of fiduciary and good governance to sustaining and championing a higher-ambition model? If so, what is their role in the leadership of the higher-ambition company? Do boards lead, follow, or stay out of the way?

Our Approach

Using criteria established by the Truepoint Center for Higher Ambition Leadership, we identified 14 higher-ambition companies and conducted interviews with the CEOs and two independent board members from each company. They were asked to describe their views of the higher-ambition values of their companies and to identify specific instances where the board engaged in the company’s higher-ambition purpose and values.

A thorough assessment of the interviews revealed specific practice areas where boards are supporting higher-ambition

goals and contributing to sustaining the company's higher-ambition journey over time. Variations were found along these dimensions, and a short survey was created and given at a 2014 summit meeting of higher-ambition CEOs.

Some encouraging—and sometimes surprising—results were found. Higher-ambition boards could contribute by:

- embracing the strategy and exercising stewardship;
- sustaining and measuring the performance of a community or culture of purpose;
- overseeing CEO succession and ensuring that the next generation of leaders has the will and skill to become higher-ambition leaders; and
- engaging in board development, from membership selection to board self-evaluation, that aligns the board with the company's higher-ambition purpose.

Even the most advanced higher-ambition boards, with a few exceptions, had never had an explicit group discussion of higher-ambition purpose and values and their implications for the board's role and practices. What follows are specific recommendations that emerged from our work.

Good governance and financial performance are basic requirements. All of the boards we studied were following good basic governance practices aimed at sustaining near- and longer-term strategic and financial success, providing transparency and solid, informed board decision making. All were committed to finding new CEOs who had experience and capabilities that would enable the company to meet its business challenges. Similarly they had effective mechanisms for recruiting new board members based on the skill needs of the board. All boards performed some level of self-evaluation annually at the group level. The basics of a well-run board and company were table stakes

for these boards. In fact, several directors argued that higher-ambition goals could only exist in the context of excellent overall operational performance, including meeting or exceeding committed expectations.

All CEOs and boards we studied have installed and regularly utilize effective mechanisms to engage with one key stakeholder: the equity shareholders. However, with some variability, they have not yet made sufficient progress building and utilizing explicit engagement mechanisms for other equally important stakeholders—namely employees, customers, and communities. This is a significant finding.

Based upon these findings, directors who aspire to build a higher-ambition board—one that mindfully embraces the

Higher-Ambition Leadership Defined

Higher-ambition companies share a higher ambition: to create long-term economic value, generate wider benefits for society, and build robust social capital within their organizations—all at once. As they pursue this ambition, they're realizing more of their organization's potential:

- They forge powerful strategic visions from a more comprehensive view of their organization's resources.
- They build widespread commitment and capabilities to achieve those visions by steadily nurturing their organizations and network of primary stakeholders as communities of shared purpose.
- They have the strength of character to commit themselves and their organization to those visions over the long term.

Source: Nathaniel Foote, Russell Eisenstat, and Tobias Fredberg. "The Higher-Ambition Leader," *Harvard Business Review*, September 2011.

CEO's vision of building a multigenerational higher-ambition company—should heed the following recommendations.

Boards need to be explicitly engaged in the company's higher-ambition purpose.

As we analyzed our interview responses, we noted two breakpoints that boards demonstrated on their road to higher ambition. The first was from basic good governance and fiscal stewardship to implicit agreement with a higher-ambition strategy. Many directors we spoke with described boards that implicitly embraced the higher-ambition goals of the CEO and the company. The board's philosophy, values, and practices evolved to their current state through osmosis. In these cases, directors often equated higher-ambition with "just good business."

The second breakpoint was between implicit acceptance versus explicit commitment to higher-ambition management approaches. In some cases, the board's philosophy, values, and practices involved an explicit commitment to leading with higher-ambition purpose. These boards went beyond basic good governance practices and explicitly engaged the CEO and the top team in their higher-ambition strategy and purpose. This was a minority approach, however, and is borne out by our finding that only 2 of the 14 companies studied indicated that the CEO was explicitly evaluated on non-financial metrics (social, environmental, or governance). Board members can and should do more to ensure explicit engagement with their CEO.

Board members need to have honest conversations about higher-ambition strategies with the CEO and be engaged as stewards. Boards that explicitly accept the higher-ambition purpose thoughtfully engage in stewardship and strategy. They also stick to the strategy in good times and bad.

Becton Dickinson and Co. (BD), a

Higher-Ambition Companies Studied

Aetna
Becton Dickinson
Con-way Trucking
Cummins Engine
Guardian Insurance
Henry Schein
Herman Miller
Steelcase
NYSE/Euronext
Terex
United Rentals
United Stationers
WESCO
Wyndham Worldwide

medical technology company, provides a good example. Here, higher ambition goes back to the company's very roots and founders. Keenly interested in health around the globe, BD's purpose is to "help all people lead healthy lives." The company's strategy, explicitly aligned with its purpose, calls for "making a great contribution to society, achieving great performance, and being a great place to work."

With an array of formal initiatives on social responsibility and philanthropy, BD has built higher ambition into its daily business, and has noted success with it. For instance, many of the solutions it developed to serve needy and financially challenged areas in Africa were also valuable in solving problems in developed markets. Lead independent director Henry Becton frequently raised issues of environmental impact, from the price of treatments to environmental waste.

Henry Schein offers another example of a board delving into strategy. The company is the world's largest provider of health-care products and services to office-based dental, animal health, and medical practitioners.

The company has a higher-ambition strategy—"doing well by doing good." Similar to BD, its commitment to giving back to society through its social responsibility efforts is viewed as an integral part of its business strategy. Thus, in addition to traditional board qualifications, support for the company's core values is key when recruiting new board

members.

Further, Henry Schein's business model includes a commitment to be more than just a "distributor." It helps practitioners improve the operating efficiency of practices so that they can focus on improving the quality of care they provide. The board's strategy committee is explicitly engaged in supporting management in executing the company's strategy to be an advisor/consultant to their customers, helping them operate a better business so they can provide better quality care.

Boards should engage CEOs as active partners in developing the next generation of leaders. An essential role of any board—especially those with a higher-ambition lens—is to develop and select the next generation of leaders not solely on the basis of achieving good results, but on their alignment with higher-ambition values.

Higher-ambition boards make talent a priority as they look to build future leadership that can sustain the company for decades, even centuries, to come. This includes building a good talent development program and getting personally involved. It also includes taking a higher-ambition approach to CEO evaluation and selection, an area where many boards need to make progress. CEOs should be evaluated against their higher-ambition agendas, and the next CEO must be a higher-ambition leader

CEO evaluation and selection are pivot points where higher-ambition boards can make a

huge difference. Herman Miller is a multigenerational company whose non-executive chair is Mike Volkema. He describes the company as "human-centric" with regard to its relationship with employees, customers, community, and society. Herman Miller is among the companies that explicitly uses the higher-ambition values and goals in the CEO evaluation. The CEO has a separate evaluation that's done by the board, based on holistic criteria with multiple dimensions. Every third year, the board does an extensive 360-degree review that touches all of the CEO's constituents, and his balanced scorecard covers everything you would expect from a business snapshot, but with a Herman Miller approach to thinking about it.

Boards need to pay more attention to building their own higher-ambition capabilities. Of all the areas, directors were least likely to focus on building the board's own ability to be the long-term steward of the company's higher-ambition journey—that is, through the selection of new board members and board self-assessment. For instance, few indicated that they explicitly evaluated the board on its ability to oversee or understand all attributes of a higher-ambition strategy. Few evaluated individual members on their contribution, direct or indirect, to the board or to higher-ambition practice.

Even boards that explicitly recognized such values did not have processes to sustain and monitor them as standard procedure. And

while many periodically heard reports on customers, environmental issues, or public interest works, the topics were not a required, regular part of the board agenda. A subset of boards, however, had some excellent practices for selecting members and board assessment that reinforced higher-ambition values and practices.

Consider Con-way, a trucking and logistics company. When CEO Douglas Stotlar interviews prospective board members, he purposely describes to them some of Con-way's higher-ambition practices to discover their reaction. Do they enthusiastically embrace these practices and values, or do they let the descriptions pass without comment? This provides insight into their interest and likely commitment to Con-way's higher-ambition goals.

On self-assessment, Herman Miller stands out as doing self-evaluation consistently aimed at sustaining higher-ambition capability on the board. Volkema described their journey to create a meaningful process for building board capability. Before the crises that led to passage of Sarbanes-Oxley in 2002 when everyone questioned whether executives and/or auditors were focused on the right thing, Herman Miller—a very research-driven company—did the research. They established a team to investigate the ingredients of high-performance boards, not just to take the established protocols of Institutional Shareholder Services (ISS) and the like, but really search broadly. Ultimately, the team wrote a white paper on what actually creates high-performance boards.

These became the blueprint for Herman Miller's biannual board evaluation. The process: each director evaluates the board as a whole, as well as each individual director and leadership (the chair and committee chairs). The feedback is anonymous, so comments are unattributed. Because their research findings recommended the process be developmental, not evaluative,

only individual board members see their own results against the average score. For instance, on the dimension of balanced dialogue, a talkative board member will find out exactly where he comes in against the board average—hopefully giving him a gauge of perceived benefits and costs of his boardroom behavior. Multiple dimensions—business knowledge, financial literacy—are all listed.

Overall, the Herman Miller board as-

The best boards are committed and open to transparent self-assessment.

essment process does performance evaluation in a way that benefits the whole and the directors individually.

Risks of Error

Higher-ambition CEOs need the explicit support of higher-ambition boards. We have come to see higher-ambition CEOs working with higher-ambition boards as an essential “bicameral” approach to institutional leadership of higher-ambition companies. Even outstanding management teams are at risk for error—overreaching, being susceptible to industry blind spots, pursuing poor executive selection processes, or getting sucked into market fads. Shareholders have suffered as a result of these missteps.

When the company is a higher-ambition company, the risk is not only to shareholders. The risk is to the company's long-term trust and commitment-based relationships with its employees, customers, community, and partners. In the face of market pressures, these intangible human assets can be and have been sacrificed without the same deliberate process accorded to shareholder interests.

Seek and Find

Higher-ambition boards explicitly see their role as stewards of the company's future, and are more fully equipped to keep a company steady through market and management challenges, while explicitly keeping it on track to doing well by doing good.

Higher-ambition boards are alert and committed to the alignment of corporate culture and practices with espoused values, as well as the development and succession of next-generation leaders and the CEO. They select new board members with a careful eye toward the candidates' support of the company's higher-ambition purpose and values. The best boards are committed and open to transparent self-assessment to ensure all members contribute in a manner consistent with higher-ambition values.

Higher-ambition CEOs need higher-ambition boards to sustain multigenerational success. These insights and framework could be part of a comprehensive solution aimed at helping higher-ambition companies sustain their success over successive generations of CEOs, managers, and the boards themselves.

Based upon the enthusiastic response to these findings of higher-ambition CEOs, we are expanding our inquiry to a broader sampling of board leaders and members. Our aim is to further confirm, elaborate, and clarify our findings, and to better describe key pathways and mechanisms that CEOs and boards can use to support and sustain their higher-ambition companies. 

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