

Center for Higher Ambition Leadership White Paper:

Higher Ambition Leadership as the Foundation for Building a Great Company that Delivers Sustained Economic and Social Value

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CHL is a community of leaders and companies with a “higher ambition.” They are driven by a sense of purpose and mission that goes beyond just making their quarterly numbers. They aspire to build *great and enduring institutions* that deliver superior value to their people, their customers, their communities, *and* their investors. These leaders are working to fully realize the potential of their organizations to create superior economic value for their shareholders. At the same time, they are putting their shoulders to the wheel to create superior economic and social value for their other primary stakeholders. And they seek to accomplish both goals *simultaneously*. That is their higher ambition (see Figure below).



In a time when the average lifespan of an S&P 500 firm has dramatically fallen (from an average of 60 years in the late 1950’s to under 20 years today¹) higher ambition leaders believe they have found a better way to survive and thrive both short term *and* long term. They are as committed as any successful CEO must

¹ Antonio Regalado, “Technology is Wiping out Companies Faster than ever, September 10, 2013 and Foster and Kaplan, *Creative Destruction*, 2000

be to delivering on their performance commitments. But these companies achieve and sustain superior performance in a different, and more powerful way.²

Because of their long term commitment to their purpose, mission and values, these companies work to build a positive “balance sheet” of intangible assets –high trust and commitment relationships with their key stakeholders, and a set of distinctive capabilities and cultural strengths that provide the foundation for building a great company and sustained advantage. These assets represent an investment over many years and provide a difficult to replicate foundation for superior and sustainable high performance.

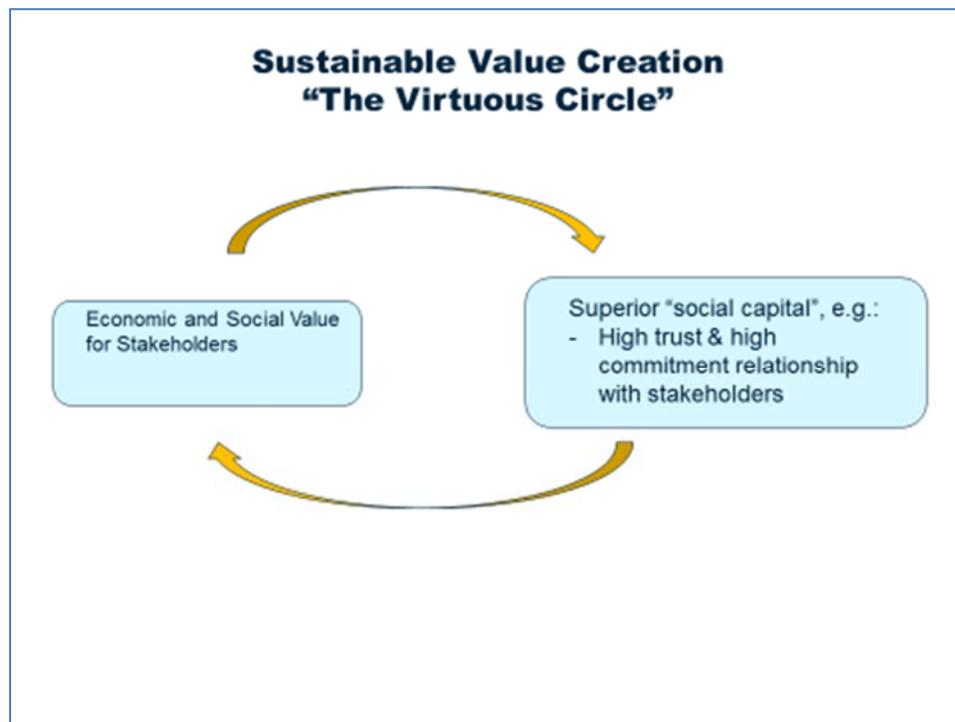
Consider these two examples:

- Herman Miller has had an extraordinary track record of innovative products that have sustained the company over the decades. What is less visible, yet foundational to explaining the company’s success, is its “human centric” values and culture, that in turn has allowed them to build deep trust based relationships with all their stakeholders, including furniture designers who are central to the company’s innovation based strategy.
- A core foundation for Becton Dickinson’s ability to survive and prosper over the long term has been a strong commitment to its mission of “helping all people lead healthy lives.” This has anchored a willingness to invest year after year and decade after decade in deepening relationships with customers, employees, NGO’s, and government healthcare agencies as well as in strengthening its capabilities in areas such as operational excellence and innovation.

By building high trust and high commitment with stakeholders, these higher ambition companies have enabled the kinds of long-term relationships needed to solve problems and create win/win solutions that enhance performance. By increasing stakeholder trust and commitment, these leaders create higher-energy, lower friction organizations that can deliver greater economic value in multiple ways. They are able to attract retain and energize the best talent, build deeper loyalty with their customers, and create more effective collaboration both internally across the firm, as well as with business partners. Building these kinds of “human centric” trust based relationships enables firms to gain long-term advantage because competitors would have a difficult time replicating these easily or quickly.

² The power of this approach has been documented by a range of researchers. See for example: Beer, Eisenstat, Foote, Fredberg and Norrgren *Higher Ambition*, as well as Beer’s book, *High Commitment Higher Performance*; Mackey and Sisodia, *Conscious Capitalism*; as well as Jim Collins foundational work as summarized in *Built to Last* and *Good to Great*.

These advantages arise because a mutually reinforcing virtuous cycle is unleashed. By aligning their organizations and their stakeholders around a compelling purpose and consistently acting in accord with their values, higher ambition leaders both contribute to the *social good* and create *social capital* (relationships with employees, customers, communities, and others characterized by high levels of trust and mutual commitment). Contributing to the social good creates a sense of meaning for stakeholders – they are part of creating a better world – and builds trust and commitment further, thereby generating more economic value for stakeholders. With resources generated by improved financial performance, they build more social capital within the organization and social value outside it, generating further economic value and spurring the organization to even greater heights (see Figure below).



Consider the virtuous cycle CEOs Dick Gochnauer, Cody Phipps and their leadership team created at United Stationers, a large wholesale distributor of office and business products. They transformed the company's performance and its relationships with its stakeholders around a shared purpose of "Enabling Our Partners to Succeed." By "partners" they meant not just customers, but also associates, local communities and investors. Gochnauer's and Phipps' intention to build trust and commitment came to life when they made a pledge to customers to *not* compete with them or lock them into IT or inventory systems solutions. United also made a commitment to "giving back" to the communities in which it did

business which further enhanced the trust and commitment of employees and customers. They did this by using a unique charitable foundation model that empowered employee councils at each of its local sites to contribute their “time, treasure and talent” in the areas that were most meaningful for them. This distributed model helped associates to find greater meaning and purpose in their work and increased their trust in and commitment to United. It also generated collaborative relationships that enhanced coordination and performance. As customers heard about and ultimately asked to be involved in these giving activities their trust in and commitment to United rose further. That reinforced United’s strategy of selling higher value and higher margin solutions offerings and enabled them to regain industry leadership in a highly price competitive market. And this strategy was dependent on United’s distinctive business and organizational capabilities in areas such as logistics, and operational improvement. Without these capabilities, developed and maintained in tough times, United’s promises to customers and investors would not have been credible.

Building and sustaining a great company over time is not easy work. Intangible assets, such as an energized workforce or the trust of customers and industry partners, are hard to measure. Corporate leaders face a constant temptation, as well as pressure from short-term investors, to draw down these assets to meet more immediate performance demands. It is all too easy to push for the most expedient short-term deal even if it undermines the trust and commitment of stakeholders, or to cut back on long-term investments in developing people and core capabilities to “make the quarter,” even if it undermines the institution’s franchise³. This is why having a great strategy is not enough. Nor is just having a hardheaded focus on performance. It is only when a company’s leaders, reinforced by a supportive board, are committed to a higher ambition—a shared purpose, vision and set of values, and have built a culture aligned with these-- that they can hope to stay the course. Successfully leading this kind of higher ambition company requires a special type of leadership that goes well beyond traditional management to a deeper integration of “head, heart and hands”—strategy, purpose and human values, and leadership and management practice (see Figure below).

³ Professors Hazhir Rahmandad, Nelson Repenning, and Rebecca Henderson do an excellent job of analyzing this dynamic in their Harvard Business School Working Paper (2014): “Making the numbers? Short termism & the Puzzle of only Occasional Disaster.”

A Higher Ambition Company- a purpose-driven enterprise and set of leaders who connect “head, heart and hands” to deliver great performance, and extraordinary value for their stakeholders



By “head” we mean the ability to craft a winning strategy that is aligned with purpose, and builds long-term competitive advantage by leveraging and developing a business’s distinctive capabilities and assets. For United—a key strategic insight was around the opportunity leverage its capabilities and scale to build higher value and higher margin solutions partnerships with its customers. By “heart” we mean a deep and authentic grounding in purpose and human values that provides meaning and motivation for stakeholders, and sustains a commitment to do the right thing for the long term. At United, a genuine commitment to its purpose of “Enabling Our Partners to Succeed”- was key to building the trust with customers required to make its solutions strategy successful. By “hands,” we mean the leadership and organizational practices and capabilities that bring strategy and purpose to life—at United such things as its commitment to not lock customers in, and its unique charitable foundation model.

Effectively connecting “head, heart and hands” as a higher ambition leader is not something that can be learned from a textbook. Effective practices and common principles for success can best be identified through sharing and reflecting on the lessons of experience. A core part of the mission of the Center for Higher Ambition Leadership, as well as a central part of the upcoming CEO Summit, is the opportunity for leaders to share their cases—their aspirations and challenges, learn from each other’s experience, and provide support and counsel to their peers on their “higher ambition journeys.”