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Higher-Ambition CEOs Need Higher-Ambition Boards

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

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

Over the past years, forward-looking CEOs 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 (See Exhibit 1).

They are joining a larger trend toward more responsible and transparent corporate citizens. Research has shown these companies to out-perform their peers in terms of economic, social, organizational, and stakeholder return (including shareholder returns).

In leading higher-ambition companies, CEOs build short- and long-term strategies that enable the company to do well by creating trust and commitment-based relationships with principle 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 lifecycle to the next. *They also have the ability to destroy the higher-ambition values and practices—intentionally or otherwise*.

In short, higher-ambition CEOs should make sure that they have—or are building—higher-ambition boards. The questions addressed in our research are: *What do higher-ambition boards look like? How can they be strengthened, or built?*

We set out to discover the practices and behavior 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 Beer, Eisenstat, Foote, Fredberg and Norrgren we identified 14 higher-ambition companies and interviewed the CEOs and two independent board members from each. We asked them 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 (See Exhibit 2).

A thorough assessment of our interviews revealed specific practice areas where boards were supporting higher-ambition goals and contributing to sustaining the company's Higher Ambition journey over time. We found variation along these dimensions, and created a short survey with which we tested our model at a 2014 Summit Meeting of Higher-Ambition CEOs.

We found some encouraging—and sometimes surprising—results. We learned how higher-ambition boards could contribute by:

- Embracing the strategy and exercising stewardship
- Sustaining and measuring performance of a community/culture of purpose
- Overseeing CEO succession and ensuring the next generation of leaders has the will and skill to become higher-ambition leaders
- Engaging in board development, from membership selection to board self-evaluation, that aligns the board with the company's higher-ambition purpose
- To our surprise 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 its implications for the board's role and practices.

Following are specific recommendation that have emerged from our work.

CEOs: 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 firm to meet its business challenges. Similarly they had effective mechanisms for recruiting new board members based upon the skill needs of the board. All boards performed some level of self-evaluation at the group level annually. 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/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. We regard this is a significant finding.

Based upon these findings, we make the following recommendations to CEOs who aspire to build a higher-ambition board—one that mindfully embraces the CEO's vision of building a multigenerational higher-ambition company.

CEOs: ensure your boards are explicitly engaged in your firm'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 embraced implicitly the higher-ambition goals of the CEO and company. The board's philosophy, values, and practices emerged to their current state through osmosis.

In these cases, directors often equated higher-ambition with good business. Several could cite examples of how efforts to develop a customer relationship based on trust and commitment became a long-term benefits for the business, or how social projects yielded concrete and measurable returns (for instance, research and products developed in emerging markets could be introduced in mature markets for good return).

As Barbara Franklin, an Aetna Director, described it:

> *It's kind of baked into what we do. We start every meeting with a review of the values—they're up on the wall, you're surrounded by them. But we don't have a specific agenda item on higher ambition—it simply pervades everything we do.*

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 top team in their higher-ambition strategy and purpose.

However, this was a minority approach, and is borne out by our finding that only 2 of the 14 firms indicated that the CEO was explicitly evaluated on nonfinancial metrics (social, environmental, or governance). CEOs can and should do more to ensure explicit engagement of their board.

Wyndham Worldwide, an international hospitality services and products company with nearly $10 billion annual revenue, provides a good example of this explicit model. CEO Stephen Holmes describes building the values when the company was first listed on the NYSE in 2006.

Using advice from an old *Harvard Business Review* article, one of his first tasks as CEO was to establish priorities and communicate them clearly to internal constituents first.

He spent time reflecting on what was important to him, and what his core values were as a person. Steve had ideas about the way people were supposed to interact with each other at work, with customers, with communities, and he built these into his values.

At first, he shared them with his direct reports. He noted that some were basic—like integrity, respect—but some weren't so basic. Specifically, Stephen called out one value: to give back to the communities.

> *Interestingly, when I presented them to the board before we launched, they completely embraced having core values as being critical to our success, that we were going to run the company using those values as guidance. One director commented, 'This is Benjamin Franklin's concept of 'doing well by doing good.' And that is one of the concepts that we've embraced, as an organization and as a board. It has been our modus operandi since we launched seven years ago and it's worked for us very well during very challenging times.*

Wyndham Director Mike Wargotz supported Steve's higher-ambition narrative, noting that in balancing the needs of all constituencies, Steve has managed to satisfy the needs of all three—meeting, or actually exceeding, their expectations. Said Mike:

> *That's what makes Steve's and Wyndham special. Rank-and-file employees will tell you what an amazing culture Wyndham has. Shareholders will say Steve is knocking the cover off the ball—and franchisees will say the same. These aren't represented in a metrics system, but it's inherent and intuitive in how Steve leads, in his team and in succession planning. It's not embedded in metrics, it's not in the strategic plan, but its embedded in character.*

The board enthusiastically supported Steve in his decision to keep investing in people, and it also supports Wyndam Green—the company's effort to be a carbon-neutral company.

It's CEO-led and board-supported—explicitly—even when challenges arise. Steve cited tough times in the recession of 2008–2009. The stock price took a tumble, yet Wyndham maintained its investment in people and training, knowing it was critical to maintaining the workforce and culture they had worked hard to build. Steve noted, *"The board was 100 percent supportive. They were all in agreement on our approach, so there was never a disagreement about how we would approach decision-making around those items."*

So, the lesson for CEOs is this: *Get your board on board with your higher ambitions . . . explicitly!*

CEOs: have honest conversations about higher-ambition strategies with your boards and engage them 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, a medical technology company, provides a good example. For BD, higher ambition goes back to its 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, it has also built higher ambition into 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. And Lead Independent Director Henry Becton frequently raised issues of environmental impact, from the price of treatments to environmental waste.

Higher-ambition boards are committed to investing for the future. Thus, it's not surprising that at Becton Dickinson, the board works alongside the CEO to understand the effectiveness of strategy and higher-ambition goals. Director Dr. Al Sommer (Chair of the BD board's "Science, Marketing, Innovation and Technology " committee) raised the question of R&D efficiency, asking specifically why so little of the company's internal research ever reached fruition in a product or offer. Sommer also felt at-risk as the only one with a medical background, and worked with the board and the CEO to add directors with medically related expertise. This was critical to the board building its own role in strategy and stewardship.

Dr. Sommer:

> *We knew future growth depended on how innovative we've been, and that this was the lifeblood of maintaining a strong company. Once we had three directors with medical background, we formed a Science, Technology, and Innovation committee, and had critical mass. Over time we added non-medical directors to the committee, and they were great—they asked questions it wouldn't even dawn on the medical folks to ask.*
>
> *We challenged management to understand their track record of innovation, and management rose to the task. They became their own best critics, introduced processes to drive innovation and a culture of challenge, put in a red team/blue team approach among other things—all in the vein of our original point, being sure that investments were yielding the impact and innovation the company needed to sustain its higher-ambition model. On the board, we felt good about being solid partners in maintaining the value of the firm.*

Henry Schein's board provides 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.

Henry Schein has a higher-ambition strategy—"doing well by doing good". Similar to BD, their commitment to giving back to society through their social responsibility efforts is viewed as an integral part of their 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 Higher Ambition business model includes a commitment to be more than just a "distributor". They help practitioners improve the operating efficiency of their practices so that they can focus on improving the quality of care they provide their patients.

The board's Strategy Committee is explicitly engaged in supporting management in executing on 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.

CEOs: engage your boards as active partners in developing the next generation of leaders

An essential role of any board—especially those with a higher-ambition lens—is developing and selecting the next generation of leaders. Higher-ambition boards make talent a priority as they look to build future generations 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 CEO selection, an area where many boards need to make progress.

Grounded in the strategy and the mission, the Henry Schein board is closely connected with talent, and seeks to understand Team Schein (the company's name for its employees) at all levels. They work with upcoming managers directly.

Henry Schein Director Don Kabat described the in-depth support they provide to build the next generation of leaders. The basic talent review and outlook process is thorough and takes much time and effort from management and the board alike.

It includes a semiannual 50-page review of top talent—key people, key moves and promotions, outlook and status. But it's more personal than just the reviews and a few management/board dinners. For instance, in one initiative, each director sat down with a senior executive and shared their personal leadership story in a one-on-one conversation. These conversations were informal and focused on dialogue and learning. In another instance, the directors helped teach the leadership course offered to top executives and emerging leadership talent. In addition to sharing their knowledge, the Henry Schein directors noted these were great venues to get to know the senior executives well.

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 Nonexecutive

Chair is Mike Volkema. He describes the company as "human-centric" with regard to its relationship with employees, customers, community, and society. Herman Miller was among the companies that *explicitly* used 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 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 way of thinking about it. Said Volkema:

> *The board doesn't just look at money and math as an outcome. The company/CEO scorecard has volunteerism, environmental, inclusiveness, safety—and more. It's a broader spectrum than the balanced scorecard of most companies.*

Brian Walker, the company's current CEO, talked to us about the frank talk he had with Volkema upon taking charge. Volkema reiterated the importance of the company's values. Though never quite said this way, the message was "don't screw it up!"

CEO selection is perhaps a critical area where the higher-ambition board weighs in to ensure the company's long-term commitment and success as a higher-ambition firm. Nearly all directors described the importance of character and competence in selecting the next CEO—although many put the character piece in "gut feel," or "intuition," thus keeping the higher-ambition element of fitness implicit. Some companies had an explicit approach for selecting a CEO who would carry on the current values and mission.

Herman Miller is once again a shining example of making values an explicit part of the CEO selection criteria. Mike Volkema told us:

> *. . . ultimately, there's some really frank dialogue at the board level if somebody seems to be missing something around one of the human-centric dimensions, even if they are achieving the results . . .*

Said Wyndham director Wargotz:

> *Of the candidates we have identified, the board is very in tune with whatever might change culturally and why. We will monitor the new leader and be sure he/she's embracing the constituencies. It is something we take for granted in Steve; we would not take it for granted in someone else.*

CEOs: ensure your boards pay more attention to building their own Higher Ambition capability

Of all the areas, directors were least likely to focus on building the board's own capability to be the long-term steward of the company's higher-ambition journey—that is, through 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 the 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.

However, a subset of the boards 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 Doug 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 stood out as doing self-evaluation consistently aimed at sustaining higher-ambition capability on the board. Mike Volkema described their journey to build a meaningful process for building board capability. In the 2002 crisis, 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 take the established protocols of 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 board member 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.

If a board member wants support, clarification, or other help, the Chair works with that Director on an action plan if developmental work is needed.

Overall, the Herman Miller board-assessment process does performance evaluation in a way that benefits the whole, and the directors individually. The system was intentionally designed to avoid entanglement in the negativism that can emerge from a public (or private) evaluation. The goal is constructive feedback, positive engagement, and to create a learning dynamic.

Overall, the board Chair, coupled with the nominating and governance committee, is accountable to address any failure of performance. Said Mike:

> *If there are issues, or is someone is struggling, it's the board Chair's role to pick that up—during board meetings or personal interactions. We make no bones about the notion that the board has to operate in a certain way to be a high-performance board. We have criteria for that. If, for some reason, somebody's getting in the way of that, it's the obligation of the board Chair to step in. Over the years, board members have retired, in part because they just weren't performing at the level they needed to perform at.*

Summary: higher-ambition CEOs should make sure they have, or are building, higher-ambition boards—explicitly

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 relationships based on trust and commitment with its employees, customers, community, and partners. In the face of market pressures, these intangible human assets can and have been sacrificed without the same deliberate process accorded to shareholder interests.

As our interview examples demonstrate, higher-ambition boards that explicitly see their role as stewards of the company's future 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 CEOs need boards that 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 candidates' support of the firm's higher ambition purpose and values. The best boards are committed and open to transparent self-assessment to ensure that all members are contributing to the board's effectiveness.

CEOs are well advised to not accept the board's *implicit* affirmation (silent/assumed) of their commitment to the firm's higher ambition. They should encourage an explicit board discussion of what it means to be a higher-ambition company and board.

These findings, along with a board assessment survey tool (that asks about the higher-ambition board practices discussed in this article) were presented at the 2014 Annual

Center for Higher-Ambition Leadership CEO Summit.[1] The 35 attending CEOs enthusiastically embraced the potential of a framework and practical tools to move their board from implicit support of the CEOs and company's higher-ambition aspiration to a more explicit and conscious support of that aspiration. They agreed this could enable their board to become conscious stewards of the company's higher-ambition journey in the coming decades.

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 high-ambition companies SUSTAIN their higher-ambition success model over *successive generations* of CEOs, managers, and the boards themselves.

Based upon the enthusiastic response of higher-ambition CEOs to these findings, 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 higher-ambition companies.

[1] The Center for Higher Ambition Leadership is a 501 (c) 3 organization mission is to increase the number of companies and leaders in the world whose purpose is to create both economic and social value. It does this by convening and connecting leaders and companies and catalyzing change through knowledge exchange, intervention and research.

Exhibit 1:

Higher-Ambition Leadership

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 organizations' resource
- 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.

Nathaniel Foote, Russell Eisenstat, and Tobias Fredberg. "The Higher-Ambition Leader." HBR, September 2011.

Exhibit 2:

Higher-Ambition Companies Interviewed

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