



CNEXT

PURPOSE-DRIVEN LEADERSHIP

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LED BY:

MIKE LAMACH

Former CEO, Trane
Technologies

CASE STUDY

Transform through purpose

Mike Lamach stepped into the CEO role shortly after Trane Technologies merged with Ingersoll Rand and just before the 2008 financial crisis. Trane was struggling to repay its debt. Surveys showed that employee engagement was extremely low.

To turn Trane around, Mike decided to move the organization to a purpose-orientated culture and innovate against it.

The need to please shareholders and meet your ESG priorities can sometimes feel like conflicting objectives. Yet, they can support each other if you create a virtuous cycle between them. Purpose-Driven leadership enables these two seemingly conflicting views to merge into a flywheel of success.

“Great people create great customer experiences, and great customer experiences create great shareholder value. It starts at the beginning and the flywheel repeats itself.”

- Mike Lamach

01 PEOPLE & CULTURE

Measure and improve engagement

Employee engagement can help you sense a change in the momentum or resistance within the company before it manifests in poor results. Boosting engagement is critically important to both a positive culture and high performance.

“I always saw engagement as a proxy for trust, and I thought that trust was such a critical component of supporting change and transformation.”

- Mike Lamach

When people believe in the strategy, trust in senior management, and trust in the company’s direction, it is easier to communicate what you are doing and get buy-in to accelerate growth.

TEAM EXERCISE

Define your company handprint so that you have something to measure against. Core competencies determine where you are in the company. But the handprint applies to everyone. Ask questions such as:

1. Do you live the values?
2. Do you put the company first?
3. Do you inspire people?

Build evaluations in a way that allows for development. For example:

- Junior: What is the definition of the company values?
- Middle: Give me an example of how you promoted those values in your team.
- Senior: How have you been an ambassador of those values in the broader community? How have you encouraged clients to work with those values?

Embed engagement scores as part of your succession planning. Study the potential of individual leaders by looking at their followership and how many people went through their organization and on to bigger things, either inside or outside of your company.

Reward the process

To boost engagement, show the leaders within your company that you value *how* their results were achieved. Include behavioral, non-quantitative traits in their performance reviews. Examples may include:

1. Reputation within their team
2. Integrity
3. Legal compliance
4. Collaboration
5. Innovation

Data-based performance reviews around hitting or missing quantitative goals tend to be short offering little opportunity to dig deeper and offer effective guidance. Including how people reached their goals as part of the measurement creates a better dialogue.

While many traits can't be measured, they can be observed. Evaluate people based on whether the key behaviors were observed or not and how they were exhibited.

Remain consistent in how you measure and reward behavior. It will take time for people to fully internalize the change in management priorities and for the culture to evolve accordingly. Allow people to work through the current context or problems they are facing.

“It took about two or three years before we really knew how to use the performance data in a good way.”

- Mike Lamach

CASE STUDY

Actionable engagement

At Trane, all leaders with more than five direct reports were scrutinized for their engagement survey results.

Those in the top 10% of engagement were acknowledged publicly.

Those in the bottom 20% were addressed privately. Trane continued the practice for three years and ultimately transitioned 165 of the top 300 leaders out of the company.

Remove the wrong leaders

Leaders who are not aligned with the company's objectives or who reach their targets in ways incompatible with the company's values should be removed.

Help people before letting go of them. Make them aware of the nature of their individual engagement with their teams and give them the opportunity to remedy the situation. Provide training where necessary.

Identify those with whom the mission and strategy don't resonate. As CEO, you can't have a relationship with every individual in the company. You need top leaders to own your priorities and make them their own.

Understand the customer

A clear mission is important to drive your people and culture, but it needs to be done in a way that will not conflict with the priorities of your customers.

Learn about the customers by spending time with the people on the frontline. Your technicians and salespeople have a unique understanding of your customer.

"I loved and love being out with customers and with our own organization. A good day for me was being anywhere but in the office. Oftentimes I would hear our people talking about an idea and, I would listen through that and understand the pacing of what we needed to do."

- Mike Lamach

CASE STUDY

Holistic purpose

Trane learned that 40% of the world's greenhouse gas emissions occur because of building infrastructure. Ultimately, a range of 15% to 20% of the world's greenhouse gas emissions come from HVAC systems. This gave Trane an opportunity to create a measurable goal to aspire to through culture and innovation: to eliminate 2% of the world's global emissions by modifying HVAC systems for commercial buildings.

In 2013, Trane invested \$500 million to develop more efficient systems. They innovated in a way to reduce emissions and cut energy costs for their customers.

02 INNOVATION

Tie innovation to the mission

Allocate most of your innovation budget to investments directly associated with your purpose. Reserve only a small portion for exploratory investments or to keep legacy products in the market.

Your decisions around innovation will signal to your employees and customers how serious you are about the purpose you set for the company.

Break your own bias

Businesses create an internal momentum around innovation. They fall stagnant in their legacy processes or ways of doing things.

Step back to ask:

1. What would the real game changers be?
2. What innovation would be required to reach them?

Encourage everyone in the business to propose ideas. If you can't realize the innovation on your own, seek partnerships to fill the capacity gaps.

Attract others with your strengths

Create a compelling story around your mission and back it up with clear core competencies to attract external talent and idea generation.

A strong flywheel creates a story that appeals to entrepreneurs and innovators and allows the company to become an inbound destination for talent, investment, and ideas.

CASE STUDY

Proven results

Over ten years of using the flywheel approach, Trane grew its total market share by 10 points. Its service business grew from 30% to 50% of the total business as customers trusted Trane to do more.

Trane achieved a 96% retention rate for their top 3000 critical positions. The organization as a whole, excluding retirements, kept retention above 92%. The higher retention lowered costs, strengthened the culture, and deepened long-term client relationships.

When Mike started at Trane, he led a market cap of \$8 billion. By the time he retired, the three companies that Trane had become were worth \$100 billion.

03 SHAREHOLDERS

Allocate capital carefully

If your people and culture create a great customer experience, an increase in shareholder value is usually an automatic outcome. However, there are still threats and mistakes that can derail the benefits of the flywheel.

The three main errors include

1. Not fully evaluating the details of a deal or M&A
2. Buying back shares above their intrinsic value
3. Creating an unsustainable dividend

Refrain from confusing liquidity (whether you can pay your bills) with leverage (whether you can make investments). Ensure that you can remain liquid and then allocate capital according to your strategy's framework and what you committed to shareholders.

“We were going to put every dollar we could into every innovative idea we could that matched our purpose and achieved our cost of capital.”

- Mike Lamach

Bring activists inside

Take a non-adversarial approach to activist investors. If they have enough power and influence, consider bringing them onto your board so that you can legally share information that may resolve the conflict. Turn their campaign into a benefit for your business.

CNEXT is a Community of Leaders Advancing Leaders.

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Members participate in virtual meetings to gain insights, approaches, and tools to tackle their most pressing leadership and business challenges, while also developing valuable peer networks for the future - all to accelerate organizational performance and achieve their business objectives and professional aspirations.

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