WELCOME TO THE NEW MATH, MR BEZOS

A change in a *Harvard Business Review* calculation shows how society is redefining leadership for the 21st century, says Editor-in-Chief ADI IGNATIUS

If you consider a company's share price to be the best measurement of leadership, you are way behind the times. That was the thinking behind our decision to change the way the *Harvard Business Review* compiles its annual calculation of the world's 100 best-performing CEOs.

Last year, for the first time since we debuted the ranking in 2010, we factored in environmental, social and governance (ESG) performance. Even weighted at 20 percent, adding ESG to the equation changed absolutely everything – it upended the rankings more than we anticipated. Amazon CEO Jeff Bezos fell from No. 1 to No. 87, for example, and Reed Hastings of Netflix fell off altogether.

The results surprised me, but they didn't make me second-guess our methodology. In the past, we'd compiled the list based solely on country-adjusted shareholder return and market capitalization. That was scientific and objective, which felt right, yet something felt increasingly wrong.

We write so much in *HBR* about how leadership means more than investor returns – how could we keep putting out a leadership list that relies solely on financial metrics? We needed to walk our own walk. To do that, we worked with Sustainalytics, a

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sustainability research and analysis consultancy with a 20-year track record of working with investors and financial institutions. Their methodology relies on a rigorous, fourfold combination of a company's handling of ESG: risk preparedness, disclosure according to international best-practice standards, and quantitative and qualitative performance. Within those categories, the analysis looks at a broad range of indicators for some 4,500 companies around the world.

Since the list came out, people have asked me whether a CEO could be ranked No. 1 in both financial performance and ESG, or whether the two are mutually exclusive.

It is a fair question, but if you look at the full list on our website, which discloses CEOs' rankings in both arenas, you will see that Lars Sørensen, CEO of Danish pharmaceutical giant Novo Nordisk – our new No. 1 – came in sixth on financial metrics and 15th on ESG terms. Both are fairly high rankings and that is not typical. That is how he ended up at the top of this year's list. On the whole, though, I don't think that doing well on ESG punishes people or acts as a counterbalance for doing well financially.

A few comparisons between 2014 and 2015 provide some additional evidence that the ranking system change isn't a form of sabotage. John Chambers, CEO of Cisco, held nearly the same rank in both years, moving from No. 3 to No. 2. Robert Iger, CEO of Disney, held his rank at No. 60 on the list in both years. Other best-performing CEOs from 2014 benefited from the inclusion of ESG in the ranking calculation in 2015. Carlos Brito at Anheuser-Busch InBev, for instance, rose from No. 46 in 2014 to No. 16 in 2015.

Warren Buffett's case, as we explained in the article "Where's Warren Buffett?" in *HBR*, is a bit more complicated as he wasn't eligible for the list in 2014 according to the way the ranking was calculated. He was included in 2015, but came in at 101 – just missing the cutoff. That was due largely to the shift in the metrics. Buffett's very low ESG placement was enough to pull him down dramatically.

CHANGING PLACES

In 2015, *Harvard Business Review* changed the way it ranked its 100 top CEOs. For the first time, it factored in environmental, social and governance (ESG) performance, in addition to financial performance. ESG was given a 20 percent weighting which had a big impact on the rankings

2015
Ranked for financial performance plus environmental, social and governance

1. Lars Sørensen, Novo Nordisk
2. John Chambers, Cisco Systems
3. Pablo Isla, Inditex
4. Elmar Degenhart, Continental
12. Howard Schultz, Starbucks
16. Carlos Brito, Anheuser-Busch InBev
38. Blake Nordstrom, Nordstrom
42. John Martin, Gilead Sciences
46. Marc Benioff, Salesforce.com
60. Robert Iger, Disney
87. Jeff Bezos, Amazon
(101. Warren Buffett, Berkshire Hathaway*)

*See "Nice guys finish last?" on next page

2014
Ranked for financial performance alone

1. Jeff Bezos, Amazon
2. John Martin, Gilead Sciences
3. John Chambers, Cisco Systems
5. David Simon, Simon Property
6. Lars Sørensen, Novo Nordisk
14. Pablo Isla, Inditex
15. Marc Benioff, Salesforce.com
19. Elmar Degenhart, Continental
23. Reed Hastings, Netflix
46. Carlos Brito, Anheuser-Busch InBev
54. Howard Schultz, Starbucks, tied with Blake Nordstrom, Nordstrom
60. Robert Iger, Disney

ILLUSTRATION: OTTO STEININGER

One lesson learned from the changed rankings is that American and European companies may not be directly comparable. In Europe, Sørensen benefits from the fact that Scandinavian corporate governance requires companies to meet certain ESG yardsticks. That's fairly common in Europe, but such standards in the US are more discretionary.

Other aspects of the leadership position at Novo Nordisk seem a bit out of place in the US. Sørensen's salary, while higher than that of his employees, is one of the lowest of the top-rated CEOs on our list, for instance. In an interview after the rankings were published, Sørensen told *HBR* that his relatively low compensation is a reflection of "the company's desire for internal cohesion."

Sørensen believes cooperation within the company is easier to achieve when CEO compensation is closely aligned with other employees.

"I have a Scandinavian leadership style, which is consensus-oriented," he says in the interview. "That principle is enshrined in our management procedures. I'm obliged to reach consensus with my colleagues on all decisions, and if we can't, any objection needs to be reported to the board."

According to Sustainalytics, Novo Nordisk's ESG ranking benefited from some key leadership decisions: offering insulin at a steep discount to consumers in developing countries; transparent and limited political lobbying practices; and a responsible policy on animal testing.

"How could we keep putting out a leadership list that relies solely on financial metrics? We needed to walk our own walk"

Measuring ESG obviously isn't as simple or as reliable as share price, but it is certainly more profound and needs to count. My view is that we as a society are going to be thinking more about ESG as the world comes to grips with curbing emissions and combating climate change.

We also live in an age of proliferating sensors and the "Internet of Things" that will help us measure environmental and sustainability impact in new ways. Our new methodology gives us confidence that we're doing a better job of dealing with the many facets of what makes a good leader.

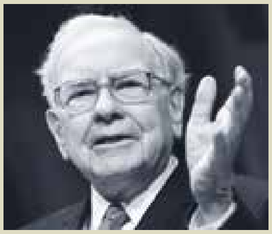
To read the full report go to: www.hbr.org

ADI IGNATIUS

Editor-in-Chief of Harvard Business Review since January 2009, Adi Ignatius previously was Deputy Managing Editor for *TIME* magazine. He worked for many years at *The Wall Street Journal,* serving as the newspaper's Bureau Chief in Beijing.

Adi Ignatius spoke with **SARAH LUBMAN**, a Partner in Brunswick's New York office.

NICE GUYS FINISH LAST? THE SPECIAL CASE OF WARREN BUFFETT



The Berkshire Hathaway leader is one of the world's most successful CEOs, a man *Forbes* called a "corporate deity." He also is a leading philanthropist. So why didn't Warren Buffett make *HBR's* list?

In *Harvard Business Review's* 2014 list of 100 Top CEOs, Warren Buffett was nowhere to be seen. By *HBR's* own estimation, the Oracle of Omaha has delivered "astronomical" returns for investors during his 45 years at Berkshire Hathaway. The 2014 *HBR* ranking was based entirely on financial performance. So why was he excluded?

The reason is that industry-adjusted returns are unavailable for any company prior to 1995. That means *HBR* had to choose: include CEOs based on career performance since 1995, or remove CEOs whose careers began before that year. In 2014, the editors chose exclusion; Buffett was left off.

In 2015, *HBR* decided to calculate the financial returns of these CEOs "as if they began on January 1, 1995." This still penalizes Buffett, as it ignores the value he created during his previous decades at Berkshire Hathaway. Even so, based on financial performance alone, Buffett would have ranked in the top 25, out of the 907 CEOs considered. However, Buffett's ESG ranking was 798 out of 907 CEOs, putting him just below last place in the final 2015 tally. *HBR* says Berkshire had poor social and governance reporting, low incorporation of ESG issues into investments, and weak sustainability initiatives.

That red ink on the Buffett social responsibility ledger seems ironic, as he famously pledged in 2006 to donate 99 percent of his Berkshire Hathaway stock holdings to charity. In 2010, he started the "Giving Pledge" with Bill and Melinda Gates, asking billionaires to give away more than half of their wealth, while alive or in a will. As of 2015, 137 billionaires had joined the pledge.

According to *Forbes*, Buffett's lifetime donations so far top $25.5 billion. For those keeping score, that still leaves him with a net worth estimated at around $60 billion.

— **SARAH LUBMAN**

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