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Is Civic Leadership in Danger of Extinction?

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by Eli Broad

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American business underwent a massive transformation in the 1980s as market pressures, technology, global competition, and corporate raiders forced lethargic management to slim down operations and improve returns to shareholders. The ensuing decade spawned a revolution that has seen American companies retake their global lead in competitiveness, productivity, and profitability. But the societal impact of these changes is still being sorted out.

As an updated business lexicon reflects many of the new realities that have come about over the past decade, words like "downsizing" and "re-engineering" have become accepted terms for the dislocation that millions of employees and hundreds of communities have endured. The social compact that for decades governed the interaction between corporations and communities has been irrevocably altered. And equally important, so too has the role of today's chief executive officer.

Shareholder Value

The powerful mandate of shareholder value has wrought dramatic changes upon the life of a chief executive officer. The long-held tradition of a career employee working his or her way up the ladder to one day assume the CEO spot is becoming an antiquated notion. Consider that IBM, Eastman Kodak, Delta Air Lines, United Airlines, and AT&T have all tapped outsiders as their CEOs. Moreover, if performance is not up to par, the tenure of a CEO can indeed be short. The board of directors of General Motors shocked the business world in 1992 when it removed Robert Stempel

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and his heir apparent after only 26 months in office, and then installed as chairman John Smale, who, though he was a GM board member, had no experience in the automobile business. The message was clear: If General Motors, America's largest industrial corporation, could oust its hand-picked chairman and replace him with a non-GM employee, then any CEO was fair game.

In addition to increased turnover at the CEO level, industry consolidation has also impacted longstanding corporate ties to the local community. Mergers and acquisitions have created dramatic, and sometimes bizarre, changes. For example, the largest private employer in both Los Angeles and St. Louis is now The Boeing Company, whose corporate headquarters lies miles away in Seattle. And in another peculiar twist, Bank of America, whose founder A.P. Giannini remains a seminal figure in California folklore, is now headquartered in Charlotte, N.C.

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This relocation phenomenon is again being driven by the pressure to add shareholder value, so decisions on locating facilities must be driven by tax incentives, labor costs, and logistics rather than an altruistic notion of community loyalty.

And of course there is globalization. As CEOs of multinational corporations increasingly assume the mantle of foreign diplomat, their ability and inclination to involve themselves in local civic affairs declines accordingly. Add to this the relentless demand of creating shareholder value and it becomes easy to understand why chief executive officers are becoming an endangered species in the philanthropic and civic world.

It is important to note here that I accept—and indeed endorse—shareholder value being the yardstick by which we judge senior management. As an aside, my compensation at SunAmerica is based on a formula in which the performance of our company must exceed that of the S&P 500 before I receive incentive compensation. And this philosophy extends to our company's senior management. In fact, only 15 percent of our senior executives' total annual compensation is base salary, meaning 85 percent is tied to company performance. All told, employees (excluding me) own about $1 billion of company stock. We have built our company on the notion that corporate actions and decision making must be aligned with shareholders' interest. And it has paid off: Prior to our recent merger with American International Group Inc., SunAmerica was the fastest-growing stock on the NYSE of the past decade—growing nearly 11,000 percent from its low of 78 cents in 1990 to a high in 1998 of $85¾.

The point I want to make is that providing shareholder value does not rule out civic and community leadership on the part of the CEO; that role remains a critical job function. In fact, I would argue that the quest for shareholder value actually forces today's chief executive to develop a management team that is independent, aggressive, and equally aligned with shareholder interests. And by developing a strong team, and keeping them focused and accountable, a CEO can meet his or her community obligations while maintaining confidence that business objectives are being met. I should add that this also means putting in a 70-80 hour work week, but I know of few CEOs who aren't accustomed to this.

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And the community obligation is a serious one. I believe that business leaders are uniquely qualified to provide leadership in the civic arena, and more importantly, they are vital to the success of large-scale public/private community partnerships. To illustrate my point, I'd like to relate the story of the Walt Disney Concert Hall.

The Disney Hall Challenge

In 1987, Lillian Disney donated $50 million to build a world-class concert hall at the Music Center of Los Angeles in honor of her late husband, Walt. Unfortunately, the project became mired in delays and spiraling costs that were blamed on poor estimates and complex design specifications. The project languished. By 1995, fund-raising had essentially halted while more than $50 million had been spent on consultants and other soft costs. New estimates indicated the hall would now cost close to $250 million.

The ground on which the concert hall would be built was owned by the County of Los Angeles, which had floated a $110 million bond issue to fund the hall's parking garage. As time wore on, the county grew increasingly concerned, and in June 1995, issued an ultimatum: An additional $52.3 million had to be raised by July 1, 1997, or the project would be terminated.

During this time, I was fully engaged in building and running SunAmerica. As a growth company in a growth market, we were experiencing annual revenue, income, and asset growth in the 20 percent to 30 percent range, while our sales force was increasing by more than 200 percent. I had plenty to keep me busy. While I knew of the Disney Hall issue, and served on the board of governors of the Music Center, this was not a project I had initiated nor been asked to oversee. That would soon change.

In the autumn of 1995, a close friend of mine, Los Angeles Mayor Richard Riordan, approached me about leading the charge to resurrect Disney Hall. I had hundreds of reasons not to take this challenge, but one compelling reason to say yes—it was the right thing to do for the city of Los Angeles. Both the mayor and I knew that it would be a tragedy for this project to die, and that it would send a bad signal about the civic health of Los Angeles that neither of us wanted to see. And so I signed on to be the chief fund-raiser for Disney Hall.

The odds were clearly against us when we began. We started by "putting our own skin in the game"—both the mayor and I donated $5 million of our own money. It's a lot easier to ask for involvement when your own reputation and stake is at risk. We raised the money for Disney Hall the old-fashioned way—we went door to door. Skepticism abounded, particularly in a city like Los Angeles, which is notorious for its lack of cohesiveness as a civic entity. A 1997 article in the *New Times*, an alternative Los Angeles weekly newspaper, summed up the challenge we faced:

> "If the concert hall's influential cup-rattlers can't meet the early summer threshold, it will send a shiver through an already timid donor community, signaling that L.A.'s movers and shakers aren't up to the task. A stumble could cripple the chances of raising the rest of the money..."

Included in that article was a quote from County Supervisor Zev Yaroslavsky, who said, "After the riots, fires, earthquakes, and the city being down on itself with the Raiders leaving and the Dodgers for sale, the consequences of *not* doing it may be as important as anything else."

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Despite the skeptics, we persisted, and an amazing thing happened along the way. A new generation of leadership in this city rallied behind Disney Hall. People like ARCO's chairman Mike Bowlin, Ron Burkle from Ralph's/Food For Less, and Mark Willes, chairman of Times Mirror Corporation, all stepped forward with major donations. In the end, we raised more than $180 million and announced that construction on the hall would begin in April 1999.

It's important to note that we approached these executives on a peer-to-peer basis. That's one of the reasons why it is so critical for a CEO to be personally involved in these civic efforts and not delegate the responsibility. When a chief executive commits the time to personally make the calls and presentations, it sends a message about the importance of the effort, and requires his or her peers to respond in kind. In the case of Disney Hall, it is hard to imagine that an individual from outside the business community could have made this happen.

Disney Hall went from being a symbol of apathy to one of unity, strength, and celebration. More importantly, it reaffirmed my belief that there is a strong obligation for business leaders to step forward and support the community. And when the business community shows leadership, people respond.

I cite the Disney Hall story because it illustrates several key points about the role of the CEO in the community. First, we, as leaders in the world of commerce, bring a unique and direly needed skill set to the philanthropic world. We bring vision, fiscal discipline, and a sense of urgency that is critical to highly visible projects. Second, we carry the clout and the resources to create momentum and sweep our peers and customers along with us. And third, in the darkest hour, it is the business community that must step forward to help lead the way.

Reaping Rewards of Community Service

I began this article with a focus on shareholder value. But how does community service benefit shareholders? The answer is complex, and yet rests upon a simple truth: Businesses do not operate in a vacuum. We must run our enterprises with the cooperation, acceptance, and hopefully, the goodwill of customers, regulators, politicians, and neighbors. With a demonstrated commitment to the communities in which we operate, there is a return on investment that is difficult to calculate in terms of specific dollars, but which is in fact very real to the bottom line. It can be found in the ease with which business operations are run, in employee and labor relations, in brand enhancement, and in corporate image. Corporate reputation is becoming an increasingly fragile commodity, and it is absolutely the CEO's responsibility to maintain and strengthen that reputation. Community service is certainly a key element in the equation.

Finally, I want to address the very personal issue of "balance" in the life of a CEO. The truth is that when you sign on for the role of chief executive of a large and influential enterprise, the communities that you serve become part of your personal life. For me, the "balance" of personal satisfaction that counters my business endeavors lies in public service to the community. It is enormously rewarding and provides great personal satisfaction.

Communities will continue to face the threat of a leadership void from the business community. The trends of consolidation and globalization are clearly here to stay, and CEOs will endure increased pressures that keep them from civic involvement. But my message to my peers is simple—not only do we have an obligation to provide leadership in the communities where we operate, we also have an opportunity to gain tremendous personal satisfaction and establish a legacy of achievement that transcends our business accomplishments.

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