

Strategy & Corporate Finance Practice

Leadership lessons from the world's best CEOs

The authors of the new book *CEO Excellence*, who interviewed dozens of the top-performing chief executives, share their most memorable encounters and stories.



In the upcoming book, *CEO Excellence: The Six Mindsets That Distinguish the Best Leaders from the Rest*, three McKinsey senior partners offer leadership lessons from 67 CEOs of some of the world's most successful companies. In this episode of the *Inside the Strategy Room* podcast, the authors explain what sets the best leaders apart and how others can emulate their practices and mindsets. Carolyn Dewar and Scott Keller, who co-lead McKinsey's global CEO Excellence practice, are joined by Vik Malhotra, former chair of McKinsey's Americas region. This is an edited transcript of the discussion. For more conversations on the strategy issues that matter, follow the series on your preferred podcast platform.

Sean Brown: You use a striking analogy to explain what it's like to be a CEO. Can you share it with us?

Scott Keller: The analogy is to sailing. If you sail on the high seas, you have to worry about many things. Is the sail efficiently up against the wind? Am I correcting for wind and for tide? You worry about boat balance, your own conduct, and so on. All these things must be managed simultaneously, but depending on your environment—the size of the waves or the strength of the wind—different elements will be more urgent at different times.

Sean Brown: When that allegorical boat became unstable, how did the CEOs you interviewed course-correct?

Carolyn Dewar: Almost every CEO has had those moments. Invariably, there will be a crisis when your stakeholders are calling for a pivot or are upset about a decision you made. In those moments, CEOs need the ability to recover and learn. You need to make sure the organization is reacting correctly, but it is also incumbent upon you as CEO not to get consumed by the crisis and to keep a broader view about where to go from here. During the pandemic, CEOs had to ensure that the crisis was being managed while continuing to plan the future for their company.

Vik Malhotra: You can think of it as having several plates spinning simultaneously and one of them becomes wobbly. The CEOs we interviewed were amazing at setting the direction for the company

and having a bold vision, but inevitably something will go wrong. Ajay Banga, former CEO and now executive chair of Mastercard, talks about an acquisition that turned out to be a complete flop. You can say “woe is me” and go into a tailspin, or you can say, “That didn't work. Let me quickly course-correct.” You will have wobbles and the question is how quickly you respond.

Scott Keller: Marilyn Hewson of Lockheed Martin shared a story about being on a customer visit overseas when then president-elect Donald Trump tweeted about F-35 costs being out of control and that taxpayer dollars would be spent better when he took office. The company's share price tumbled, cutting \$4 billion of market cap in a day. Hewson and her team did what anyone would do: they got in front of the press and explained that they were looking after costs. She met with the president and told him, “I give you my personal guarantee that we will keep costs down.”

She thought the issue was resolved but, sure enough, another tweet: “Based on the tremendous cost and cost overruns of the Lockheed Martin F-35, I have asked Boeing to price out a comparable F-18 Super Hornet!” So she got her advisers together and they realized that they had not been looking at the issue through the Trump Administration's lens. “Is he really attacking the F-35 program, or is he trying to send a message to taxpayers that he is focused on defense and their money will be well spent?” They needed to get on the same page with him in that messaging. Another meeting happened, and the headlines after that said Marilyn Hewson turned from Trump's foe to friend, and the president praised her deal-making capability. That is an example of why the mindset of “start with the why” is so powerful. Put yourself in the stakeholders' shoes: What are they trying to do?

Sean Brown: It sounds like resilience is a crucial character trait for CEOs. What other characteristics did you find these top CEOs shared?

Carolyn Dewar: I was struck by the number of CEOs we spoke with who had not grown up in a life of privilege. Some started on the shop floor or on the front lines of their organizations and worked their way up, so that resilience and grit started early. And

‘Resilience and humility go together. If you are grounded in your organization’s purpose, it gives you energy to navigate the storms. Humility also helps you to recognize that you don’t know everything, so in moments of crisis you reach out for help; you learn.’

— Carolyn Dewar

that was mixed with a humility: “I’m here to serve the organization and the customers.” Those two qualities, resilience and humility, go together. If you are grounded in your organization’s purpose, it gives you energy and strength to navigate the storms or manage those wobbling plates. Humility also helps you to recognize that you don’t know everything, so in moments of crisis you reach out for help; you learn. That’s quite different from the charismatic I-know-everything CEO of popular myth.

Scott Keller: Personal resilience also stems from having a kitchen cabinet, so to speak, that is a source of unfiltered truth. You will know what people are thinking—the whispers before the screams—and can act on it early. Additionally, some CEOs said their faith gave them a foundation that helped them not get caught up in the role. They also talked about keeping perspective by coming into the office and looking at their chair and thinking, “People will talk to that chair today, not to me as a person. I need to sit in that chair and do the right thing, but I can’t mistake the two.”

Sean Brown: Many CEOs leaned heavily on advice from their boards to help them manage the pandemic. How do the best CEOs approach board engagement?

Vik Malhotra: Many CEOs think, “How do I minimize my time spent on board meetings? Let’s make sure the board gets enough information, but not too much.” That mindset stands in stark contrast to the perspective of the CEOs we spoke with who embraced the board as a valuable and trusted source of expertise. The board can provide that perspective in moments of crisis as well as moments of opportunity when you’re thinking about that next S curve in your strategy.

Scott Keller: Ken Chenault at American Express talked about drawing on the board’s advice during the global financial crisis, but that expertise was there to draw on, thanks to the thoughtfulness around board composition. Great CEOs start by thinking, “Here is my big, bold strategy. Do I have the right board to help me with it?” Then they work with their lead director to evolve their board’s composition. Of course, the best time to fix the roof is while the sun is shining. When a crisis comes, you want to have the experts you need to lean on.

Sean Brown: In the section of the book about mobilizing the company’s leaders, you quote a physicist saying, “Imagine how hard physics would be to study if particles could think.” How do you get a diverse group of independent-minded people to coalesce around a purpose?

Carolyn Dewar: Many CEOs focus on getting individual leaders who are great at their roles. The excellent CEOs focus more on the dynamic between them, the psychology of the team and how they work together. There is the classic story of the US men's Olympic basketball team who, during their preparations for the games, lost their first scrimmage game to a college team. The coach saw they weren't gelling as a team and he let them fail, because this team of truly great players had to realize that they would need to work differently. Likewise, CEOs need to invest in the operating model of their teams. "How do we make decisions? How do we show up for one another?"

Scott Keller: When you assume the CEO role, you recognize quickly that you are not actually running a business—you have lifted up a level. Most of the CEOs we interviewed talked about how lonely the job is because no one who reports to you sees what you see and no one you report to (namely, the board) sees what you see. You realize that you need the people in the top roles to be one-firm players. It was incredible how often we heard "One Lockheed Martin" or "Team Caterpillar." Lilach Asher-Topilski, who used to lead the Israel Discount Bank, told us, "My team was a tight fist, and no one would get between the fingers—not the board, not competitors, not anyone."

Vik Malhotra: Although having the right people in key roles is a critical lever, the great CEOs own certain things. Direction setting, for example: many

people have input, but the CEOs we interviewed owned this. When Satya Nadella wanted to push Microsoft to the cloud, he didn't have 300 people in the organization pounding the table, saying, "We're going to do that." The same when Ajay Banga at Mastercard said, "We are going to cannibalize cash." That's where vision and boldness come in, and that isn't a bottom-up effort.

Carolyn Dewar: Ed Breen, who has been CEO for 23 years at Dupont and other companies, said there were 15 decisions he made in that time that really mattered. He made decisions every day but those 15 only he as CEO could make, and those are value-creating pivots when you get them right.

Scott Keller: And the best CEOs don't just tell people, "This is where we're going," and expect them to follow. They understand the underlying psychology at play. For example, researchers have done experiments where they give lottery tickets to a group and half get a ticket with an assigned number and the other half gets a blank piece of paper where they write their own number. Then, before pulling the winning ticket, they give the participants a chance to sell the tickets back to them. People expect those who wrote their own numbers to be more attached to their tickets even though rationally they get no advantage, but many are surprised to hear that those participants expected at least five times more money for their tickets than those with assigned numbers.

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The implication is that giving people an opportunity to have input is important. Many CEOs find that when they ask their teams for feedback on the vision, that builds ownership.

Sean Brown: Given these dynamics, how do you align the organization around a common purpose?

Scott Keller: Albert Einstein said, “Not everything that can be counted counts, and not everything that counts can be counted.” Most CEOs understand that culture and people—what we call “the soft stuff”—matters, but you cannot easily measure it, so how do you manage it? The CEOs we spoke with don’t just believe that the soft stuff is as important as the hard stuff, however; they also expect it to be managed with the same level of structure and rigor. The phrase “treat the soft stuff as the hard stuff” also implies a recognition that it’s hard to do—and all hard-to-do things are probably good sources of competitive advantage.

Vik Malhotra: You have to make it clear to the organization what you are driving toward. When Satya Nadella wanted a growth mindset to be pervasive throughout the organization, he picked one topic. He could have picked three but no; he picked one and then was relentless in his focus on growth in his own role-modeling, his executive team’s role-modeling, and the metrics he put in place. It wasn’t amorphous.

Sean Brown: Most of your interviews took place during the pandemic. Do you think these CEOs’ mindsets have been reshaped by that crisis?

Carolyn Dewar: We strove to identify mindsets that were timeless. We asked for examples and tested against prepandemic times. But we did ask, “Are there lessons from the pandemic that you think will shape the CEO role?” The answer was yes, but their feedback tended to underscore some of these six mindsets. The idea of the CEO’s “to be” list being as important as the “to do” list was something many felt acutely during the pandemic. The same with the multistakeholder lens—it has long been a theme, but the pandemic reinforced it.

Scott Keller: We did say to them, “This is a CEO moment—what are you learning about the

role?” Many CEOs learned that they had been undergunning the boldness of what was achievable after they saw how quickly their organizations could move. They also saw the value of connecting with other CEOs. I’m hopeful that CEO connectivity will start to focus on some big societal issues.

Sean Brown: As you noted, organizations’ metabolic rates have sped up dramatically. How have the CEOs you interviewed kept their organizations from burning out?

Carolyn Dewar: Just as CEOs need to manage their own energy in series of sprints, they need to help their organizations do the same. With every sprint you need a period of recovery, consolidation, and regrouping. We are in that period now when everyone is trying to figure out, “How do we inspire the pace forward, so we are not just going on adrenaline but relying on something meaningful to energize people?”

Scott Keller: If you asked builders in 1900 how to build a skyscraper, they would have envisioned a rigid structure 20 stories high, right? You ask building engineers now and they will say, “I build a stable structure with flexibility built in.” Modern skyscrapers have giant counterweights that let the buildings move three feet one way or the other at the top. Similarly, CEOs are learning over time something we call “stagility,” which is building a structure that is stable and agile at the same time.

Sean Brown: Carolyn spoke earlier about being struck by the humility of the CEOs you interviewed. What characteristics stood out for you that maybe you didn’t expect to see prominently?

Vik Malhotra: Some said, “This job is fun.” One told us, “This is like when I was on my high school basketball team: I’ve got all my buddies, we all have a common goal, and we are rushing like crazy.” That sense of joy and fun can permeate the organization. Many of these CEOs are also openly authentic. They have passions and outside interests and fears, and they bring their whole selves to work.

Scott Keller: I would add the word “disarming.” They ascribe credit to their colleagues and the people they learned from. Maybe what helped them

become the best is that they weren't trying to be the best—they practiced servant leadership by trying to help others become the best *they* could be.

Reed Hastings told us a great servant-leader story. As a young engineer before he started Netflix, he worked late every night and drank a lot of coffee, leaving coffee cups on his workstation. The next day, the cups were always clean and put away in the cupboard. One day, he came in very early, and he saw someone washing the cups—it was the CEO. The CEO looked at him and said, “You do so much for us, it’s the least I can do for you. I do it every morning when I come in.” That burned onto Reed’s psyche.

Sean Brown: Did these leaders share any advice or stories that would be particularly helpful to up-and-comers in embracing the six mindsets?

Scott Keller: Their embrace of learning started early. They were willing to try new things and in doing that gained experience. With experience comes pattern recognition and resilience, the ability to separate yourself from individual setbacks

enough to see that the far side of failure is success if you reflect on the lessons. Their leadership lessons were forged in the crucible of the most complex, hardest-to-manage situations, but they are probably applicable in less complex situations.

Vik Malhotra: *CEO Excellence* is about CEOs exceling, yes, but I view it as a book on leadership writ large. It’s a book about how you might lead your own life, told through stories rather than frameworks.

Sean Brown: How has your work on this project affected the way you approach CEO counseling?

Vik Malhotra: Most of us who aspire to be great CEO counselors start by building trust where we can be good listeners and offer advice on topics leaders can’t talk about to others. This work has helped me realize that sometimes I may need to be bolder with my advice to client CEOs, especially those new to the role, around the organizational direction and alignment because boldness is the winning formula. We all have our playbooks, and my playbook has now been filled up.

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—Scott Keller

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