CEO Excellence

The Six Mindsets That Distinguish the Best Leaders from the Rest

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To
Thomas, Gray, and Evening Czegledy
Fiona, Lachlan, Jackson, and Camden Keller
Mary, Malu, Devan, and Nik Malhotra

And to our
Partners and Colleagues at McKinsey & Company
for giving us the opportunity to continue the search for excellence

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Introduction

Excellence is never an accident.
—Aristotle

At the annual Leadership Forum hosted by McKinsey & Company in the picturesque waterfront town of St. Michaels, Maryland, thirty soon-to-be CEOs were gathered in the conference room. On this rainy fall evening, the retreat's first day, everyone snapped to attention as the moderator, Vik (one of your coauthors), posed an intriguing question: "What does a CEO really *do*?"

Without pause, the first guest speaker, a chief executive of one of the world's largest technology companies, responded, "I can say with confidence that the role of the CEO boils down to . . ." He then expanded on each of three items with conviction and clarity. At the end of the night, everyone left feeling a mysterious veil had been lifted.

That is, until the following morning's speaker, the leader of a multinational financial services company, answered Vik's same question. The guest articulated what she viewed as the three primary roles for a CEO, punctuating each with potent, reinforcing examples. They were an altogether *different* set than offered by the first night's speaker. That evening, the third and final CEO speaker, leader of one of the world's most prestigious academic medical centers, presented—you guessed it—yet another categorically different list of the three "most important" aspects of the CEO role.

The next morning Scott and Carolyn (your two other coauthors) brought the retreat to a close, doing their best to crisply summarize the key takeaways. On the subsequent hour and a half drive to the nearest major airport, the three of us discussed how starkly different each guest speaker's list had been. We guessed that if we'd had a fourth speaker, we'd have yet another take on the CEO role. We all agreed that each piece of advice raised by our speakers was important and helpful, but in aggregate, the information felt disjointed.

It was unsettling. As CEO counselors, we know that how a person performs in the CEO role *matters*. CEOs who rank in the top 20 percent of financial performance generate, on average, 2.8 times more total return to shareholders (TRS) during each year of their tenure than do average performers. More concretely, if you invest $1,000 in a Standard and Poor's (S&P) 500 index fund and over ten years your investment grows at historical averages, your investment will make you just under $1,600. If you invest in the companies led by the top quintile highest performing CEOs, you'll gain more than $10,000. That's a big difference.[1]

What's more, the extent to which a CEO is a significant predictor of a company's performance has more than doubled since the mid-twentieth century.[2] This "CEO effect" will undoubtedly become even more important in an increasingly volatile, uncertain, complex, and ambiguous world, one in which stakeholder capitalism is on the rise—calling leaders to move far beyond Milton Friedman's notion that companies exist solely to create profits for shareholders. In fact, the actions of today's companies will likely have more impact on societal issues such as the environment, health care, wealth inequality, and human rights than those of governments and charitable organizations.

By the time we got to the airport the three of us decided to work together to definitively answer the question: "What does a CEO really *do*?" That knowledge in itself would be extremely valuable. But we wanted to go beyond that, to find out how the best CEOs work differently from the rest and why. This would mean getting deep inside the minds of those who truly excel in the role.

Such an effort, we felt, would be welcomed by CEOs and their many stakeholders—boards, investors, employees, regulators, customers, suppliers, and communities. After all, in the past two decades, 30 percent of Fortune 500 CEOs have lasted less than three years, with two out of five new CEOs failing in their first eighteen months on the job.[3] These leaders could certainly have benefited from a primer on what the role entails and that includes lessons gleaned from the best.

By all counts the role is also getting harder. Today's CEOs have to navigate far more than the traditional running of the business. They must deal with the exponentially accelerating pace of digital transformation and the workforce retraining and cybersecurity challenges that come with it. Leaders need to pay more attention to their employees' health and well-being, racial diversity, and feelings of inclusion. Concerns around sustainability, the public desire for more purpose-driven organizations, and calls for CEOs to be spokespeople on broad societal issues are all on the rise. Leaders must not only hear those calls but be prepared for a level of public scrutiny and activism that is driven by social media and can spark outrage (rightly or wrongly) within a matter of hours.

As a result, the probability that a CEO will crash and burn is now higher than ever. From 2000 through 2019, the average CEO tenure in the United States decreased from ten years to less than seven.[4] In the same time frame, turnover rates globally have increased from roughly 13 percent to almost 18 percent.[5] It goes to show that even when there's a stable economy buoying bottom lines, the challenges to contend with at the top can be overwhelming. Add to this the reality that, as General Motors' chief executive Mary Barra told us, "Becoming a CEO is unexpectedly lonely. I've always had a regular dialogue with whoever my leader was, and all of a sudden, you don't have a leader to go to."

Of course, most of the problems faced by large, public company CEOs aren't substantively different from those faced by other leaders—whether they're running a small business or a nonprofit. Insights from the best CEOs running large companies, we felt, would be helpful for just about anyone. Bolstering that belief was the popularity of an article that Scott and Carolyn published on McKinsey's website in the fall of 2019, "The Mindsets and Practices of Excellent CEOs," which quickly became one of the most read articles of the year and has remained in the top ten ever since.

Who *Are* the Best CEOs of the Twenty-First Century?

What exactly does it mean to be a top-performing CEO? After all, aren't a company's results heavily influenced by factors outside of a CEO's control? Yes, they are. In fact, more than half of the factors that determine a company's financial success—such as previous research and development (R&D) investments, inherited debt levels, geographic GDP growth, and industry trends—are largely out of a sitting CEO's control. But that still means roughly 45 percent of what can drive results falls into the hands of one person: the CEO.[6] We wanted to identify those CEOs who moved the needle most in those areas that can be influenced by the top leader.

Overview of methodology used to identify high-performing CEOs

1. Top 1,000 companies in the global *Forbes* 2000 list as of March 2020 that ranks largest companies in the world based on a composite of revenue, profits, assets, and market capitalization

2. Total return to shareholders over tenure in excess of the return their industry peers delivered, adjusted for geographical variations in growth

3. *Fortune*'s Most Powerful Women in Business, *Barron's* Top 30 CEOs, *Harvard Business Review*'s Top 100 CEOs, *CEOWORLD*'s Most Influential CEOs, and *Forbes*'s America's 100 Most Innovative Leaders

4. Ownership structure examples: public, private, family-owned, not-for-profit

As the above chart shows, we started with a list of all CEOs who've led the one thousand largest public companies at some point during the last fifteen years. There were more than two thousand of these. We then filtered this list based on tenure, removing any CEOs who spent less than six years in the role. That way we could ensure that those we targeted had a consistent track record of success. That brought our list to just under one thousand CEOs. Next, we filtered the list for those aspects of performance that the CEO can influence, adjusting for as many external factors as possible. We looked beyond absolute returns and chose those who, in their tenure, delivered results in the top two quintiles of "excess TRS" (the total return to shareholders in excess of the return their industry peers delivered, adjusted for geographical variations in growth). That narrowed the list to 523.

From there we wanted to take into account factors such as the individual's ethical conduct, employee sentiment, a company's environmental and societal impact, the strength of its succession planning, and in the cases of those who'd retired, whether the business continued to outperform financially in the years after the CEO stepped down. These measures are already rigorously incorporated into many existing "best CEO" lists such as the *Harvard Business Review*'s Top 100 CEOs, *Barron's* Top 30 CEOs, *CEOWORLD*'s Most Influential CEOs, *Forbes*'s America's 100 Most Innovative Leaders, and *Fortune*'s Most Powerful Women in Business. We used an appearance on one or more of these lists as a further screen, which left us with 146 CEOs.

There was one problem with this group, however: It was skewed heavily toward the white male profile that has prevailed in the business world for far too long. Only 8 percent were women and 18 percent were people of color. Further, the list was US-centric and underrepresented CEOs from certain sectors such as health care and energy, which doesn't reflect the topography of today's global business landscape. We therefore opened the aperture to look for additional excellent CEOs in our underrepresented segments, while maintaining a high bar for performance and reputation. We included, for example, CEOs from outside of the largest one thousand companies (though still large in terms of generating billions of dollars in revenue or having many thousands of employees) who led remarkable transformations while delivering top-two quintile "excess TRS."

With this new screen, we were able to add almost 40 percent more women—CEOs such as Nancy McKinstry of Wolters Kluwer, who transformed the Dutch publishing house from a digital laggard to a leading provider of expert solutions and software with revenues of over $5 billion and almost twenty thousand employees worldwide. She was the top-rated female CEO in *Harvard Business Review*'s Top 100 CEOs list of 2019. Similarly, the number of people of color on our list rose by roughly 30 percent. In that group is Malaysian-born Lip-Bu Tan of Cadence Design Systems, a vendor to semiconductor and system companies. He took over the company in a period of turmoil and by the end of 2020 had increased its revenue to almost $2.7 billion and multiplied its stock market capitalization by more than thirty-eight times to almost $40 billion through a singular focus on the customer and a shrewd market expansion strategy.

As we further balanced our mix across sectors and geographies, we also wanted to make sure that we included a sample of privately held firms and not-for-profits that passed our performance and reputation bar. This led to the inclusion of CEOs such as Alain Bejjani of Majid Al Futtaim, who is shaping the influential, privately held Middle Eastern retail conglomerate as a global pioneer in customer experience. Majid Al Futtaim's revenues have grown from $6.8 billion to almost $10 billion during his leadership, and the company employs over forty thousand people across sixteen countries. Toby Cosgrove of the not-for-profit Cleveland Clinic also made the list. He transformed the regional health network with $3.7 billion in revenues in 2004 into a preeminent multinational health system with $8.5 billion in revenues by the time he stepped down in 2017.

In the end we added fifty-four CEOs to our list to make it a round two hundred with a diversity of industries, geographies, genders, races, and ownership structures represented. Having done so, we now had our list of those we felt could most credibly be considered the best in the world in the twenty-first century to date. Stunningly, we estimate that the economic value created by this group of two hundred leaders in excess of their peers is approximately $5 *trillion*. That's equivalent to the annual gross domestic product of the world's third largest economy, Japan.

Our final research step was a pragmatic one: Statistics told us that a sample size of at least sixty-five CEOs would yield a 95 percent confidence level in our conclusions, and so we spent a year interviewing that many leaders in depth. (See appendix 2 for snapshot bios of all of the CEOs we interviewed.)

Who then are our elite CEOs? When you think of the best, you immediately picture such iconic and outspoken founder-CEOs as Jeff Bezos, Warren Buffett, Mark Zuckerberg, and Elon Musk.

Yes—much has been written about them, and they indeed made our list of two hundred. However, in our review we purposefully minimized the number of founder-CEOs, given that their large ownership stakes often allow them much more freedom to act.

Microsoft CEO Satya Nadella was a non-founder who made our cut. He was the architect of a remarkable cultural transformation at the software giant, making bold moves to grow the company and leading with empathy—a trait he learned from his experience raising a son with cerebral palsy. Another CEO on our list was Shiseido's Masahiko Uotani. As the first outside CEO in the 149-year history of this Japanese beauty giant, Uotani transformed the company by empowering his people and unleashing innovation. His approach was shaped by lessons he'd learned while running Coca-Cola in Japan for nearly twenty years under five different CEOs. During his tenure the region became the soda maker's most profitable.

Marillyn Hewson's humble leadership style was shaped partly as the result of her father's unexpected death when she was nine years old, leaving her mother to raise five children. As Hewson worked her way through school, she never imagined she'd someday become the CEO of Lockheed Martin and in that role cement its position as the world's largest and most influential defense contractor through a customer-first strategy. Gail Kelly doubled the cash earnings of Australia's oldest bank, Westpac, during her tenure and became Morningstar's 2014 "CEO of the Year" by applying a no-nonsense leadership style that was forged early in her careers as a schoolteacher in Zimbabwe and bank teller in South Africa.

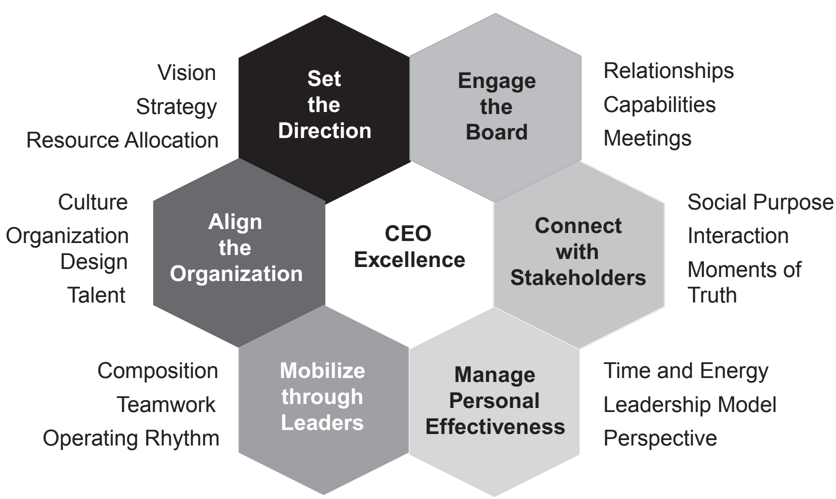
Each CEO has their unique background and journey that made them the leader and person they are today. Despite their differences, they all have in common that they've excelled *in the CEO role*. Through our conversations and research, we uncovered both how and why.

What Separates the Best CEOs from the Rest?

We spent hours with each of the CEOs we interviewed and often extended our conversations over multiple sessions. The goal of our discussions wasn't only to gather information but also to prompt deep reflection on why these leaders have done what they've done. To reach this level of insight, we used an interview technique that originated in clinical psychology known as laddering. It involves using various methods of inquiry, such as storytelling, asking provocative questions, posing hypotheticals, role-playing, and circling back to previous statements to uncover multiple levels of why someone holds a particular opinion and takes a specific action.

The first thing that became abundantly clear during this process is that there are far more than *three* things that every CEO does, despite what our guest speakers had implied at our Leadership Forum at St. Michaels. From our interviews *six* key responsibilities emerged: setting the direction, aligning the organization, mobilizing through leaders, engaging the board, connecting with stakeholders, and managing personal effectiveness. And each of these responsibilities had a number of sub-elements. For example, setting the direction has sub-elements related to choosing the vision, deciding on the strategy, and allocating resources. Aligning the organization has facets related to culture, organization design, and talent management. And so on. As we kept interviewing CEOs, they time and again validated our conclusion that the six responsibilities and their sub-elements were all important to being successful in the role.

The six responsibilities of the CEO



These six responsibilities aren't unique to the best CEOs—they just describe fully what the job is. When we initially shared this taxonomy with many of the CEOs we interviewed, we received two responses. The first was resoundingly affirming. As Mastercard's former CEO and current executive chairman Ajay Banga told us, "This is an outstanding way to frame it. It's how CEOs should be thinking about their role." The second was also positive but tempered by the feeling that, "this is a *lot*, can it be simplified further?" However, when we then spent time with these leaders discussing what they felt could be taken off the list, in all cases we ended up coming back to the idea that each of the six responsibilities and their sub-elements is vital.

What *is* unique to the best is the mindset with which they approach each of the six responsibilities, and the actions they take on each sub-element. These are what enable great CEOs to, in the words of Eaton's former CEO Sandy Cutler, "play big ball, not small ball. By that I mean spending time on things that no one else can in ways that magnify your effectiveness without getting mired in things that don't make a difference."

As part of our research, we also looked to see whether the amount of time that the best CEOs spent on each of the six responsibilities shifted during their tenure. Was there a pattern or life cycle? Did they spend more time on, say, setting the company's direction and redesigning the organization early in their jobs compared to later? We even went so far as to have our CEOs complete an exercise where they allocated one hundred "importance" points across each of the six responsibilities during their first eighteen months, last eighteen months, and in between.

After looking hard at the data, we concluded that there is no clear pattern. How the CEOs prioritize each of the six responsibilities depends on a complex interplay between the specific business situation and the CEO's unique capabilities and preferences. The key takeaway was that despite their different approaches, every CEO at every stage of their tenure meaningfully tended to all six responsibilities. The best CEOs kept all six plates spinning at all times, even if the external and internal environment meant that some needed to be spun faster or slower than others.

Lastly, we examined the financial performance of the company during an excellent CEO's tenure to see if there were predictable ebbs and flows over time. While doing so, we were aware of the research done by executive search firms that suggests there is a pattern: CEOs start strong in year one, have a "sophomore slump" in year two, then recover and do well in years three to five, get complacent in years six to ten (if they stay that long), and return to glory in the golden years of eleven to fifteen.[7] While this may be true looking across a sample of all CEOs, we found the best CEOs exhibit no such pattern. They instead create significant value on a sustained basis year after year during their tenures. They do so by periodically redefining what it means to win and refreshing their strategies with new, bold actions.

With all this in mind, we've organized this book into six sections, each dedicated to the mindsets that separate the best from the rest in each of the six responsibilities of the CEO role. In each section you'll find three chapters that explore in depth how the mindset translates into best practices. In each chapter you'll not only understand what the best practice looks like, but how the best CEOs make it happen. At the end of the book, we'll step back and discuss how chief executives prioritize their six responsibilities and how they successfully transition into and out of the role. We will also explore how the CEO job might change in the future.

Why CEO Excellence Is Elusive

As our research concluded and our findings crystalized, three things in particular struck us more deeply than we'd imagined: how unique the role really is, the number of contradictions a CEO faces, and the sheer amount of work involved in doing the job well.

On the first point, virtually every CEO told us that they thought they were well equipped for the job because of their experience in having led large business units or functions, only to find that to simply not be the case. It wasn't that managing a profit and loss statement, setting a strategy, or leading a team was radically different than what they'd done before. What took them aback was how the top job is the only role in an organization that is literally peerless. A CEO is accountable for everything. In the words of Dick

Boer, former CEO of Ahold Delhaize, parent company of Stop & Shop and other food retailers, "When you run a business unit or a region, at the end of the day you have peers and you're on a team. As the company CEO, it's solitary. You can't say, 'Look, I can't do it because . . .' No. It's you. You can't blame anyone anymore, for anything. It's you to blame."

Beyond the solitary nature of the role, the second major challenge was best expressed by Jacques Aschenbroich, the CEO of Paris-based global automotive supplier Valeo, who articulated it for us: "The CEO role is the intersection of all contradictions." Interview after interview brought to light the kinds of contradictions Aschenbroich was referring to. Delivering short-term results versus investing in long-term performance. Taking time to gather facts and do analyses versus moving fast to capture opportunities. Respecting the past and creating continuity vs. disrupting the future. Maximizing value for shareholders versus delivering impact for other stakeholders. Having confidence to make tough calls versus having humility to ask for and receive feedback. You might say that F. Scott Fitzgerald's observation that "the test of a first-rate intelligence is the ability to hold two opposed ideas in the mind at the same time, and still retain the ability to function" applies fully to the role of the CEO. As we'll see in the chapters to come, the best CEOs masterfully reconcile these apparent contradictions to create positive and mutually reinforcing outcomes.

Doing so isn't easy, however, which leads us to the third challenge—the vast amount of work involved, as witnessed by the sheer weight of the six responsibilities that falls on a CEO's shoulders. From the outside, the role can seem like it's little more than setting the overall direction and giving speeches. The reality, we found, is far different. As the leader of the global sportswear company Adidas, Kasper Rørsted, explains, "A big part of your job is dealing with all the unsolved problems." It's no wonder that Stanford University Professor of economics Nicholas Bloom, who has spent much of his career researching CEO effectiveness, says, "It's frankly a horrible job. I wouldn't want it. Being the CEO of a big company is a hundred-hour-a-week job. It consumes your life. It consumes your weekend. It's super-stressful. Sure, there're enormous perks, but it's also all-encompassing."[8]

Our deepened understanding of these three challenges gave us even more resolve to provide definitive answers to the questions we were asking: "What do the leaders of the world's most successful and most influential companies and organizations really *do*?" and, more important, "why do they do it that way?"

What Sets This Book Apart?

When we started on our journey, we wondered if our questions had already been answered. We first checked whether our CEOs already had access to the type of book we wanted to create. Their answers validated our quest. As Greg Case, the CEO of the global professional services firm Aon, said to us: "Systematic pattern recognition on what people who have succeeded in the role have done across multiple years, industries, and geographies, all backed by analytics? At some level it's hard to believe that hasn't been done before, but if it has, I'm not aware of it. This could be really powerful."

We were aware that such work still might exist somewhere in academia. We reviewed all of the studies we could find where the scientific method had been applied to understanding the CEO's role. The earliest was from the late 1960s when Canadian academic Henry Mintzberg shadowed a number of CEOs full-time for a week. He reported back that a CEO plays ten roles: figurehead, leader, liaison, monitor, disseminator, spokesperson, entrepreneur, disturbance handler, resource allocator, and negotiator.[9] While groundbreaking, Mintzberg's findings were descriptive versus prescriptive, and didn't attempt to distinguish the best from the rest. The same was true for the other studies we could find, all the way up to some of the most recent work by Harvard professors Nitin Nohria and Michael Porter, whose excellent study of how CEOs spend their time didn't speak meaningfully to the *effectiveness* of how that time is spent or what the best CEOs do differently.

Otherwise, the vast majority of the research looked at the traits of successful CEOs. Though each of these studies had a unique spin—whether it came from Harvard, Wharton, the World Economic Forum, Forbes Coaches Counsel, or an executive search firm such as Russell Reynolds, Spencer Stuart, or ghSMART—the findings generally pointed to CEO success being driven by traits such as relationship building, resilience, risk-taking, decisiveness, and strategic thinking. For those aspiring to the role, these findings might help lead to a job in the corner office. Such traits, however, don't help someone understand what they actually need to *do* to succeed in the role once they have the job.

One notable aspect of these studies is that they all debunk the myth that successful CEOs have a seemingly Hollywood-scripted level of charisma to motivate and inspire. Our experience resonated with these findings. Sure, the more charismatic leaders tend to grab the public spotlight, but certainly the group of excellent CEOs we interviewed were far more inclined to ask good questions than dictate preordained answers and to let their actions speak louder than any rousing speeches.

As we worked through the research, an observation offered by Steve Tappin, the author of *The Secrets of CEOs*, put an exclamation point on why we should continue down our path. Having studied the lives of hundreds of chief executives, he told CNN that "probably two-thirds of CEOs are struggling. I don't feel there's really a place where they can learn to be CEOs, so most of them are making it up."[10]

The absence of the kind of playbook we envisioned did make us wonder if trying to write one would be a fool's errand. Perhaps each CEO's personality and situation are so different that there actually isn't anything generalizable beyond how time is spent and what traits are exhibited. Stanford's Nicholas Bloom seems to support this notion. He argues, "You look at the data, and there're ten different recipes for success. Maybe they each work for a particular case study, but I still struggle to find anything that's a secret recipe beyond saying: sure, there are some people who are better than others but it's damn hard to tell what it is that sets them apart."[11]

Our intuition and experience told us otherwise, and as senior partners at McKinsey, we felt well equipped to look for answers. After all, we spend the vast majority of our professional lives counseling CEOs and, as a firm, we have unrivaled access to more CEOs than perhaps any other institution. Our colleagues reside in sixty-seven countries and serve a breadth of clients constituting over 80 percent of the Fortune 500 and Global 1000. Further, every year more than $700 million of our firm's resources are invested in doing research and analysis, the vast majority of which is on CEO-relevant topics.

Ultimately, the six crucial mindsets that our research unearthed are what we believe differentiate the best leaders of the twenty-first century from the rest. These mindsets enable them to navigate the dominant features of their environment—new competition, disruptive change, digitization, pressing social and environmental issues, or economic meltdowns—with wild success, while others wallow in mediocrity. The simple fact is that the top of the pack *think* differently, which causes them to take profoundly different actions day in and day out.

Keep in mind that we're not suggesting that the best CEOs excel in *every* aspect of the role—in fact, we've yet to meet one who does. Rather, the best CEOs are excellent in a few areas, and do a solid if not exemplary job in the others. In our final chapter, we'll discuss how CEOs know to pick their spots, but note that it's this realization of only being able to do a few things extremely well that explains why the CEOs back at the St. Michaels Leadership Forum each focused on a different short list of priority areas—those that made sense for them to excel at given their situation. Having said that, our research indicates that the more areas a CEO excels in, the better their results are likely to be, making this book, potentially, a powerful field guide for any leader of an organization—be it public, private, or not-for-profit.

We're also confident that many of the mindsets and practices that underpin success can be used by any young, *future* leader looking to be their best. With this work, our greatest hope is that all of our readers will be inspired and informed in ways that enable them to build a leadership legacy they're proud of and for which the world will be grateful.

DIRECTION-SETTING MINDSET

Be Bold

Boldness has genius, power, and magic in it.
—Goethe

In today's complex world, many CEOs try to minimize uncertainty and guard against making mistakes. It sounds sensible. After all, the old adage that "discretion is the better part of valor" would seem to make sense for a job that has such a huge impact on a company's stakeholders. Ultimately, however, such a cautious mindset has proven to deliver results that follow the dreaded "hockey stick" effect, consisting of a dip in next year's budget followed by the promise of success, which never occurs.

The best CEOs recognize this dynamic and, in turn, approach setting the direction of their company with a different mindset. They embrace uncertainty with a view that fortune favors the bold. They're less a "taker" of their fate and more a "shaper"—constantly looking for and acting on opportunities that bend the curve of history. CEOs who embrace this mindset are well aware that only 10 percent of companies create 90 percent of the total economic profit (profit after subtracting the cost of capital) and that the top quintile performers deliver thirty times more economic profit than the companies in the next three quintiles combined. And here's the kicker: The odds of moving from being an average performer to a top-quintile performer over a ten-year period are only one in twelve.[12]

Knowing just how low the odds of success are, the best CEOs apply boldness to each of the three dimensions of direction setting—vision, strategy, and resource allocation, as we'll discuss in the chapters that follow.

CHAPTER 1

Vision Practice

Reframe the Game

Your playing small does not serve the world.
—Marianne Williamson

In a pivotal scene in the biographical movie *Invictus,* Nelson Mandela asks Francois Pienaar, the captain of the South African National Rugby team, "How do you inspire your team to do their best?" Pienaar unflinchingly responds, "By example. I've always thought to lead by example." Mandela reflects, "That is exactly right. But how to get them to be better than they think they can be? That is very difficult, I find. How do we inspire ourselves to greatness?"

The answer to Mandela's question becomes clear during the rest of the film. Though not expected to perform well, the Springboks won the 1995 World Cup—driven less by a desire to be rugby world champions than the opportunity to unite a nation fractured by the legacy of apartheid. Mandela and Pienaar effectively reframed the very nature of what winning meant, and by so doing dramatically increased the team's work ethic and motivation.

As we spoke to the most successful CEOs, we were struck by how they similarly reframed what winning meant for their companies. They didn't just raise aspiration levels; they changed the definition of success. Mastercard's former CEO Ajay Banga, for example, shares his game-changing vision and how it came about: "I was walking through the office and saw this slogan written in a staircase: 'Mastercard, the heart of commerce.' It made me think, 'But commerce is mostly in cash, right?' I realized that in the company nobody talked about cash. If anything, they talked about Visa and Amex and China UnionPay and local schemes.

"That led me," he continues, "to figure out the percentage of transactions in the world that were happening with cash. That number exceeded eighty-five percent just for consumer transactions. From then on I talked about our vision as being to 'kill cash.' Instead of fighting for a piece of the fifteen percent of transactions that were electronic, we fought for a piece of the eighty-five that weren't (yet). We then converted the vision of killing cash into strategies for growing the core, diversifying our client base, and building new businesses."

To take another example, imagine if Netflix cofounder and CEO Reed Hastings had promoted among his employees a vision "to be the number one DVD company in America." Back at the turn of the century no one would have batted an eyelid at such a vision, which ostensibly was Netflix's core business. Had that been his goal, it's doubtful we'd have interviewed Hastings for this book, and probably his company would have gone the way of then-dominant video rental company Blockbuster. From the outset, however, Hastings had his eyes set on a bigger, bolder playing field than DVDs. In a 2002 interview with Wired.com, he was asked what his vision for the company was. "The dream twenty years from now," he said, "is to have a global entertainment distribution company that provides a unique channel for film producers and studios."[13] He added in speaking to us, "That's why we called the company Netflix and not DVD BY MAIL."

Hastings's response may seem logical today, given what Netflix has become. With his more expansive vision, however, the big strategic moves that followed made sense in ways they would never have otherwise: moving into video streaming, betting on the cloud, creating Netflix Originals, driving exponential globalization, and so on.

The table below shows how some of the CEOs we interviewed boldly reframed their game:

Table 1: What does winning look like for our company?			
CEO	**Company**	**"Win the game" vision**	**"Reframe the game" vision**
Doug Baker	Ecolab	Lead the industry in industrial cleaning and food safety	Lead the world in protecting people and resources
Ajay Banga	Mastercard	Win in payments	Kill cash
Mary Barra	General Motors	Win in the global auto industry	Win by transforming transportation
Sandy Cutler	Eaton	Top-quartile-performing vehicle component manufacturer	Leading energy management company making power safe, reliable, and efficient
Piyush Gupta	DBS Group	Win in financial services by using technology	Be the technology company that makes banking joyful
Herbert Hainer	Adidas	Outgrow our competition	Help athletes perform better than their competition
Mike Mahoney	Boston Scientific	Leader in manufacturing implantable medical devices for heart disease	Global leader in innovative, fast-growing medtech solutions
Ivan Menezes	Diageo	The leading beverages company in the world	The world's best-performing, most trusted and respected consumer products company
Shantanu Narayen	Adobe	Providing the best creative professional desktop tools for websites	Powering the world's best digital creativity, document, and customer experiences
Masahiko Uotani	Shiseido	Create a Japanese beauty products icon	Create iconic global beauty brands with Japanese heritage

The “reframe the game” visions in the table above may look obvious after the fact, but getting to the right one is harder than one might think. As Hastings, a self-professed student of how corporations rise and fall, describes: “You definitely want to define what your space of interest is, what you’ll go after and defend. But firms can get that definition wrong all the time.” In the rest of this chapter we will explore how the best CEOs get it right—creating a game-changing vision for their organizations. They do so by . . .

. . . finding and amplifying intersections
. . . making it about more than money
. . . not being afraid to look back to look forward
. . . involving a broad group of leaders in the process

Find and Amplify Intersections

The best CEOs build their vision by looking for where various aspects of their business and the market intersect. Hubert Joly, the former CEO of electronics retailer Best Buy, explains that setting the right course is, “at the intersection of four circles: what the world needs, what you are good at, what you are passionate about, and how you can make money.”

When Joly took over the company in the summer of 2012, Best Buy was on the brink, losing $1.7 billion that year. Amazon and various technology companies were vertically integrating, service quality in stores had plummeted, trust in leadership was low, and the share price was dropping rapidly. Joly knew the company was in need of an immediate turnaround, but as he did his diligence in his initial days on the job, he knew he’d eventually need a vision that would reframe what winning looked like to inspire his troops.

Joly was confident that his industry would keep growing because consumers would look to electronics to help fulfill their needs for entertainment and beyond. His insight was that Best Buy could play an important part in this world by helping customers navigate it. Choosing the right electronics is hard. Seeing the differences in picture quality between TVs or hearing the differences in speakers or headphones can't be done online. And being able to talk with someone who's knowledgeable can be extremely valuable, especially on large purchases. Once products are in homes, setting them up is often confusing. Who better than Best Buy to help?

Looking at the intersection of the first three circles of market need, company capability, and passion, Joly saw a potential vision that would reframe the game. "Best Buy is here to enrich lives through technology," he says. "We're not in the business of selling TVs or computers. And we're not fundamentally a retailer. We're in the business of enriching lives by addressing key human needs, whether it's entertainment, health, productivity, or communication."

One question remained, however: Could money be made doing so? Joly understood that many customers were going to Best Buy stores to learn about products and then purchasing them cheaper online. Employees were demoralized. Investors balked at the idea of price matching, seeing a cost structure that could never compete with online. Joly disagreed. He felt if customers were provided with superior value from the experience, they'd leave with more products.

He also saw that consumer electronics companies looking to vertically integrate needed a physical presence. Best Buy could provide this by offering these companies stores-within-a-store—a portion of the floor space allocated to the merchandise of just one vendor, often with dedicated sales support. As he describes, "We could provide a real service to Apple, LG, Microsoft, Samsung, Sony, and later to Amazon, Facebook, and Google. They needed to find a bricks-and-mortar presence, and we could give that to them overnight versus their building thousands of stores at great cost and risk. That way we were like the coliseum where the gladiators fight, we could collect tickets from everybody—from customers and from vendors. It was a win-win-win."

Given Best Buy's dire straits, few CEOs would have taken such an expansive view of the playing field. Joly's bold, reframed vision meant Best Buy's turnaround involved unorthodox approaches such as partnering with versus squeezing vendors and lowering versus raising prices. And it was indeed visionary: By the time Joly stepped down in June 2019, Best Buy's shares had soared 330 percent from $20 to about $68 while the S&P 500 rose only 111 percent. Finding the right intersection indeed pays off.

Other CEOs we spoke to looked for intersections similar to Joly's. Lars Rebien Sørensen, the former CEO of the Danish pharmaceutical company Novo Nordisk, saw the unmet medical needs in society related to diabetes. He also knew what his company was good at: biologics (drugs that are produced from living organisms or contain components of living organisms). "It was the only thing we understood well, and biologics were difficult to copy," shares Sørensen. Sharpening the vision further, Sørensen was passionate about taking a patient orientation, instead of catering to physicians as was the industry norm. "We have to do what's right for the patient and convince the doctor to be our partner," he says. To build passion in the workforce, all employees were asked to meet with patients and understand what their lives were like and how Novo Nordisk's products were transformative. "It helped our people see that they were contributing to something much bigger than the job they thought they had." Finding and amplifying the intersections worked: Under Sørensen's tenure, Novo Nordisk revenue grew fivefold and net profit elevenfold, and today the company controls nearly half the insulin market globally.

When Lip-Bu Tan at Cadence Design Systems asked a successful investor for advice on how to become the best stock in their portfolio, the answer was instructive. "First of all, you have to be mission critical to your customers, not just a 'nice to have,' " Tan shares. "Second, you've got to be a category leader—number one or number two in your product lines. Third, your current total available market (TAM) is only worth $10 billion. How are you going to grow to be a $150 billion platform—how will you expand into new markets?" By looking for where those three pieces of advice intersected, Tan was able to reframe Cadence's game and expand beyond making software that designs computer chips to also providing system design and analysis software for such industries as hyperscale computing, aerospace, automotive, and mobile.

Make It about More than Money

When Paris Saint-Germain star Lionel Messi races down the pitch and scores, he gets an assist from his high-tech, laceless Adidas soccer boots. Sure, Messi has a sponsorship agreement with the company—the world's second largest athletic apparel-maker after Nike—but the man who has won more player-of-the-year Ballon d'Or awards for soccer than anyone certainly would only wear the best technology.

Messi's shoes, however, do more than help him score goals. They manifest the vision that former CEO Herbert Hainer set for the German company in 2001. When Hainer took over, the company was losing market share and stumbling on new footwear designs.[14] A less bold CEO would have put the financial clamps on the organization and tried to turn around the profit and loss (P&L) by pushing employees to sell more shoes, clothing, and accessories more efficiently.

Hainer was well aware that the financials were vital, but he didn't lead with them. Instead, he reframed the company's vision to be all about helping athletes fulfill their potential. As he describes, "The goal wasn't to be the biggest and the richest, it was to start creating products that help athletes perform better, so the runner can run faster, the tennis player and the soccer player can play better. If we did that and provided good service to our consumers, the financials would follow. All we had to do was help people achieve their personal best, and by doing so we'd also be making the world a better place. I wanted to give the company the belief that this is more than just a revenue game and we are more than just a revenue company."

Hainer's vision was backed by action. When investors would punish Adidas for having a lower profit margin than Nike, he'd respond calmly that Adidas's product development costs were higher because they were going to make the best performance product. "We will never disappoint an athlete with our product that they are wearing," he says. "If we help them make their dream come true—winning an Olympic gold medal, the French Open, etc., then we have achieved more than just revenue numbers." Yet, as planned, when it came to the numbers, Adidas scored big. By the time Hainer retired fifteen years later, he'd revived the Adidas brand and had seen the company's market capitalization rise from $3.4 billion to over $30 billion.

Looking back at the boldly framed visions in table 1, it's striking that none of these successful companies focused on achieving financial outcomes—profits were an outcome of achieving their vision. Oliver Bäte, CEO of the world's largest insurance company, Allianz, explains why: "Nobody gets galvanized by, 'I need to double net profit.' Sorry, even my top team doesn't. So the question is, what can you rally people behind? It's really different to tell people, 'We want to be the loyalty leader in everything we do,' than, 'We want to double return to shareholders.' "

When Aliko Dangote, the founder and CEO of Nigeria's Dangote Group, started his company in 1981, it was a small commodities trading firm. Yet, over the decades, his vision was always consistent—to scale up, industrialize, and be Africa's flagship company in key sectors. Today, the group is West Africa's largest conglomerate, with more than $4 billion in revenue and thirty thousand employees. Dangote describes how the clarity and power of vision continuously provide a crucible for change: "Africa is a richly endowed continent, and this for me is more than enough imperative for sustainable growth. Africa has six of the world's ten fastest growing economies, 60 percent of the world's uncultivated arable land, and by 2050, one person in five in the world will be African. Our workforce understands that we have a clear vision to develop the continent, meet core needs, and improve the livelihood of the populace."

Medical device company Medtronic's former CEO Bill George describes how this dynamic played out at his company: "Our most important metrics weren't revenues and profits but how many seconds it would take until someone else was helped by a Medtronic product. When I joined the company, it was one hundred seconds. When I left the company, it was seven." The focus on restoring people to full life and health and letting shareholder value creation be an outcome of that creates a powerful motivation far beyond making money. As George describes, "employees want to jump out of bed in the morning to invent something new, produce a high-quality product, or help doctors in an operating room. This holds true whether we're talking about South Korea, China, Poland, or Argentina. It motivates senior leaders, the woman on the production line, an engineer back at the lab, and the person who will drive through the night halfway across the state of Michigan to deliver a defibrillator so a doctor can start a procedure at seven o'clock the next morning. That's a true story."

Look Back to Look Forward

Reframing the game doesn't necessarily mean creating a vision that departs from a company's heritage. Our research found that the best CEOs often dig back into a company's history to find out what originally made it successful and then take that central idea and expand it in ways that open up new opportunities.

Intuit, the maker of QuickBooks and TurboTax, is a Fortune 500 company with eleven thousand employees. Scott Cook, who cofounded that Silicon Valley start-up in 1983, sought to create a customer-centric company that would always strive to fall in love with customers' problems, and never the company's solutions. The company's founding mission was to "end financial hassles," and the company continuously evolved its solutions to serve its customers.

When Brad Smith, a West Virginia native who'd worked his way through PepsiCo and the payroll company ADP before joining Intuit, took over the top spot in 2008, he faced some daunting challenges. The company had a proud twenty-five-year history of being a great desktop software company, but the world was shifting, and its products were becoming less relevant. Smith felt the essence of Cook's vision was still relevant, but how it was expressed and pursued needed to change. "We kept the spirit, but made the words from our original mission more contemporary," he says. "Our intent to power prosperity and champion the underdog has never changed. I simply needed to reaffirm it and ask what the most contemporary way is to do it. We refreshed our mission and once again evolved our solutions by leaning into the cloud, capitalizing on three macro trends—social, mobile, and global."

Reframing the founding mission into a compelling, contemporary vision for the company and mobilizing employees around it worked. Under Smith's eleven-year tenure, his vision of "powering prosperity to meet the needs of an increasingly connected world" helped Intuit double the number of its customers to 50 million and triple earnings while revenue doubled.[15] He grew the company's stock market value from $10 billion in 2008 to $60 billion as of 2019. Smith's advice to new CEOs is to have "a vision that is so clear a leader doesn't have to do anything but get out of the way. That's the most inspiring vision of all."[16]

Smith's experience was echoed by many CEOs to whom we spoke. As we already saw, Mastercard's Ajay Banga was inspired by an old corporate tagline. Gail Kelly at Westpac looked back to its service heritage as Australia's oldest bank. Microsoft CEO Satya Nadella looked to the origin story of the company that was about building technology so that others can build technology and felt, "Right there lies everything that needs to be known about Microsoft during my tenure."

Thus far we've discussed how the best CEOs create visions that boldly reframe the game. Indeed, every CEO we spoke to did so in one form or another, even those who took over already well-performing organizations. McKinsey & Company's former managing partner (our CEO equivalent) Dominic Barton summarized the prevailing sentiment: "As the leader, you have the power—and the responsibility—to raise the level of ambition in your organization." Raising the ambition level isn't just about the vision, however. It involves a highly inclusive process.

Involve a Broad Group of Leaders

The best CEOs create a game-changing vision for their company. When it comes to sharing it with the organization, however, they rarely dictate their views. Why?

Nobel Prize–winning Israeli psychologist Daniel Kahneman conducted an experiment that provides a memorable answer. Kahneman ran a lottery with a twist.[17] Half the participants were randomly assigned a numbered lottery ticket. The remaining half were given a blank ticket and a pen and asked to choose their own lottery number. Just before drawing the winning number, the researchers offered to buy back all the tickets. They wanted to find out how much they'd have to pay people who wrote down their own number compared with people who were handed a random number.

The rational expectation would be that there should be no difference in how much the researchers have to pay people. After all, a lottery is pure chance. Every number, whether chosen or assigned, should have the same value because it has the same probability of being the winner. The answer, however, is predictably irrational. Regardless of nationality, demographic group, or the size of the prize, people who write their own lottery ticket number always demand at least five times more for their ticket. This reveals an important truth about human nature. As Medtronic's Bill George puts it, "people support what they help create." In fact, they're some five times more supportive than those who aren't involved. The underlying psychology relates to our desire for control, which is a deep-rooted survival instinct.

This "lottery ticket effect" was tapped into by virtually every excellent CEO we spoke to. Maurice Lévy, the former CEO of the multinational advertising and public relations goliath Publicis, used the approach throughout his career. In 1987, the Moroccan-born executive took the reins of what was then considered a French "also ran" advertising company and successfully transformed it into one of the world's top three agencies. Lévy used mergers and acquisitions (M&A) to expand the group's reach to over a hundred countries. The rallying cry of the company was "*Viva la difference,*" which emphasized providing clients with services culturally attuned to local environments.

By 2015, his strategy of acquisition-led growth had largely played itself out. It was time to reframe the game. Lévy saw that Publicis was operating as a collection of individual entities—a separate agency for each solution and market. Further, he saw that consulting firms like Accenture were disrupting the industry, using data and technology to build brands. Even though he felt he had a clear view of what needed to be done, at age seventy-three he knew that, more than ever, the vision for Publicis needed to be owned by the next generation and beyond.

To capture the "lottery ticket effect," Lévy engaged his executive team and the next level of management—roughly three hundred leaders plus fifty recently promoted managers under the age of thirty—in a multi-month-long process. He invited guest speakers to help educate his leaders on global trends and disruptions. Among them were Eric Schmidt of Google, Mark Zuckerberg from Facebook, Salesforce.com founder Marc Benioff, and Harvard leadership professor Rosabeth Moss Kanter. Inspired by what they heard, the executives worked in subgroups where ideas for the future of Publicis were debated, combined, and prioritized. Ultimately, what emerged was a new vision of "the Power of One." This was a radically reframed vision, one that would serve customers through cross-functional teams in ways that broke down the firm's large number of traditional silos.

The ultimate benefit of "the Power of One," however, was that Lévy created a deep sense of ownership that led to a broad leadership coalition. The process, he says, "Gave us incredible energy and great solutions." When he stepped down two years later, the little French "also ran" company he'd taken over thirty years earlier had grown to an $18 billion market cap, and become a global powerhouse.

The vast majority of excellent CEOs we spoke to found ways to include their employees when setting their vision, with similarly impressive results. Majid Al Futtaim's Alain Bejjani says, "We aimed to have the most inclusive process possible. Doing so built a broad sense of ownership, and we also found that some of the most insightful answers came from people we wouldn't normally have approached for input, which in hindsight would have been a significant loss."

As Adidas's Herbert Hainer shares: "It took us five months, but people had the freedom to really speak out about what they think is right for the company. This unleashed enormous spirit, new ideas, and creativity. And within twelve months, our share price doubled—we had momentum like hell. This was, in my opinion, the magic moment." Best Buy's Hubert Joly reinforces that point, "Of course you have to create a plan, but you have to co-create it. It doesn't need to be perfect—the key is to create energy and manage energy."