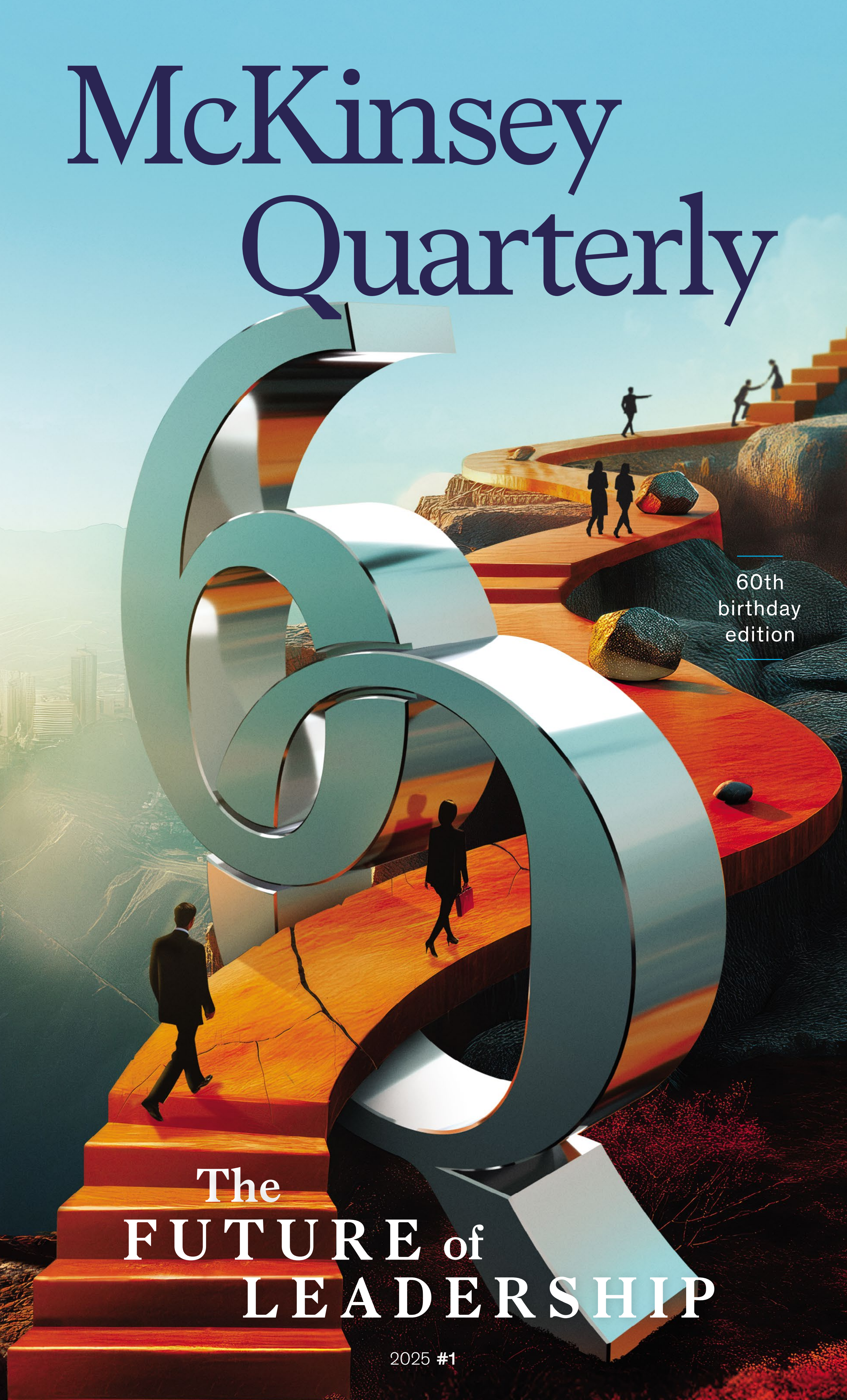
McKinsey Quarterly



60th birthday edition

The FUTURE of LEADERSHIP

2025 #1

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2025 #1

McKinsey Quarterly

The evolving leader

Welcome to the second of four special issues celebrating the 60th birthday of *McKinsey Quarterly*. For six decades, McKinsey's flagship publication has delivered the best of our firm's research and insights to a broad range of clients and readers, publishing many groundbreaking stories along the way. And, of course, many of those stories have been about this issue's topic: leadership.

There's no single secret or revelation to explain why some leaders are successful and others are not. Today's business leaders must master an increasingly broad range of tangible skills. But they must also bring a full suite of personal traits to the job, ranging from confidence and versatility to "softer" traits such as openness and humility. This full package of skills and personal traits is what helps leaders engage and inspire their teams. It's also what's needed for their organizations to have the resilience to thrive in the face of today's many disruptions: geopolitical stress, the rapid development of AI and other technologies, supply chain fragility, inflation, political polarization, generational differences among employees, and an expanded lineup of stakeholders, to name a few. Great challenges demand great leaders.

"The art of 21st-century leadership: From succession planning to building a leadership factory"—by McKinsey global managing partner Bob Sternfels, senior partners Daniel Pacthod and Kurt Strovink, and senior adviser Wyman Howard—sets the stage for this issue. As the authors write, "We estimate that ten years ago, CEOs and top teams typically focused on four or five critical issues at any one point in time; today, the number is double that." After explaining why today's leadership model differs from the past, the authors synthesize the character, craft, and structure needed for leaders to succeed in today's volatile atmosphere.

The character of great leaders is critical. The best business leaders understand that who they are as individuals sets the tone for the entire company. They are continuous learners who both catalyze and support the workforce. According to Arne Gast and Suchita Prasad in "Warning: Upgrade your personal operating system," effective leaders continually adjust their priorities, roles, time, and energy practices to help themselves and their companies stay ahead of whatever the future might bring. As illustrated in "Developing a resilient, adaptable workforce for an uncertain future," by McKinsey senior partners Aaron De Smet and Dana Maor and coauthors, leaders have to demonstrate their own willingness (even enthusiasm) to change if they want their workforces to do the same. This kind of authenticity matters more than ever, as Dana Maor, Hans-Werner Kaas, Kurt Strovink, and Ramesh Srinivasan explain in "How leaders can tap the power of vulnerability," an excerpt from their new book, *The Journey of Leadership: How CEOs Learn to Lead from the Inside Out*.

In "The CEO's essential checklist: Questions every chief executive should be able to answer," Carolyn Dewar, Kurt Strovink, Scott Keller, and Vikram Malhotra offer a comprehensive and practical way for business leaders to evaluate how well they are doing at turning mindsets into practices that can steer their companies to great heights. This connection between the success of a business and the mindsets, behaviors, and personal qualities of its leaders is the thread that connects the stories in this issue.

One more highlight of this issue: our adaptation of the groundbreaking Women in the Workplace survey, by senior partners Alexis Krivkovich and Lareina Yee and coauthors. While progress has been made, companies have more to do to shore up a fragile pipeline and ensure that all talent, regardless of gender, has a chance to rise to the top. (Luckily, progress has also been made at *McKinsey Quarterly*. As you'll see from a few of the archival quotes we've included from 60 years of publishing, old *Quarterly* stories sometimes used anachronistic language implying that all leaders are men.)

I hope and believe that you will gain valuable insights from this special issue. You might also enjoy our digital edition, which is available via free membership and includes bonus stories that we couldn't accommodate in print. It's easy to sign up at McK.co/MQMembership. And, of course, I hope you'll continue your learning on McKinsey.com, where you can go deeper on any subject we cover in the print *Quarterly*.

For 60 years, *McKinsey Quarterly* has provided meaningful, practical advice to the world's most senior leaders. We are pleased to continue the tradition with this special issue.

Rick Tetzeli
Editorial director,
McKinsey Quarterly

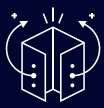
THE FUTURE OF LEADERSHIP
cover package

The future of leadership in charts

Outlook

21ST CENTURY

THE FUTURE OF LEADERSHIP
cover package (*continued*)



RE:THINK

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RE:THINK

Why successful leaders dig deep on identity and purpose

To motivate and inspire, CEOs need to be able to answer two questions: "Who are we?" and "Why are we here?"

Kurt Strovink

VULNERABILITY

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How leaders can tap the power of vulnerability

Showing vulnerability can build connections and trust. One place to start: create a "to-be" list rather than a "to-do" list.

Dana Maor, Hans-Werner Kaas, Kurt Strovink, and Ramesh Srinivasan

SUPERPOWERS

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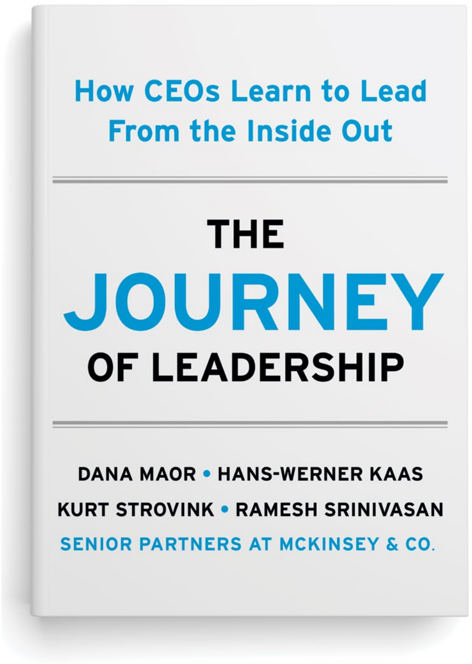
Building a superpower: What can we learn from the Magnificent Seven?

A distinctive capability can lift a company's performance. But it's not easy to build one. Here's a guide to how today's stock market favorites have created enduring competitive advantages.

Brad Mendelson, Harald Fanderl, Homayoun Hatami, and Liz Hilton Segel

BOOK ALERT



Today's CEOs operate in an increasingly high-risk environment, expected to tackle more complexity and make bigger swings with no second chances. This has taken a toll: the average tenure of an S&P 500 CEO is at an all-time low. When the pressure is on, how can CEOs reinvent themselves too, along with their organizations?

Leaders of many of the boldest and most storied organizations regularly turn to McKinsey not only for organizational clarity but also for their own learning, transformation, and leadership challenges. *The Journey of Leadership: How CEOs Learn to Lead from the Inside Out* (Portfolio, September 2024), by McKinsey senior partners Dana Maor, Kurt Strovink, and Ramesh Srinivasan and senior partner emeritus Hans-Werner Kaas, is the first-ever look behind the curtain at McKinsey's step-by-step approach to transforming leaders both professionally and personally.

Revealing lessons from McKinsey's legendary CEO leadership program, the Bower Forum, which has counseled more than 500 global CEOs over the past decade, as well as McKinsey's global CEO counseling practice, *The Journey of Leadership* shares how leaders hone the psychological, emotional, and, ultimately, human attributes that result in success in today's most demanding top job.

McKinsey Quarterly

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Heather Byer, Nancy Cohn, Drew Holzfeind, LaShon Malone, Diane Rice


The
future of
LEADE

RSHIP

Illustration by Luke Lucas

FROM THE
MCKINSEY QUARTERLY
ARCHIVES

The shortcomings of command-and-control management are becoming ever more apparent. The hierarchy of bosses organized into ranks, with each superior exercising authority over subordinates who do exactly what their boss wants, has long been the dominant form of corporate organization. But recognizing that they are handicapped by their current systems, many companies are now questioning the way they manage themselves.

"Developing leaders in a business," by Marvin Bower
McKinsey Quarterly, 1997, Number 4

Outlook

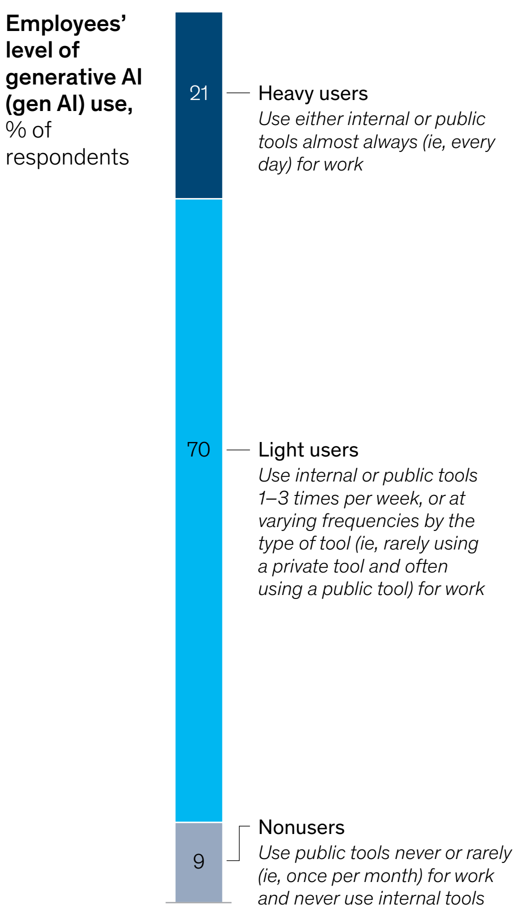
The future of leadership in charts

Outlook illustrations by Eiko Ojala

Agents of change preferred

Wanted: Business leaders who embrace transformation through AI

Most survey respondents say they are using generative AI at work, and the vast majority are optimistic about the technology.



Source: McKinsey Global Survey on gen AI use in organizations, Feb 27–Mar 8, 2024 (n = 592)

The challenge: In just two years, there's been an exponential rate of gen-AI-related innovation in the business world. Yet a McKinsey Global Survey reveals that employees are far ahead of their organizations in using gen AI, while company leaders have been slow to adopt the technology in ways that could realize gen AI's trillion-dollar opportunity. To harness employees' enthusiasm and stay ahead of the curve, leaders need a holistic approach to transforming how the whole organization works with gen AI. And because most workers have access to gen AI, these tools can act as a gateway technology for all other digital and tech transformations.

What leaders can do: To capture gen AI's full potential, leaders can consider how the technology can redefine the way the organization works and apply gen AI in ways that enable the business strategy. Our experience and research point to three steps to prepare for gen AI's next inflection point: reinvent the operating model at the level of domains (that is, subsets of the business that include a cohesive set of related activities—for example, workflows or processes, journeys, or entire functions), reimagine the talent and skilling strategy, and reinforce changes through formal and informal mechanisms that ensure continuous adaptation.

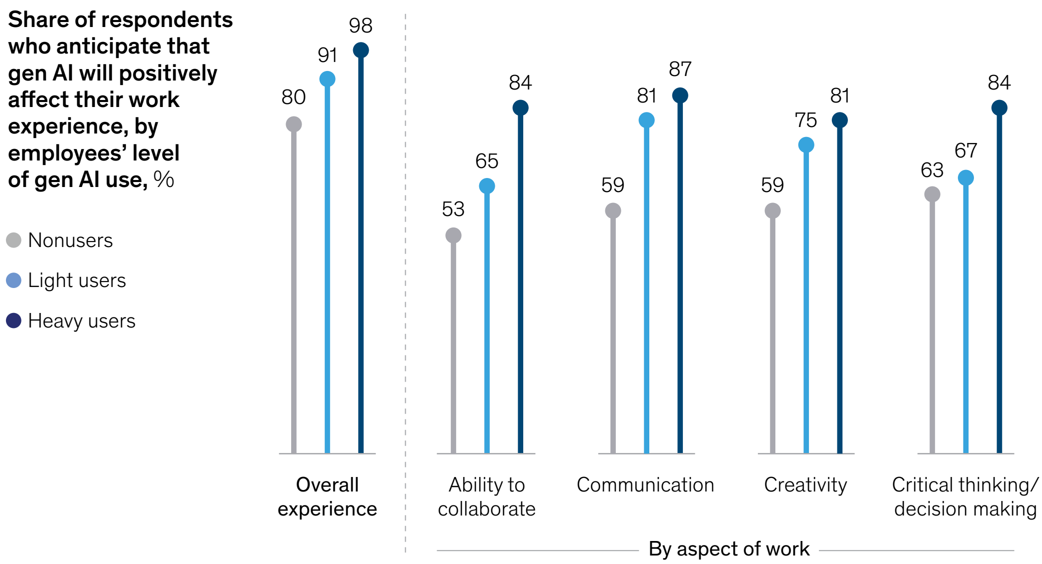
Leaders can focus on prioritizing the right unit of transformation by focusing on specific domains, such as product development, marketing, and customer service. A domain-based approach allows for the integrated, end-to-end transformation of a single workflow or function. Since domains often span organizational boundaries, implementing gen AI and other technologies at the domain level can deliver greater value than one-off solutions.

Gen AI's implications for talent and skill needs are massive. To prepare for these shifts—and capitalize on employees' enthusiasm, since nearly all respondents expressed optimism about gen AI's impact on their work—leaders can invest in both technology adoption *and* skills; the technology alone won't create value. This will require a tailored approach to reskilling and upskilling and close collaboration among business and tech leaders and HR. Given the criticality of people topics, HR plays an especially important role in gen AI and technology transformations, both by transforming the people domain and by acting as a gen AI copilot for all employees.

To make their gen AI changes stick, the first step leaders should take is establishing the right governance. In our experience, this means creating a centralized structure that oversees the organization's AI adoption, sometimes with a chief AI officer leading these efforts. The second step is treating these changes like a true transformation by defining the transformation's infrastructure, roles, and measurement criteria; ensuring accountability within business units; and implementing a regular cadence to monitor progress—and adjusting as needed. Third is addressing employee mindsets and behaviors across the organization, which we know from extensive research and countless conversations with executives is vital to any successful transformation.

This Outlook is derived from "Gen AI's next inflection point: From employee experimentation to organizational transformation," on McKinsey.com.

Share of respondents who anticipate that gen AI will positively affect their work experience, by employees' level of gen AI use, %



A call for growth specialists

Wanted: Consumer-packaged-goods leaders who can cultivate a dual agenda

The challenge: For more than three decades (1980 to 2012), investors could count on consumer-packaged-goods (CPG) companies to deliver reliable growth and healthy, stable margins. In the first decade of this century, publicly listed CPG firms generated average annual revenue growth of 9 percent, with constant margins, and 22 percent return on invested capital. CPG companies owed these results to their long-standing formula for creating value in a steadily expanding market: build strong brands, expand with growing markets and channels, and manage costs to generate more brand-building wherewithal. Investors loved the formula's stability.

But the formula lost its power in the 2010s as four megatrends disrupted the industry: a macroeconomic slowdown, consumer fragmentation, a squeeze on mass merchants, and escalating, volatile costs. As a result, industry revenue grew just 2 percent per year from 2012 to 2019. CPGs made up for this growth shortfall with substantial cost reductions. But then came the COVID-19 pandemic and inflation, which drove down margins for the first time and led to volume contraction. Even as inflation cools, macroeconomics is still a headwind, meaning CPG companies need to work much harder to generate growth. Today, consumers are spending more and buying less: in 2023, Americans spent 10 percent more on groceries but bought 4 percent fewer items. CPG companies, therefore, face two urgent needs: renewing growth when opportunities are limited and reducing costs when companies have already done a lot.

What leaders can do: Returning to top-quartile performance across industries means CPG companies will need to deliver, on average, 4 to 5 percent annual top-line growth at 15 to 16 percent EBITA. This growth rate is 100 to 200 basis points higher than both analyst consensus and our underlying market growth projections, and this level of EBITA delivery is 100 to 200 basis points above current levels. In short, it's a tall order.

To rescue CPG performance in the next decade, leaders must adopt a dual agenda: the first is all about portfolio management, both reshaping a CPG company's existing portfolio and entering new businesses beyond consumer packaged goods. These new ecosystems or services around core categories can take many forms. For one CPG business, that meant building out pet food services alongside its pet food business.

The second agenda focuses on performance. CPG companies must outperform wherever they play, driving relentless commercial excellence, transforming marketing, owning premiumization and category expansion, and reinventing productivity. When it comes to marketing, for example, the basics remain critical, but leaders can also lean into generative AI (gen AI) opportunities, such as accessing proprietary insights, to bolster marketing capabilities.

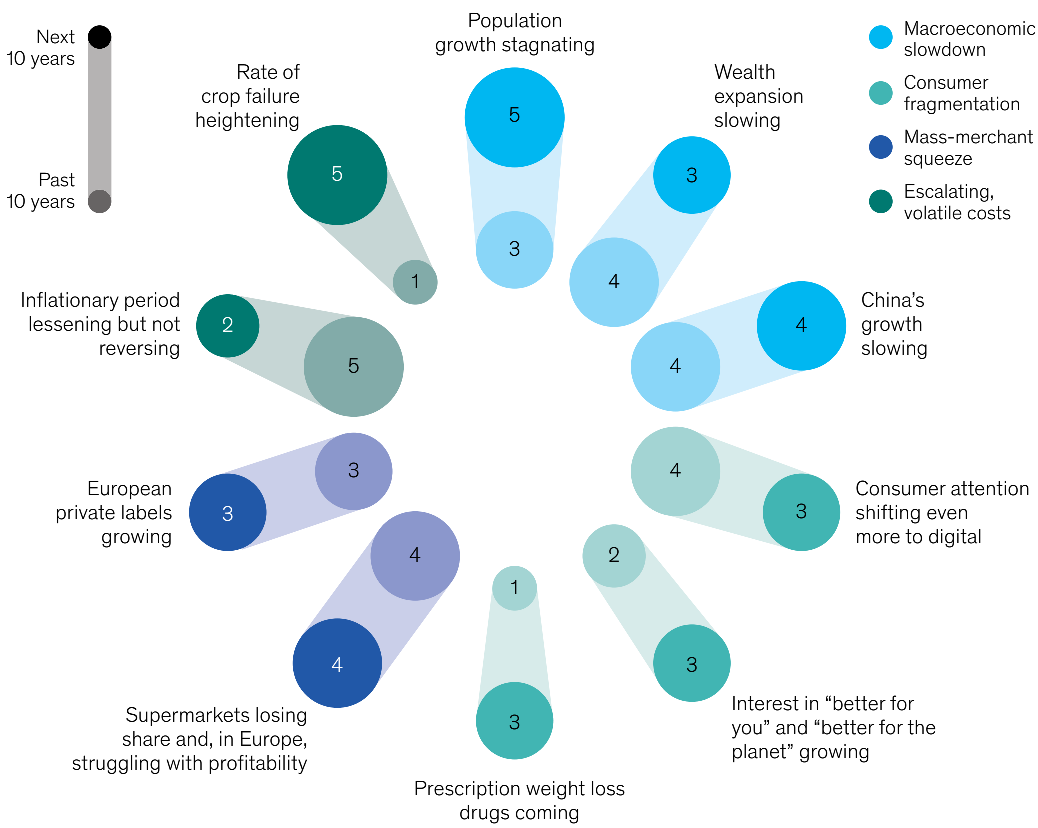
Sheer will alone will not help CPG leaders meet these goals. Embracing a digital transformation, adopting a future-fit operating model, and cultivating a culture that excites talent are all crucial to enabling the big swings leaders should take.

The sector is diverse, and the best package of actions differs by company. One thing is true for any CPG company, though: act fast or get left behind.

This Outlook was derived from "Rescuing the decade: A dual agenda for the consumer goods industry," on McKinsey.com.

The megatrends that disrupted the consumer-packaged-goods industry over the past decade are strengthening.

Impact level of megatrends on consumer-packaged-goods industry, scale of 1 (moderate) to 5 (high)



'Digital ninjas' in demand

Wanted: Health system leaders who leap over transformation obstacles

The challenge: Health systems worldwide face a host of challenges, including rising costs, clinical-workforce shortages, aging populations requiring more care, and growing competition from nontraditional players. At the same time, consumers expect new capabilities, including digital scheduling and telemedicine, and better experiences throughout their care journeys. AI, traditional machine learning, and deep learning could be game changers for the healthcare industry, enabling it to address labor challenges, reduce costs, and enhance the quality of care. In the United States alone, these new technologies could result in net savings of about $200 billion to $360 billion in healthcare spending, according to one estimate. But in our recent survey of 200 global health system executives, 75 percent of respondents report that their organizations place a high priority on digital and analytics transformation but lack sufficient resources or planning. The absence of investment could delay efforts to close gaps in care, improve timely access for referrals, and optimize operating room efficiencies.

What leaders can do: Leaders can pursue partnerships—including joint ventures and alliances—to access new capabilities, increase speed to market, and achieve capital, scale, and operational efficiencies. In the United States, for example, it takes more than $13 billion to be a top 20 system by revenue, a position many have reached through inorganic growth.

Move beyond off-the-shelf solutions. To realize value from healthcare technology, leaders can reimagine and standardize clinical workflows and care models across organizations. For example, optimizing workflows to enable more appropriate delegation, with technical enablement, could yield a potential 15 to 30 percent net time savings over a 12-hour nursing shift. This could help close the nursing workforce gap in the United States by up to 300,000 inpatient nurses.

Use cloud technologies for modernization. Health system leaders are increasingly building cloud-based environments with defined products to increase data availability and quality. They can also push for cloud-hosted, end-user-focused platforms (such as apps for patients or clinicians) that integrate other applications into a single experience to simplify stakeholders' interactions with the system.

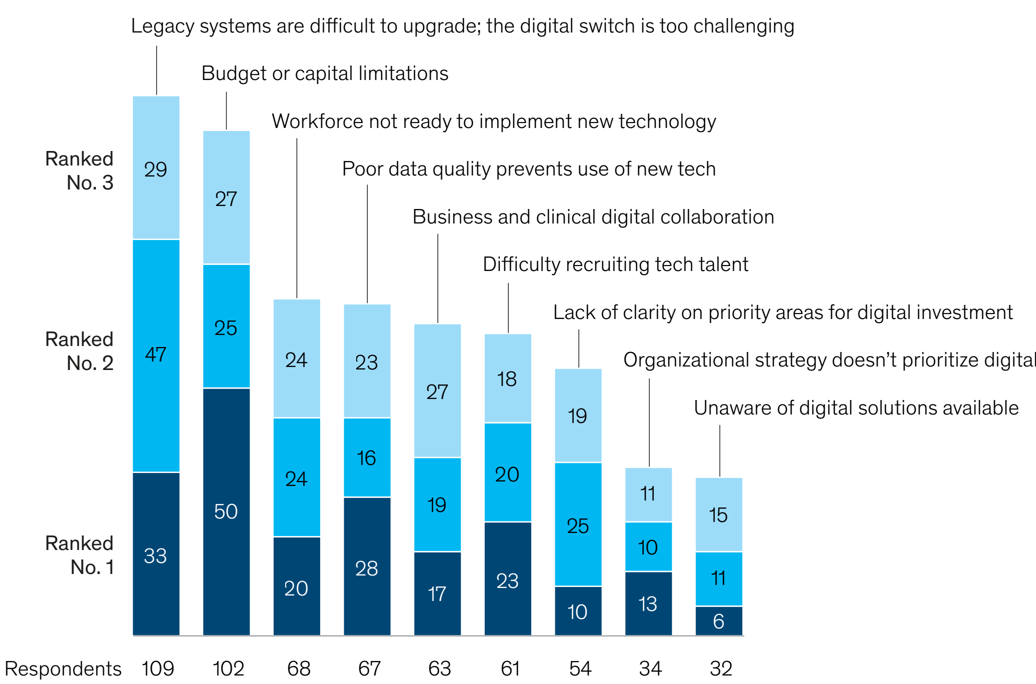
Operate differently. Operating differently entails fundamental changes in structure (flatter, empowered, cross-functional teams), talent (new skill sets and fully dedicated teams), ways of working (outcome orientation, agile funding, and the managing of products, not projects), and technology (modular architecture, cloud-based data systems, and reduced reliance on the monolithic electronic health record). With these changes, some health systems have begun to see real value within six months. Building a digital culture helps the transformation succeed over time.

Cautiously embrace gen AI. Gen AI has the potential to reshape healthcare, including the continuity of care, clinical operations, contracting, and corporate functions. Health system executives and patients have concerns about the risks of AI, particularly in relation to patient care and privacy. Managing these risks entails placing business-minded legal and risk management teams alongside AI and data science teams. Leaders of organizations could also implement a well-informed risk prioritization strategy.

This Outlook was derived from "Digital transformation: Health systems' investment priorities," on McKinsey.com.

Health system executives identified a host of challenges to executing digital and AI transformation.

Challenges to executing digital and AI transformation in the next 2 years, number of respondents



Source: McKinsey Digital and Analytics Provider Survey, July 2023 (n = 200)

Seeking productivity wizards

Wanted: Construction leaders to build a higher-capacity industry

The challenge: The construction industry could be on the brink of remarkable expansion. In constant prices, global construction spending is projected to escalate to a striking $22 trillion in 2040, from $13 trillion in 2023. Outside of China, the industry will need to double its growth rate to deliver on the projections for 2040.

The demand for more infrastructure, data centers, housing, and new supply chains, as well as development projects needed to facilitate the net-zero transition, is clear, but how the construction industry will meet the demand is not. The industry faces a shortage of capable workers. Labor productivity has stagnated for decades. Construction productivity improved by only 10 percent globally between 2000 and 2022, compared with a 50 percent productivity improvement in the total economy for the same period.

Any shortfall in output would cause significant bottlenecks in country-level economic, social, and environmental ambitions. Failure to build adequately could hamper countries' abilities to address the critical needs of a growing population or to meet societal goals.

What leaders can do: Construction executives can start by ensuring that evergreen, foundational measures are in place to set teams up for success, such as adequate staffing, robust planning processes, improved handovers, and apprenticeships for capable workers.

But for the required productivity improvement—and to give individual companies strategic advantage—more transformative approaches include the following:

- *Adopt project steering 2.0.* Conventional project management relies on earned-value-management systems, but these S-curves can disguise performance issues and delay intervention. Project teams can shift their focus to production-rate metrics, such as meters welded, volumes excavated, and drawings reviewed. Steering projects this way makes teams more proactive and helps them resolve issues before they materialize.

- *Upskill project staff.* Skilled-labor shortages pose an upskilling and leadership challenge for the industry. Leaders can focus on helping team members upskill regularly. Technology-supported learning journeys, systematic apprenticeships, and project academies focused on hard and soft skills can be deployed to create a more proficient workforce.

- *Scale initiatives across project portfolios.* While there are many examples of successful productivity improvements within specific project teams, rolling out improvements across a project portfolio can be difficult.

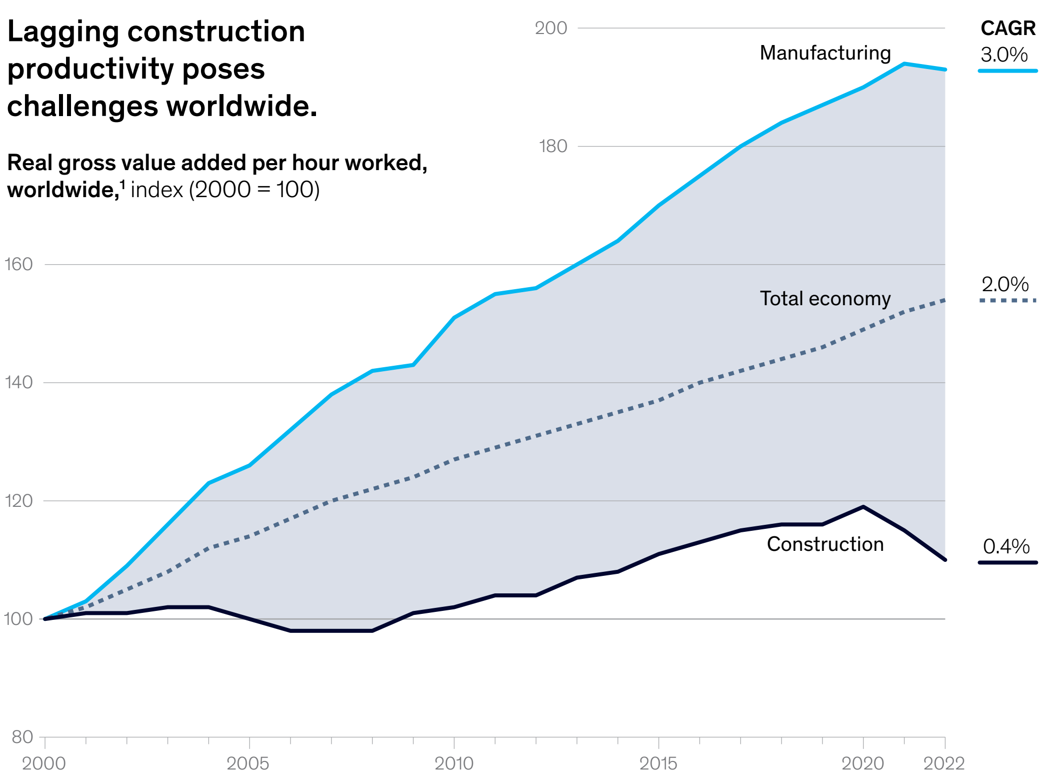
- *Apply technology in ways that have a direct impact on productivity.* Technologies such as gen AI could fundamentally transform how capital projects are delivered. Investments in technology should shift from “shiny objects” like drones or monitoring software to technology that streamlines and accelerates engineering, procurement, and construction.

- *Industrialize construction.* The entire construction value chain can focus on increasing standardization and productization, including with 3D models, libraries, and prefabricated components and subsystems, and by applying an industrial learning curve to promote continuous improvement.

This Outlook was derived from “Delivering on construction productivity is no longer optional,” on McKinsey.com.

Lagging construction productivity poses challenges worldwide.

Real gross value added per hour worked, worldwide,[1] index (2000 = 100)



[1]Includes 42 countries with sufficient data availability; they account for >90% of 2022 construction value added.
Source: IHS Markit; International Labour Organization; local statistical offices; OECD; UN; McKinsey analysis

Speed coaching required

Wanted: Green-technology leaders who make laggards run faster

The challenge: Despite policy innovations, increasing global consensus around climate action, and growing private sector commitments to reduce carbon, global emissions are not declining at the rate required. At the current pace, Europe and the United States, both of which have set 2030 climate targets, are at risk of missing them. While numerous investment announcements have been made for clean-technology solutions including solar photovoltaics, wind energy, clean hydrogen, and carbon capture and utilization, many of these projects have not actually reached a final investment decision, putting them at risk of not materializing at the rate required. Challenges to meeting these targets include inflation and high interest rates, which make financing more difficult; technologies that have not yet been tested at scale; industries that lack the reference cases that could give investors confidence; long permitting procedures; shortages of specialized labor and raw materials; and geopolitical uncertainty.

The interdependent nature of these technologies means that delays could have cascading effects, hindering the development and successful deployment of subsequent innovations, and putting 2050 net-zero goals at risk.

What leaders can do: There is still a window of opportunity for governments and companies to deliver the growth needed to meet net-zero ambitions.

There is no panacea that leaders can use to navigate the transition away from fossil fuels; a single solution or technology won't do it. Instead, they need to remain aware that all energy solutions—including renewable energy, other low-carbon energy sources, energy efficiency gains, carbon capture, and some continued use of fossil fuels—have a role to play in achieving global clean-energy goals while providing energy security. A transformation of the global energy system that could get the world back on track to meet targets can happen only if leaders incorporate the full range of proven and emerging levers.

In planning for the road ahead, stakeholders will need to consider more than a solution's technological feasibility. Efforts should address deploying capital, improving business cases, ensuring economic returns, adjusting regulation, and establishing continued political and public support in the face of competing economic and societal priorities.

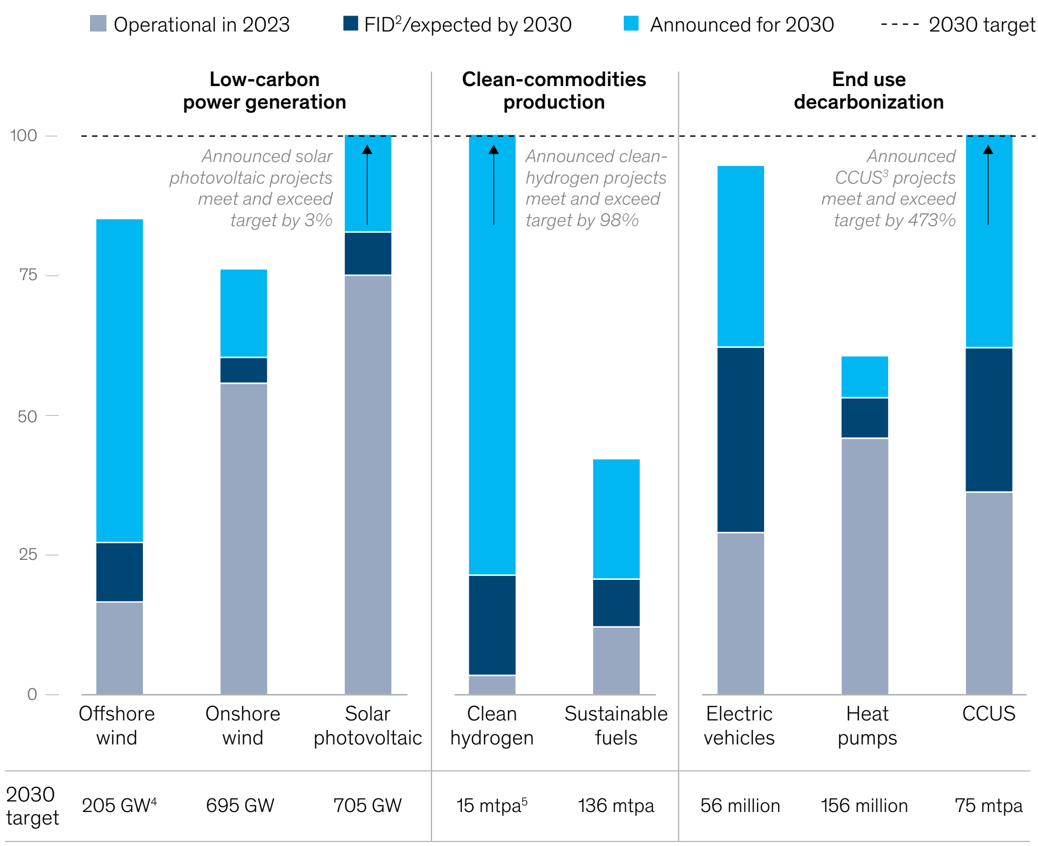
Many leaders' current decarbonization strategies assumed a different economic and policy landscape than the one that exists today. This means company leadership should reassess their portfolio strategies and reallocate risk. After revising their portfolio strategy, stakeholders could actively derisk critical developments integral to the company's strategy—for instance, by forming partnerships, engaging actively in discussions about meeting their goals, addressing offtakes and infrastructure needs, and staying on top of developments in the sector. Companies with more experience in specific technologies could hold a significant advantage.

Relevant government stakeholders could prioritize policies—such as financing schemes—that improve project economics and policies that drive market demand for new products and solutions. These policies could include carbon pricing or product mandates.

This Outlook was derived from "Global Energy Perspective 2024," on McKinsey.com.

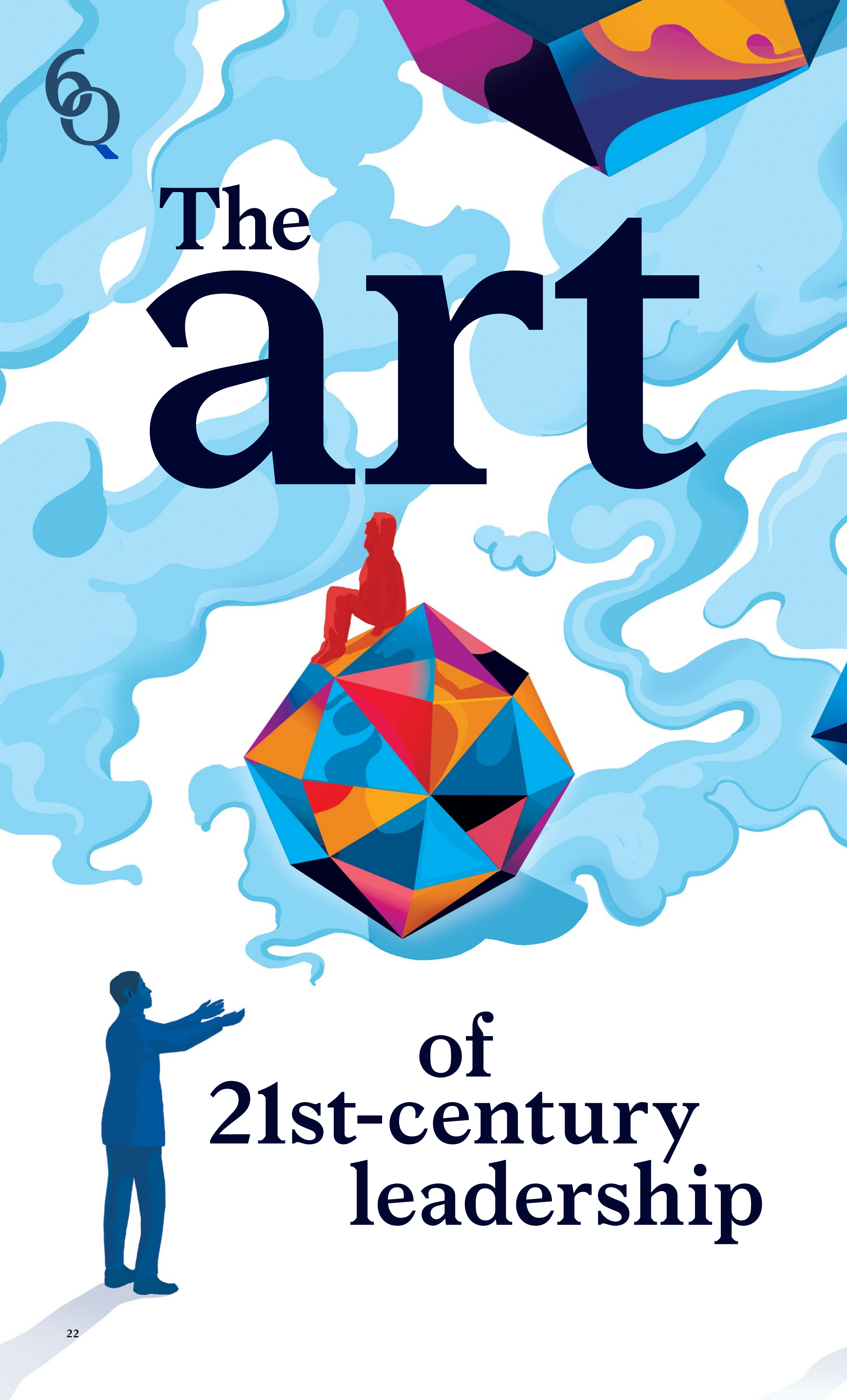
Many clean-tech projects are announced. But until final investment decisions are made, capital won't be in place to ensure they proceed.

Technology deployment pipeline in Europe[1] and US vs targets, % of target, normalized



[1]EU-27 + Norway, Switzerland, and UK. [2]Final investment decision. [3]Carbon capture, utilization, and storage. [4]Gigawatts. [5]Metric tons per annum.
Source: EHPA; EIA; Eurostat; IEA; Rystad; Wind 4C; McKinsey Energy Solutions; McKinsey Hydrogen Insights

The art of 21st-century leadership



Illustrations by Sam Falconer

*by Bob Sternfels,
Daniel Pacthod, Kurt Strovink,
and Wyman Howard*

From succession planning to building a leadership factory

Complicated times demand great leaders. Here's an overview of traits and practices required to succeed as a leader today and a look at the factory model that can help aspiring managers ascend.

Leading a global organization in today's fragmented world is difficult—perhaps more difficult than ever. Since the outbreak of COVID-19 and the acceleration of geopolitical tensions, leadership teams have faced an increasing number of uncertainties and disruptions. These include the sudden emergence of upending technologies such as generative AI; the energy transition; and a global workforce seeking more autonomy, empowerment, flexibility, and mobility.

There is a compounding and interconnected effect across all these disruptions—and less and less time for leaders to react to them. We estimate that ten years ago, CEOs and top teams typically focused on four or five critical issues at any one point in time; today, the number is double that.

From our engagements and discussions with CEOs and leaders across the globe, we see that the biggest obstacle to creating resilient and high-performing teams is having a deep bench of leaders who can not only thrive but also excel in this uncertain 21st-century business environment. There are distinct differences between the personal attributes, best practices, and approaches to leadership development required in today's organizations and those of yesteryear.

In this article, we explore what it will take to be a leader for this century and how organizations can build a leadership factory that shapes, develops, and mentors the next generation of managers. The organizations that treat leadership development as a core capability and proactively address the needs of both existing and aspiring leaders can raise their overall resilience and substantially improve the odds that they will be able to withstand disruption—whatever it is, and whenever it appears next.

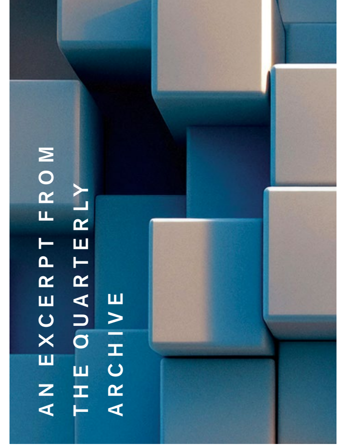
The character of 21st-century leadership: Personal attributes

As the world grows more complicated, so must our perceptions of and approaches to leadership development. From our work with leadership teams across companies, sectors, and regions around the world, as well as our own longitudinal research, we believe that six leadership traits are most needed to excel in today's uncertain environment:

- *Positive energy, personal balance, and inspiration.* This collection of traits is focused on managers' need to develop (and protect) the mind, body, and spirit. Managers will find themselves bereft of the energy to learn and lead if they don't have a clear understanding of what makes them tick. And at a time when—as recent McKinsey research shows—a mobile, postpandemic, multigenerational workforce is looking for more connection, more authenticity, and more inspiration from their leaders, that energy is becoming a critical commodity.

- *Servant and selfless leader.* The highest-performing leaders we've observed are focused on making the team and others successful. It's not about them; it's about others' deeds, actions, and outcomes. It's about the organization's mission, deep purpose, and positive impact. Such a leadership approach becomes more important when considering the results of a recent McKinsey survey in which 70 percent of about 1,000 employees said their work largely defines their sense of meaning and purpose.

- *Continuous learning and humble mindset.* Leaders can't be afraid to take risks; they must be endlessly curious and learn from their mistakes. The highest-performing leaders we've observed never consider themselves to be the highest expert or the smartest person in the room. Their superpowers are their humility and willingness to be vulnerable. Microsoft's Satya Nadella, for instance, advocated for greater transparency and a learn-it-all rather than a know-it-all attitude at all levels of the company, helping propel its cultural transformation.



1995

McKinsey Quarterly
Number 2

Young lions, high priests, and old warriors

What prevents most organizations from going beyond the ordinary is insufficient leadership capacity. Reining back aspirations, settling for longer, easier deadlines, and hiring unproven talent from elsewhere may seem the only solutions for under-led organizations. But there is another way. CEOs who think specifically about leadership capacity stand a far better chance of getting their organizations to push through the barriers of normal performance.

- *Grit and resilience.* Hard as it may be sometimes, leaders need to be stoic in the face of disruption. They excel at assimilating the best ideas around them but never waver from making the tough decisions when it is called for. They don't disappear when times get tough. They calmly analyze the root cause of a situation, adjust behaviors, depersonalize, and bounce forward—never too high, never too low. According to the latest research from McKinsey's Organizational Health Index, those companies with leaders who act decisively—and who commit to the decisions made—are 4.2 times more likely than their peers to be healthy.

- *Levity.* The high-performing leaders we've observed recognize that it's important to bring humor to their conversations, sometimes even during serious matters. Moments of humor can help teams bond, defuse high-stress situations, and unlock the creativity of the full group. Indeed, research has shown that leaders with a sense of humor—even a so-so sense of humor—are 27 percent more motivating and inspiring than others. Employees are 15 percent more engaged when they work with such leaders versus with other leaders, and teams are twice as creative, as measured by having them solve a creativity challenge.

- *Stewardship.* The best-performing leaders take the long view; they see themselves as stewards of their organizations and teams "for now." They understand that markets will shift, customer demands will change, and the tasks of leadership will evolve as the organization does. With that in mind, they adopt an intentional approach to developing leadership capabilities across the organization. When they are done, they aim to leave the team and the institution stronger, more relevant, and more sustainable than when they joined.

The craft of 21st-century leadership: Early best practices

Increasingly, our research and experience in the field suggest that organizations need to shift their leadership approaches in several core areas. Instead of managing with an eye solely on profits and preservation, leaders must also think about how to convey vision and possibilities (innovation) to all stakeholders. Instead of looking at value creation through the lens of scarcity and capitalizing on existing assets, leaders must consider opportunities to co-create with partners. Rather than simply command and control, leaders must collaborate and coach. And authenticity among leaders isn't just nice to have; it's expected by employees, customers, and almost everyone along the value chain.

Companies are still in the early stages of defining the craft of 21st-century leadership, but several best practices are emerging:

- *Engage—rigorously and relentlessly—with all key stakeholders.* Constructive dialogue and debate will set the best-performing companies apart from competitors. Leaders must therefore catalyze rigorous discussions across the organization—among senior leaders, with frontline workers, with the board, and so on. Leaders can rely on a number of tried-and-true methods, such as premortems, red-team and blue-team exercises, and what-if sessions, to facilitate these conversations. Such methods are particularly important to implement when considering tough-to-reverse decisions, which also require candor, a willingness to make trade-offs, and the courage to take a stand. And once those decisions are made, leaders must support them with clear communications. They need to craft brief, authentic messages that cut through information overload and set out tangible outcomes that people can measure and feel. The best communicators during the COVID-19 pandemic, for instance, had a clear playbook: they gave people the information they needed when they needed it, and they stated it clearly, frequently, and memorably.

- *Enroll (and reenroll) the team.* Leaders need to ensure that everyone is fully enrolled in the company's vision and strategy and willing to contribute of their own free will. This is different from simply gaining buy-in; individual members of an enrolled team are personally impelled to carry out the organization's mission. Enrolled employees are self-disciplined, self-motivated, and more likely than others to enforce standards and correct any deviations from them. Most important, leaders need to continually revisit the conditions—the behaviors, motivations, and processes—that will facilitate that deep enrollment and correct course as needed.

- *Build an operating model—and establish an operating cadence—that's wired for speed.* Rather than run business activities through traditional matrixed organizations and reporting lines, leaders should explore models that allow for speed: clear decision-making rights, few layers of bureaucracy, and tech-enabled information sharing. Leaders should aim to deploy standardization of processes where it makes sense; engage frontline leaders directly; institutionalize best practices through playbooks, trainings, and other formats; and share information via digital dashboards and other tools. Doing these things will create a performance edge, increase productivity, instill accountability, and substantially speed up decision making.

- *Emphasize a culture of trust.* The trust equation as developed by thought leader Charles H. Green looks like this: *credibility times reliability times intimacy divided by self-orientation*. As American economist and statesman George Shultz wrote for his 100th birthday: "'Trust is the coin of the realm.' When trust was in the room, whatever room

"We estimate that ten years ago, CEOs and top teams typically focused on **four or five critical issues** at any one point in time; today, the number is double that."

“Organizations can build a leadership factory that **shapes, develops, and mentors** the next generation of managers.”

that was—the family room, the schoolroom, the coach's room, the office room, the government room, or the military room—good things happened. When trust was not in the room, good things did not happen. Everything else is details." Thus, a critical task for the 21st-century leader is to analyze where the organization is strongest and weakest along each element of the trust equation and systematically address any issues with reliability, credibility, or vulnerability.

> "The best-performing leaders take the long view; they see themselves **as stewards of their organizations and teams** 'for now.'"

The structure of 21st-century leadership: Leadership factories

When we ask CEOs and leadership teams about the biggest hurdles keeping them from achieving their aspirations and reaching their full potential, they cite talent and the leadership team on the field. Specifically, they cite an urgent need to build leadership capabilities in their organizations—not only to ensure that they can successfully manage through today's disruptions but also to fortify themselves against tomorrow's inevitable shifts in the business landscape.

Some leadership skills can be taught in the classroom, but by and large, the most effective training and transfer of leadership skills happen on the job. They occur in the assessment, selection, and training pathways of new hires and through mentorship and apprenticeship, role modeling and coaching, and other real-world interactions.

In the 1980s, former McKinsey global managing partner Ron Daniel coined the term "leadership factory" to describe just this dynamic—that is, colleagues investing their time in other colleagues, learning in situ, providing regular feedback, and sharing personal and collective insights, with the result of producing great leaders. The factory model that he envisioned some four decades ago is still successfully in place at McKinsey, which was ranked first in *Time*'s list of the best companies for future leaders in 2024. And its practices have evolved through organizations such as GE, IBM, and P&G, all of which have created their own leadership incubators.

In our work with global leaders and teams, we've observed several new additions to the factory model blueprint—guidance that leaders can use in their own leadership factories and leadership development curricula:

- *Set leadership attributes.* The current leadership team must sharply define the attributes needed in the team and in the organization. It must help aspiring and high-potential leaders understand what leadership is—and isn't. Leadership isn't about consensus; it's about alignment. It's not about being popular, but it does require engagement. It's not about working apart from the team, but it does involve making sometimes-tough solo calls. It requires the temperament to manage these polarities and achieve balance. Leadership can be lonely at times. It requires extra reserves of confidence, grit, and an ability to compartmentalize. In the words of Douglas MacArthur, "The world is in a constant conspiracy against the brave. It's the age-old struggle: the roar of the crowd on the one side, and the voice of your conscience on the other."

- *Don't wait—get started now.* Right off the bat, leaders should assign high-potential managers to the toughest situations, putting them in uncomfortable positions and providing them with the right mentorship and continuous coaching.

- *Rethink how to build capabilities at scale.* The current leadership team should create personalized immersion sessions for new leaders. The most senior executives should lead these courses rather than having them administered by HR or delivered through self-driven courses. Senior leaders should compare notes with future leaders, get them to open up about their biggest challenges, and jointly determine how to address them. Lessons can come from anywhere in the business ecosystem. A large part of Wendy Kopp's success with Teach for All, for instance, was her willingness to trust partners around the world. Her organization established a clear set of unifying leadership principles (such as a commitment to shared purpose, theory of change, values, and

> **Leadership can be lonely at times.** It requires extra reserves of confidence, grit, and an ability to compartmentalize.

vision). Then it established a network of partners and trainings that leaders could use to learn from one another and apply lessons in their own countries and contexts. “There’s such power in fostering grassroots efforts while also helping people gain global exposure,” she says. Other leadership factories should take heed.

- *Lead self before others.* Current leaders should invest time and energy to help new and aspiring leaders manage themselves and operate at their personal best. Feedback is a critical starting point for self-improvement. Retired US Navy Admiral Eric Olson discovered as much when he led the US Special Operations Command, overseeing a group of warriors not known for wearing their emotions on their sleeves. As Olson told the authors of *The Journey of Leadership: How CEOs Learn to Lead from the Inside Out* (Portfolio, September 2024), he went on a nine-month listening tour of the soldiers and found some emotional “fraying around the edges.” The feedback prompted Olson and his team to change some policies, prioritize resources, and create more support (such as from nutritionists, physical therapists, and psychologists). They aimed to improve the cohesion, effectiveness, and morale of Navy SEALs and their families—because health and readiness all start at home.

- *Empower leaders to build their own personalized, self-driven learning journeys.* Organizations should provide modules on a range of leadership topics, including leading self, leading teams, leading organizations, and using technology to do all three. Ongoing, candid feedback from peers and team members will again be critical. It will help raise new leaders’ self-awareness, prompt their journey toward self-correction, and create development and mentoring opportunities across the organization.

The provision of 21st-century leadership: Preparation for CEOs and organizations

To facilitate the development of 21st-century leaders, today’s CEOs will need to think of themselves as chief talent officers. They will need to help identify and stay close to the high-potential leaders in their organizations, making personal connections with managers several levels below. They should take care to protect the mavericks in the organization—the managers who, unwittingly or not, may stray from traditional processes or protocols. These individuals may be the very leaders who guide their organizations into the innovative future.

CEOs must be role models within the leadership factory. They should hold everyone to the highest standards for performance and productivity. They can inspire and enroll colleagues by sharing personal stories and experiences.

And finally, CEOs must step back and ensure that the leadership factory is bolstered by appropriate performance management systems: employee value propositions, incentives, feedback mechanisms, and so on. These systems should reflect the 21st-century leadership attributes discussed here. They need to be designed for accountability, empowerment, and speed. Absent those systemic changes, a

leadership factory won't achieve its full promise—and may even end up degrading the aspects of culture and the skills most required for success.

The only certainty for today's global leader is that things will remain *uncertain*. 2025 will likely be just as challenging as 2024. So will 2026. It's incumbent on leaders, then, to stop falling back on what's worked for them in the past, adhering to business practices and rituals that have long since expired. Instead, they can collaborate with their teams, employees, and other key stakeholders to create the new rules of leadership. Q

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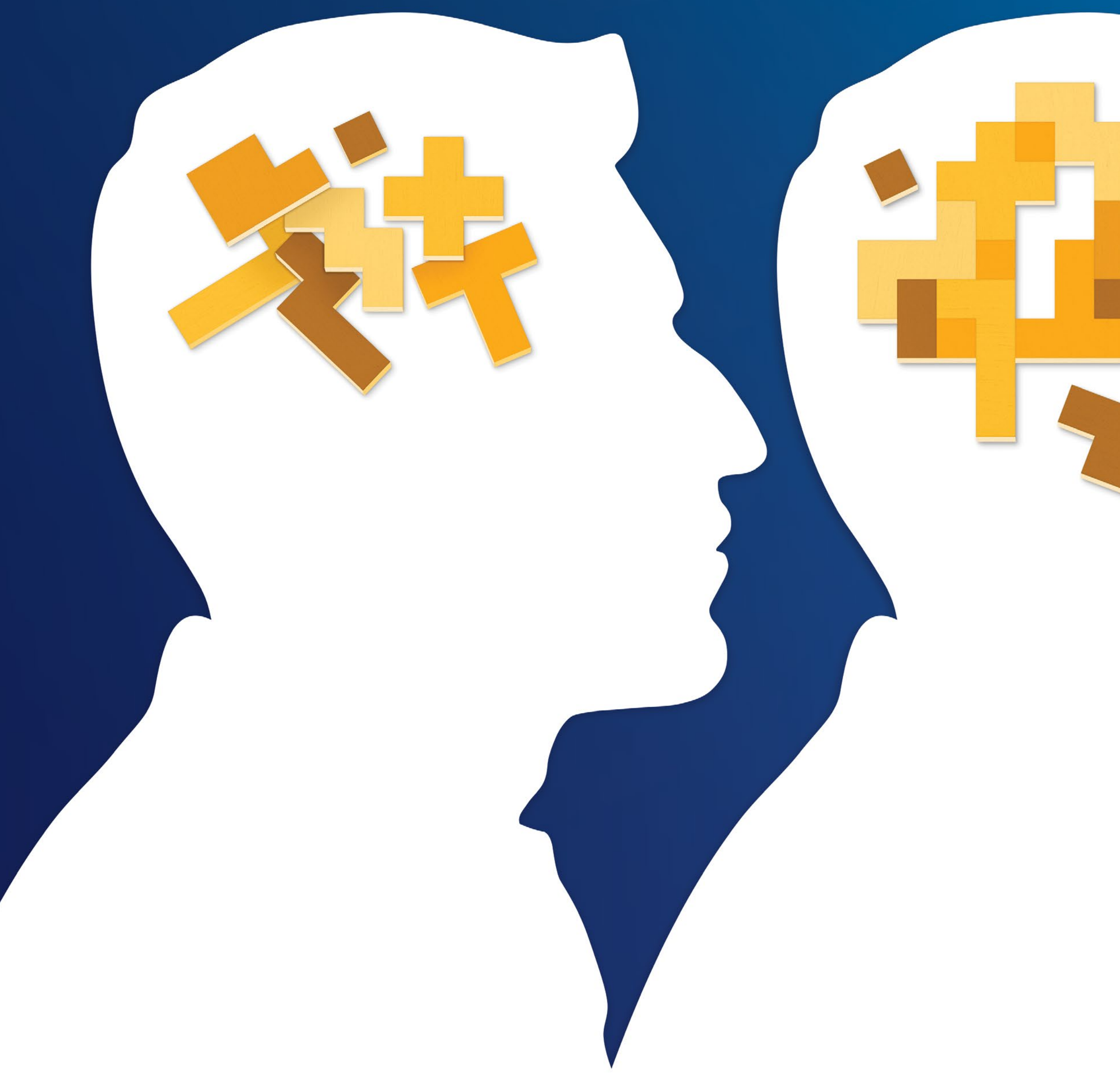
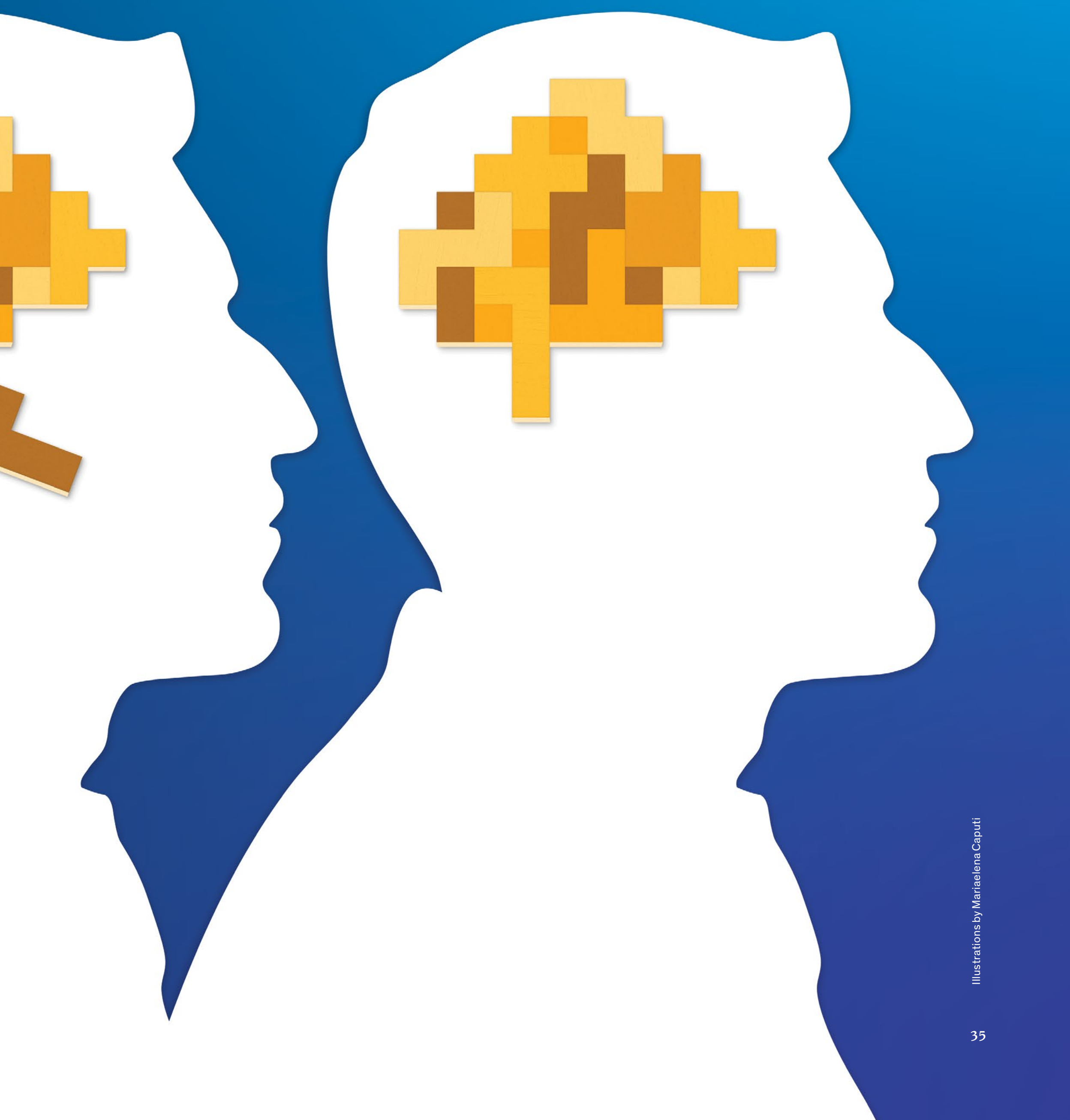
WARNING

by Arne Gast with Suchita Prasad



Upgrade your personal operating model



Illustrations by Mariaelena Caputi

Effective leaders continually adapt their priorities, roles, time, and energy practices to stay ahead of new realities. Here’s why you need to do the same.

“**Update now** or risk losing access to your company’s systems and services.” Executives have likely seen this kind of message regularly sent to their company-issued mobile phone or computer. And when it pops up, they know exactly what it means and why: upgrading a device’s operating system can help protect it against bugs or unlock new features for more effectiveness.

As a leader, updates to your own operating system can be just as critical—if not more so. Your operating system—what we call your personal operating model—defines the way you get work done and ultimately determines your impact. This system comprises the choices you make about your priorities, the roles you choose to play, how you spend your time, and how you sustain your energy.

There are many inflection points in your life when you will need to review and upgrade your personal operating model: at career milestones, such as starting a new role, moving to a different location, or beginning a second term as CEO; when facing new realities for your company, such as a major business transformation, a new strategy, a new organizational structure, a drop in employee engagement, or a new return-to-office policy; or when adjusting personal priorities in the face of issues such as health challenges, relationship changes, or urgent family needs.

But unlike push notifications from electronic devices, the signals to upgrade your personal operating model can be drowned out by daily noise. There is no mandate to change your operating model at various inflection points. For leaders, push notifications must be generated from within.

We have worked with a range of senior leaders across industries and geographies, providing one-on-one coaching during business transformations and in leadership development programs. These conversations reveal that in high-stakes settings, the leaders who are most effective at driving change are vigilant about adapting their personal operating model.

One technology CEO led a turnaround for his new company by taking up the mandate to foster a more performance-driven culture. A leader at a professional-services firm improved collaboration among newly acquired companies by making it his visible personal priority. An insurance CEO boosted engagement with his team by, counterintuitively, setting clear boundaries around his time. Another leader in the insurance industry increased his energy and productivity by establishing new healthy habits.

Other leaders can reap similar benefits. In this article, we explore the four drivers of the personal operating model, critical questions associated with each, and best practices for building and maintaining such models at both the individual and organizational levels. Making space to regularly reflect on and adapt your personal operating model is a keystone habit for executives. Often, enlisting an accountability partner is critical to ensure that you step back and make the right changes. Leaders who continually upgrade their personal operating model report being more productive, working more consciously, and driving change more effectively.

The four drivers of the personal operating model

The personal operating model consists of four drivers: priorities, roles, time, and energy. Depending on the professional and personal circumstances executives face, these can be either a drain on productivity or a source of personal resilience (see sidebar, “The four drivers of the personal operating model”). As new realities emerge, leaders need to continually question their approaches to managing each of these elements.

“We are often told that the secret to success is **hard work, determination, and hours of practice,** but what if the crucial skill is knowing when to stick with something and when to walk away?”

Assess your priorities

Effective leadership begins with defining clear priorities—the work to be done, the highest-impact problems to be solved, and the biggest opportunities to be pursued. To help sharpen their priority setting, leaders can consider the following questions.

Do you fully understand your mandates?
Our work with leaders in high-stakes transformations has demonstrated that clear priorities must be grounded in a deep understanding of what your stakeholders expect from you and where you may be overshooting or underdelivering on those expectations, whether deliberately or not.

Start by identifying those stakeholders who can directly affect, or who are directly affected by, the actions and outcomes you envision. Internal stakeholders might include the board of directors, senior leadership colleagues, and certain employee groups. External stakeholders may include shareholders, top customers, critical partners or suppliers, regulators, or activist nongovernmental organizations.

Second, reflect on how clearly you understand your stakeholders' implicit or explicit mandate. Try to understand their minimum and maximum expectations for the change you intend to make. In our experience, change leaders often don't set ambitious enough plans, because they worry that some stakeholders will oppose their ideas.

The third step is the most difficult: deciding which mandates you will fill and fail, and how to be clear about your plans. As Harvard University scholars Ronald Heifetz and Marty Linsky have noted, "Leadership can be understood, in part, as disappointing your own people at a rate they can absorb."

For example, a new CEO took the helm at an Asian telecommunications company that was known for its harmonious culture. He thought the company needed to shift to a performance-driven approach to improve results, but he was hesitant to implement this change and be seen as the newcomer who "broke" the culture. However, his perspective shifted after conversations with the leadership team and employee representatives. They shared that a culture change was long overdue, and they expected the new CEO to make it happen. This clear mandate provided the backing he needed to propel culture shifts in the organization.

Are you ready for your most critical leadership conversations?
Change doesn't happen through complex diagrams or complicated spreadsheets but through real conversations, linked together over time. These might be one-on-one performance meetings with leaders; small-group discussions such as a board meeting to ask for M&A approval or a top-team retreat to reset the company's pace; large-scale dialogue about company culture with senior leaders and managers; or even a televised interview or Senate hearing about your role in a societal challenge. In each setting, leaders must be ready to consistently engage people on their leadership narrative.

Start by identifying the five or ten most critical conversations in the coming months—"moments of truth" that can enable the change you envision. List them and be clear about what you want people to feel, know, and do after the meeting. How do you envision an A-plus outcome compared with a C-minus result—or an outright failure? How do these meetings link to one another optimally in time and messages? What is the "movie" you see unfolding?

The **four drivers** of the personal operating model

PRIORITIES

- Do you fully understand your mandates?
- Are you ready for your most critical leadership conversations?
- What can you quit doing now?

ROLE

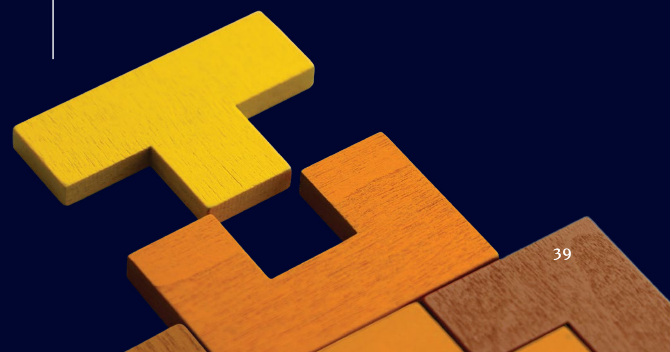
- Are you focused on the work that only you can do?
- Are you creating positive leverage to get work done?
- Who has your back?

TIME

- Do your boundaries enable tight but loose schedules?
- What rhythm have you established to manage your time?
- How can you redesign meetings for maximum impact?

ENERGY

- How do you protect your health in a demanding role?
- Who are your real friends?
- Why does this work matter to you?



> “Top leaders focus on their most important work while **allowing themselves flexibility** to handle emergencies, engage in strategic thinking, and create space for personal time.”

At the start of a turnaround, a European retail CEO mapped out ten moments of truth coming up in the next three months. For each meeting, she and her top team defined the outcomes, key messages, possible failure modes, and links with other meetings. Like a movie director, the team created their script, assigned roles to different executives, and strengthened the links between the different “scenes” to build momentum for the company’s turnaround.

What can you quit doing now?

We are often told that the secret to success is hard work, determination, and hours of practice, but what if the crucial skill is knowing when to stick with something and when to walk away? To create impact, focus on a smaller set of priorities. Leaders often do too much, start too much, don’t finish enough, hesitate to quit low-priority activities, and refuse to kill their darling projects. Work piles up without clear outcomes, creating dissatisfaction and cynicism for leaders and their employees.

Instead, concentrate on doing fewer, bigger, bolder things. Freeing up your time and that of team members can help you concentrate on the highest priorities and increase your capacity to deal with incoming curveballs.

Take a hard look at your organization and ask yourself: What projects can you quit? Can you help your team by scaling back from ten must-win battles to five and prioritizing them in order of impact? Which of your own pet projects are creating work overload for your people? Look at your calendar and decide which committees, not-for-profit boards, speaking gigs, or even personal events you can quit.

The new CEO of a toy company inherited an organization that was focused on growth. Her predecessor had expanded the company’s product line and geographical footprint. Although the new CEO was known as a growth leader and enjoyed overseeing new ideas, she realized that her priority was to simplify the portfolio and regain healthy profits. She stopped attending standing meetings about innovation and ensured that projects beyond the agreed-upon priority list would not land on her calendar. Instead, she focused her and others' attention on simplifying and finishing tasks rather than on new ideation. By quitting growth and ideation conversations for a year, she freed up capacity on her team, set a clear focus, and led the company on a path to improve its bottom line.

Understand your role

Once their priorities are set, effective leaders create a map of the tasks they will handle themselves and the work they will delegate to others. The following questions can help with this crucial step.

Are you focused on the work that only you can do?
Previous McKinsey research with Egon Zehnder has found that leaders who use their distinctive strengths can make a measurable difference in their companies' financial performance. As a leader, you can take this "rocks, not pebbles" approach to your work. Leaders with exceptional talent who apply their superpowers in a few high-priority areas can make a real impact on financial performance.

Which projects will you personally support end to end because they need your talent and drive, or your visible involvement to signal importance? In which instances will you need to be involved in the kickoff to frame the outcomes, be part of a steering committee or demonstrations, help make decisions, encourage stakeholder engagement, or take the lead on communication?

One CEO had grown his global professional-services firm by acquiring smaller firms but recognized the need to more tightly integrate them into a one-company culture. He chose to spearhead the project himself instead of asking a business leader or HR representative to lead the program. He sought and secured buy-in from other senior leaders and employees but left each individual business to adapt at its own pace and level. Because he was the face of the culture change, initiatives took hold and financial performance, organizational health, and talent retention improved substantially.

Are you creating positive leverage to get work done?
You can't do everything. How you mobilize your team will determine your influence on your organization as well as the leadership bench you develop for the future.

What will create the most value in your organization, and how will you select and engage others to get this work done? Sometimes searching for the most valuable roles and matching them with change makers will lead you to positions beyond your direct reports. But once you have found them, your expectation-setting dialogue can make or break the leverage you will get. Any conversations about expectations must go beyond simply identifying KPIs; you need to engage your leaders on the outcomes, debate critical activities, clarify unique strengths they can mobilize to create change, explore what could go wrong and possible mitigations, and clarify the support they can expect from you.

When the CEO of a family-owned industrial conglomerate took over the reins from her father, she knew she wanted to embark on a performance transformation. At the same time, she realized she needed to build a new leadership bench of her own generation, moving away from her father's confidantes. She identified the 25 roles that would make or break the transformation.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“The personal operating model’s **four drivers—priorities, roles, time, and energy—**can be either a drain on productivity or a source of personal resilience.”

After evaluating existing talent and the external talent market, she assigned people with the most appropriate "skill, will, and thrill" to those positions. She spent an hour with each new leader to set expectations, even if the leader's position was two layers below the CEO role. She was surprised to learn how easily the company's direction could be misconstrued in conversations throughout the organization, like a game of telephone. But by making these expectation-setting conversations part of her annual operating model, she established clarity about the company's direction and built a new network of next-generation leaders.

Who has your back?
As leader, you will need a support staff that can help you focus on priority work while also covering your weak spots. Many leaders will build a team consisting of highly skilled executive assistants and sometimes a chief of staff to help propel the change agenda. The team must live at the center of your calendar, proactively identify priorities, anticipate your needs, and support your boundaries and energy.

As a leader, changing your assistants or staff can sometimes create unrest, but it might be necessary to get work done and to break patterns that are no longer useful for the work or for you personally.

A senior leader in the services industry changed assistants when assuming a new role so he could establish a significant change in his personal operating model. Working together, they mapped out his annual calendar and optimized the rhythm of his global customer and people visits. The assistant also made it part of her own priorities list to ensure that the executive completed two gym workouts a week to improve his energy level. The assistant also attended project kickoff meetings and training sessions to better understand the executive's work, and she built strong relationships with the people involved to understand and serve their operating models. This collaboration helped the executive work more productively and sustainably in a high-pressure environment.

Manage your time

Once you have established your priorities and roles, you need to think about the most productive ways to manage your time. Top leaders focus on their most important work while allowing themselves the flexibility to handle emergencies, engage in strategic thinking, and create space for personal time. Consider these important questions.

Do your boundaries enable tight but loose schedules?
High-performing leaders deliberately set boundaries and retain strategic control over their time, along the lines of what entrepreneur and investor Naval Ravikant once tweeted: "You should be too busy to 'do coffee,' while still keeping an uncluttered calendar." Consider dimensions such as time, location, working mode, and access when setting your boundaries. How much time will you block off for personal health or family activities? When will you work in the office, at client sites, or remotely? When is it important to hold meetings face-to-face? Who will have permission to get in touch with you, and when?

The head of the Asia–Pacific division for a large insurance company shifted his operating model to establish his boundaries. "I wake up early, at about 5:00 a.m. After a quick workout, the most valuable part of my day is the couple of hours of uninterrupted time to focus on my work," he says. He also sets aside time for special projects that require focused attention. “My teams know that I will engage in deep problem-solving on priority projects for three hours on Tuesday afternoons,” he says. When traveling, he blocks off three days to maximize his time with clients, investors, government officials, and other important contacts. He also prioritizes in-person meetings with his leadership team and mentees. Sometimes, he invites a junior colleague to join him on a walk for an informal chat. This deliberate approach to setting his boundaries has helped him focus and improve the quality of his engagement with his team.

What rhythm have you established to manage your time?
High-performing leaders deliberately create a regular rhythm to help determine how to get their work done over the coming weeks, months, and year. To uphold your top priorities, identify the activities that can be done less often, more often, or perhaps at smarter times.

Start by taking a fresh look at your annual calendar. Too often, corporate calendars fill up with standard business unit or department meetings that may not be critical. Take back your calendar and create the best rhythm for your priority work. Many leaders redesign their corporate calendar by bringing together five tenets. First, they create space for both customer and business rhythms. For instance, they make sure not to schedule client conversations for the end of the year when things are likely to be at their busiest. Second, they map out governance meetings, such as board meetings, investor days, or quarterly results. Third, they weave in important business performance meetings and project deadlines. Fourth, they factor in people-focused events such as talent reviews, top-team meetings, and engagement surveys. Finally, they consider their location preferences and travel schedules, ensuring that their top teams set a meeting cadence, while honoring holidays across regions and religions.

A European tech CEO mapped her annual calendar and was surprised to find that basing it around four quarters created more havoc than flow. After reviewing national holiday schedules and her

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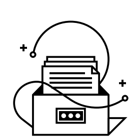
Number 4

Where have all the leaders gone?

So the leader must learn, most of all, to listen to himself. He must integrate his ideals with his actions. He must learn to tolerate discrepancies between the desirable and the necessary, but he must not lose sight of the borderline between them. Otherwise, he is likely to begin, unwittingly, to substitute convenient evasions for authentic ideals.



> A McKinsey survey revealed that 61 percent of executives said that at least **half of their decision-making time,** much of it spent in meetings, was ineffective.

priorities, she found that organizing her work into a series of seven-week periods (staying clear of summer breaks and end-of-year project surges) made more sense. She reworked her annual calendar to focus on transformation milestones in these seven-week time frames to ensure that teams could start and finish work together.

Once you have established your annual rhythm, you can plan your monthly and weekly calendars, leveraging your travel and new hybrid work schedules.

How can you redesign meetings for maximum impact?

In many companies, meetings are how work gets done and change happens. At their best, meetings can be great for aligning on objectives, enabling decision making, or learning about new developments. But as a McKinsey survey revealed, 61 percent of executives said that at least half of their decision-making time, much of it spent in meetings, was ineffective. The time it takes for leaders and staffers to prepare materials for meetings adds to the problem. Lastly, many executives report that the number of meetings, as well as the participants in those meetings, went up starting with the COVID-19 pandemic and the rise of remote working. The challenge for leaders is to design meetings that are fit for purpose.

David Pearl, a creative consultant known as a "meeting doctor," recommends that executives "review all your meetings as if they were a person, a patient. And attend to their health as you would care for a living being. Are they healthy, ailing, diseased, or beyond rescue? Bring them to the meeting hospital and get them treated."

Redesign your meetings by focusing on the purpose, participants, inputs, and desired outcomes. In a brainstorming session, for instance, make sure you go in with the right data and questions. If you want to elicit a decision, ensure that participants know that people should share materials ahead of time, and ask them to bring a clear proposal that incorporates different options and criteria.

The CEO of a professional-services firm with a very busy travel calendar redesigned his meetings for more effectiveness. He stopped doing one-on-one performance discussions. Instead, he opted for reviews of two or three functional teams together, which not only freed up the executive's time but also sparked debate and creative ideas and helped the participants learn from one another—instead of the CEO becoming the bottleneck in sharing ideas across the company.

Optimize your energy

Now that you have a handle on managing your time, you can focus on bringing the right energy to your work. This involves protecting your physical health, maintaining strong relationships, and making your work match your meaning. Explore the following questions as you think about supporting your energy.

How do you protect your health in a demanding role?
Business leaders often don't pay close enough attention to their bodies' warning signs—increased heart rate, tension, impatience, to name a few—which can lead to chronic stress and long-term health complications. Dr. Jaime Lee, who works with business leaders on resilience in change programs, says making even small lifestyle changes, such as improving nutrition or sleep habits or creating exercise routines, can help executives recover from prolonged stress.

One CEO of a multiregional insurance organization struggled with stress when executing a demanding growth strategy. "I was compromising my effectiveness. Teams were calling for my full self, and not just my mind," he says. With his wife acting as his accountability partner, he worked on improving his nutrition, exercise, and sleep habits and devoted more time to reflection and learning. After a year, he reported feeling healthier, less stressed, and more productive.

But energy is not just about building resilience for the job. Many successful leaders schedule free time early in the week to reflect and prepare for the second part of the week. Others work from a cottage before key meetings or schedule one or two solitary weeks annually to create space to think and write about long-term developments. Some leaders take time to read and to meet people outside their industries to avoid becoming myopic and to get energized by broader developments in the world.

Who are your real friends?
Humans are relational beings, not independent automatons. The longitudinal Harvard Study of Adult Development, which began in 1938, has found that the quality and depth of relationships with family, friends, and spouses are the most important predictors of a long and happy life. Yet business life is very demanding, with high-octane jobs, international trips, and often global relocations. Nurturing real relationships with friends takes effort.

Leaders can identify those inside and outside the workplace with whom they can engage deeply on a range of issues—sometimes as an impartial sounding board for decisions, or to help balance work and life. The quality of their presence matters more than the quantity.

A former financial-services CEO said her career benefited greatly from her "kitchen cabinet" of advisers. This small group included her husband, her former boss, her longtime consulting partner, and two trusted friends. She used them as a sounding board, sometimes in one-

> “As you become an expert in **managing your personal operating model,** you can also consider how to expand this concept across your organization.”

on-one conversations or as a group. They offered differing perspectives, challenged her assumptions, and helped her think through critical decisions. She credits this board for her success in handling sensitive issues in her business transformation.

Why does this work matter to you?
Feeling a strong sense of purpose and meaning is critical to increasing leaders’ motivation to fuel change. In short, to be able to put in the hours and face the resistance that might come with your mandate, your work needs to matter to you. In the end, you choose what you want to do with your working years. Even as a leader, as management expert Peter Drucker observed, you are still a volunteer.

Reflecting and acting on your purpose can unlock great energy. Some executives have ensured that their companies played an innovative role in societal transitions through new products and thought leadership. Other leaders have made sure that new leadership appointments became a best practice in diversity and inclusion, reflecting their personal purpose to make a difference in this field while linking it to business outcomes. Others felt most energized by building the next generation of leaders, so they kept track of their mentees and always made time for new leadership onboarding.

Given the tectonic changes that many organizations are experiencing, taking a longer-term perspective can help you think about the legacy you might leave behind. Or, as we framed it in our leadership programs: What would your grandchildren’s children thank you for learning today?

Scaling personal operating models

How can you be just as rigorous about updating your personal operating model as your IT department is about urging you to upgrade the operating system on your devices? Some people notoriously have a hard time doing the right thing for themselves. Some studies show, for example, that people are better about ensuring that their pets get medication than they are about taking their own, even in life-threatening situations.

So while you need to be personally driven to maintain your personal operating model, you also likely will need some help. Find an accountability partner—for example, an executive assistant, a colleague, a trusted childhood friend, or a caring family member—who can help you stay on top of this priority. Teaming with someone who has your best interests in mind can help you reflect, make bold decisions, and follow up to upgrade your operating model.

As you become an expert in managing your personal operating model, you can also consider how to expand this concept across your organization. In our experience, if everyone in the organization knows how to manage priorities, roles, time, and energy, productivity gains are likely to follow.

One multinational insurance company anchored its leadership development program on the concept of personal operating models. In fireside chats, board members shared their own models, citing lessons and changes they made when they transitioned to new roles or when new challenges emerged across their careers. Sharing their personal stories helped humanize the corporate leaders and allowed them to demonstrate the impact of mindful, effective leadership for the next generation.

The company's chief HR officer said, "This was a game changer for us. It became the anchor model for our leaders. Moreover, it became my personal execution center and allowed me to get on the balcony and see the full picture—the rituals to set and the trade-offs I needed to make. I could rebalance. My teams now understand the rules, my rhythm, and my priorities more clearly. I regularly take time to reset my personal operating model, and it has changed how I operate."

With the business world changing at warp speed, strategies and habits that worked in the past may need to be updated to address current challenges. But busy executives are bombarded with so much noise that they often have a hard time hearing the signals that their personal operating model needs to change. Leaders can become better equipped at recognizing these signals if they establish a process of self-reflection and stay aware of the need for upgrades at various inflection points in their careers. Updating their perspectives on their priorities, roles, time, and energy can help leaders encourage greater productivity and innovation in their organizations and adapt to the ever-changing needs of high-stakes transformations. With a strong personal operating model as the backbone, they are more likely to enjoy long-term leadership success. Q

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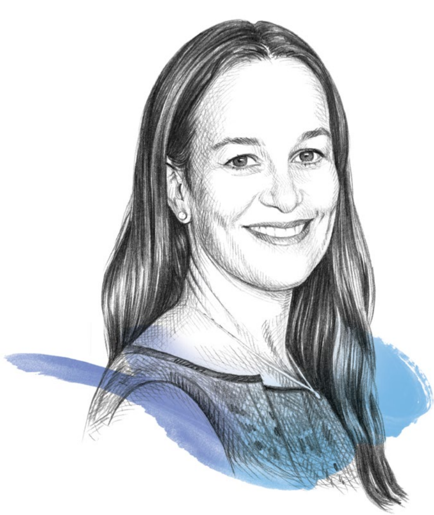
Getting to the top is not the end of the journey

by Dana Maor

Most CEOs still have a lot to learn about themselves when they step into the top job. This ongoing journey of self-discovery is critical for effective leadership.



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After spending the past several years talking with CEOs about the evolution of their careers, I've been struck by how their personal growth as leaders does not end once they get the top job. In fact, it's the beginning of a new learning chapter in their lifelong journey of leadership.

This became clear to me while working with my McKinsey colleagues Hans-Werner Kaas, Kurt Strovink, and Ramesh Srinivasan to tell the stories of successful CEOs in our new book, *The Journey of Leadership: How CEOs Learn to Lead from the Inside Out* (Portfolio, September 2024). Most CEOs still have a lot to learn about who they need to be to lead once they assume these demanding roles.

Through our work with hundreds of CEOs and senior leaders, we have seen how important it is for them to develop human-centered leadership qualities—including self-awareness, compassion, vulnerability, and other soft skills—to balance their hard business skills and connect authentically with themselves and their teams. By going through a journey of personal reflection and growth, leaders become better at guiding others and steering their organizations to success.

This journey reflects the stages of adult development identified by Harvard psychologist Robert Kegan. These include the "socialized mind" (focusing on the expectations and approval of others), the "self-authoring mind" (relying on an individual's identity, beliefs, and values), and the "self-transforming mind" (adapting to changing circumstances, considering contradictory ideas, and handling conflicts).

One might expect that seasoned, high-achieving leaders are mostly in their self-authoring or self-transforming phases. After all, they are highly skilled individuals who have spent years climbing corporate ladders, building relationships, and, in many cases, serving in a wide range of roles en route to becoming CEOs. Surely, they gained considerable leadership insights and strengths along the way.

But I've been surprised to discover that many CEOs are still very much in their socialized-mind stage, despite their experience and accomplishments. Their leadership is affected by their concerns about what others think of them. They are still focused on proving themselves. Unfortunately, many leaders try to mask this trait with bluster and overconfidence, projecting an image of strength. As our research shows, many organizations favor confidence over competency when choosing leaders, which leads to a lot of bad bosses being put in charge.

This is why it's so critical for leaders in general, specifically CEOs, to seize the opportunity to step into this role and embrace the process of self-discovery so they can cultivate attributes such as empathy, integrity, and humility that will make them better leaders. More important, they need to understand how to navigate what can at times be competing qualities, such as humility and confidence, and apply the right mix at the right time.

In our book, we hope to inspire CEOs and aspiring leaders by sharing the stories of others who have cracked this code. They have learned how to be true to themselves and what they're trying to achieve for their organizations, be considerate of others, and not get stuck on how others perceive them. More CEOs than I expected go through a conscious journey to get to who they want to be as leaders rather than getting there intuitively.

The challenges for leaders are daunting. They must constantly seek to improve themselves and leave their organizations stronger than when they joined. They must be honest with themselves about their own strengths, weaknesses, and passions. In our book, for example, we share the story of one executive who felt intellectually stifled after two decades of senior-leadership roles in the banking industry and reinvented herself as a Silicon Valley venture capitalist and a university lecturer and researcher. She knew herself well enough to know that she needed to tackle new challenges to be at her best. Her story exemplifies the fact that the leadership path is not always a straight line. This is particularly true in an age where constant change is accelerating and technology is redefining how we work.

The journey can never start too early. Even at the beginning stages of a career, people should think seriously about how to show up fully and authentically, how to be resilient, how to navigate competing demands, how to motivate and inspire their colleagues, what gives them energy, and what makes them happy. Gaining greater self-awareness early on will help them become better prepared for advancement, move into leadership positions more quickly, and ultimately have more success in their roles. Taking the time to do this is not indulgent; it serves the people and organizations they lead.

Every leader's story is different, but this much is true for all: getting to the top is not the culmination of the journey. One can always develop further. The most successful leaders never stop learning about themselves, how to innovate, and how to challenge themselves, their teams, and their organizations. Q

The CEO's essential checklist

by Carolyn Dewar, Kurt Strovink, Scott Keller, and Vikram Malhotra

Questions every chief executive should be able to **answer**

Illustration by John Tomac

Most great CEOs rely on a set of guiding mindsets. This checklist helps them turn mindsets into practices that can steer their companies to great heights.

A

A great aviator is constantly aware of their surroundings. Watching for changes in the weather and in the paths of other aircraft is vital. The same is true for being a great CEO, which is why the business press is full of information about what's happening in the business environment: geopolitics, regulatory changes, inflation, generative AI, and so on.

Equally important for a pilot's success is understanding their aircraft and its avionics: checking fuel levels and flight plan progress, testing safety systems, and keeping an eye on engine performance. To ensure a successful trip, pilots utilize checklists before, during, and after the flight. For CEOs, the same should hold true. However, when doing research for our *New York Times* best-selling book, *CEO Excellence: The Six Mindsets That Distinguish the Best Leaders from the Rest* (Scribner/Simon & Schuster, March 2022), we found that no such checklists existed for the role of the most senior leader. Sure, CEOs have an abundance of financial, operational, and organizational metrics to look at, but what CEOs should be *doing* to influence those metrics wasn't exactly clear.

Over the past two years of talking with CEOs about our findings, we've been struck by how many have asked for an "in flight" checklist. In response, we've crystalized how the mindsets that underpin *CEO Excellence* translate into practice in each of the six responsibilities of the CEO's role: setting direction, aligning the organization, mobilizing through leaders, engaging the board, connecting with stakeholders, and managing personal effectiveness (Exhibit 1). In doing so, we've drawn on in-depth interviews with more than 70 of the most successful current and former CEOs of the 21st century, including the likes of Microsoft's Satya Nadella, JPMorgan Chase's Jamie Dimon, Lockheed Martin's Marillyn Hewson, Sony's Kaz Hirai, and American Express's Ken Chenault.

The result is the 18-question checklist in this article (Exhibit 2). Just as we'd expect any conscientious pilot would do, we hope that CEOs will use this checklist to safely navigate their organization's performance to new heights.

Direction-setting checklist: Be bold

1. Vision
Do we have a clear and compelling vision that reframes what winning looks like, and is it owned by the whole enterprise?

A great answer to this question lies not just in having raised the aspiration levels for the organization but also in having reframed the very definition of success. At Mastercard, for example, under Ajay Banga, the vision wasn't "win in payments"; it was a "war on cash," recognizing that at the time, 85 percent of global retail transactions were cash based. Masahiko Uotani wasn't content letting Shiseido aspire to being a Japanese beauty icon—it was to be a global

Exhibit 1

The best CEOs achieve excellence in six critical ways.

Responsibilities of a CEO and subelements

beauty icon with Japanese heritage. At Adobe, Shantanu Narayen helped the company see that success wasn't about providing the best creative professional desktop tools for websites, it was about powering the world's best digital creativity, document, and customer experiences. Imagine if Reed Hastings's vision at Netflix had been "to be the number-one DVD company in America." Instead, he focused the company on becoming a "global entertainment distribution company that provides a unique channel for film producers and studios," making entertainment history as a result. The best CEOs find ways to ensure that their colleagues take ownership of what such expanded visions mean for the company and for their specific roles.

2. Strategy

Have we created a short list of clearly defined big moves at the enterprise level that will distance us from our competitors?

The best CEOs focus—early and often—on a bold short list of big, strategic moves during their tenure. These moves typically involve a combination of M&A activity, capital investment, productivity improvement, and product and service differentiation, each pursued at least 25 percent more aggressively than their competitors. At Banco Itaú Unibanco, for example, Roberto Setúbal's big moves included shifting the bank from being retail only to being a leader in corporate and investment banking; expanding into other Latin American countries; radically reducing overhead and increasing efficiency; overhauling the company's performance culture; negotiating and executing the megamerger with Unibanco; and prioritizing investments to digitize the bank. The result: over his tenure, revenue increased 25-fold and market cap more than 30-fold. When Satya Nadella became CEO of Microsoft, in 2014, his short list of big moves was clear: double investment in the cloud, change the software business model from box to subscription, invest $50 billion in productivity and services acquisitions, sell the mobile phone business, and create a growth mindset. As we write this article, Microsoft is one of the three most valuable public companies on the planet, with a market cap of over $3 trillion.

3. Resource allocation

Are we "thinking like an outsider" to actively reallocate resources (such as dollars, people, and management attention) to our highest priorities, even when it's hard to do?

The highest-performing companies shift more than 60 percent of their capital expenditure among business units over ten years. In other words, their CEOs think like an outsider would. Intel's former president Andy Grove and former CEO Gordon Moore did so famously in the 1980s when the company's share price was in a free fall. Grove asked Moore, "If we got kicked out, and the board brought in a new CEO, what do you think they would do?" Moore answered, "They would get us out of memory chips." Grove stared at him and said, "Why shouldn't you and I walk out the door, come back, and do it ourselves?" The rest is history, as Intel would go on to become the world's most successful chipmaker for many years. Marillyn Hewson put this thinking into practice at Lockheed Martin by regularly pulling her team together to review all of the company's investment plans. "We shave[d] off the stuff at the bottom," she explains, "[so we could] double down on the things . . . we need to go after as a corporation." Doing so isn't easy; to invest more in one area means investing less in another.

Organizational-alignment checklist: Treat the soft stuff as the hard stuff

4. Culture
Are we targeting and systematically pursuing specific areas of cultural change to further execute our strategy?

When using culture as a lever to improve performance, winning CEOs pursue one or two big shifts relentlessly. Paul O'Neill, the former CEO of aluminum maker Alcoa, famously focused on creating a safety culture, and a massive performance improvement followed. His logic was straightforward: "I knew I had to transform Alcoa, but you can't order people to change. That's not how the brain works. So, I decided I was going to start by focusing on one thing. If I could start disrupting habits around one thing, it would spread to the entire company." Microsoft's Satya Nadella crystalized what a growth mindset meant for employees when he described the shift from being "know-it-alls" to "learn-it-alls." For Santander's Anna Botín, three words summed up the way she wanted her employees to approach their banking customers—and one another: "simple, personal, and fair."

5. Organizational design
Is our organization characterized by a balance of stability and agility that maximizes the speed and effectiveness of execution?

Excellent CEOs build flexibility into their organization's design while maintaining strong structural integrity (a combination of stability and agility we often refer to as "stagility"). The research shows why: companies that are both stable and agile are four times more likely to be high performing than those that are stable but lack agility. Intuit's Brad Smith, for example,

> "Excellent CEOs build flexibility into their organization's design while **maintaining strong structural integrity.** Companies that are both stable and agile are four times more likely to be high performing."

says the stable elements of his software company are organized "first around the customer segment, and then, underneath that, around the specific problems for the customer. That does not change. We also have centralized teams that work across the customer's problems to drive things at scale as a platform company." As for the agile elements, he explains: "We got sharp and moved fast on strategic questions by assigning them to teams of three people who haven't worked with each other." Google's Sundar Pichai employs a similar approach of assigning a team and leader who can bypass certain approvals and move faster than normal practices allow. "You need to design sanctioned ways by which people can break the structures you've set up," he says.

6. Talent
Are the most value-creating roles in our organization filled with the right talent, and do they have a strong leadership pipeline?

Knowing what roles in the organization create the most value and then matching them with "best fit" talent is a hallmark of excellent CEOs. For example, at one key Blackstone portfolio company with 12,000 employees, Stephen Schwarzman and his team identified the 37 positions that drove 80 percent of the company's value. They then made sure these jobs were filled with top leaders and that succession planning for those roles was robust. CEOs who apply this type of rigor find on average that of the 50 most important roles in their organizations, typically only 10 percent report directly to the CEO, 60 percent exist at the next level down, and 20 percent are at the level below that. The last 10 percent are often roles that don't exist but should. For instance, Duke Energy's Lynn Good realized she needed a generation and transmission market transformation officer when she applied this lens to talent. Pursuing a patient-centric strategy, Cleveland Clinic's Toby Cosgrove created a chief experience officer to better his patients' health journey.

Leadership mobilization checklist: Solve for the team's psychology

7. Team composition
Is my senior team the right size, comprising people with complementary skills and characterized by an "enterprise first" mindset?

A group of individual high performers becomes truly effective only if its members' skills are complementary and if they work in ways that make the whole more than the sum of the parts. When Lilach Asher-Topilsky became the CEO of IDB, one of Israel's largest banks, the company was underperforming financially and falling behind in digitization. Asher-Topilsky realized that many of her top executives lacked the capability and drive to make the needed changes. She eventually switched out roughly half of her top team. Getting the right players, however, was only part of the battle. "The key was to have people who understand the joint mission and are not just thinking about their own promotion," she shares. To cement this psychology, Asher-Topilsky dubbed IDB's management team "the Fist" because, in her words, "You can't get in the lines between the fingers. Not the board of directors, union, competitors—not anyone." By the time Asher-Topilsky left the CEO job, IDB had become a leader in digital banking, and under her tenure, the bank's return on equity doubled, and its net profits tripled.

8. Teamwork

Does my senior team effectively use data and dialogue to make timely decisions on topics that only they can take on?

Only 6 percent of top HR executives agree with the statement that "our company's executive team operates as a well-integrated team." Great CEOs don't let this happen. How? They focus the team on the work that only the team can do, such as corporate strategy, large-scale resource allocation, cross-cutting synergies and interdependences, the company's leadership bench, and so on. They don't focus on topics related to individual functions, business units, or subsets of those groups. As Doug Baker, former CEO of the water and hygiene services company Ecolab, summarizes, "My role is making sure the top team does the big things really well . . . all the rest is email." In team meetings, the best CEOs demand data, dialogue, and speed. As Roger Ferguson, who led the financial-services group TIAA, explains: "The numbers don't lie. But numbers don't necessarily tell you exactly what they mean, which is why dialogue is important." Getting the balance right while moving at pace requires discipline. For example, DBS Group's Piyush Gupta uses a technique he calls MOJO: The meeting owner (MO) makes sure the right prework is done and that the discussion is well organized. The joyful observer (JO) critiques the meeting as it goes.

9. Operating rhythm

Does my senior team have an effective annual operating rhythm and business review cadence that drive execution and minimize surprises?

"When people know there's an organizational rhythm, it allows them to be more efficient," shares Flemming Ørnskov, CEO of the skin care company Galderma. "They know where in the organization to go to get decisions . . . and it enables me both to best leverage the great people that work for me and to ensure I have the right amount of time outside of meetings." While there's no one-size-fits-all answer to the right operating rhythm, most high-performing CEOs hold a weekly, relatively informal check-in with their senior team, a more formal monthly

> Only **6 percent of top HR executives** agree with the statement that 'our company's executive team operates as a well-integrated team.'

meeting, and a multiday off-site meeting at least once during the year (often paired with bringing a few hundred top leaders together). In addition, the CEO, CFO, and chief human resources officer typically conduct business performance reviews at least quarterly, and the CEO holds one-on-ones with team members monthly, at a minimum. Such reviews shouldn't be flybys, as GE's Larry Culp explains: "I've seen a lot of my peers give their business unit CEOs a lot of room because that's what they always wanted when they were in the role. Then someone surprises them, and not in a good way, and they start to think differently."

Board engagement checklist: Help directors help the business

10. Relationships
Have I built trust with my board members by being "radically transparent" and showing an interest in their views?

Great CEOs establish a trust-based relationship with their boards. Doing so starts with being transparent. Former Cadence Design Systems CEO Lip-Bu Tan explains the benefits: "Creating a transparent culture makes things easier for me. When management wants to push for a decision, it's no surprise for the board. They already know what we're trying to do. The board works with me." TIAA's Roger Ferguson describes this as "radical transparency." One of the first things that Thermo Fisher Scientific's Marc Casper did when he took the top role was to start every board meeting with an executive session. "I focused on what I was worried about and the challenges we were facing," he says. "My sole reason for that was to create a culture of transparency. You earn people's trust, and they hold you to a high standard. It elevates the dialogue and the impact." Trust with board members is also built one-on-one outside the boardroom. CEOs who excel make it their mission to personally get to know each director's worldview, priorities, preferences, and specific talents. This is typically achieved by making the rounds of all board members at least once a year (more often early in a CEO's tenure). With the board chair (or lead director), however, interactions are far more frequent and informal—often weekly.

11. Capabilities
Do we have the right profiles on the board, and are we sufficiently educating directors and pulling them in to help where they can?

The best CEOs work with their board chair or lead director to ensure the board composition reflects the direction of the organization. Intuit's Brad Smith explains, "We adopted some systematic ways to influence the board's makeup—without doing the board's job. One tool is the capability matrix. It lists across the top the skills and domains needed on the board to deliver our strategy, and below it lists every director's name." Such a matrix can also be checked to ensure the right levels of cultural, gender, race, and geographic representation. At the information services firm Wolters Kluwer, Nancy McKinstry used such an approach to reshape its all-Dutch board, and now a majority of its seats are held by other nationalities. She also brought in tech talent and people with experience in the company's main customer markets. Beyond composition, as Netflix's Reed Hastings puts it, "The board really needs to understand the business, and helping them to do so is something the CEO should feel it's their duty to do." Doing so typically happens through orientation sessions, educational events, and guest speakers.

12. Board meetings

Are board sessions well prepped, effectively run, and focused on the future (going well beyond fiduciary topics)?

The intrinsic nature of governance is about preventing bad things from happening. The best CEOs, however, ensure that time spent in the boardroom doesn't become consumed with, as DBS's Piyush Gupta puts it, "the board being a policeman on top of the business." Instead, they consider the board meetings an opportunity to tap into the wisdom of a group of smart people with similar interests, or as Mastercard's Ajay Banga viewed it, "The best expert consultants you can get; they're dying to do anything for you." When American Express's Ken Chenault was pursuing a substantial reengineering effort, his board pushed him to think beyond operational improvements. They urged him to think about major investments to turn the company's card and payments products into service platforms. "There was a really good discussion and exchange of ideas," Chenault reflects. To get the most out of a board, agendas go beyond fiduciary discussions to include topics such as strategy, organizational health, and talent. The best CEOs deftly sync board discussions on forward-looking topics with management's operating rhythm. GE's Larry Culp explains: "It becomes very easy to prepare for board meetings if the cadence and rhythm with the board mirrors how we run the company."

External-stakeholder-connection checklist: Start with 'Why?'

13. Purpose

Are we clear on the holistic impact we aspire to (our "why?"), and have we embedded that into the core of how we run our business?

The best CEOs see their companies' purpose as fundamental to business performance. Companies with a clear sense of purpose enjoy increased customer loyalty, better efficiency, motivated employees, a lower cost of capital, and an increased ability to spot and mitigate risks earlier than others. If you ask a Lockheed Martin employee what their job is, says

1968

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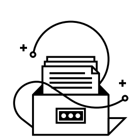
Good managers don't make policy decisions

The upper reaches of management are a land of mystery and intrigue. Very few people have ever been there, and the present inhabitants frequently send back messages that are incoherent both to other levels of management and to the world in general. This may account for the myths, illusions, and caricatures that permeate the literature of management.



Marillyn Hewson, “They’ll tell you they’re not just building airplanes, radars, and missile defense systems—they’re helping US and allied forces strengthen global security. They’re not just writing software—they’re helping governments deliver essential services to citizens. They’re not just designing satellites and rockets—they’re expanding the boundaries of scientific discovery.” Such sentiments, however, must go beyond words. They need to be embedded into the core of the business: strategy, product design, supply chain, metrics, and incentives. At Best Buy, for example, former CEO Hubert Joly found that testing the company’s strategy and operations against its purpose of enriching lives through technology opened new growth opportunities. “It vastly expanded how we thought about what we could do for customers,” he shares.

14. Interactions

Do we fully understand our stakeholders’ needs (their “why?”), and find constructive common ground with them?

Understanding the “why” of your stakeholders is also critical. Doing so creates more profound connections, resolves more conflicts, and, at minimum, establishes a baseline of respect. Netflix’s Reed Hastings offers an example: “Take the press. . . . My general view on the press is they want to be truth tellers, but they’re forced to be entertainers. If you can understand that conflict, you can help them be entertaining and also get some truth through.” Approaching stakeholders in this way gets them talking more, which can create opportunities. Galderma’s Flemming Ørnskov got ideas for “at least two or three deals” from doctors he spoke with. Dupont’s Ed Breen says of activist investors, “If you listen, they often have good ideas.” Dsm-firmenich’s bold transformation from a petrochemical company to a nutrition and health company was inspired in part by the time that former CEO Feike Sijbesma spent with the United Nations. That said, external demand for CEO time can be overwhelming—the best leaders cap the time they will spend with external stakeholders (typically at 30 percent or less) and prioritize whom they meet with accordingly. Intuit’s Brad Smith explains, “Anyone who wants a part of [that time] has to prove why they’re a better use of your time than something else.”

15. Moments of truth

Have we built resilience ahead of any potential crises so that we’ll be able to mitigate their impact and use them to unlock opportunities?

No matter how well a company is run, the question for even the best CEOs isn’t if they’ll have to lead through a crisis but when. From 2010 to 2019, the number of headlines that carried the word “crisis” alongside the world’s largest 100 companies increased by 80 percent from the previous decade. Esquel’s Marjorie Yang shares her best practice through a memorable analogy: “When you have a crisis, it’s like a sailboat going into a storm. You’ve got to prepare your boat before you head into the storm, and once you’re under way you can’t expect people will know what needs to be done at the last minute.” Accomplishing this is hard to do in practice, as Caterpillar’s Jim Owens shares: “In ’07–’08, everyone was convinced we needed to double capacity. The next year, [customers] took less than half of what they had on order!” Fortunately, Owens had the company stress test itself annually. “I had all the divisions tell me what they’d do to maintain profitability if their businesses were hit with the worst cyclical drop in 25 years,” he shares. “They were all beginning to think it was a stupid exercise after five years of record growth and profit. But in the sixth year, we said, ‘OK, get your deep recession scenario out and implement it.’”

Personal-effectiveness checklist: Do what only you can do

16. Time and energy

Do I manage my time and energy well, and do I have the right office support in place to help me successfully and sustainably do what only I can do as the CEO?

Legendary executive coach and CEO Bill Campbell often said of the CEO role, "No one has ever lived to outwork the job. It will always be bigger than you . . . you're not going to outwork it." This is why the best CEOs, such as Caterpillar's Jim Owens, believe you should "prioritize the most critical issues that only the CEO can solve and delegate any remaining tasks." From there, the key is to master compartmentalization. As U.S. Bancorp's Richard Davis shares, "Compartmentalization is essential. If you bring every burden to every meeting, you let the day start to pile up on you." The best leaders plan their schedules to avoid energy troughs (long periods of draining activity that leave them worn down). A strong office staff is essential to doing so and typically includes a dedicated administrative assistant or two (one for the calendar, one for travel and logistics) and a talented chief of staff. Intuit's Brad Smith spent the first half of his tenure without the latter and regretted not hiring one sooner. "It was a game changer," he shares. "It gave me the ability to scale my leadership exponentially."

17. Leadership model

Am I leading in a way that is authentic to my convictions and values while also adjusting my behaviors to what the organization needs?

The best CEOs are keenly aware of the difference between doing and being, and the tremendous potential of getting both right. Former Cincinnati Children's Hospital CEO Michael Fisher clarifies the distinction: "I've always had a decent amount of discipline around writing down 'to-dos.' But I also purposefully give thought to, and am really *intentional* about, how I want to show up every day. So I've added a 'to-be' list to my repertoire." Choosing how to be involves finding the intersection of staying true to one's principles and values while also being the leader the company needs you to be. When dsm-firmenich's Feike Sijbesma received feedback from his team on his style, for example, his immediate response was: "Listen, that's just the way I am. It's authentic." To his surprise, the pushback was: "OK, but why do we sometimes need to suffer from that?" His authenticity was valued, but it needed to be coupled with better leadership skills. "It wasn't the most pleasant experience," Sijbesma says. "It really had an impact on me and helped my career."

18. Perspective

Do I approach my position with humility, focusing on helping others to succeed and continually improving my ability to do so?

"As a CEO, you often don't realize how much of the input you get is filtered by the job you have," reflects Intuit's Brad Smith. "It's no secret that we all get ten inches taller and our jokes get funnier the day we assume the role." Not only are CEOs increasingly isolated from constructive criticism, but they don't receive the direct input they used to get from peers

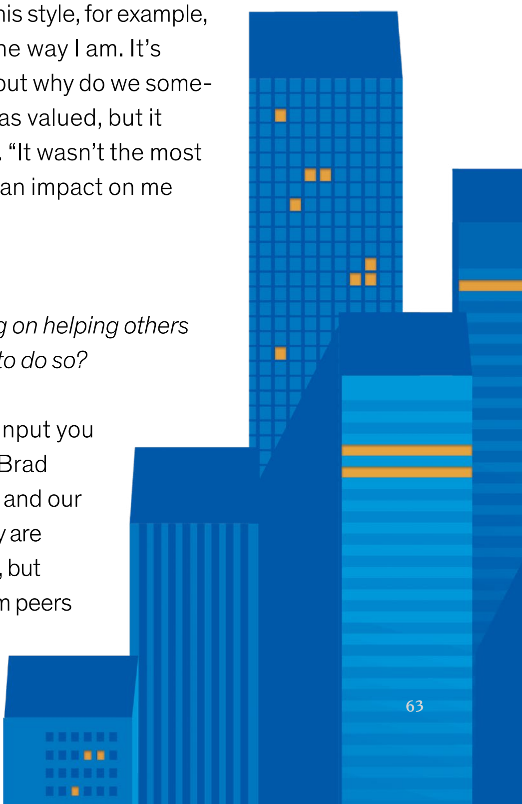


Exhibit 2

The CEO checklist: A tool for leaders to evaluate themselves against best practices in each of the six responsibilities of the CEO's role.

Questions every CEO should be able to answer

Direction-setting checklist: Be bold	**Not at all**				**Completely**
Vision: Do we have a clear and compelling vision that reframes what winning looks like, and is it owned by the whole enterprise?	○	○	○	○	○
Strategy: Have we created a short list of clearly defined big moves at the enterprise level that will distance us from our competitors?	○	○	○	○	○
Resource allocation: Are we "thinking like an outsider" to actively reallocate resources (eg, dollars, people, and management attention) to our highest priorities, even when it's hard to do?	○	○	○	○	○

Organizational-alignment checklist: Treat the soft stuff as the hard stuff					
Culture: Are we targeting and systematically pursuing specific areas of cultural change to further execute our strategy?	○	○	○	○	○
Organizational design: Is our organization characterized by a balance of stability and agility that maximizes the speed and effectiveness of execution?	○	○	○	○	○
Talent: Are the most value-creating roles in our organization filled with the right talent, and do they have a strong leadership pipeline?	○	○	○	○	○

Leadership mobilization checklist: Solve for the team's psychology					
Team composition: Is my senior team the right size, comprising people with complementary skills and characterized by an "enterprise first" mindset?	○	○	○	○	○
Teamwork: Does my senior team effectively use data and dialogue to make timely decisions on topics that only they can take on?	○	○	○	○	○
Operating rhythm: Does my senior team have an effective annual operating rhythm and business review cadence that drive execution and minimize surprises?	○	○	○	○	○

Board engagement checklist: Help directors help the business					
Relationships: Have I built trust with my board members by being "radically transparent" and showing an interest in their views?	○	○	○	○	○
Capabilities: Do we have the right profiles on the board, and are we sufficiently educating directors and pulling them in to help where they can?	○	○	○	○	○
Board meetings: Are board sessions well prepped, effectively run, and focused on the future (going well beyond fiduciary topics)?	○	○	○	○	○

External-stakeholder-connection checklist: Start with "Why?"					
Purpose: Are we clear on the holistic impact we aspire to (our "why?"), and have we embedded that into the core of how we run our business?	○	○	○	○	○
Interactions: Do we fully understand our stakeholders' needs (their "why?") and find constructive common ground with them?	○	○	○	○	○
Moments of truth: Have we built resilience ahead of any potential crises so that we'll be able to mitigate their impact and use them to unlock opportunities?	○	○	○	○	○

Personal-effectiveness checklist: Do what only you can do					
Time and energy: Do I manage my time and energy well, and do I have the right office support in place to help me successfully and sustainably do what only I can do as the CEO?	○	○	○	○	○
Leadership model: Am I leading in a way that is authentic to my convictions and values while also adjusting my behaviors to what the organization needs?	○	○	○	○	○
Perspective: Do I approach my position with humility, focusing on helping others to succeed and continually improving my ability to do so?	○	○	○	○	○

or have a boss observing and giving them feedback on their daily behavior. To continually improve, the best CEOs replace questions such as “How did I do?” with “What could I have done better?” They often work with an executive coach, take time to read for knowledge and inspiration, attend external conferences and educational programs regularly, and have a small but diverse group of trusted confidants to provide them with discrete and confidential feedback. Above all else, they view their success as directly related to their ability to put the conditions in place for others to succeed. U.S. Bancorp’s Richard Davis puts it starkly: “Practicing humility will win you more followers than any strategy or tactic or mandate you’ll ever have.”

All the CEOs we’ve worked with who have used this checklist to assess their performance in the role have found the exercise valuable—so much so that many now review it regularly to ensure these aspects of piloting the organization are well in hand. The highest-performing CEOs also recognize that when it comes to personal behavior, self-assessments can be unreliable. An “optimism bias” accounts for why, for example, 86 percent of CEOs believe they act as a positive role model, whereas only 53 percent of their direct reports concur. To cut through this bias and gain maximum insight from the checklist, the best CEOs ask a handful of board members, executive team members, and other trusted confidants to give them honest feedback on their performance based on the questions above. Taking this approach reflects the *CEO Excellence* traits of humility and continuous learning and, in turn, provides CEOs with a well-calibrated view of what’s working and how they can fly even higher.

Being a top gun pilot requires as much intuition as it does instruction, and the same holds true for being a CEO. Judgment and creativity will always be important differentiators of the best from the rest. As with flying, however, it’s best practice to undergird these qualities with systematic checklists to make sure no critical details are missed and that a leader’s instincts won’t fail them when their attention is stretched. By doing so, CEOs will be able to successfully navigate any environment they fly through. Q

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GO, TEAMS

by Aaron De Smet, Gemma D'Auria, Liesje Meijknecht, and Maitham Albaharna, with Anaïs Fifer and Kim Rubenstein

When teams get healthier, the whole organization benefits

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Creating effective teams depends on multiple factors, including high levels of trust and communication, and understanding team context. A new approach helps elevate performance and create value.

Today, more than ever, cracking the code of team effectiveness is critical to organizational success. At most companies, teams generate value as a primary unit of performance. They are now more autonomous and empowered than in traditional organizational models, while also being part of a dynamic and collaborative structure across a team ecosystem. Yet many teams struggle to collaborate effectively, and some are worse off than that: research shows that three in four cross-functional teams underperform when it comes to key metrics.

Team success or failure is often attributed to individuals—particularly the team leader—as the main driver of performance, or to some nebulous sense of team "chemistry." As with most things, hope is not a strategy. And while upskilling team leaders is helpful, it is not sufficient to ensure performance. The myths of team chemistry (teams just click or they don't) and the heroic team leader (find a capable leader and the team thrives) prevent companies from addressing the harder-to-see contextual and structural factors that affect team dynamics and organizational outcomes.

When organizations do address team effectiveness, they often focus primarily on senior leadership teams. This is understandable, considering that companies are almost twice as likely to have above-median financial performance when their top team has a shared and meaningful vision.

We agree that leaders should focus on teams at the top, but not *only* at the top: critical cross-functional initiatives that sit in the middle of the organization need more support to succeed. Companies now rely on value-creating agile teams, project teams, and networks of teams,

among others. Teams that are closest to customers also bring in much-needed information about how the organization should orient itself in the marketplace.

How can leaders support teams at all levels to augment value creation? The first step is to understand that while building great teams involves leadership experience and intuition, sometimes that intuition can be wrong. In this article, we use new data to debunk common myths about how teams operate and examine the elements of team effectiveness that have the biggest impact on performance. We also delve into team archetypes and how context determines whether certain behaviors matter more for better functioning. Building effective teams across the organization is a crucial move for leaders as they prepare for the challenges ahead.

Team effectiveness is less art, more science

Hunches and intuition about why teams perform well or poorly abound at organizations. Here are several myths that our new research has debunked.

Myth: Teams should ideally be stacked with top talent in every role to achieve maximum effectiveness.

Reality: Effective teams focus on the individual and collective skills and behaviors that matter most, and every role needs fit-for-purpose talent, not necessarily "top" talent.

A team made up of "superstars" does not inherently make a great team—in fact, it may lead to worse performance. Although individual performance does matter, it's not enough for each person to perform at their personal best. The dynamics of how those individuals interact are equally (if not more) important—they make the difference between operating as an individual team and operating as a team of individuals.

The US men's Olympic 4x100-meter relay team is a great example. Despite including some of the fastest individuals on the planet, this team has had trouble passing the baton at multiple Olympics since 2008—leading to the team's underperformance and even disqualification at the 2024 Olympic Games.

Unlike other teams that lock in their runners for each leg well before the Olympics and focus extensively on practicing as a team, the US team often made last-minute changes to get the best individual performers in the most crucial roles. This approach left little time for the team to practice together in their respective positions, highlighting that individual talent alone cannot substitute for cohesive teamwork.

There is a growing body of scientific evidence behind team effectiveness, which we define as the collective capacity to sustainably deliver results. But many organizations tend to make financial and time investments that address surface-level manifestations of ineffectiveness while leaving the root causes unresolved.

Our research shows that variations in team behaviors matter for performance: teams that exhibit the right behaviors are more productive and innovative and deliver better results to stakeholders. We identified 17 specific team behaviors, which we call "health drivers," that matter for team performance (see sidebar, "About the research").

These team health drivers are grouped into four core areas: *configuration* (the team has clear roles and a mix of perspectives); *alignment* (team members are clear on the team's direction and are committed to it); *execution* (how well the team carries out its work); and *renewal* (the team's working environment is set up for long-term sustainability). All four of these categories provide a well-rounded view of the team and reflect on whether team members work effectively together—not just in the near term but over the long haul (table).

These team health drivers, when viewed collectively, explain between 69 and 76 percent of the differences between low- and high-performing teams when it comes to three key outcomes: *efficiency* (the team is productive and meets its deadlines); *results* (the team delivers on objectives and delights stakeholders, customers, and/or clients); and *innovation* (the team innovates in a way that is critical to long-term organizational value).

While all these health drivers contribute to team performance, teams do not have to be great at all of them to be effective; in fact, even the best teams have room for improvement. The research found well-performing teams were, on average, very good at only 11 of these 17 behaviors.

Furthermore, our research shows that four drivers in particular have the greatest impact: trust, communication, innovative thinking, and decision making. Teams that had above-average scores in these four areas were more likely to be efficient and innovative and to produce better results with stakeholders and customers (Exhibit 1).

Here are examples of how two of these drivers can play out among teams:

- *Trust.* What it means to trust someone can be understood in two ways: *cognitive* trust (believing the person is competent, reliable, and has a sense of integrity) and *affective* trust (forming interpersonal bonds built on a sense of care and connection). Our research showed that teams that scored above average on trust were 3.3 times more efficient and 5.1 times more likely to produce results, compared with those with below-average trust.

  Trust does not happen overnight—it must be built. For instance, the leadership team of a Middle Eastern company held a "storytelling dinner," during which everyone shared stories about moments in their lives that shaped who they are. One of the leaders—who was viewed by his colleagues as sharp in his communication and uncaring in his relationships—shared a story of his childhood that helped the other members understand why he behaved that way. This led them to trust him more, because he demonstrated

About the research

We investigated 14 annual literature reviews and more than 140 published documents on the topic of effective teaming, resulting in our research-backed framework that outlines the drivers of team effectiveness. Based on our research, we established the Team Effectiveness Index (TEI), which was tested and refined through two rounds of pilot studies. The final diagnostic has been deployed with 110 teams over more than two years, representing 905 individual team members across 42 countries, the majority of whom originate from the United States (32.6 percent of team members). These teams varied in size, geography, hierarchy, nature of work, life cycle, and context.

Table

Team effectiveness is based on multiple health drivers in four areas that define how well teams work together.

Four areas	Health driver	The degree to which team members …
Configuration *Do we have role clarity and the necessary mix of internal and external perspectives?*	Diverse perspectives	Have a mix of perspectives that move the team's work forward
	External orientation	Are connected to networks outside the core team and/or broader organization to learn new perspectives
	Role definition	Understand the expectations and responsibilities of individual roles and have the right people in them
Alignment *Are we committed to the team and are we clear on our purpose and goals?*	Commitment	Are committed to the team and prioritize its success over their own
	Goals	Have individual- and/or team-level goals that are challenging to achieve and are aligned to the priorities of the organization
	Purpose	Are aligned on a clear team purpose and can articulate what the team is meant to accomplish
Execution *Are we effectively carrying out our day-to-day work?*	Collaboration	Have agreed-upon norms that accelerate collaboration and improve ways of working
	Communication	Communicate sufficiently and effectively, and choose the right communication methods
	Decision making	Define clear roles in the decision-making process, make quick, high-quality decisions, and learn from poor decisions
	Feedback	Give honest and effective feedback, invite direct feedback, and receive coaching support
	Meeting effectiveness	Focus on actionable items, involve the right people at the right time, and follow through on next steps
Renewal *Do we create the right working environment and enact practices for long-term learning and improvement?*	Belonging	Feel they are a part of the team and can be themselves
	Conflict management	Address conflicts effectively and in ways that improve team relationships
	Innovative thinking	Seek out opposing perspectives, have open discussions about change, and encourage out-of-the-box thinking and solutions
	Psychological safety	Feel comfortable making mistakes and taking risks without fear of negative consequences, constructively disagree with one another, and proactively invite each other's input
	Recognition	Are recognized for excellent performance, celebrate one another's accomplishments, and hold one another to consistent performance standards
	Trust	Feel they can rely on one another, give each other the space to get work done, and demonstrate good judgment

Exhibit 1

Health drivers are highly predictive of team performance outcomes, though four appear to make the most difference.

Health drivers, by amount of explained variance,[1] %

Top driver

Rank	Efficiency		Results		Innovation	
1.	**Trust**	**7.7**	**Trust**	**12.4**	**Innovative thinking**	**7.6**
2.	**Communication**	**6.7**	**Communication**	**6.3**	**Decision making**	**6.2**
3.	**Innovative thinking**	**5.8**	**Innovative thinking**	**5.7**	**Communication**	**6.0**
4.	Feedback	4.9	Role definition	5.1	**Trust**	**5.6**
5.	Conflict management	4.7	**Decision making**	**4.9**	Feedback	5.4
6.	Role definition	4.4	Commitment	4.3	Role definition	4.9
7.	Goals	4.1	Belonging	4.2	Meeting effectiveness	4.9
8.	Commitment	4.0	Conflict management	4.1	Psychological safety	4.7
9.	Belonging	4.0	Meeting effectiveness	4.0	Conflict management	4.4
10.	**Decision making**	**3.9**	Psychological safety	3.9	Commitment	4.1
11.	Psychological safety	3.9	Goals	3.6	Belonging	4.1
12.	Recognition	3.6	Feedback	3.5	External orientation	3.9
13.	Meeting effectiveness	3.5	Purpose	3.3	Collaboration	3.8
14.	Collaboration	3.1	Recognition	3.2	Purpose	3.6
15.	Purpose	2.9	Collaboration	3.1	Goals	3.5
16.	External orientation	1.8	External orientation	1.8	Recognition	3.3
Total explained variance:		**69.0**		**73.4**		**76.0**

Teams that scored above average on the following:

Trust
- 3.3× more efficient
- 5.1× more likely to produce results

Communication
- 2.8× more efficient
- 2.7× more likely to produce results
- 3.1× more innovative

Innovative thinking
- 2.3× more efficient
- 2.4× more likely to produce results
- 2.7× more innovative

Decision making
- 2.8× more innovative

Note: The "diverse perspectives" driver was excluded from this analysis because there was evidence indicating its measurement was not on par with the other drivers.
[1]Top drivers were selected based on the results of a relative importance analysis, which ranks the drivers based on their relative contribution to our understanding of team differences on the performance outcome.

in a way that allowed them to get to know him on a personal level. By starting this conversation, the leader was also able to reflect on how his communication style affected others.

- *Decision making.* While good decision making is important for team performance in general, it is particularly important in driving innovation. Our research shows that teams that scored above average on decision making were 2.8 times more innovative than below-average teams. However, teams are often unclear about what each person's role is in the decision-making process, regardless of whether they are making simple day-to-day decisions, deciding on innovative avenues to pursue, or when faced with complex or uncertain decisions.

  At a North American health insurance company, the top team was facing a strategic decision about which parts of the business the company would invest in and how it would allocate funding. The team used the DARE model, which is a helpful exercise that can quickly get everyone on the same page regarding the team's decision roles. *Deciders* are those with a final vote; *advisers* have input and help shape the decision; *recommenders* offer perspectives and present the final fact set; and *executors* carry out the decision.

  The team found that these discussions brought great clarity, particularly by distinguishing between decision makers and advisers. Initially, the group believed that the CEO should be the sole decision maker. But after several conversations, that role shifted to an advisory position, and others on the leadership team were identified as the true decision makers. Furthermore, the discussions uncovered that several team members didn't need to be involved at all, whereas those most affected by the investment and funding decisions weren't even in the room—something the team vowed to address.

Myth: Teams already know what they need to work on.

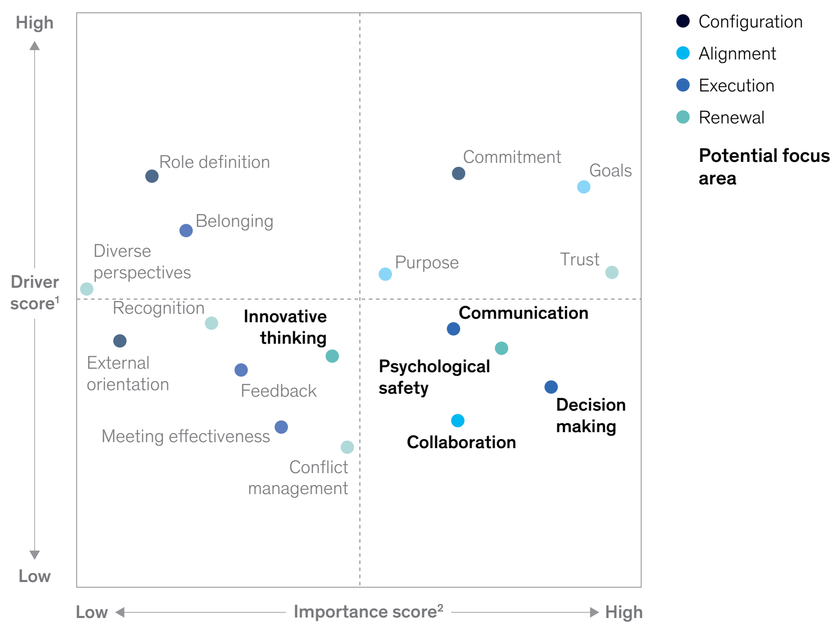
Reality: Teams are often unaware of their most important gaps and can have shared blind spots, leading them to prioritize the wrong things.

> Teams that scored above average on decision making were **2.8 times more innovative** than below-average teams.

Exhibit 2

To identify priority areas where the team can improve, health drivers can be plotted by their importance and by how frequently they are exhibited.

Driver score and importance score, illustrative, value

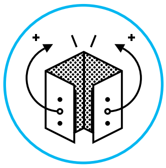


[1]Drivers are measured using a 7-point frequency (1 = never; 7 = always). Driver scores are calculated by subtracting the percentage of team members who rated the team as demonstrating the behavior very frequently (rating of 6 or 7) by the percentage of team members who rated the team as demonstrating the behavior very infrequently (rating of 1, 2, or 3). Driver scores are plotted from –100 to +100, with higher scores indicating greater effectiveness.
[2]Average ranking score based on 5 most important and 5 least important drivers.

Teams may believe a particular behavior is a strength when it is actually a weakness, or they may choose to work on something that they already do pretty well. Sometimes they believe a certain behavior is important, but they aren't doing it as well as they should be.

When we ask teams to select their most and least important health drivers, and then plot them on a matrix against how frequently the team exhibits them based on their actual scores, it typically reveals blind spots in the team's understanding of where they need to improve; this results in a shift in their priorities about which behaviors to work on.

Without this exercise, teams may prioritize the wrong behaviors, or deprioritize crucial behaviors they think they are good at but in actuality should be working on. Our research reveals that there is a gap between what teams believe is important and what drives them



to perform and achieve their objectives. For example, teams ranked trust and communication among their top five most important drivers, but innovative thinking and decision making ranked much lower, despite those drivers' contributions to performance. Teams should focus on these key behaviors, as well as those they believe are important but where they scored lower.

To illustrate this, Exhibit 2 shows the results of one team's prioritization matrix. While this team believes communication and decision making are important, it isn't doing well in these areas, whereas innovative thinking is a behavior that the team is neither effective at nor giving enough importance. There are two other behaviors—psychological safety and collaboration—that the team thinks are important but where there is room for improvement. Based on these results, it would be worthwhile for the team to focus on improving in these five behaviors.

Myth: There is a best-practice playbook for team effectiveness that every team should adopt.

Reality: There is no one-size-fits-all solution.

Of course, different teams operate differently, yet many teams are not aligned on what *type* of team they are. Our diagnostic measures two key characteristics to classify teams based on how they operate: outcome interdependence and task interdependence.

Outcome interdependence reflects the extent to which team members' individual outcomes and success depend on that of other team members and the team as a whole. When outcome interdependence is high, each member's contribution affects the collective success of the entire team—they succeed or fail together. With low outcome interdependence, each member's success is independent of the performance of others or the team overall. Each person can be individually successful regardless of how well others are doing.

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Why teams matter

No group ever becomes a team until it can hold itself accountable as a team. This is a demanding test. Think, for example, of the subtle but critical difference between "The boss holds me accountable" and "We hold ourselves accountable." The first case can lead to the second; but without the second, there can be no team.

Task interdependence is the extent to which team members interact to achieve their goals. When task interdependence is high, team members must work in close coordination, as each member's workflow depends on input and cooperation by others. With low task interdependence, each team member's work is self-contained and does not require interacting with other members.

Surprisingly, our research found that only 46 percent of teams agree on both types of characteristics, while 54 percent disagree on one or both characteristics. This mismatch has implications for how team members work together—if they are each playing a different sport, success will be hard to come by.

Imagine that a team needs to frequently coordinate efforts, but one person works in a silo and does not check in with others. Or consider a team that is evaluated as a group, but one person puts their own individual goals above those of the team. These situations can lead to suboptimal team performance because people operate in ways that are not in the best interest of the team.

Of the teams that did agree about how they operated, we found that they were about equally split into three archetypes. The work done in teams that are typical of these three archetypes can be compared with the distinct ways that sports teams operate (Exhibit 3).

Exhibit 3

Teams can be categorized into three archetypes.

Attributes, by team type[1]

	Cycling team	Relay team	Rowing team
Outcome interdependence *The extent to which team members' individual outcomes and success depend on that of other team members and the team as a whole*	**Moderate:** While cyclists might work together to draft and support each other, each cyclist rides their own bike and can make individual decisions during the race	**Moderate:** While the overall performance is a combined effort, each runner's individual performance in their own segment is crucial	**High:** The success of the race depends entirely on the coordinated effort of all rowers working in perfect harmony
Task interdependence *The extent to which team members interact to achieve their goals*	**Moderate:** The team's success can be influenced by individual performances, but the collective effort, such as drafting and strategic positioning, also plays a significant role	**High:** Each runner must complete their segment of the race and smoothly hand off the baton to the next runner, requiring precise timing and coordination	**High:** Each rower must synchronize their strokes precisely with the others to maintain balance and speed
Drivers of performance			
Top drivers *Across all teams*	Trust Communication Innovative thinking Decision making	Trust Communication Innovative thinking Decision making	Trust Communication Innovative thinking Decision making
Differentiating drivers[2]		Commitment Goals Recognition	Belonging Role definition

[1]Based on the results of a cluster analysis, including only the teams that agree on their team type (n = 30).
[2]A differentiator is a driver that is within the top 5 for high-performing teams within the archetype and has both a large rank difference and a large score difference between higher- and lower-performing teams within the archetype.

Additionally, we compared higher- and lower-performing teams within each archetype to determine whether certain drivers matter more for them to operate most effectively:

- *Cycling team.* A company's recruiting team exemplifies this archetype. Each member focuses on different aspects of the hiring process—recruiters source and screen candidates, hiring managers conduct interviews and make decisions, and administrative staff handle logistics. They must coordinate to ensure a smooth candidate experience and successful hires, yet each role can perform effectively on its own and have individual success metrics, such as the number of hires or time-to-fill.

  For these teams to operate effectively, it's sufficient to focus on the core drivers that our research found to be important for team performance.

- *Relay team.* An example is a software development team using agile methodology. Each developer works on different features, but all must collaborate frequently. This ensures that all members work together seamlessly, even though individual contributions may vary in their direct impact. For example, if a feature created by one developer has a bug, the software can still function well if the features created by other team members run smoothly.

  In our research, we found that higher-performing teams within this archetype emphasize three specific behaviors more than lower-performing teams of this type: goals, commitment, and recognition. Because this type of team has high task interdependence, ensuring that the team is aligned on its goals and fully committed is critical for performance success. When one person drops the ball or solves mainly for individual goals, it affects the full team's ability to perform. In addition, recognizing member contributions in this context is important to motivate the team to operate as a unit.

- *Rowing team.* Think of a surgical team in a hospital. Its members—from surgeons and nurses to technical and other medical personnel—must work together closely. The success of each surgery depends heavily on each team member performing their duties flawlessly and in perfect coordination.

  Higher-performing teams within this archetype emphasize belonging and role definition more so than lower-performing teams of this type. Because these types of teams are highly interdependent on tasks and outcomes, members' roles must be clearly defined so that everyone understands who is responsible for each aspect of the work. Feeling that they are part of a close-knit team helps them succeed as an integrated whole.

Building teams that are greater than the sum of their parts

Because healthier teams lead to better performance, leaders have a stake in helping teams across the organization create better practices. They can do this by taking a holistic view of team behaviors while paying closer attention to the top performance drivers of trust, communication, innovation, and decision making. They can also help minimize a perception gap that often plagues teams when they know certain behaviors are important but they aren't exhibiting them. Finally, they can push team members to get on the same page about what type of team they are, including their degree of interdependence. Consider the following four actions to help your teams succeed.

> Teams must continually **reevaluate how they're doing to prevent regressing back to old habits.** Holding regular, retrospective check-ins to discuss what is working well and what still needs improvement is critical.

Take a hard look in the mirror

Team diagnostics are an excellent way to get a baseline on key behaviors that will lead to healthier ways of working by uncovering the areas where the team is already operating well and identifying those in greatest need of improvement. With this newfound awareness, teams can create a charter that details how they will work together and which behaviors they will prioritize in the pursuit of better team health and performance. Most important, members must have a shared commitment to the team goal, not just their own individual goals, as well as to contributing to making the team as effective as it can be.

Members can also focus on understanding how their own mindsets and behaviors affect the group. All people, from the CEO to the front line, have unique backgrounds, upbringings, and experiences that create habituated, ingrained behavioral patterns. There are several tools to build personal self-awareness—such as 360 feedback or one-on-one coaching—that enable real change by working on one's inner self and how to show up for others.

Make sure the changes stick

Once teams understand the behaviors they need to emphasize and where they're struggling, what do they do about it? They can make clear commitments to change things, with specific actions and tactical interventions on what they will do differently. It is also important to establish governance, processes, and other mechanisms to ensure follow-through on these commitments. Carrying out change is what truly matters.

Teams must continually reevaluate how they're doing to prevent regressing back to old habits. Instilling new behaviors is not a linear process; in fact, the journey can be long and bumpy, with some actions adding momentum and others that kill it. Holding regular, retrospective check-ins to discuss what is working well and what still needs improvement is critical. The more often teams take the time to step back and reflect, the more likely it is that new behaviors become the default way of operating.

If you are a team leader, don't stand in the way of progress

Teams can have the best of intentions, but if the leader is not open to change, the likelihood that team health improves drops dramatically. We have seen leaders who simply can't shift away from a command-and-control mindset to a collaborative approach without some sort of intervention.

Coaching is one effective way to help the team leader be a force for positive change. As illustrated earlier, sometimes an effective workshop can create the conditions for a leader who is "stuck" to open up to new ways of working.

While team leaders play an important role, their viewpoint is not the only one that matters. In fact, our research revealed that team leaders tend to have a more favorable perception of the team's effectiveness across most of the health drivers. This suggests that leaders have a rosier view of the team than others do, underscoring the importance of soliciting all members' perspectives to get a well-rounded picture of how the team is operating, and not just relying on the leaders' perceptions.

Embed team effectiveness in the organization's DNA

The road to better team effectiveness is a continuous journey, both for the teams themselves and the organization at large. For a team-effectiveness approach to have scalable impact, it needs to be systematically embedded into the structural processes of the organization. That allows it to be used not just with a few teams but, ideally, with every team. One way to do this is by using a "train the trainer" method to cascade from an initial set of high-value teams to hundreds of teams.

For example, an Asian bank followed this approach to scale team effectiveness to more than 200 teams. The bank started by having members of the HR organization first experience the program themselves, guided by experienced external facilitators. They observed and shadowed the facilitators as they brought additional teams through the program. They then co-led the program along with the experienced facilitators for another set of teams. Finally, they were sufficiently trained to facilitate the program with the remainder of the teams on their own.

What makes a great team has often been built on experience, expertise, and leadership intuition. Intuition is often right, but it can also go wrong. We now have data to help tell fact from fiction when it comes to what makes teams work: identifying and prioritizing the behaviors that matter most, understanding team type and context, and putting in the effort to ensure that new behaviors stick. Armed with this evidence, leaders can scale more healthy teams that raise performance levels and create more value across the organization. Q

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A CONVERSATION WITH CEO

Tufan Erginbilgiç

Reinventing Rolls-Royce

Since Tufan Erginbilgiç took the helm of the iconic brand, its share price has surged. Profits have more than doubled. How he did it is a case study in the art of corporate transformation.

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Shortly after being appointed CEO of Rolls-Royce in January 2023, Tufan Erginbilgiç told the company's 42,000 employees that they were standing atop a "burning platform." His aims? To quench the flames by reversing sliding profit margins and lay the groundwork for a new century of growth at the 120-year-old manufacturer. Under any circumstances, this would have been a challenge. At a company still struggling to emerge from the COVID-19-era aviation downturn, it seemed nearly impossible.

Erginbilgiç, a former longtime executive at BP, took many of the steps that other leaders pursue to reverse circumstances: reorganizing business units, renegotiating contracts, and cutting costs. But he did so with the understanding that even the smartest strategy can't succeed without the culture to support it. In fact, the only way to reverse Rolls-Royce's fortunes was to engineer a wholesale transformation of its culture at the same time.

Erginbilgiç sat down with McKinsey senior partner Michael Birshan last September to break down his approach to corporate transformations. An edited version of the conversation follows.

Michael Birshan: *You've been chief executive of Rolls-Royce for 21 months, and your performance has been impressive, especially with respect to shareholder returns. We'll talk about that—the "how"—in a second. But first, I'd like to hear your views on the "what." What's your vision for Rolls-Royce?*

Tufan Erginbilgiç: When I first took the job, many people, especially investors, said to me, "Rolls-Royce has tried to restructure many times. How is this going to be different?" To

me, this isn't about restructuring. There's a big difference between restructuring and transformation. Transformation, to my mind, is more ambitious. It's taking the company from point A to point B, where getting to point B opens more potential for the company.

So what's our vision? It's for Rolls-Royce to create a high-performing, competitive, resilient, growing business. How do we get there? By understanding that strategic goals aren't just a bunch of numbers.

Michael Birshan: *Many people use the word "transformation," and many don't succeed at it. How do you get an organization to transform successfully, especially when you're enlisting 42,000 colleagues in that effort?*

Tufan Erginbilgiç: You'll only transform a company if you can mobilize your people with purpose, focus, and alignment. I have four pillars. First, you need to create a top-notch leadership team to tell people what the vision is and how we're going

> When we're developing strategy, I already know my implementation plan. . . . Unless you translate your goals into **clear strategic initiatives** and cascade them down, you can't make your strategy relevant to people.

to get there. Therefore, I start with putting the mirror up.

Michael Birshan: *This was the "burning platform" comment, right?*

Tufan Erginbilgiç: Exactly. If you're not careful when you put the mirror up, you may scare them. But the next day, I was walking in King's Cross station and a woman approached me. She said, "Are you Tufan? Your town hall yesterday was so inspiring." It turned out she worked in turbine manufacturing. Why do I tell this story? She found it very inspiring, even though externally it showed up differently. But that's my point: you have to talk about where you're going to take the business and why you think it's possible. And so far, the organization responded to that brilliantly.

So that is number one. Second, you need a very granular strategy; it becomes a tool for alignment and engagement. The third pillar is to have a performance culture, where performance improvement becomes part of your strategy implementation. And then the fourth pillar is to move with intensity, pace, and rigor.

Michael Birshan: *Regarding intensity, pace, and rigor, you obviously have to move fast. But at a place like Rolls-Royce, you can't break things. How do you think about that?*

Tufan Erginbilgiç: If you aren't in uncharted territory, you aren't transforming the business. How do you transform a business in your comfort zone? I actually tell my leadership team, "If you feel nervous, it's because you're in uncharted territory." You need to understand that you're in uncharted territory and reflect on how much is too much. All along, I told my leadership team, "I want you to understand the complete picture. You need to know what is coming." You're always in this conversation, right? Because clarity is important.

Michael Birshan: *Let's talk about strategy. You invested a lot of time in it, and you have a unique way of developing it. Tell us more.*

Tufan Erginbilgiç: I always say, "If you aren't making choices, you don't have strategy." To develop strategy, you want free-flowing, blue-sky conversation. And make sure it's chaotic. I'm a pretty organized guy, but when it comes to strategy development, I like it chaotic. At Rolls-Royce, 500 people were involved. You want key people who, in many cases, know the business better than you do, especially if you're a new CEO. Because you're making choices in the room, by the time you're done with strategy, the whole organization is aligned; all 500 people develop the strategy with you.

Years ago, I read that 66 percent of all the strategies developed don't get delivered. I actually thought that was a small number; I thought it would be even more. Why? Because most strategies don't take into account implementation. When we're developing strategy, I already know my implementation plan. That makes it more doable, and the success rate goes up.

Unless you translate your goals into clear strategic initiatives and cascade them down, you can't make your strategy relevant to people. When you do, on the other hand, you can actually say to them, "You have a role in transforming the company, and I'm going to give you all the resources you need to deliver." People can take this to their team and say, "Here's our role." In big organizations, knowing that you matter is very satisfying and engaging. Suddenly, strategy becomes an alignment, engagement, and performance management tool.

Michael Birshan: *And you begin to translate it into an execution edge, right?*

Tufan Erginbilgiç: We have 17 strategic initiatives to implement. What we normally do is have the finance team put a mirror up and say, "OK, don't worry about 12 of them, because they're on track or they're over-delivering. That's great. Now let's talk about the other five because we need to inter-

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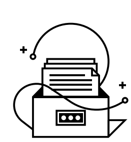
When good management is not enough

The successful change manager instinctively knows that his people can help him figure out what is really going on with customers and competitors, product technologies and process technologies, and how his company can respond in a winning way. . . . Successful change managers tend to start exploring possible shifts in the competitive environment earlier than conventional managers, and in a wider-ranging way.



vene to course correct." That's the granularity you have in the organization, and it goes so deep that people own it.

Michael Birshan: *So this is relentless. There's nowhere to hide, right?*

Tufan Erginbilgiç: That's correct.

Michael Birshan: *Can this become exhausting or intimidating for parts of the organization? Or is this just the nature of making change?*

Tufan Erginbilgiç: It's relentless. It's intense. But it's also very satisfying. It mobilizes you because you have a role. Right now, it's very clear at Rolls-Royce what we want to do. People's roles are very clear. In my experience, some people excel in that kind of environment. And some people won't like it; they may deselect themselves, which is part of the process and actually strengthens the way we deliver. I'm not a perfectionist. I don't believe that everything we do must be perfect. I say, "Tidy in business gets in the way." This is about applying intensity and pace where it matters.

Michael Birshan: *How do you assemble the leadership team for this journey?*

Tufan Erginbilgiç: I start with individuals. I don't worry about team development at the outset. I just want the right individuals, I have criteria—people who are good business leaders and good people leaders. Are they willing to learn? Then I can work with them. Next, they need to believe in the extraordinary. This is important because transformations are about the extraordinary. And third, they need to be passionate about the success of the business. They need to be hungry for success.

Once I find these individuals, then the team development process starts. First, you need to build trust. You need to be open, transparent, and fair because people won't like every decision you're making. And you can't surprise them, because surprises shake trust. You want your people to know where they stand. Why? Because good outcomes come from big debates. I like to see differing opinions in executive leadership because big debates not only deliver the best outcomes but also continually align the leadership.

And then I do other things. I'm always very clear with direction, expectations, and priorities. Strategic priorities don't change, but elsewhere you need to dynamically prioritize because life is so uncertain. At every executive leadership team meeting, I go back to priorities and tell the team, "These were the priorities we agreed on." But at my last leadership team meeting, I told them, "We've got a couple of emergencies coming in, so I'm OK to drop these three things from the priority list. We'll still get to them, but they're no longer on the priority list." Doing this continually aligns and brings clarity.

Finally, when I see an elephant in the room, I call it. Frankly, most of the elephants tend to be about leadership, and if the leaders don't call it, nobody will. So let's name it and deal with it.

Michael Birshan: *When you talk about emergencies, it speaks to resilience, which a lot of leaders are worrying about right now. What does resilience mean for you?*

Tufan Erginbilgiç: I look at two levels of resilience. One is cash generation resilience: Are you resilient amid volatility? Or are you falling apart? You can't build trust with stakeholders if they think you're going to fall apart at the first opportunity. The other level of resilience plays into competitiveness and P&L. I actually introduced a new KPI to the aerospace industry: the ratio of total cash cost to gross margin. Guess what that number was for Rolls-Royce in 2019?

Michael Birshan: *One?*

Tufan Erginbilgiç: Close. The answer is 0.9. What does that say to you? If 10 percent of your gross margin is gone, you're in the red territory.

Michael Birshan: *Not resilient, in other words.*

Tufan Erginbilgiç: Right. Our ratio of total cash cost to gross margin is now less than 0.5. And we're going to take that to 0.4. That's a competitive advantage.

Michael Birshan: *Culture is hard to change, and Rolls-Royce, obviously, is a very storied institution that has been around for a long time. When you arrived, what was the culture like?*

Tufan Erginbilgiç: First, what I found at Rolls-Royce was genuinely very high-quality people. That was very important. Remember, this transformation has been about mobilizing the workforce. It's about people. Some teams go offline and do team-building activities. I've never done that. I'm a believer in putting difficult topics in front of the team and allowing them to articulate their views; that's my model for team building.

In terms of culture, some people think, "Oh, I'm going to communicate." And communication is important, but it won't change the culture on its own. My view is you need to be very consistent—consistent expectations, consistent reinforcement. And use every opportunity possible for performance management. You need to continually tell people what good looks like so that there's a learning process. That's what changes culture.

You also need to talk about purpose and behavior. What's the role of purpose, in my mind? The purpose of a company is its positive contribution to the world. That's important for employees. Employees need to feel passionate about why the company exists because that's why they get up in the morning: for a bigger purpose.

"First, you need to **build trust.** You need to be **open, transparent, and fair** because people won't like every decision you're making."

> “You’ll only transform a company if you can mobilize your people with **purpose, focus, and alignment.**”

Our new purpose and behaviors statement is that—powering, protecting, and connecting people everywhere. I insisted that “people” be in there because there needs to be an emotional connection. Together with strategy, an emotional-level purpose is what guides our actions. Over time, if the environment changes, we can adjust our strategy. But our purpose will stay and continue to be a guide all the way.

I believe that mindset is the most important thing in business—even more than strategy. And behaviors are part of your mindset. Behaviors help you deliver your strategy and achieve your vision. They’re another mechanism. We emphasize four behaviors now: put safety first, do the right thing, keep it simple, and make a difference.

The first two are where we already are, and the second two are where we want to be. We struggle to simplify things. On making a difference, I actually tell people, “You’re doing that job because you’re the best person in the world to do that job. And if you’re the best person in the world to do that job, you need to make a difference.”

Michael Birshan: *It’s why you have to believe in extraordinary.*

Tufan Erginbilgiç: Exactly. It’s very rewarding when you start to realize that you *can* make a difference—more than the others—because you’re the best person for that job. That’s when transformations can happen. Think about 42,000 people making a difference. Obviously, you need to mobilize them with focus and purpose and alignment. And then let them make the difference.

Michael Birshan: *You’re clearly a student of business and leadership. What are some of the practices you use to be effective as a leader?*

Tufan Erginbilgiç: I always talk about four things. One is learning. Many people are obsessed with the next promotion, but frankly, they'd be better off focusing on learning and making themselves of higher value. Increasing your value and effectiveness is good for today, and it will prepare you a lot better for the future. At my previous organization, I actually skipped a big promotion. They called me and said, "Don't go to that horizontal job. We'll give you a big promotion." I could have been a very senior leader. But I actually said, "No, I'm going to do this because that will make me more effective in the future."

Second is to *always* be learning. People ask, "How do you keep your energy up?" By learning. I'm still curious about things; I'm always digging deeper.

Third is the power of belief. I ask people, "Have you ever achieved anything extraordinary that you didn't believe in?" If you don't believe, it will never happen.

And finally, to make a difference, you need to take some risks. I don't mean safety risks. You need to take personal risks. Confucius said, "Wherever you go, go with your heart." I like that. Some people lead from the front, some from behind. They are equally effective. Except in transformations: you need to lead from the front. People need to see you're putting your neck out there, taking personal risks. Nobody will go to uncharted territory in the absence of that.

Michael Birshan: *What does the future hold? You've talked a bit about energy and small modular reactors [SMRs] and other things.*

Tufan Erginbilgiç: Thinking about our 17 strategic initiatives, we haven't implemented all of them yet. So we need to be an execution machine. Yes, we're talking about SMRs and microreactors: there is a big growth opportunity. But that's the what. On the how, there's still more to do to embed our performance culture.

There's more to do in the sweet spot. What's the sweet spot? It's creating a fully aligned organization where everybody knows their role and is energized to deliver. We want to create a sustainably distinctive business in terms of safety, operational effectiveness, and customer service, with competitively advantaged products and technologies. We aren't there yet; there's more to do on both the what and the how.

Michael Birshan: *Rolls-Royce has a long history, but history can both be helpful and sometimes restrict you. I'm curious how you harness it and evolve it?*

Tufan Erginbilgiç: Rolls-Royce is a great company with great people, a great history, and an iconic brand. It's great for talent attraction. That's why I'm here, frankly: because I think that turning around a company like Rolls-Royce is really worth the effort. Q

Tufan Erginbilgiç is the CEO of Rolls-Royce. **Michael Birshan** is a senior partner in McKinsey's London office.

Comments and opinions expressed by interviewees are their own and do not represent or reflect the opinions, policies, or positions of McKinsey & Company or have its endorsement.

Developing a resilient, adaptable workforce for an uncertain future

Illustration by Karan Singh

by Jacqueline Brassey, Aaron De Smet, and Dana Maor
with Sheida Rabipour

A key task for 21st-century leaders is to develop their own capacity for change while also fostering resilience and adaptability in others across the organization. Here's a blueprint for doing that.

Unexpected crises, volatility, and a generally accelerated pace of change have increasingly become the norm. But it doesn't feel normal. For many, it feels stressful and exhausting.

Think of all the very large disruptions on leaders' agendas these days—widespread use of automation, artificial intelligence, and other technologies at work; geopolitical and global economic shifts; impacts from climate change; genomic editing and other scientific and bioengineering innovations; social justice trends; and evolving workforce demographics and employee expectations.

It's unprecedented.

To successfully move their business strategies forward in this environment, 21st-century leaders need an engaged and innovative workforce that can change course quickly, effectively, and fluidly. Employees must be open to developing new capabilities, adopting new norms, and reconsidering long-held mindsets and behaviors. Leaders must be willing to do the same.

Achieving such resilience and adaptability at individual and organizational levels is easier said than done, however. Human beings have a natural affinity for order, predictability, and control. They will do everything they can to avoid chaos, uncertainty, and volatility. Research shows that when the path forward is unclear, and time and performance pressures are the same (or increasing), teams and individuals often default to what they already know—regardless of whether that approach is appropriate for the given situation.

In some cases, leaders will even advocate that employees and teams "just keep going" in the face of uncertainty—not making an important distinction between times when resilience is needed, times when adaptability is needed, and the interdependence of both. Consider an example from the world of sports: National Basketball Association player Stephen Curry is one of the greatest three-point shooters in the game. In a high-stakes playoff game, he misses an important three-point shot at the end of the first half. Despite that hiccup, he keeps shooting threes in the second half because he expects to deliver on a skill that he's practiced and honed for decades. That's resilience. But what if the NBA were to limit the number of three-point shots teams can take during playoff games? It may no longer pay for Curry to "just keep shooting"; he might need to think differently about his approach and adjust his game. That's adaptability.

Leaders and organizations, just like world-class athletes, need to be both resilient and adaptable to realize growth, innovation, and organizational health. A recent study by the McKinsey Health Institute (MHI) shows that individuals who report high levels of resilience or adaptability demonstrate better holistic health and higher engagement than peers. But those who score high on *both* dimensions are over three times more likely than peers to report high engagement at work and almost four times more likely than peers to report an increase in innovative behaviors (Exhibit 1).

To be resilient and adaptable, leaders and employees need a mix of skills. Resilience requires—among other things—the ability to view change as a challenge or an opportunity to bounce forward, regulate thoughts and emotions, take lessons from prior experiences, and execute on change. Adaptability requires, among other things, the ability to approach uncertainty with an open, learning mindset and to think flexibly and creatively about problems as they arise. When leaders and employees have both sets of skills, they can (like Steph Curry) better discern when a focus on resilience will be enough, when an adaptive response is required, and how to integrate the two into their strategies, operations, and decision making.

Our research and experience working with senior leaders in organizations across multiple industries and geographies point to four actions leaders can take to establish and support the presence of both resilience and adaptability in themselves and their workforces, thereby increasing the odds that they will successfully weather even the most extreme periods of volatility. Leaders should do the following:

- Set a compass or North Star to help people move in a common direction.
- Build a psychologically safe community, not just a workforce.
- Ensure that they, themselves, are demonstrating resilience and adaptability and serving as role models for others.
- Encourage employees to learn and build these skills in groups.

In this article, we'll review recent McKinsey research on both resilience and adaptability and their association with employee outcomes. We'll also consider the four actions cited above and how they can help leaders build resilience and adaptability at scale. These days, it's imperative for organizations to find ways to turn disruption into competitive advantage. As author and psychotherapist Viktor Frankl noted in his book *Man's Search for Meaning*, "When we are no longer able to change a situation, we are challenged to change ourselves."

By the numbers: Resilience and adaptability matter for business performance

In a world where business disruptions arrive not as one-off surprises but in waves of unpredictability—and where change compounds change—business leaders need a more nuanced way to think about how they manage themselves and their organizations. Recent McKinsey and MHI research can help inform that thinking. It reveals how the presence (or absence) of resilience and adaptability can affect leaders, individuals, organizations, and overall business performance. Here are some of the findings.

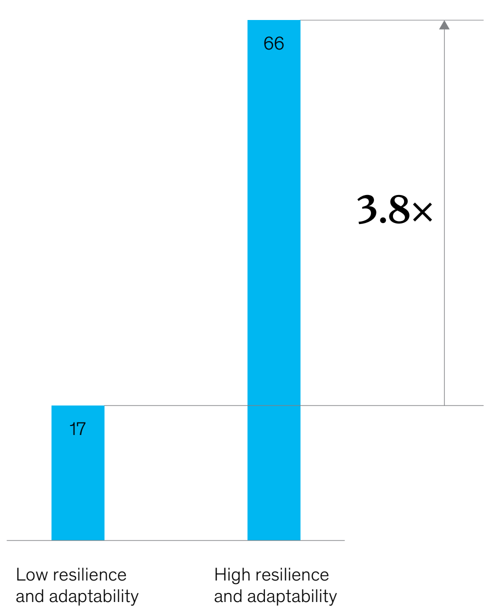
Organizations underinvest in resilience and adaptability

Recent McKinsey research points to an unmet need in adaptability and resilience skills in organizations. According to McKinsey's Talent Trends survey, for instance, only 16 percent of global employers currently invest in adaptability and continuous-learning programs. Yet according to that same research, 26 percent of 10,000 employees across the globe consider adaptability a top skill need for them; this was especially true for frontline and low-tenure workers (one year or less).

Exhibit 1

Employees who are both resilient and adaptable report higher levels of innovation than their peers.

Share of employees who reported high innovative behavior,[1] %



[1]Researchers sought responses to 3 statements about innovative behaviors. The statements were rated along a 5-point scale, from never (1) to very often (5). A high score was represented by those who, on average, reported positively to all the statements (≥4). A low score was represented by all other responses (<4). Figures do not sum to total, because of rounding.
Source: McKinsey Health Institute survey of 30,000 employees in companies across 30 countries

As a result, most individuals feel unequipped to deal with uncertainty

MHI asked 30,000 global employees a series of questions aimed at assessing levels of resilience and adaptability. The resilience questions were about feeling confident and equipped to handle unexpected events. The adaptability questions were about feeling positive and even enjoying handling unexpected events or change. Only 23 percent of those surveyed, on average, responded favorably to questions about both resilience and adaptability—that is, being able to handle unexpected events *and* being positive about unpredictability. By contrast, 56 percent, on average, responded favorably to questions focused on resilience, and 28 percent, on average, responded positively to questions about adaptability.

Psychological safety is critical for building resilience and adaptability

Previous McKinsey research has shown how important psychological safety is for effective leadership and organizational performance. It allows for, among other things, the expression of bold ideas and divergent views in teams and can aid significantly in collaboration and innovation. Indeed, previous MHI research shows higher levels of engagement and innovative behavior in environments where employees experience psychological safety—more than two times higher compared with employees who do not experience psychologically safe conditions. In our more recent study on resilience and adaptability, the combination of, for example, resilience and psychological safety resulted in a 3.6 times increase in engagement levels and a 3.9 times increase in innovative behavior among those polled. And the combination of adaptability and psychological safety resulted in a 3.3 times increase in innovative behavior and a 2.9 times increase in engagement.

Strong organizational support also matters
MHI research shows that when employees experience strong organizational support (clear processes, ample resources, and supervisor or coworker support, for instance) along with psychological safety, resiliency, and adaptability, their likelihood of reporting high engagement or innovative behavior is six times higher than peers (Exhibit 2).

Connecting the dots: Fostering resilience and adaptability at scale

What can leaders do to bring all these elements together and develop (and integrate) resilience and adaptability at scale? There are four actions they can take to reset organizational conditions, create some semblance of control, and give employees the skills and confidence to respond to disruption wherever and whenever it arises.

Set a compass or North Star for the organization
The more things change in an organization, the more individuals and teams look for signs of stability. Senior leaders can help foster resilience and adaptability at scale by pointing everyone toward a common North Star—for instance, some shared objectives and a few core principles or values (purpose, integrity, authenticity) that employees can cling to in the middle of a maelstrom. A leader may set a core value of "putting customers first in all we do." That North Star can be a source of stability when a new entrant upends the market and teams need to quickly refresh a product design, learn new skills, or adopt

1998

McKinsey Quarterly
Number 2

Managing metamorphosis

Some companies manage to avoid being overtaken, remaining dominant for a very long time. In an evolving business environment, such a company must be adaptable; indeed, its resource system may change out of all recognition from one competitive era to the next. To achieve this adaptability, a company must successfully manage its own metamorphosis from dependence on one source of sustainable advantage to dependence on another.

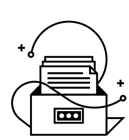
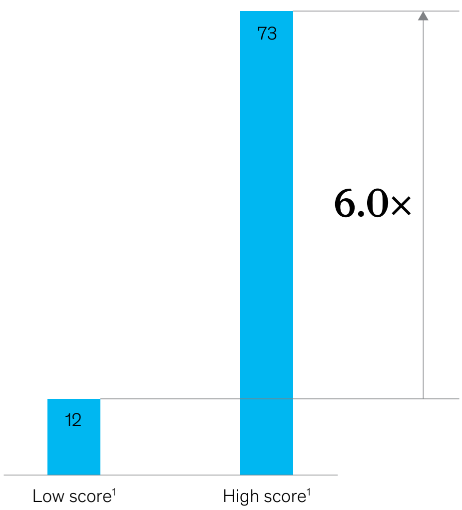


Exhibit 2

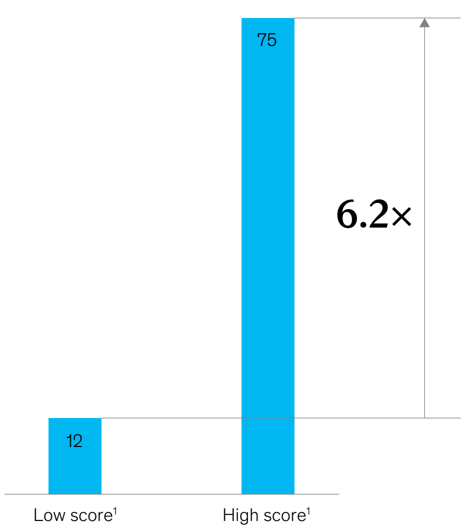
High organizational support, psychological safety, resilience, and adaptability are associated with high levels of engagement and innovation.

Share of employees reporting high on respective outcome, %

Outcome: Engagement



Outcome: Innovation



[1]Respondents were asked for their reactions to statements regarding organizational support, psychological safety, resilience, and adaptability. High scores represent favorable ratings (on average) across all dimensions (all ≥4). Low scores represent all other responses for all those dimensions (all <4). Figures do not sum to totals, because of rounding.
Source: McKinsey Health Institute survey of 30,000 employees in companies across 30 countries

new ways of working—whatever else is going on, it's clear to everyone that there is still a need to put customers first.

Leaders should also devise clear mechanisms by which they can accurately measure the organization's progress in achieving its North Star goals, and they should continually evaluate these metrics to ensure that they are aligned with strategic priorities. Leaders should freely share these data with teams and individuals across the organization; the information can be critical for steering individuals and teams away from their own siloed objectives and targets—some of which may no longer be appropriate in a dramatically changed environment.

Build a psychologically safe community, not just a workforce

When asked about what makes work great, most people will talk about their fellow employees. These are the people they spend hours and hours with building, selling, problem-solving, and doing the million other collaborative tasks that make up the average workday. To be resilient and adaptable at scale, leaders need to emphasize this sense of community and turn a bunch of isolated company residents into a functional, flexible, and friendly neighborhood.

There is no simple formula for success, but two key ingredients are psychological safety and an emphasis on accountability. Interestingly, many organizations focus on developing one at the expense of the other, when, in fact, they need very high levels of both. As described earlier, psychological safety enables more honest conversation, more candid feedback, more debate—and, ultimately, more trust and accountability, as teams feel more comfortable discussing the causes and consequences of errors or repeated under-delivery of results.

Safety challenges at one large travel company prompted leaders to revamp the culture (encourage people to focus as much on safety concerns as on business results) and establish more psychological safety (reward employees for spotting potential issues and for speaking up). Such moves allowed the company to better manage risk and source more innovative ideas from teams, and they improved employee retention and engagement scores. In this new environment, employees knew that when they spoke up, they would be believed and trusted.

Ensure that leaders themselves are resilient, adaptable, and can serve as role models
This article is about collective resilience and adaptability, but that can't occur unless all leaders in an organization, from the C-suite to middle managers to the front line, hone their individual resilience and adaptability skills. These skills include situational and self-awareness, cognitive agility, learning agility, and emotional flexibility and regulation. CEOs must be honest with themselves, first, about their own experiences with disruption: How have they regulated their own emotions in times of crisis? How have they handled decision making when important information was missing, or when they didn't have all the answers? As John Plant, the CEO of Howmet Aerospace, told the authors of *The Journey of Leadership: How CEOs Learn to Lead from the Inside Out* (Portfolio, September 2024), "So you get hired as CEO and you manage well the first phase of the cycle, which might require someone who has restructuring skills. But then, after three or four years, the company pivots to a growth mode, and because you don't have the right skills, the board may fire you. Very few people have the experience or versatility to be able to operate in those different modes." This is why it's essential for leaders to take time to reflect, ask these questions, and revisit them often—not just to enable adaptability in others but to continue building this muscle themselves.

From their unique perspectives and experiences, CEOs can share their change stories, in town halls or team meetings or in one-on-one conversations, about how they have managed volatility in the past. They can engage members of the board in training on resilience and adaptability to fully embed the required skills, mindsets, and conditions in the organization.

"CEOs must be honest with themselves, first, about their own **experiences with disruption:** How have they regulated their own emotions in times of crisis?"

> Leaders must build the workplace conditions that **allow individuals and teams to become more resilient and adaptable,** and they must integrate these skills with their business strategies.

They can also integrate adaptability at scale into the overarching business strategy, on an equal footing with other elements of the strategic plan. And they can introduce aspects of resilience and adaptability into talent attraction and retention processes—hiring for these skills, developing training programs around them, and championing high-potentials who are "change able" or who demonstrate interest and capabilities in resilience and adaptability.

For middle managers and frontline workers, who are typically charged with translating strategy to execution and directly overseeing outcomes, adaptability and resilience are particularly essential skills. The ability of these managers to pivot and bounce forward, to build situational and self-awareness, to regulate emotions, and to otherwise demonstrate resilience and adaptability can have direct (and exponential) effects on individuals, teams, and organizations.

Encourage teams to build resilience and adaptability skills in groups

Research shows that social learning can accelerate individuals' and teams' intake of new information, recall of lessons learned, and motivation to behave differently. Social learning marries cognitive and emotional capabilities; individuals who learn as part of a group are not just recalling what they learned—they also remember how others reacted, what others said to facilitate their own knowledge, and so on. Leaders should encourage teams to similarly create a common learning experience and shared language about change, volatility, and uncertainty—themes that, as mentioned earlier, humans are hardwired to avoid. Strength in numbers can be an effective motivator.

One pharmaceutical company rolled out resilience and adaptability training in waves that eventually encompassed more than 9,000 employees at each level, signaling the importance of capabilities in these areas. In the first wave, the top team attended in-person, facilitated workshops, where lessons were reinforced through online modules, direct dialogues, and collaboration with others in the workshop. In the second wave, about 4,000 people leaders from across the company were given access to digital, self-paced tools, but those lessons were also reinforced through online modules and social learning. In the final wave, individual contributors from across the organization went through their own sessions, enhanced by the online app and social learning.

The commitment required for employees in all these training waves was only a few hours over three months (with regular, weekly touchpoints). Adaptability and well-being improved dramatically across the groups compared with a control group—and participants cited the social-learning aspect as an important part of the program. Leaders allowed time and physical space for individuals and teams to explore their curiosity, observe and imitate others, and practice critical concepts as a group. What's more, the learning was aligned with the over-arching business strategy and team objectives.

When electricity was invented and replaced steam machines in factories, it took 30 years before that innovation led to improved efficiency and productivity. Many companies simply couldn't adapt quickly enough to new circumstances.

Today's business leaders and organizations face a similar dynamic—this time confronting not one but a range of technical, economic, geopolitical, and social disruptions that demand learning and adaptation (beyond agile organizational structures). To avoid a fate like that of their historical factory-owner counterparts, leaders must acknowledge two critical factors associated with change—resilience and adaptability—and the codependent relationship between them. They must build workplace conditions that allow individuals and teams to become more resilient and adaptable, and they must integrate these skills with their business strategies.

Leaders—and, frankly, the world—can't afford to take another three decades to figure out how to integrate and adapt when the next big game changer in business emerges. Q

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Why successful leaders dig deep on identity and purpose

by Kurt Strovink

To motivate and inspire, CEOs need to be able to answer two questions: "Who are we?" and "Why are we here?"

Kurt Strovink is a senior partner in McKinsey's New York office.

Leaders who are effective communicators know how to offer compelling narratives about their organizations—ones that inspire employees, customers, and other stakeholders. That may sound like a straightforward task, but it really isn't.

CEOs must address multiple challenges on a given day. This means they may not have time to step back and consider the broader stakes. What is my organization's North Star? How can I tell a story about the organization and myself as a leader that reflects our values and resonates with people, both internally and externally?

When working with CEOs, we offer a way for them to think about framing these questions that I call the "four W's":

- Who are we?
- Why are we here?
- What is our agenda?
- When do we execute our plans?

The "who" is the company's identity—its personality, values, and culture. The "why" reflects purpose—what is our core mission? The "what" and the "when" correspond to the work plan and initiatives and the timing to execute them. CEOs want to quickly establish accountability and execute their strategy, which is obviously important for results. However, our observation after working with leaders is that passing over the first two W's to focus on the last two can be problematic and misses a real opportunity.

Organizational success comes from leaders spending more time upstream with the foundational questions of purpose and identity, which are particularly important for companies stocked with self-propelled talent. These are people who, when told where the goal line is, figure out how to get there. Purpose and identity are fuel for performance, and they've only gotten more important in an era of nonstop change and increased yearning for meaning in the workplace.

CEOs should want to inspire and motivate all their people. There's an old story about John F. Kennedy touring the NASA facilities in Cape Canaveral. He noticed a janitor with a broom nearby. He asked what the man was doing for NASA, and the janitor replied that he was helping to put a man on the moon. He didn't view his contribution as fractional; he felt he was doing his part so the overall mission could succeed.

We've seen this same kind of widespread shared vision play out at successful hospital systems where *all* employees—not just the doctors and nurses—feel they are healing and caring for patients. When hospital leaders have a vision of patient care that is integrative, employee experience improves, as does customer experience.

These are examples of how the "who" and the "why" combine to give a strong sense of organizational identity. Identities, by their nature, are not partial; they are holistic. They don't apply to only 25 percent or 50 percent of employees. It's 100 percent or nothing.

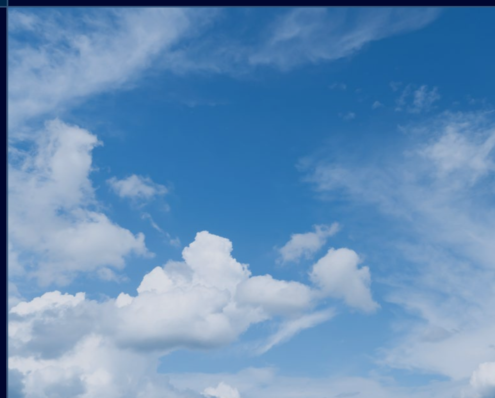
To spread their vision, leaders can spotlight people who are living the goal successfully. Senior leaders can reach out to those on the front line and say, "I heard you did this. Good stuff, keep it going, and thank you for setting an example." Leaders can also teach. They can say, "Look, we're continuing to get better at this. We keep getting closer and closer, but it's the striving to be great that makes us great." If they emphasize improvement, as well as performance, people will be more motivated to stretch and strive.

Finally, leaders can serve as role models for this approach themselves. They should be curious, hunting for new ways of doing things. They can refine their own script, not relying on a stump speech that is provided to them and that they repeat over and over. They can evolve it as they learn, enriching their narrative with employees, suppliers, customers, and the board.

We suggest that leaders take the time to dwell on identity and purpose. If they skip over those things and focus only on operational factors, they leave a lot on the sidelines because people just aren't going to be as excited and committed as they could be. This is particularly true in high-talent organizations, where people don't necessarily listen to authority alone (the "do it because I said so" approach). What motivates them is having something that they believe in: an interpretation of who they are and why they're here that resonates.

In any human endeavor, it isn't just about a transaction but about depth of meaning. Reasons, values, mission, and how people see themselves—and why they do what they do—matter. We see this in our work with companies that could have gone down the path of making more money outside of their core mission, but they decided against it. And they're thriving, whether it's in entertainment or healthcare or other sectors.

Finally, the four W's are a useful mnemonic device for CEOs to quickly pull up and ask, "Am I leading in a way that works well across all of these? Or am I at 10-10-40-40?" Obviously, if they're at 50-50-0-0, that's also a problem. The point is to recalibrate and put more time and energy where it's needed while vowing not to skip over "who" and "why." Balance is the key. Q



How leaders can tap the power of vulnerability

by Dana Maor, Hans-Werner Kaas, Kurt Strovink, and Ramesh Srinivasan

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xu wu/Getty Images

Showing vulnerability can build connections and trust. One place to start: create a “to-be” list rather than a “to-do” list.

What does it take to be a great CEO? There are the tangible skills, of course, such as financial acumen and operational management. Then there’s a short list of traits that corporate leaders can agree are prerequisites, including confidence, resilience, and versatility. But in hundreds of leadership conversations over many years, we’ve seen many CEOs grapple with how to adopt a set of softer skills.

Vulnerability, for example, can be vital to building trust and openness—but, along with skills like humility and selflessness, it can be trickier to master. In this excerpt from our new book, *The Journey of Leadership: How CEOs Learn to Lead from the Inside Out* (Portfolio, September 2024), we focus on why adding vulnerability to personal growth journeys can heighten leadership potential.

Back when many of today’s business leaders were starting their careers, the standard for CEOs was set by larger-than-life figures such as GE’s Jack Welch or Chrysler’s Lee Iacocca. Investors, boards, and the business press worshipped these tough-minded individuals, while their employees expected them to have all the answers.

A few short decades later, the C-suite is a different place—and the old CEO model doesn’t always motivate today’s workers. Millennials, in particular, want their leaders to share their human side, including their vulnerabilities. What they are seeking, in short, is authenticity.

And yet many of today’s CEOs aren’t sure about what makes them authentic and how to share those traits and characteristics. Those uncertainties emerged in our conversations with more than 500 global CEOs: based on our analysis, these otherwise talented executives often hadn't taken the time to be vulnerable—that is, to reflect and connect authentically with themselves so they can connect more effectively with their teams.

Even more important, leaders must give themselves *permission* to pause in legitimate pursuit of understanding and honing their behavioral traits. When they do so, they become more human-centric, which amplifies their impact and increases their effectiveness as leaders. Many executives are not necessarily intuitively comfortable with this concept—they would rather focus on the work and moving things forward.

How do you, as a leader, become more vulnerable? In short, it involves making the switch from proving to improving yourself. It means having an open, rather than a fixed, mindset, reflecting the belief that you can always do better. It means focusing on personal growth rather than perception management. You must be willing to take risks, to invest in relationships that may or may not work out, and to act with no guarantees. Vulnerability is the willingness to be touched by others' perspectives, while also allowing yourself to be seen fully by others—even if you fear being judged.

According to research, the number-one reason teams fail is a lack of trust. The ultimate purpose of being vulnerable is to give leaders permission to invite thoughts and insights from colleagues, advisers, and friends—which, in turn, builds trust. So if you want to be trusted as a leader, you need to show your vulnerability.

Of course, we're not suggesting that leaders abandon their hard-nosed leadership skills—just that they should challenge themselves to balance those attributes with soft leadership skills that are sometimes the most difficult to muster.

When handled correctly, vulnerability is a sign of strength. It can be magnetic and powerful. Apple's Steve Jobs, for one, was a dominant entrepreneur, yet later in his career he learned the importance of sharing his emotions with others.

“Leaders must give themselves ***permission* to pause** in legitimate pursuit of **understanding and honing** their behavioral traits.”

Jobs talked about his struggles with pancreatic cancer and his mortality in his famous 2005 Stanford University commencement speech: “Remembering that I’ll be dead soon is the most important tool I’ve ever encountered to help me make the big choices in life.”

Vulnerability: Who needs it?

On a rainy day in Paris, the handful of CEOs gathered at a leadership forum were surprised by the depth of anguish coming from one of their peers. A highly successful leader of a family-owned global manufacturing company, he had a reputation for maintaining strong bonds with his board, his management team, and outside constituents.

“My problem,” he said to those around the table, “is that I can’t confront people.”

He explained that one of his relatives, who was on his leadership team, was strutting around the place like he owned it, which, in fact, he did in part. The relative was a negative influence, saying things like, “This person is an idiot, that one is useless, or that other one is undercutting me behind my back.” The CEO knew he had to confront this person, but he couldn’t gather the courage.

One of the CEOs at the table asked him why he felt that way.

It took some vulnerability on the CEO’s part to grapple with the answer: the CEO realized that he was raised in a way that made him want to please everyone. He recalled that when he approached his own mother with problems as a child, she would say: “Oh, this is not a problem. This will be resolved. Don’t worry.” The family never argued at dinner. They were polite and deferential to one another. He honed an ability to play ambassador, which helped him forge strong ties with his directors and his other constituents. Yet it also left him short of early opportunities to work through conflicts—such as confronting someone like the relative who was acting aggressively.

Once he realized the root causes for his behavior, he gained more confidence: although he learned from a young age to please everyone, he wasn’t bound by that. Returning to work, the CEO confronted his relative, telling him that, in the end, it might be better if he looked outside for a new opportunity. To the CEO’s relief, the person eventually left the company without making a fuss.

As we can see from this case, leaders may reflexively deal with challenges using often-unrecognized patterns shaped by parents, teachers, and early bosses. Leaders who allow themselves to be vulnerable to get in touch with their feelings can change the way they deal with these moments. As one seasoned CEO put it: “There is no deep learning without emotional involvement.”

Know yourself (and your triggers)

To unleash the power of vulnerability, leaders must learn to manage moments that cause them to respond emotionally: so-called triggers.

Triggers can be something someone says or does, or it could be a situation or a challenge—a team member constantly engaging in toxic behavior, an activist knocking at your door, a board member making a snarky comment about the latest quarterly results. Whether these moments are positive or negative, they do trigger fear.

If leaders do not identify their triggers, they can get trapped by their own patterns, which can lead to negative behavior and poor performance. The danger is reacting quickly in the moment and reverting to old patterns that can make someone want to control the situation or defend their ego, rather than do what's best for the business.

Fortunately, people can choose how they respond, whether positively or negatively. The best leaders recognize what is triggering them and then learn to respond in an open and positive way. This is where vulnerability comes into play: if something forces you to react negatively or defensively, and you're able to realize it, you can change your behavior by asking yourself, or discussing with others, why you're reacting in such a way. Sometimes this requires taking a deep look at yourself.

One new CEO found that whenever she was at a board meeting, she got triggered by a director whom she felt didn't know what she was talking about. Every time the CEO heard something she thought was wrong or naive, she would jump in to correct the director, making for awkward meetings. After some deep self-reflection, the CEO realized that the problem was her need to be seen as right all the time—reverting to her childhood pattern of being the kid who always had the answer. This created fear that had nothing to do with the present moment or what was good for the business.

Eventually, the CEO became self-aware enough to shift her attitude. As she put it, "If I'm triggered, I'm being defensive. I'm not being creative." In future meetings, she held her tongue when the director spoke and used her energy to get the board to focus on the important business at hand.

Vulnerability in action

We have found that the more open, truthful, and authentic someone is, the more comfortable people are opening up to them—and the more respect and valuable input they get from others.

1983

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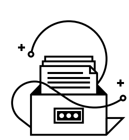
Number 4

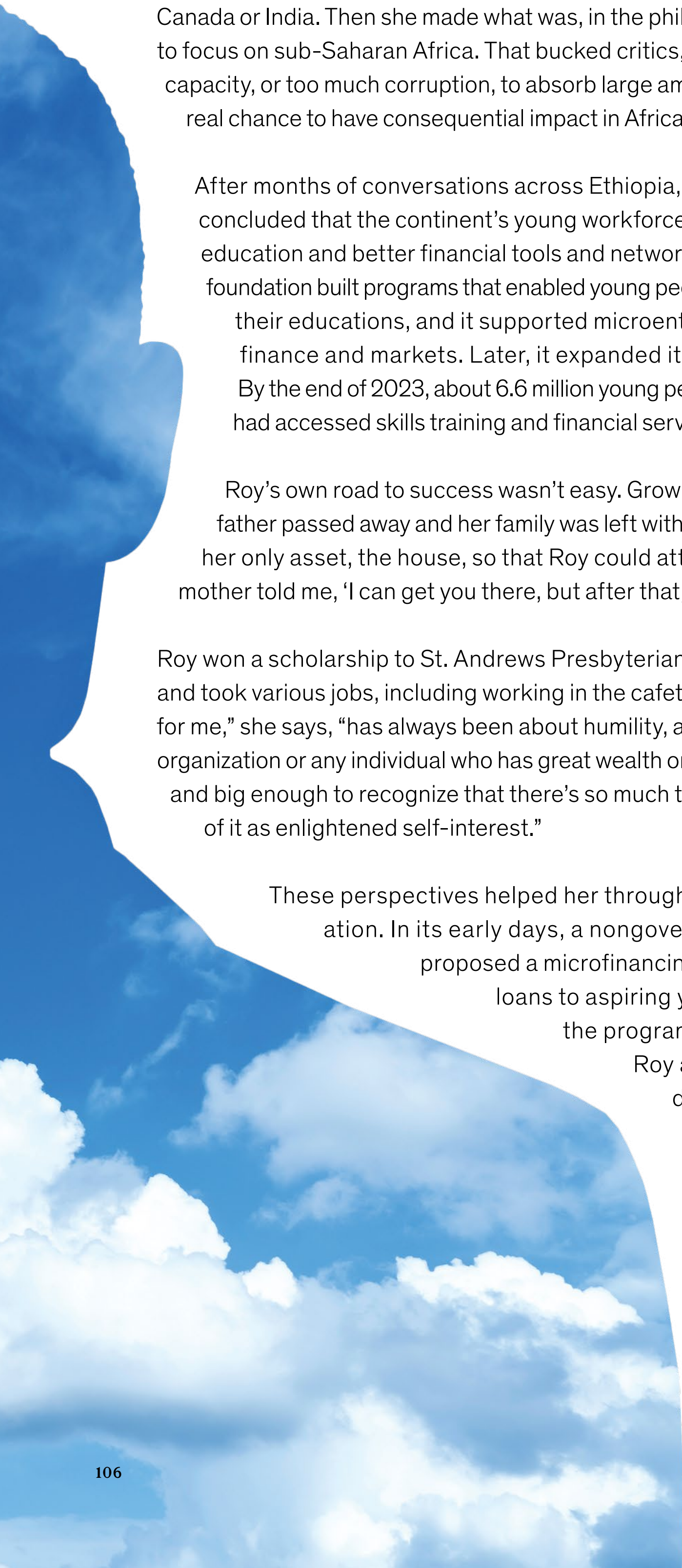
Leadership, management and the seven keys

Human relationships, in one form or another, are the essential ingredients of organization performance. The manner in which these relationships unfold and operate in the organization determines the quality of organizational performance.



Reeta Roy, the CEO of the philanthropic Mastercard Foundation, has found the right balance between speaking hard truths and being self-effacing.

In 2006, Mastercard created a Toronto-based foundation to advance education and financial inclusion. The board recruited Roy, then a divisional vice president at the global healthcare company Abbott, to set the new organization's direction. Roy listened carefully to a chorus of outside voices, some urging her to focus globally, others suggesting she concentrate on Canada or India. Then she made what was, in the philanthropic world, a controversial choice: to focus on sub-Saharan Africa. That bucked critics, who argued that Africa had too little capacity, or too much corruption, to absorb large amounts of funding. "But I knew we had a real chance to have consequential impact in Africa," she said.



After months of conversations across Ethiopia, Kenya, Uganda, and Senegal, Roy concluded that the continent's young workforce would benefit from greater access to education and better financial tools and networks. With partners across Africa, the foundation built programs that enabled young people, especially young women, to secure their educations, and it supported microentrepreneurs by providing access to finance and markets. Later, it expanded its focus to addressing unemployment. By the end of 2023, about 6.6 million young people were working, and millions more had accessed skills training and financial services through the foundation's programs.

Roy's own road to success wasn't easy. Growing up in Malaysia, she was 14 when her father passed away and her family was left with little money. Her mother mortgaged her only asset, the house, so that Roy could attend high school in North Carolina. "My mother told me, 'I can get you there, but after that, you'll need to find your way.'"

Roy won a scholarship to St. Andrews Presbyterian College (now St. Andrews University), and took various jobs, including working in the cafeteria, to earn money. "The first value for me," she says, "has always been about humility, and that comes from my childhood. Any organization or any individual who has great wealth or great power needs to be self-aware and big enough to recognize that there's so much they don't know and need to learn. Think of it as enlightened self-interest."

These perspectives helped her through challenges as she built the foundation. In its early days, a nongovernmental organization in one country proposed a microfinancing program that offered low-interest loans to aspiring young entrepreneurs. Six months into the program, not a single loan had been issued. Roy and her team visited the country and discovered that these young people did not want loans; they wanted savings accounts. It was an example of how preconceived assumptions had gotten in the way of providing the community with what it really needed. The program was changed, and the foundation enjoyed a stronger working relationship with the community because of its openness and willingness to admit mistakes.

Sometimes being vulnerable means having to put aside pride and apologize. On one occasion, Roy met with a partner organization to discuss its program and how it could be expanded. Things appeared to be going well for the 20 representatives seated in an intimate circle, until the leader of the partner organization interrupted: "The foundation has not treated us right. You make us feel like we have to beg for money, and that's not right." Roy and her team learned that someone at the foundation had been unresponsive to the partner's inquiries about when they could begin the program. Without hesitation, Roy stood and apologized. "I said, 'Thank you for being candid. You should expect better from us, and we will take action to change.' And we did."

Roy used such moments to engage her colleagues on how things can go wrong, how they can be righted—and how the foundation always needed to be visible in individual actions. "Periodically, we need to remind ourselves that to achieve significant impact, we need to develop trust-based and productive working relationships with our partners," she says. "These are watershed moments."

Will vulnerability make leaders . . . vulnerable?

Letting yourself be vulnerable does entail a risk. If not handled properly, it can diminish your influence in the eyes of others. In a world where hierarchies are fluid and leaders project humility and vulnerability, how can they also command respect? If, for example, you work in an open office layout, surrounded by employees, with everyone following the same dress code and workplace norms, it can become challenging to maintain stature, and you can start losing influence. Therefore it's vital that you establish your presence as the leader.

"That's a tough balancing act to pull off," says former Novartis CEO Dan Vasella. "Leaders now

"Sometimes being vulnerable means having to **put aside pride** and apologize."

> Vulnerability is not a weakness. Being vulnerable means **being willing to be moved by others** as you share hopes and concerns in a way that invites support.

gain respect by being both competent and honest. That doesn't mean that you say everything you think, but you have to be authentic. If you have that and you know what you're doing, people will see that you are in charge."

Being transparent is essential to being an inspirational leader. But because your reports may now feel more comfortable confronting you and your ideas, it may be more uncomfortable for you. A lot is being projected on you, as if you were a movie screen onto which people place all their positive and negative past experiences with authority. It can be tough to endure all that scrutiny day after day.

Having been in that position throughout his career, Vasella has a helpful take: "You have to understand that all the criticism is not necessarily about you. It's what you represent for them. It's the institution or a past authority they're taking aim at, not you as the person you are. The CEO is the office, not an individual."

Instead of a 'to-do' list, draw up a 'to-be' list

When you're the top dog, people expect you to be certain and determined. Leaders must make tough decisions on hiring, firing, budget allocation, promotions, and pay; you can't give up your decision-making power. But you should open yourself up to others and be willing to receive analytical and emotional feedback—ideally from people with multiple perspectives—before making those tough decisions.

To strike the right balance, most leaders have a to-do list that keeps them on track. But how many have a to-be list—a reminder of who they are and how they want to behave when they show up at work every day? Are they egotistical or open to other points of view? Are they snappish or warm? Emotionally distant or vulnerable? Essentially, the to-be list is anchored in the human characteristics of a leadership style and is also linked to the core character traits.

Michael Fisher maintained that fine balance when he was running Cincinnati Children's Hospital Medical Center. When he was diagnosed with cancer in 2018 and had to take a six-month leave, he struggled with how to share the news. He was a private person, and his instinct was to quietly go away and get treatment. He felt, however, that it was important for the employees and other stakeholders to know what was going on. So he created a series of communications: a letter to all employees and the community announcing that he was sick and explaining how long he thought he'd be away, followed by two videos. In the first video, he gave a progress report while he was in the middle of intense chemotherapy. In the last, he announced that he was in remission and would return to his job in a few weeks.

"It's tough to balance being vulnerable with keeping your influence," says Fisher, "but we're human beings, and people want to work with real people who are transparent, authentic, and who role model the behaviors and values of the team and institution."

Tapping into your own vulnerabilities, as a pathway toward openness and trust, may start with asking some basic questions. Do I have the courage to put myself out there? Am I willing to take the chance of failing? Am I seen as simply an executive who fills a given role—and if so, how can I change my behavior so that I'm seen as the person I am? Do I have a to-be list—a reminder of who I am and how I want to behave?

Vulnerability is not a weakness. Being vulnerable means being in touch with what engages your emotions and knowing how to direct those feelings into positive energy. It means being willing to be moved by others as you share hopes and concerns in a way that invites support. "Vulnerability is power," as University of Houston professor and author Brené Brown puts it. The art lies in being thoughtful about when, where, and how to be vulnerable. And because life does not always go as planned, being vulnerable also means knowing how to deal with failure. Q

This article is excerpted from The Journey of Leadership: How CEOs Learn to Lead from the Inside Out, *by Dana Maor, Hans-Werner Kaas, Kurt Strovink, and Ramesh Srinivasan, in agreement with Portfolio, an imprint of Penguin Publishing Group, a division of Penguin Random House LLC. Copyright © 2024 McKinsey & Company.*

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by Brad Mendelson,
Harald Fanderl,
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Building a superpower

What can we learn from the **Magnificent Seven?**

Illustrations: © Jian Fan/Getty Images

A distinctive capability can lift a company's performance. But it's not easy to build one. Here's a guide to how today's stock market favorites have created enduring competitive advantages.

The stock market offers daily lessons in animal spirits and, occasionally, something more. Every so often, investors become obsessed with a small group of companies, and clever analysts give them a name that resonates with the investing public. In the '60s, we had the Nifty 50; in the 2010s, we had the FAANGs; and today we have the Magnificent Seven and the Granolas. The Magnificent Seven are tech companies, by and large: Alphabet, Amazon, Apple, Meta Platforms, Microsoft, Nvidia, and Tesla, a tech-forward car company. The Granolas, a group of European companies, are more varied: GSK, Roche, ASML, Nestlé, Novartis, Novo Nordisk, L'Oréal, LVMH, AstraZeneca, SAP, and Sanofi.

Cute nicknames are a bull market phenomenon; some would say they're a clear sign of a bubble. We don't have a view on that. Instead, we're interested in the fundamentals of performance and competitive advantage that have captured investors' fancy. In 2023, we outlined the idea of a superpower: an integrated set of people, processes, and technology that creates value by helping the company do something better than its competitors.

What does a superpower look like in real life? Think of any company that you admire, then reflect: Why do you feel this way? It's very likely because of an institutional capability—a superpower—that makes the company uniquely successful. Toyota has historically been revered for its lean-manufacturing strengths. Disney is a paragon of imaginative customer experiences. Progressive is broadly admired for its analytics-based pricing of auto insurance.

Today, investors are zeroing in on the superpowers that many of the Granolas and the Magnificent Seven have built. Consider ASML and its unique chip-making equipment that is powering the latest leg of growth per Moore's law, and Nvidia, whose vision in software and chips has lifted it to the top of the AI world. Apple's careful nurturing of an iPhone ecosystem is the stuff of legend.

In our experience, the companies that successfully build these kinds of distinctive capabilities tap six elements: vision, employees, culture, technology, organizational structure, and routines. As a bit of shorthand, we call this the VECTOR approach. (Busted: it's our own attempt at a cute nickname.) In the two years since we first developed this approach, we've become even more convinced of its efficacy. According to a recent McKinsey survey, respondents from companies whose transformations included efforts to build technical and execution skills for employees are 1.5 times more likely to report outperforming their peers. At companies that made sure to implement new routines and processes, the figure was 1.6 times. And those companies that created new technologies that make it easy for employees to apply their new skills were 3.8 times more likely to report outperforming their peers.

Getting to superpower status isn't easy. We've seen the pitfalls and challenges that companies experience as they seek to lift themselves out of congested markets. In this article, we'll look at those pitfalls and the solutions that leading companies have found to get past obstacles and achieve a long-term lead over their rivals. We'll draw on what we've learned by studying companies such as Amazon, ASML, LVMH, Microsoft, Nestlé, Netflix, Novo Nordisk, and others. Each has built a superpower (some have built several); their experiences can be instructive for executives looking for the missing ingredient that could lift their companies to the top.

Vision and leadership

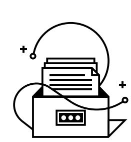
Most organizations start the process of building a superpower by developing an enterprise road map that covers the next two to three years. The road map includes plans to embed and scale the institutional capability across the organization

1972

McKinsey Quarterly
Number 3

Myth of the well-educated manager

What managerial aspirants should be taught is how to exercise their authority in a way that is appropriate to the characteristics of the situation and the people involved. Above all, they need to learn that the real source of their power is their own knowledge and skill, and the strength of their own personalities, not the authority conferred on them by their positions.



> As the company evolves, can it expect an ever-larger impact from its superpower? **Top companies continually expand** the capability to maintain a competitive edge.

with top-team commitment. But what about the long term? Here, a lot of companies' plans break down. To build a successful superpower, companies need to articulate the value they hope to create, not just next year but ten years from now, and link it to the economics of their business models. The basic question is simple: As the company evolves, can it expect an ever-larger impact from its superpower? Top companies continually expand the capability to maintain a competitive edge.

One lesson comes from luxury goods, an industry in which fashions change but brands are forever. LVMH, the French luxury giant, is built on core brands that are simultaneously ancient and thriving: Louis Vuitton was founded in 1854, and Moët & Chandon was founded in 1743. All told, the company embraces more than 75 distinguished brands across sectors that vary from leather goods and fashion to wines and spirits. The patina of age lends authenticity and intrinsic value to its products. As CEO Bernard Arnault puts it, "I have great admiration for the iPhone. I have myself an iPhone. But can you say that in 20 years, people will still use an iPhone? Maybe not. What I can say is that 20 years from now, I'm quite convinced that people will still drink Dom Pérignon."

Other luxury brands are also old and distinguished. What's different about LVMH? The company promotes its history and its future simultaneously. For the former, it emphasizes attention to detail, artisanal techniques honed over centuries, and the heritage of its brands. The historical roots and traditions of each brand are always highlighted as part of their identities. It matches this with a commitment to perpetuating its advantage, as described in its long-term vision: "Each of the group's 75 *maisons* must cultivate the highest level of quality, not simply to maintain it year after year but also to elevate it as we continually set even higher standards."

Amazon arrived on the scene about 200 years after Veuve Clicquot, one of LVMH's ancient brands. But it too has a vision for the future, famously expressed in its goal to become "Earth's most customer-centric company, best employer, and safest place to work." That vision was sufficiently captivating that the company could ask investors to tolerate acute losses in the early years as it reinvested all spare cash flow to realize its vision. Over time, that vision morphed a little, but it always featured a convenient shopping experience, built by teams trained to think it's still day one and that there are always new inventions to find that will please the customer. That ambition to keep an ever-growing employee base "customer obsessed" became Amazon's superpower, as new employees learned that the path to success in any new or existing team was to start with the customer and work backward.

Employees

People are typically the most significant investment of an organization. Without the right skills, the best-laid strategies go for naught. Companies typically invest up front in large-scale change programs for leaders and perhaps in targeted technical-skill building for line managers. But if these programs are just one-off events and don't scale beyond the initial team, it may not be possible to build a sustained advantage.

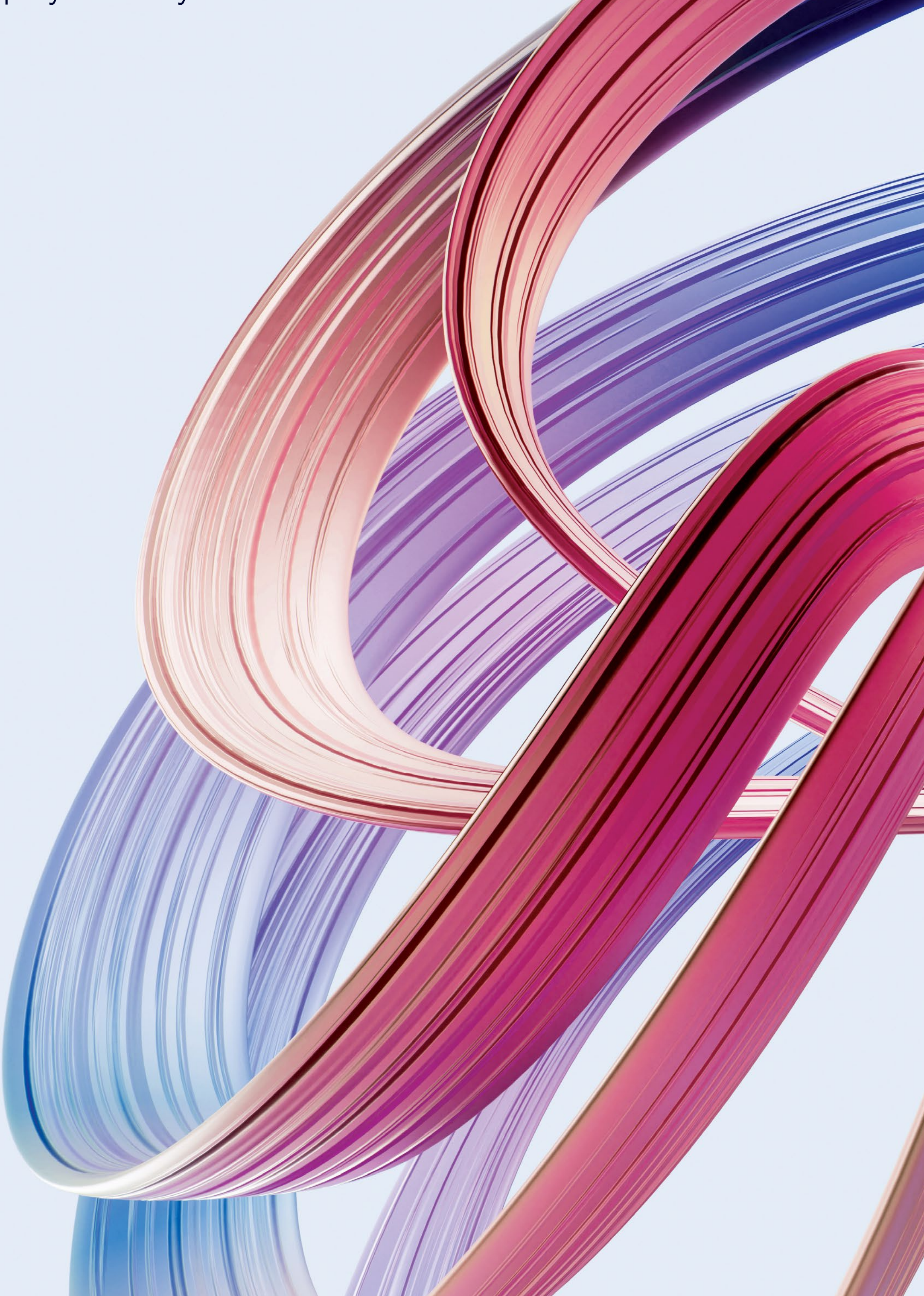
Leading companies develop skill-building journeys for people throughout the organization and in that way sustain institutional knowledge—for example, through a corporate academy. These companies see this work as part of a multiyear strategic-workforce plan that outlines talent needs over a period of several years. By considering various factors such as roles, skills, hiring, and reskilling, an organization can ensure it has the right workforce to achieve its long-term vision for the institutional capability.

LVMH invests heavily in training across the organization. It consciously works to identify and nurture gifted people in every job track: creatives, craftspeople, and customer-facing roles. Its signature training program is L'Institut des Métiers d'Excellence, an apprenticeship program that has taught over 2,700 employees in 27 different disciplines spanning craftsmanship, creative tasks, and client experience leadership. It supplements this core program with others, such as Hublot's four-year apprenticeship for new watchmakers. The company is dedicated to in-house mobility for talent; for example, after they prove themselves in one of the smaller brands, talented creative directors are tapped to take the reins at a larger brand.

Beyond formal systems, LVMH challenges and supports employees in other ways. CEO Bernard Arnault is famous for putting himself in employees' shoes. It's common for store managers to receive a memo from Arnault commenting on the placement of a sofa in the store or its fabric. His advice to executives? "Don't go to the offices too much. Stay on the ground with the customer or with the designers as they work. I visit stores every week. I always look for the store managers. I want to see them on the ground, not in their offices doing paperwork." The top team will also throw its weight behind managers and make sure that corporate initiatives don't stand in the way of brand leaders' vision and focus on the customer.

Culture and mindset

From our research, we know that organizational health is critical to long-term performance, with healthy organizations delivering three times the total shareholder returns of unhealthy organizations, regardless of industry. When aspiring to build an institutional capability, "By incorporating essential mindsets into hiring, **leadership models, and feedback,** companies can target moments that matter throughout the end-to-end employee life cycle."



organizations often assess their organizational health and take on board the changes needed to reset the culture for experimentation and building. These are typically discrete mindset and behavioral shifts to help employees embrace the new capability in their day-to-day work. Where most organizations fall short is embedding these target mindsets into the backbone of the people structure: the HR processes. By incorporating essential mindsets into hiring, leadership models, and feedback, companies can target moments that matter throughout the end-to-end employee life cycle.

Netflix's superpower is its revolutionary talent management system. It favors people over processes; it treats managers as responsible adults and gives them the freedom to make decisions for their parts of the business. It asks people to rely on logic and common sense, rather than fall back on policies. It rewards high performers and famously says that "adequate performance gets a generous severance package."

The company eliminated formal reviews, seeing them as too ritualistic and infrequent. Instead, it moved to informal 360-degree reviews, whereby employees are asked to identify activities the company should start, stop, or continue. It emphasizes the core role of managers—their most important job is to build a great team. And it asks that HR managers prioritize innovation, believing that a creative HR function will create more value for the company.

Nestlé is a global food and beverage giant, with CHF 93 billion ($105 billion) in annual sales, a presence in 188 countries, and over 2,000 brands. That's significant reach for a company that started in 1866 by selling condensed milk. What's the company's superpower? We would argue that it's an entrepreneurial culture dedicated to finding new sources of growth and moving quickly to establish and expand a presence in these areas. Time and again, Nestlé has empowered its managers to invest in consumer trends that are just about to take off. In the 1950s, this meant new convenience foods like Nesquik. More recently, it has meant areas such as early-life and therapeutic nutrition, alternative proteins, coffee, and systems technology. Its gambit in coffee, Nespresso, rewrote consumers' coffee experiences and has resulted in a business with $6 billion in annual sales, annual organic growth of 5 to 20 percent, and a platform for a "string of pearls" M&A strategy.

Does anyone need an introduction to Microsoft? Probably not. It's been featured on billions of corporate desktops and laptops for most of the 49 years of its existence. Microsoft's original superpowers were excellence in engineering and sales: it made products that work and placed them everywhere. But the company has shifted its focus in the past decade or so. Its new superpower is a growth mindset.

Stanford professor Carol Dweck did the research on this idea. People "who believe their talents can be developed (through hard work, good strategies, and input from others) have a growth mindset. They tend to achieve more than those . . . who believe their talents are innate gifts." Microsoft CEO Satya Nadella has put this concept at the core of his company; he calls it "learn it all versus know it all" and wrote about it extensively in his 2017 book, *Hit Refresh* (Harper Business, September 2017).

It's a powerful idea, and we see echoes of it in other tech companies' philosophies; the culture of experimentation is everywhere in Silicon Valley. But Microsoft's version adds a layer of empathy. It's not just about learning from mistakes; it's about learning from every perspective.

In 2014, in Nadella's telling, he flubbed a question about equal pay for women; he said that women should "have faith" that "the system" will eventually reward them. Oops. That very day, he wrote an email to Microsoft to say, "I answered that question completely wrong. Without a doubt, I wholeheartedly support programs at Microsoft and in the industry that bring more women into technology and close the pay gap." The episode is a demonstration of the "learn it all" philosophy that underpins the growth mindset and an example of role modeling from an inspiring CEO.

Technology

Here's a quick question: How many times have you heard a company in a random industry proclaim that they are now "a technology company"? It's very much in vogue, and these companies are not wrong to try it. But success is elusive. What companies often fail to appreciate is the challenge of hard-wiring technology into core workflow systems, which is the subject of our 2023 book *Rewired: The McKinsey Guide to Outcompeting in the Age of Digital and AI* (Wiley, June 2023). Building a superpower without technology is next to impossible; building one with technology that isn't well integrated into the enterprise is only slightly easier.

Amazon invested heavily in a decentralized software platform relying on APIs that teams across the company could access. That helped it start more businesses and grow faster. It's an essential underpinning that makes all the other well-known features of the company possible, such as its customer obsession, day-one culture, and "working backward" approach that company leaders look for to determine the merits of a proposal. If leaders approve an idea, managers can build it in weeks or months, not years, because of APIs and the decentralized software structure. Amazon didn't stumble into this concept. It stopped several projects in the early 2000s when it realized it couldn't grow very quickly beyond books and media if it didn't decentralize the platform. (And while they were at it, Amazon's leaders realized other companies had

"How many times have you heard a company proclaim that **they are now 'a technology company'?** These companies are not wrong to try it. But success is elusive."

the same problem. So they built Amazon Web Services to offer this kind of infrastructure to others.)

ASML, the semiconductor equipment company, also embedded technology into its core workflow systems. Founded in 1984 by two Dutch companies, electronics giant Philips and chipmaker ASM International, ASML had one thing in mind: to provide semiconductor companies with the most advanced and economically attractive lithography equipment (the machines that use light to prepare the substrate for the eventual etching of the billions of transistors entailed in a modern integrated circuit). It has succeeded in that mission, registering sales of €27.6 billion in 2023 and a gross margin of just over 51 percent.

ASML's superpower is technology leadership. It has built its edge in a few ways, starting with close alignment with industry leaders such as Intel, Samsung, and TSMC; world-leading system integration capabilities; and deep partnerships with suppliers. To maintain its edge, ASML made a series of strategic acquisitions that enhanced its capabilities and expanded its product lineup. Notably, ASML acquired Silicon Valley Group in 2001, Brion in 2007, Cymer in 2013, and HMI in 2016. Even more critically, ASML has taken a 24.9 percent stake in Zeiss SMT, an important partner and supplier of the optics used in lithography equipment. ASML invests heavily in R&D, and it partners with many others to ensure it is at the forefront of innovation. Finally, the company understands the importance of talent to technology leadership. Because of its commitment to innovation, among other accomplishments, ASML is the only company in the world that produces the extreme ultraviolet lithography machines that are critical to producing the smallest and most powerful chips propelling the generative AI revolution.

Organization

When building an enterprise superpower, organizations should ensure their organizational structures can adapt and scale the capability. Often, companies will revisit their organizational structures and look for opportunities to redesign the teams most directly linked to the institutional capability. A company that's rewiring one of its functions to build a digital superpower, for example, may also adopt agile structures.

What's often missing as part of this redesign is the need for permanent teams and roles to own and enable the institutional capability. Who will be responsible for propelling and scaling the superpower across the enterprise? Are sufficient resources allocated to support these teams and the long-term road map—for instance, annual budget, full-time equivalents?

Amazon has made enormous contributions to management thinking. One of its lesser-known yet most powerful ideas is the "single-threaded leader," a manager who is responsible for one thing and is given the resources to run one focused business or initiative. That's a real break with the way other companies operate. At many, good managers are spotted by higher-ups, who assign them ever more complex tasks. Or when a new product comes along, companies assign responsibility for it to one of their functional leaders, who then has to carve their time into ever-narrower slices. At many car companies, for example, electric vehicles have been added to the portfolio of the head of manufacturing.

Amazon does it differently: when senior leaders ask for resources to launch a big new idea, they're challenged to make sure they organize the proposed new team in a focused way and assign it to a single-threaded leader. That leader wakes up every morning focused on the success of that idea. By making it their job, the company reduces the risk of failure: reducing dependencies on other teams means that leader spends far less time coordinating. That singular focus can be painful, for it requires reshuffling teams so that talented leaders can double down on new ideas that may or may not work out. When the idea for an e-reader came up, for instance, Amazon took the leader of its print book business and assigned him the job of leading the development of the Kindle. That idea was a big success—as were Alexa, Prime, and Amazon Japan. The Fire Phone and Amazon China are a couple of examples that didn't work out as well. But the successes vastly outweigh the failures. As of 2023, about 75 percent of US households are Amazon Prime members, spending more than four times as much as non-members over the course of their lifetimes.

Novo Nordisk, the Danish pharmaceutical company, recently became the most valuable company in Europe. The obvious reason why is the company's phenomenal success with Ozempic and Wegovy, its GLP-1 agonists that have proven effective against diabetes and obesity and reduce the risk of major heart events. The company's revenues have grown about 30 percent annually in recent years, and the new drugs have captured the imaginations of consumers and investors alike. But the company did not just get lucky with some new molecules. Rather, its unique ownership structure allows it to take a long-term view on R&D investments and avoid the hurly-burly of short-term market fluctuations. The company is owned mostly by a charitable foundation—a relatively common structure in Scandinavia. As CEO Lars Fruergaard Jørgensen said in 2023, "Our distinct ownership structure . . . gives us the security we need to take a long-term perspective on our investments and strategies." That organizational structure gave the company the long-term runway it needed to expand from its historical focus on diabetes and hemophilia and build society-shifting strengths in new areas.

> “**Building a superpower without technology is next to impossible;** building one with technology that isn't well integrated into the enterprise is only slightly easier.”

Obviously, most companies cannot simply shift to an organizational structure like Novo Nordisk's. But they can take steps, nonetheless. Our research suggests that companies with a long-term approach can achieve superior performance in revenue and earnings, investment, market capitalization, and job creation.

LVMH offers another perspective on how organizational structure can support a superpower. The company is organized as "both a large group and a federation of medium-size companies." CEO Bernard Arnault says, "We want to federate a team of entrepreneurs, which includes all managers . . . with a permanent concern for dynamism, efficiency, motivation, and complete attachment to a brand, as if these companies were individual and not part of a larger group."

Routines

As part of implementing the other VECTOR components, organizations should redesign essential processes to embed the capability into how the organization operates. What we see

is that many companies create nice designs on paper but don't see them through in practice. To make sure the capability endures, companies need repetition; they may need to run the new process as many as 20 cycles to "burn" it into the organization. This is especially important while building the capability; coaching teams on execution can ensure a long life for the new capability.

Amazon has hundreds of operating units, spanning a vast array of functions and businesses, such as cloud computing, advertising, e-commerce, and supply chain optimization. Across each of these, managers rely on a common set of repeated routines, or "mechanisms," as they are internally known, that determine how businesses are operated. Business results are reviewed weekly, monthly, and quarterly through a well-defined meeting and document structure, incorporating what types of metrics to focus on, how to respond to a challenge, and even protocols for seating at meetings. Team sizes, at least at the start of a project, are limited to the number of people who can be fed by two pizzas. All new business ideas are articulated through a six-page press release or frequently asked questions, and requirements are standardized across the organization. The idea is to work backward from what a successful launch will look like. Errors, inevitable in any innovative organization, are examined through a "correction of error" process, again standardized in format and collected in a single central system that tracks the action items that must be completed to eliminate the risk of the error recurring anywhere in the company. Taken collectively, these routines have enabled Amazon to scale its business many times over without compromising on culture and business performance standards.

Stock market investors are sometimes prone to irrational exuberance. But the companies we've profiled have built the kind of enduring capabilities that produce competitive advantage for the long haul, no matter which direction the market moves next. Q

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Women

by Alexis Krivkovich, Emily Field, Lareina Yee, and Megan McConnell, with Hannah Smith

Photo composition by Neil Jamieson/Getty Images

in the workplace 2024

Women have made notable gains over the past decade. Here's how business leaders can encourage sustainable progress in the years ahead.

This year marks the tenth anniversary of the Women in the Workplace report. Conducted in partnership with LeanIn.Org, this effort is the largest study of women in corporate America. Over the past decade, more than 1,000 companies have participated in the study, and we have surveyed more than 480,000 people about their workplace experiences.

This decade has been a time of important gains for women at every level of the corporate pipeline, particularly in senior leadership. This progress matters for several reasons, including that research shows that companies with more women in leadership benefit from greater innovation, healthier cultures, and stronger performance. In addition to offering valuable skills and perspectives, women leaders inspire the next generation of women to make their mark.

That said, these gains are remarkably fragile. At the beginning of the pipeline, too few women—and especially women of color—are advancing into management positions. Over the past several years, the primary driver of progress for women in senior leadership has been a reduction in line roles (that is, positions with profit-and-loss responsibility, a focus on the company's core operations, or both). And at the highest level—the C-suite—what drove gains in representation will be nearly impossible to replicate in the years to come. At the current rate of progress, it will take almost 50 years for women to reach parity in corporate America—and that assumes companies can translate their somewhat precarious momentum into more substantial and sustainable gains.

As we reflect on these results, three things are true. First, companies took action that has led to important progress. Second, change is hard and messy, and the corporate world is somewhere in the middle of the shifts needed to fix the pipeline and make the culture of work more equitable. Third, the gains are less extensive than they appear. Taken together, the scorecard for corporate America is mixed—and although there are bright spots that suggest many companies have momentum, there has also been a decline in the commitment to diversity.

The next phase of work will require a broader playbook. While business leaders have invested more energy in women's advancement, the fragility of progress in the pipeline points to the need to do more. And despite companies' efforts to activate managers and employees, the culture of work appears to be stuck. If one thing is clear, it's that deep, systemic change—which requires reshaping people's mindsets and behaviors—is hard and doesn't follow a linear path.

In this article, drawn from the full report that is available on McKinsey.com, we will briefly summarize the current state of women in the workplace. We will then present tips and strategies for leaders looking to turn their companies' current commitments into sustainable progress. Leaders must stay ambitious and committed to the important work they've started. Corporate America can do better, and women deserve better.

Progress is not parity along the corporate pipeline

Over the past decade, women's representation has increased at every level of corporate management. Most notably, women today make up 29 percent of C-suite positions, compared with just 17 percent in 2015. While that rate of change is significant, it is far from parity, and the corporate pipeline still has lots of room for improvement. Women remain underrepresented across the pipeline, a gender gap that persists regardless of race and ethnicity (Exhibit 1). Simply put, men always outnumber women.

Women continue to face barriers at the beginning of the pipeline. They remain less likely than men to be hired into entry-level roles, which leaves them underrepresented from the start. Moreover, women are far less likely than men to attain that very first promotion to a manager role—a situation that isn't improving (Exhibit 2). In 2018, for every 100 men who received their first promotion to manager, 79 women were promoted; this year, just 81 women were. Because of this "broken rung" in the corporate ladder, men significantly outnumber women at the manager level, making it incredibly difficult for women to progress to more senior levels. This phenomenon is even worse for women of color, who represent only 7 percent of current C-suite positions—just a four-percentage-point increase since 2017.

About the study

Women in the Workplace is the largest study on the state of women in corporate America. For this tenth-anniversary report, we analyzed data from the past decade to better understand progress, decline, and stagnation in women's representation and experiences. Over the past ten years, more than 1,000 companies have participated in the study and over 480,000 people were surveyed on their workplace experiences. In 2024, we collected information from 281 participating organizations employing over ten million people, surveyed more than 15,000 employees, and conducted interviews with people of diverse identities, including women of color, LGBTQ+ women, and women with disabilities. In 2015, LeanIn.Org and McKinsey launched the annual study to give companies insights and tools to advance gender diversity in the workplace.

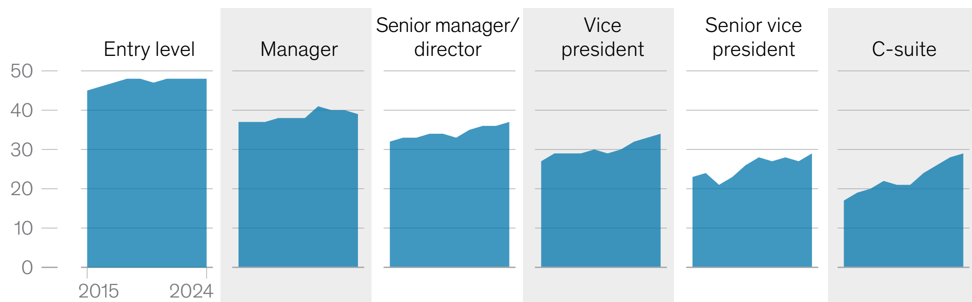
Women have made modest but meaningful gains at the vice president and senior-vice-president levels since 2018. But the main driver of women's increased representation was a reduction in the number of line roles, which disproportionately affected men given that they hold more of these positions. In the C-suite, women's progress was even less sustainable. While the reduction of line roles was still a factor, the primary reason women's representation increased was because companies, on average, added staff roles—that is, positions in support functions, such as human resources, legal, and IT—and hired women into these new positions. Since companies cannot add new staff roles indefinitely, this is not a viable path to parity.

True parity won't be achieved until the representation of White women and women of color in senior leadership reflects their share of the US population. At the current pace of progress, it

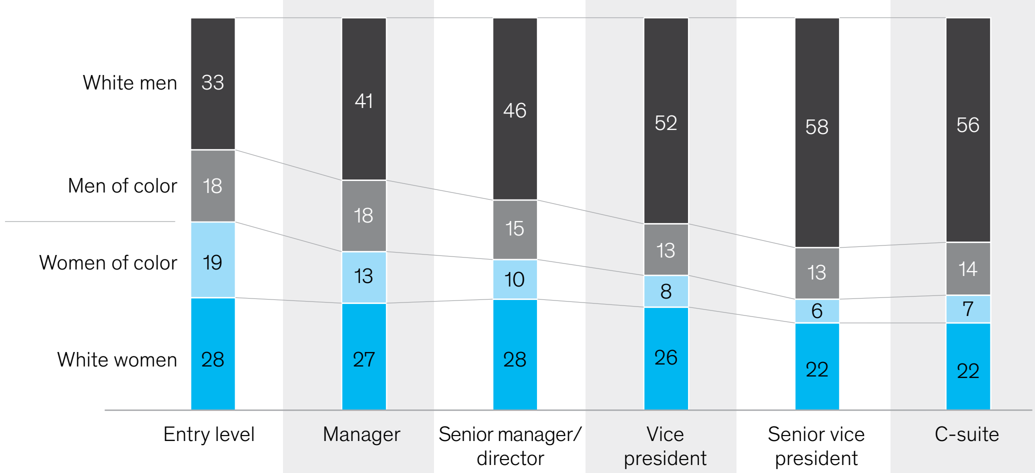
Exhibit 1

While there have been meaningful gains in corporate representation, women remain underrepresented at every stage of the corporate pipeline.

Women's representation in corporate roles, 2015–24, % of employees



Representation in corporate role, by gender and race, 2024, % of employees



	Entry level	Manager	Senior manager/ director	Vice president	Senior vice president	C-suite
Total women, 2024	48	39	37	34	29	29
Total women, 2015	45	37	32	27	23	17

Note: Figures may not sum to 100%, because of rounding. Total percent of women per level may not sum to overall corporate pipeline totals, because overall figures do not include employees with unreported race data.
Source: *Women in the Workplace 2024*, McKinsey & Company and LeanIn.Org

would take 22 years for White women to reach parity—and it would take more than twice as long for women of color. That's almost five decades away. And even hitting that distant goal is a considerable challenge. To do so, companies will need to not only maintain their current rate of progress but also address weak spots in their pipelines by finally fixing the broken rung, investing more resources in developing women leaders, and holding themselves accountable for more substantive progress in senior-leadership roles.

There is critical work for leaders to do

Over the past decade, companies have taken steps to support the advancement of women and make the workplace more equitable. Employees recognize this: a majority think women have more opportunities to advance and point to companies' increased efforts to make the workplace more equitable.

One point of progress is that today, almost all surveyed companies provide critical support for employees who are parents, caregivers, or managing health challenges—benefits that link to higher rates of happiness and employee retention. Benefits such as these are especially helpful to women, who are more likely than men to assume caregiving responsibilities.

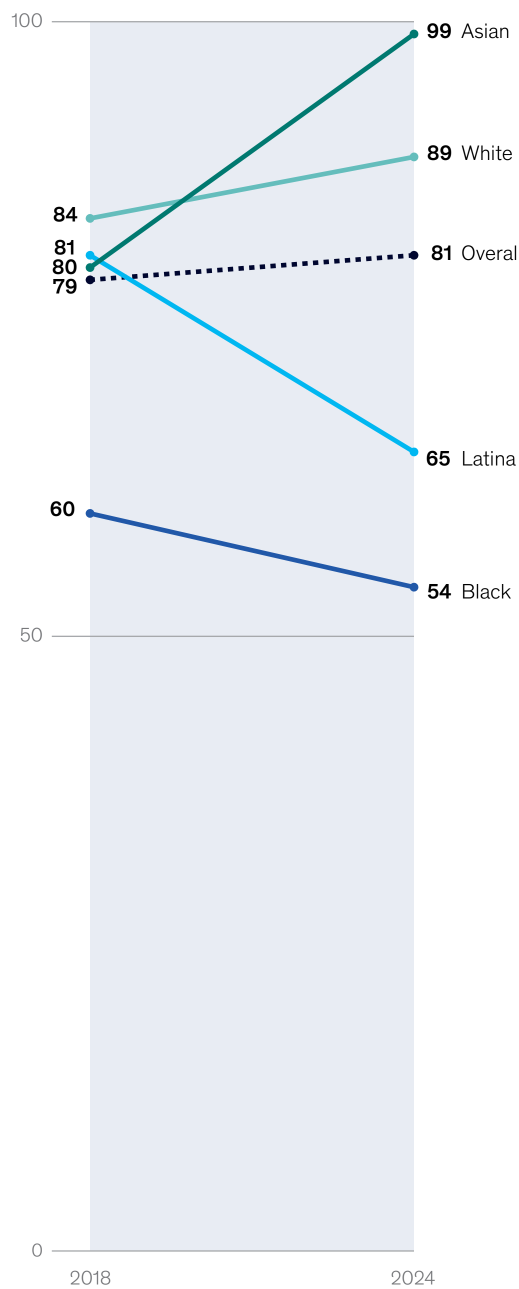
Workplace flexibility is another benefit that has expanded significantly in the past decade. Mostly in response to the pandemic, companies dramatically increased their hybrid and remote-work options. Eight in ten employees say flexibility has improved over the past ten years, and they consistently point to greater productivity and reduced burnout as primary benefits. Flexibility is especially important to women, who report having more focused time to work when working remotely.

Companies are also doing more to debias hiring practices and performance reviews but need to go further. When we look at five

Exhibit 2

The 'broken rung' remains a significant barrier to advancement, especially for women of color.

Women promoted to manager for every 100 men promoted to manager, by ethnicity, number



Source: *Women in the Workplace 2024*, McKinsey & Company and LeanIn.Org

core practices for debiasing—developing clear evaluation criteria for hiring; offering bias training for hiring evaluators; aspiring to have diverse slates of similarly qualified candidates for open positions; developing clear evaluation criteria for performance reviews; and sending reminders to avoid bias during reviews—just one in four surveyed companies have adopted all of them. The companies that have implemented the full array of practices tend to make the greatest strides in advancing women.

At the same time, companies have scaled back programs designed to advance women. While women face distinct barriers that these programs can help address, fewer companies say gender and racial diversity are priorities for the organization. Companies are reporting declines in career development, mentorship, and sponsorship programs geared toward women, as well as recruiting and internship programs focused on women. Relatively few companies track these programs' outcomes, and in all cases, companies are investing in fewer programs designed to advance women of color.

While companies are setting the right priorities, these priorities are not translating into manager action. Career advancement has long been a core expectation of managers, and now more companies are also asking managers to foster a culture of inclusion and employee well-being, which is critically important to organizational health. When managers invest in all of these areas, employees are less burned out, happier in their roles, and less likely to consider leaving their organizations. However, despite increased trainings for managers on these priorities, they are by and large not translating into better manager performance.

Beyond the manager level, companies are doing more to activate employees as agents of change. Nearly all of the companies we surveyed, for instance, offer bias or allyship training. But the increase in training programs does not appear to be translating into greater awareness or action. Employees are not markedly more likely to recognize bias against women or act as allies to women of color. For example, 34 percent of women today recognize microaggressions—comments and actions that undermine their credibility and leadership skills—against other women, which is nearly the same as the 33 percent in 2020.

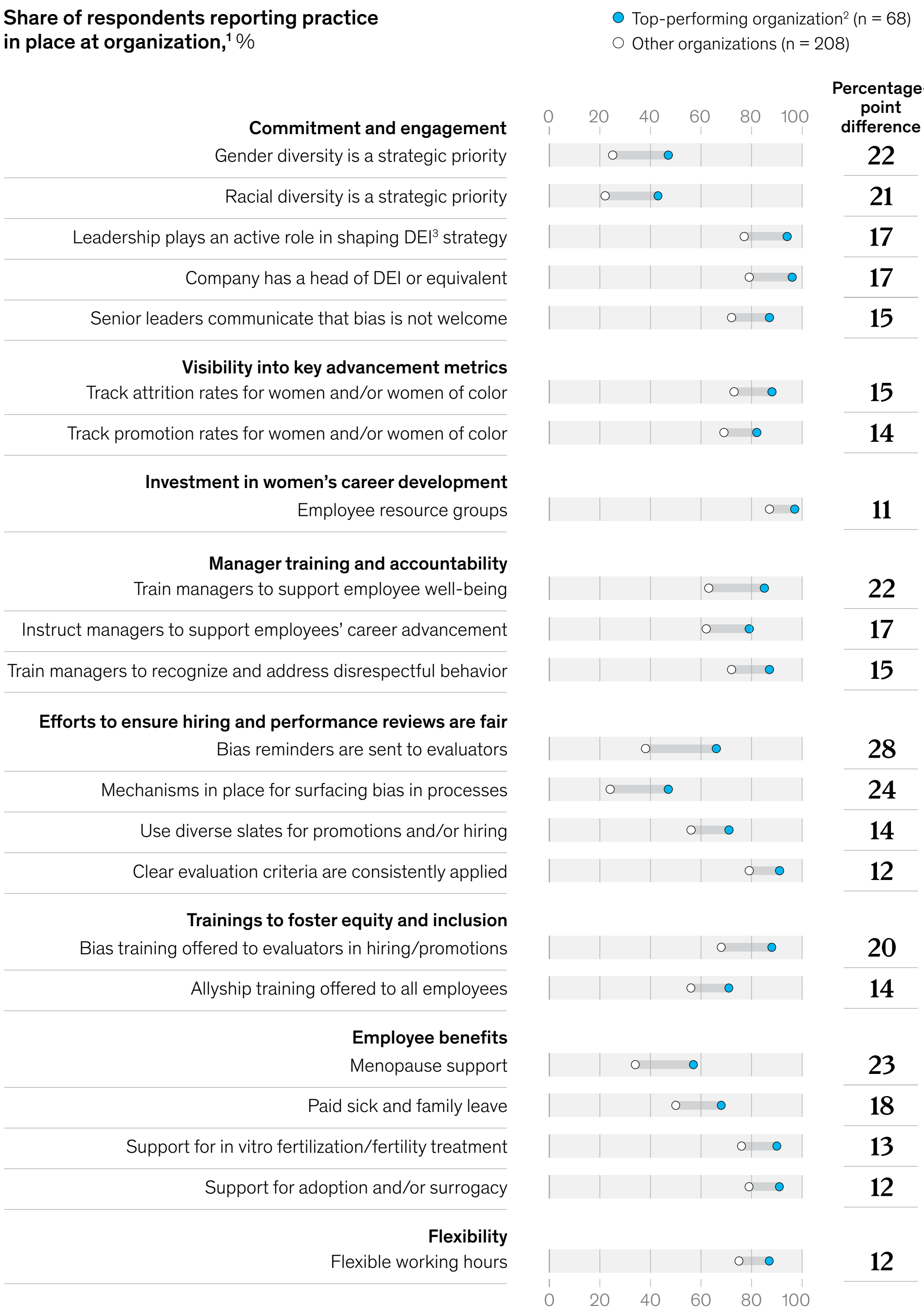
While companies have stepped up in some ways, progress has been uneven and there are clear signs that more needs to be done.

22 years
Amount of time before White women reach parity with men

48 years
Amount of time before women of color reach parity with men

Exhibit 3

Companies making the biggest strides in advancing women are applying more of the practices that make the workplace more equitable.



[1]Across practices, program eligibility should be open to individuals from all backgrounds. The list of practices in this chart is nonexhaustive and includes only those where the differences between top-performing organizations and all other organizations are statistically significant.
[2]The top quartile of organizations that outperformed industry benchmark in representation of women and women of color at level 2 (senior vice president) through level 6 (entry level).
[3]Diversity, equity, and inclusion.
Source: *Women in the Workplace* 2024, McKinsey & Company and LeanIn.Org

A BROADER PLAYBOOK FOR FUTURE GAINS

The next phase of change will require more tenacity, creativity, and optimism—and that starts with rekindling the commitment to diversity and fairness that got us to this point. For senior leaders, it means continuing to champion this important work and challenging themselves and their organizations to do better.

For most companies, this will require putting more of the right practices in place. Our best practices checklist—which was built by looking at the uptake of key policies and programs and their link to better outcomes for women and women of color—can help identify gaps in current offerings and opportunities to push further (Exhibit 3).

In addition, it will be important to apply rigor to the quality and consistency of practices. Research shows there are four building blocks to getting this right: (1) making sure employees understand why a new practice is important; (2) teaching employees the skills they need to do their part; (3) putting mechanisms in place to support the practice; and (4) ensuring leaders role model the right behaviors. Many organizations do some of these things when they're introducing a new practice, but surprisingly few do all of them.

And finally, there are practical steps companies can take to drive further progress in areas that we know are particularly important for advancing women and fostering inclusion:

- Debias the hiring and promotions processes.
- Inspire and equip employees to curb bias and practice allyship.
- Unlock the power of managers to influence careers and team culture.

Exhibit 4

How to confirm the right fundamentals are in place.

		Common practice ≥70% of companies	Emerging practice ≤30% of companies	Top-performing practice[1]
Commitment and engagement	Gender diversity is a strategic priority		●	●
	Racial diversity is a strategic priority		●	●
	Leadership plays an active role in shaping DEI[2] strategy	●		●
	Company has a head of DEI or equivalent	●		●
	Senior leaders communicate that bias is not welcome			●
Visibility into key advancement metrics	Track representation of women and/or women of color	●		
	Track external-hire candidates for women and/or women of color	●		
	Track promotion rates for women and/or women of color	●		●
	Track attrition rates for women and/or women of color	●		●
Investment in women's career development	Employee resource groups	●		●
	Mentorship programs with content for women/women of color		●	
	Sponsorship programs with content for women/women of color		●	
	Career development programs with content for women/women of color		●	
	Recruiting and internship programs that support women of color		●	
Manager training and accountability	Train managers to recognize and address disrespectful behavior	●		●
	Train managers to support employee well-being	●		●
	Instruct managers to support employees' career advancement			●
	Evaluate managers on ensuring high team morale			●
Efforts to ensure hiring and performance reviews are fair	Bias training offered to evaluators			●
	Clear evaluation criteria established	●		●
	Diverse slates required for hiring			●
	Anonymizing resumes and work samples in hiring		●	
	Bias reminders are sent to evaluators			●
	Mechanisms in place for surfacing bias in processes		●	●
Trainings to foster equity and inclusion	Bias training offered to all employees	●		
	Allyship training offered to all employees			●
Employee benefits	Paid sick and family leave			●
	Paid parental leave	●		
	Paid bereavement leave	●		
	IVF/fertility treatment, adoption, or surrogacy support	●		●
	Menopause support			●
Flexibility	Flexible working hours	●		●
	Hybrid/remote-work options	●		

[1]A practice that is statistically more prevalent in organizations with higher representations of women and women of color.
[2]Diversity, equity, and inclusion.
Source: *Women in the Workplace 2024*, McKinsey & Company and LeanIn.Org

The research from this year, and the past ten years, underscores the value of companies' commitments to change. While women's representation has made progress in some areas, there is still much work to do to create a workplace experience that is inclusive and equitable for everyone. Gender parity continues to be a long-term goal, but one that is achievable. Progress begets progress. Celebrating the wins, even small ones, can help generate enthusiasm and build momentum throughout a company—and make a meaningful difference for all women at work.

The research-based tips and strategies on the following pages offer a road map for going deeper in these areas—and, we hope, inspiration for breaking new ground.

Confirming the right fundamentals are in place

Company and HR leaders should evaluate their current efforts to advance women and improve equity and inclusion against our checklist of recommended practices (Exhibit 4).

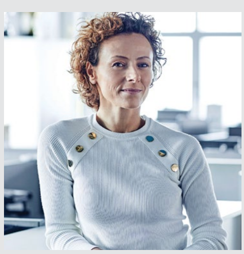
As a general rule, companies should have all *common practices* in place. There's a reason

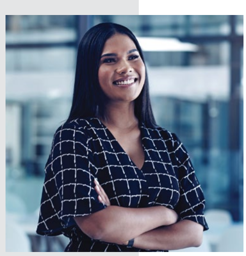
> "Bias erodes the link between what employees do and the ratings they receive. If companies don't take active steps to strengthen this connection, such as standardizing how employees are rated, they're opening the door to inequity.

—**Dr. Alison Wynn,** senior research scholar, Stanford VMware Women's Leadership Innovation Lab

“Stories can make a huge impact on employees—hearing how it’s changed someone’s life to have an inclusive workplace, or a microaggression-free workplace, or a workplace where they feel supported to show up as a caregiver.

—**Ruchika T. Malhotra,** inclusion strategist, author, *Inclusion on Purpose: An Intersectional Approach to Creating a Culture of Belonging At Work* (MIT Press, March 2022)





they’re so widely adopted and prevalent in top-performing companies: they work.

We also recommend that organizations integrate *emerging practices* into their playbook. While the relatively low adoption of these practices makes it harder to quantify their overall impact, subject matter experts point to their effectiveness.

Getting debiased hiring and performance reviews right

Most companies have taken steps to make hiring and performance reviews fairer. This is important progress, given these are two of the biggest levers companies can pull to advance women, and particularly women of color. However, the quality, depth, and consistency of these practices can make a huge difference in outcomes. Here are six research-based tips for making hiring and performance reviews fairer:

Effectively evaluate candidates:

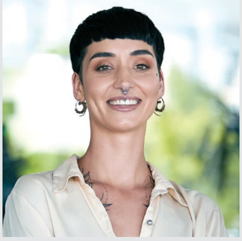
- *Establish evaluation criteria up front.* Evaluators should meet in advance to align on which criteria matter most and how to measure them. Aligning on metrics up front, before any candidates are under consideration, can help prevent bias from creeping into the process.

- *Design evaluation tools to gather objective, measurable inputs.* In designing evaluation tools, be mindful of the use of vague statements such as “Describe this person’s strengths,” which can open the door to bias. Look for opportunities to add rigor to them—for example, by asking for specific examples of how an employee did or didn’t meet expectations and any measurable outcomes. Research shows these tactics can minimize biased assessments.

- *Apply rigor to diverse slates for hiring.* Companies should formally articulate their definition of a diverse slate, how this is measured, and at what stages in the process a diverse slate is required. Then, to authentically put this approach into practice, companies should hold hiring managers accountable for building slates of comparably experienced and qualified candidates.

Minimize and surface bias:

- *Anonymize personal information.* Removing names from résumés and work samples can significantly reduce bias in hiring—research shows that names that hint at a candidate’s gender or race can trigger harmful stereotypes.



- *Send bias reminders to all evaluators.* Biases are hard to spot and may not be top of mind for evaluators, so reminders can make a big impact. Refreshers should include common examples of how bias shows up in hiring and promotions. In addition, it’s always helpful to remind evaluators to stick to the established criteria for a role and avoid vague input.

- *Appoint a bias monitor.* Of all the mechanisms to surface bias, research shows that a bias monitor is one of the most effective. This person’s role is to redirect conversations about candidates back to the job criteria and call out potential bias. Alternatively, it can be just as effective to have the whole group agree to monitor one another.

> “What middle managers do is actually much more complex than what either executives or frontline workers do. They manage both up and down, and serve as translators in both directions.

—**Emily Field,** partner, McKinsey & Company, author, *Power to the Middle: Why Managers Hold the Keys to the Future of Work* (Harvard Business Review Press, July 2023)

Activating employees to change the culture of work

Changing employee behavior is hard. Despite existing efforts, employees still struggle to identify workplace bias and are no more likely to practice allyship. Broad change requires changing employees' hearts and minds and giving them the wherewithal to show up differently in their day-to-day actions. Here are six strategies for telling a more expansive change story:

- *Give employees the 'why.'* When employees see that change is urgently needed—not just broadly, but at their own organizations—they're more likely to act. Companies can convey this by highlighting the downsides of inaction, such as lost talent or reduced innovation. They should also use internal data to help employees understand the reality of women's experiences at their own organizations—for example, by sharing women's promotion rates or employee experience metrics pointing to areas for improvement.

- *Speak to what employees stand to gain personally.* It's important to share specific examples of how diversity and inclusion efforts benefit everyone—and make this a staple of regular company communications. For example, explain that everyone has a better chance of advancing when there are practices in place to make promotions fair. Or point out how women's advancement efforts have led to cultural improvements that support all employees.

- *Link efforts to advance women to the company's core values.* Connecting diversity efforts to shared values is one of the most effective ways to rally employees. If a company values innovation, it can share research findings that diverse teams are often more innovative. Or, if a company is customer focused, it can talk about how having more women in leadership can help enhance products geared toward women.

- *Make an emotional connection with employees.* Real-life storytelling is a powerful way to shift employees' perspectives and inspire change. For example, stories from employees with disabilities who have struggled to participate in work activities can bring the importance of practicing inclusion to life, while stories from women who have thrived in fields dominated by men can underscore the importance of manager support. To avoid putting the onus on employees to share their experiences, companies should consider investing in guest speakers and storytellers.

- *Be transparent about how challenging change can be.* When companies openly acknowledge that large-scale change is hard, it creates more realistic expectations, which can help minimize the morale issues that lead to lost momentum. Being realistic about challenges also underscores the level of commitment needed over the long term to achieve success so that employees are better prepared for the hard work ahead.

- *Celebrate wins.* Research shows that large-scale change is more likely to succeed when organizations celebrate small wins. Companies should look out for incremental steps that count as wins, such as selecting new allyship training based on employee input or making the switch to a more quantitative performance review process. They should also encourage employees to celebrate one another's accomplishments, which can be energizing and create a virtuous cycle of positive actions.

Unlocking the power of managers

Managers hold a unique and powerful position within their organizations, given their impact on employee experience. When managers fail to act, research shows it's often for three reasons that are outside their control: their priorities and performance metrics are misaligned, they lack the time and resources to be successful, and leadership has not included them in the conversation. Armed with this knowledge, there are steps companies can take to unlock the full potential of managers. Here are three research-based tips for activating managers:

- *Align managers' priorities and rewards.* Lack of clarity around what's expected of them is a key source of stress for managers. To alleviate this, companies should make sure priorities, trainings, and performance expectations are well aligned. For instance, if supporting employee advancement is a key focus, that should be clearly communicated and emphasized in both training programs and performance reviews.

- *Ensure managers have the time and resources they need.* Given the broad range of goals they're expected to meet, managers are often spread too thin—42 percent of managers often or always feel burned out, compared with 33 percent of nonmanagers.

To address this, companies should look for opportunities to reduce managers' individual workloads so they have more time to support their teams. It can also help to put tools in place to make it easier for managers to be effective, such as standardized questions to gauge their team members' well-being and sample scripts for important career conversations. Taking these steps pays off: when managers spend more time developing their teams, results improve.

- *Invite managers into a dialogue.* A large body of research shows that when managers have meaningful input into their mandate—and how to accomplish it—organizational change is far more likely to succeed. To do this effectively, companies should consistently solicit managers' feedback on new policies and practices and how to improve them. This helps managers feel seen and heard and provides leadership with insights into on-the-ground challenges. Q

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McKinsey & Company and LeanIn.Org would like to thank the 281 companies and the more than 15,000 employees who participated in this year's study. We appreciate the continued help of the Defined Contribution Institutional Investment Association (DCIIA), the Equity Collaborative, Expanding Equity, PayTech Women, and the Women's Foodservice Forum (WFF) in convening participants in their respective industries. We would like to thank Qualtrics and IntelliSurvey for their help in conducting the surveys for this study and Getty Images for providing the photography from the Lean In Collection used in this report and on LeanIn.Org.

Racing to forge a new world of work

by Anu Madgavkar, Eric Hazan, Kweilin Ellingrud, and Olivia White

Illustrations by Rose Wong

To gain the full productivity benefits of generative AI and other technologies, the United States and Europe will need to focus on both improving human capital and accelerating technology adoption.

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Suddenly cooling labor markets command attention, as recent headlines—and anxious job hunters—can attest. But this focus may obscure a more subtle, sustained, and long-term trend across advanced economies: labor market tightening, caused by aging workforces and increased labor demand. This deep-seated, lasting labor market shift provides important context when contemplating how new technology, including AI and generative AI (gen AI), will alter labor demand patterns from now until 2030.

It is imperative that those who lead organizations understand the opportunities that innovative technologies present and help prepare workers and organizations to make the most of them. The challenge is both novel and enduring: labor markets have been in a state of flux since the Industrial Revolution. Over the course of history, groundbreaking technologies have routinely supplanted activities previously undertaken by human labor, which eventually adapts and finds new work that makes use of the new technologies. Today's burning question for leaders across the United States, in Europe, and beyond: How can they help steer the forthcoming technological disruption in a way that strengthens economies while also protecting lives and livelihoods?

How innovative technologies can affect labor markets

This article draws on research from the McKinsey Global Institute on the future of work in nine major economies in the United States and in the European Union and the United Kingdom (referred to collectively as "Europe"). Across these regions, structural shifts in labor markets have been ongoing for decades. The shifts include a long-term decline in the shares of employment for agriculture, industry, and mining in favor of services. More recently, labor markets were buffeted by shocks from the COVID-19 pandemic that propelled not only more job switching but also new employee preferences, such as hybrid work.

The imperative to integrate new technologies successfully is particularly high for Europe, a region where global competitiveness is decreasing. Two underpinning factors are critical for Europe: it has had low productivity growth (less than 1 percent) since the 1960s and persistent labor market tightness, a trend that started in 2010 (when advanced economies began their protracted recovery from the 2008 financial crisis). Europe's low population growth and aging workforces mean that countries can't expect economic growth from the number of workers unless they find a way to increase workforce participation, immigration, or both. Boosting productivity (which is output divided by the number of workers or hours worked) is thus a crucial goal for its economies.

Leaders in advanced economies who embrace the path of accelerated technology adoption by proactively redeploying workers stand to increase their productivity. In the United States, gen AI, combined with all other types of automation, could help drive US productivity growth to 3 to 4 percent annually in a midpoint adoption scenario. In Europe, piloting through this transition successfully could yield an annual productivity growth rate of up to 3 percent through 2030. That would be one of the highest productivity growth rates seen in recent decades. However, slow adoption and slow redeployment could limit that to 0.3 percent, closer to today's level of productivity growth in Western Europe.

Choices that leaders of organizations make today could revive productivity growth while creating positive outcomes for workers. To make full use of AI and the toolbox of advanced technologies, executives will need to prioritize human capital. In the best-case scenario, they will help workers develop their skills and adapt to the new technological landscape.

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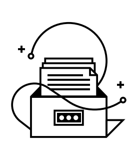
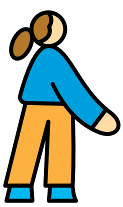
McKinsey Quarterly
Number 4

Why is labor market productivity in the United Kingdom so low?

All the research carried out by the McKinsey Global Institute attests that the primary engine of productivity improvement is competition within an industry or product market. In the end, there is no substitute for the constant testing of managers by competition. Pressure from capital markets is not enough by itself.



“It is imperative that those who lead organizations understand the opportunities that **innovative technologies present and help prepare workers** and organizations to make the most of them.”



How leaders can optimize workforces for the transition

Heads of organizations face significant choices about what to prioritize and how to manage potential trade-offs between technological deployment and the furthering of human capital.

Business leaders and policy makers could, for example, adopt a reactive stance and invest minimally in the capability-building and human capital implications of automation (see sidebar “What could hinder technology adoption, including for AI?”). This path may appear easier than others in the short term, requiring less effort and incurring lower immediate costs for companies. But it comes with risks, both for companies and for society. For instance, workers might lose their jobs and be unable to find their way into occupations for which demand is rising. And companies might be unable to participate fully in the technological transition because they lack the experience and know-how to deploy AI successfully. If such issues become widespread, they may ultimately choke technology deployment for the economy as a whole, hindering growth.

By contrast, leaders who take a proactive stance can anticipate and implement technological changes while establishing worker-training structures, supporting employees, and seeking to attract the right talent (see sidebar “How generative AI could be used as a tool to enhance and reshape skill acquisition”). Such an approach requires considerable capital investment and training hours. Policy makers also have a role to play—for example, by framing public policies that facilitate occupational transitions and support skill building.

The adoption of automation technologies will be decisive in protecting businesses’ competitive advantage in an era of automation and AI. To ensure optimal deployment at a company level, business leaders can embrace four priorities. They can focus on understanding which jobs can be automated and how new technologies can reshape the future of work. Then they can transform and retrain their workforces to adapt to the new landscape. Successful leaders can prioritize people development, focusing on the skills needed to make the most of innovative technologies. They can also recognize their own needs for education and upskilling to fully comprehend the opportunities posed by automation technologies.

The decisions that leaders make today could help them boost both growth and human capital development. Many employers seem ready to take on the challenge.

Understand the potential for the future of work

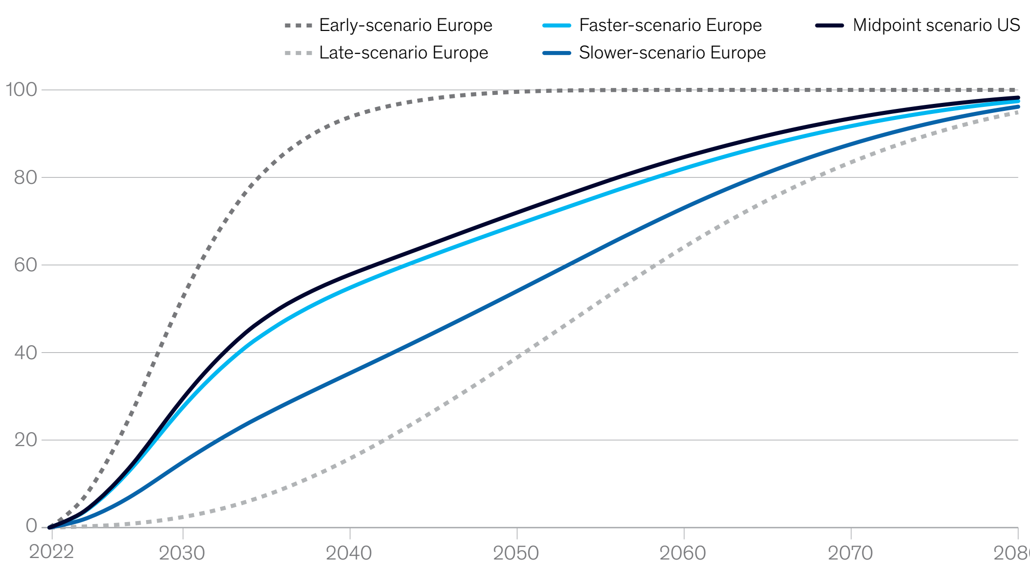
Our analysis finds that about 30 percent of current hours worked in the United States and 27 percent of current hours worked in Europe could be automated by 2030. Our model suggests that roughly 20 percent of hours worked could be automated without gen AI, implying a significant acceleration of about eight percentage points (Exhibit 1).

As an example, one leading institution analyzed the activities of its workforce and concluded that AI and gen AI have the potential to save about half of the hours worked at the company. While this finding will need to be tempered by the adoption strategy the company puts in place, it nonetheless highlights the technologies' very meaningful potential workforce implications.

Exhibit 1

Europe has varying automation adoption scenarios through 2030.

Automation of current work activities, % of working hours modeled to be automated, with generative AI acceleration, Europe[1] and the US, 2022–80



Note: For details, see sidebar exhibit in "A new future of work: The race to deploy AI and raise skills in Europe and beyond," McKinsey Global Institute, May 21, 2024.
[1]Includes Czech Republic, Denmark, France, Germany, Italy, Netherlands, Poland, Spain, Sweden, and UK.
Source: Eurostat; Occupational Information Network; Oxford Economics; US Bureau of Labor Statistics; national statistical agencies of the European countries considered; McKinsey Global Institute analysis

What could **hinder technology** adoption, including for AI?

Numerous factors might hinder the estimated growth of AI and generative AI (gen AI). On the demand side, the integration of automation, AI, and gen AI into existing systems could take longer than expected if companies struggle to pinpoint effective applications or lack relevant workforce expertise.

Customer acceptance will need to be considered, as AI-fueled automation may require behavioral changes in some cases. For example, customers may need to accept that they won't speak to human agents during customer support calls. And technology suppliers and users will need to navigate the ethical and legal complexities surrounding AI and gen AI adoption while investing more in managing the risks and benefits.

If adoption rates fall short of expectations or if other factors impede technological development, technological advancements may stall. For example, physical constraints on energy supply could pose significant barriers to the rapid increase in computing demands: AI and deep learning models require substantial computational power (approximately 40 percent of data centers' electricity consumption is dedicated to computing). The International Energy Agency estimates that, from 2022 to 2026, the amount of electricity that data centers consume could more than double to about 1,000 terawatt-hours, from 460 terawatt-hours, in a high-case scenario.

Knowing how AI and gen AI can enhance and automate tasks can help leaders shape their overall strategy and adoption plans for these technologies. Leaders who find ways to redeploy the labor hours saved by automation can reap more productivity—and encourage a smooth, sustainable social transition.

One way that automation could play out in labor markets is in the form of workers needing to change occupations. Labor market flexibility is a critical point in Europe; historically, people there don't change occupations nearly as fast as they do in the United States. By 2030, under the faster-adoption scenario we modeled, Europe could require up to 12.0 million occupational transitions, affecting 6.5 percent of current employment—double the pace seen prior to the COVID-19 pandemic. Under the slower-adoption scenario we modeled for Europe, the number of occupational transitions needed would amount to 8.5 million, affecting 4.6 percent of current employment.

In the United States, required transitions could reach almost 12.0 million, affecting 7.5 percent of current employment. Unlike in Europe, this magnitude of transitions is broadly in line with the prepandemic norm.

Plan a strategic workforce shift

What are the steps to identifying where workers are today and where they need to be? Once leaders understand the potential of automation technologies, they need to plan their company's shift toward readiness for the era of automation and AI. This requires sizing the workforce and skill needs, based on use cases, to assess the potential future talent gap (Exhibit 2). This analysis will reveal how much new talent and upskilling or reskilling of the current workforce is needed, as well as where to redeploy freed-up capacity to more value-added tasks.

As an example, a large financial institution successfully pinpointed its opportunity

Exhibit 2

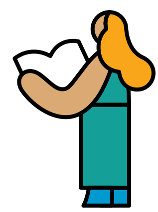
Demand for healthcare and STEM roles could grow, while demand for office support and customer service roles could decline.

Net expected change in labor demand, Europe[1] and US, 2022–30

Occupational category	Europe: Employment change vs 2022, million	Europe: %	US: Employment change vs 2022, million	US: %
Health aides, technicians, wellness	3.3	25.2	3.5	29.7
STEM professionals	2.3	16.7	1.8	23.1
Health professionals	1.5	23.6	2.0	30.1
Managers	1.1	9.1	1.1	11.3
Business or legal professionals	1.0	6.9	1.1	6.6
Builders	0.7	6.9	0.8	11.9
Transportation services	0.5	7.9	0.5	9.5
Property maintenance	0.4	5.3	0.5	10.3
Creatives and arts management	0.4	8.6	0.2	10.7
Community services	0.3	3.5	0.4	6.6
Educator and workforce training	0.2	1.6	0.3	2.6
Mechanical installation and repair	0.1	1.2	0.5	7.0
Agriculture	–0.2	–3.8	0	2.3
Food services	–0.3	–3.3	–0.3	–1.9
Production work	–0.9	–5.3	–0.1	–0.7
Customer service and sales	–1.7	–12.1	–2.0	–13.4
Office support	–5.0	–18.3	–3.7	–18.5

Note: For details, see Exhibit 1 in "A new future of work: The race to deploy AI and raise skills in Europe and beyond," McKinsey Global Institute, May 21, 2024.
[1]Includes Czech Republic, Denmark, France, Germany, Italy, Netherlands, Poland, Spain, Sweden, and UK.
Source: Eurostat; Occupational Information Network; Oxford Economics; US Bureau of Labor Statistics; national statistical agencies of the European countries considered; McKinsey Global Institute analysis

> Our analysis finds that about **30 percent** of current hours worked in the United States and **27 percent** of current hours worked in Europe could be automated by 2030.



pools for AI and gen AI implementation by estimating 2030 talent gaps compared with its current workforce. Executives determined that AI and gen AI had immediate potential to fill skill gaps for two main groups of roles: those with the largest projected workforce gaps in 2030, such as business intelligence, data science, and information security, and those with the highest business value, such as engineering, machine learning, and software engineering. This led the C-suite to prioritize filling those gaps.

In another example, a leading US company partnered with large language model vendors to develop its own gen AI solutions. Leaders set up an operating model with a center of excellence to guide the effort and get the most out of more than 150 use cases deployed. This effort included value measurement and close collaboration with compliance, legal, and risk departments. For all businesses, these kinds of strategies offer a prime opportunity to enhance operational efficiency and output growth, build trust with the workforce, and overcome some of the hurdles posed by labor shortages.

Prioritize people development

Who does a company need to succeed in making these changes? To ensure that companies have the right talent, leaders can consider setting up talent “win rooms” to identify, attract, and recruit future AI and gen AI leaders in a tight market.

They will also likely need to accelerate the building of AI and gen AI capabilities across their workforce, particularly in key roles but also more broadly. Addressing skills mismatches will be crucial (Exhibit 3). Nontechnical talent will also need training to adapt to the changing skill environment.

Finally, leaders can deploy an HR strategy and operating model to fit the post-gen-AI workforce. To that end, companies are increasingly setting up AI and gen AI departments specifically to spearhead gen-AI-transformation efforts. These include roles focusing on strategy, along with the technical roles essential for executing strategies and developing future gen AI expertise across the organization.

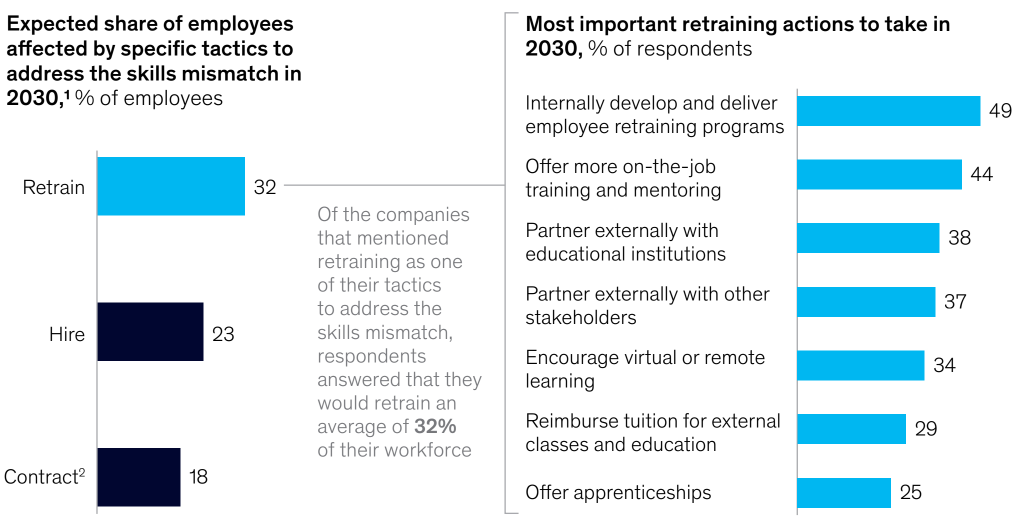
As an example, a Caribbean-based company recently implemented specific gen-AI-supported coding solutions to improve the productivity of its more than 100 software developers and attract new talent. To bring software developers up to speed quickly, the leaders provided four immersive, hands-on half days of training on using gen AI tools optimally and responsibly. As a result, 80 percent of the software developers indicated that the solutions improved their coding experience and were easy to adopt.

Pursue executive education in AI and gen AI

Leaders also need to undertake their own educational journeys on automation technologies to maximize their contributions to their companies during the coming transformation. This includes empowering senior managers to explore automation technologies' implications and subsequently role model their use to others, as well as bringing all company leaders together to create a road map to create business and employee value. A fundamental objective of this journey is for leaders to not only reskill but also achieve a deep understanding of the promise and challenges that gen AI poses. This nuanced comprehension is important for formulating more effective strategies and fostering a collective conviction about transformation within leadership.

Exhibit 3

Companies expect to reskill one-third of their current workforce to address the skills mismatch.



Note: For details, see Exhibit 9 in "A new future of work: The race to deploy AI and raise skills in Europe and beyond," McKinsey Global Institute, May 21, 2024.
[1]Figures do not sum to 100%, because "no change" and "displacement" responses are excluded.
[2]Freelance or consulting workers.
Source: McKinsey Global Institute Survey, 2024, n = 1,128 C-level executives (305 from US, 213 from Germany, 209 from UK, 201 from Italy, and 200 from France)

How generative AI could be used as a tool to **enhance and reshape** skill acquisition

The daunting task of reskilling workers rapidly could be made easier with corporate learning and development tools that are enhanced by generative AI (gen AI). The technology can potentially reshape training from generic offerings to personalized, interactive journeys, addressing specific skill gaps and preparing employees for challenges.

At the outset, gen AI could craft a customized curriculum that discerns and targets the learning needs and skill deficits of each employee. It could achieve this through an analysis of personal profiles, effectively aligning learning objectives with an employee's role, tenure, and location to ensure relevant and accelerated skill development.

For content creation, gen AI could leverage its ability to synthesize vast amounts of standard operating procedures, compliance regulations, and traditional training materials into coherent, accessible, just-in-time formats and nudges. This synthesis would not only improve engagement by simplifying complex information but also reduce the need to manage the shelf life of program content.

For training delivery, gen AI could introduce instructional methods, deploying digestible, real-time training content across multiple platforms. By adapting to various learning styles and preferences, gen AI could deliver an interactive learning experience that's both scalable and efficient, plus more intuitive than what's available today. The platform could also foster the development of competencies by enabling assessments that discern an employee's understanding and retention of training, potentially ensuring that the transition of knowledge is effective and measurable.

Last, gen AI could provide immediate, data-driven feedback on an employee's learning progress. This could allow both content and format updates in real time for maximum efficiency and effectiveness, both individually and collectively.

A global specialty material company illustrates how gen AI is emerging as a tool to support individual professional growth. The US-based company faced obstacles in training and upskilling its workforce to adopt a new supply-chain-planning solution. To address this, the company improved support for workers' learning needs by organizing a comprehensive digital library, integrating external resources, and implementing an AI assistant. The AI tool bolstered workers' daily performance and reduced the time they needed for learning new activities. It enhanced operational efficiency by up to 15 percent, increased productivity by up to 20 percent, and improved the accuracy of forecasts. By enabling workers to swiftly adapt to new methods, the company achieved considerable gains from the supply-chain-planning solution, unlocking an additional 10 to 15 percent in value.

As an example, when a motor-racing league developed its next-generation electric racing car with the objective of breaking indoor land speed records and exciting fans in a new way, two gen AI models supported the ground team. They helped guide the driver and allowed the fans to "communicate" with the cars (for example, asking the car, "How fast can you go on this straight line during this lap?"). To make this a success, all the team members, from the league's chief technical officer to the motor engineers and the drivers themselves, had to collaborate.

Another example is a Europe-based global telecommunications and media company that has held dedicated board workshops to demystify gen AI and shape the gen AI strategy. Such comprehensive involvement ensures that leaders are not just strategy setters but also deeply informed and engaged participants in the gen AI transformation.

AI and the toolbox of advanced new technologies are evolving at a breathtaking pace. For business leaders and policy makers, these technologies are highly compelling because they promise a range of benefits, including higher productivity, which could lift growth and prosperity. Yet leaders who wish to make full use of the advantages will have to think deeply about talent and how to build and deploy the right skills. Q

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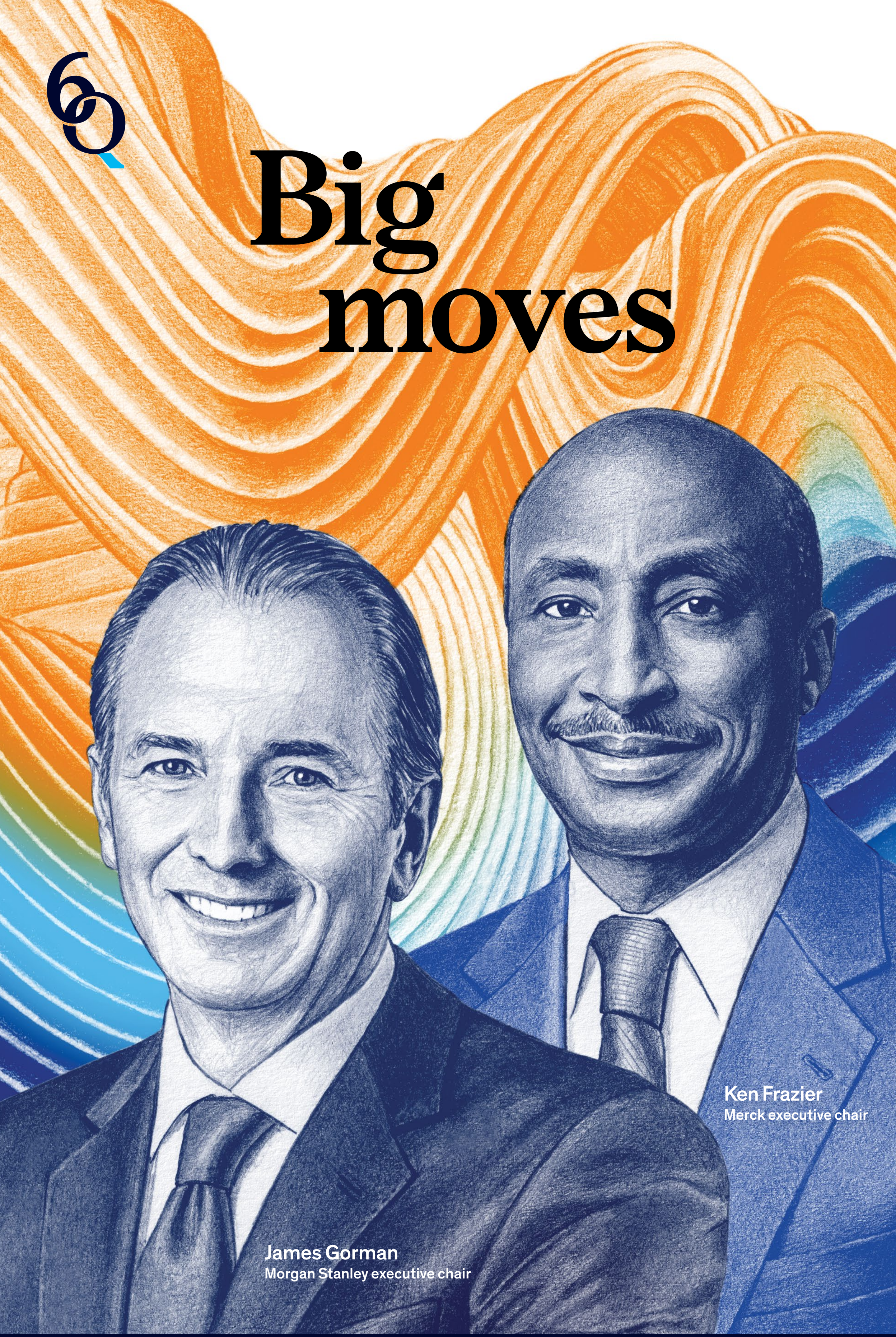
Big moves



Three iconic CEOs describe the tough decisions

and bold vision

Stephen Schwarzman
Blackstone Group CEO

Illustration by Oriana Fenwick

required to steer companies through turbulent times.

> "Excellence is never an accident. . . . Choice, not chance, determines your destiny."
> —Aristotle

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When an oxygen tank exploded on the 1970 *Apollo 13* mission to the moon, Commander James A. Lovell applied his training and a set of engineering principles to troubleshoot life-threatening challenges, including the loss of electrical power, limited oxygen supply, cold temperatures, and dehydration, to return the craft safely to Earth. He had a mental toolbox to deal with the crisis.

Today's business environment shares similar features to those facing *Apollo 13*—significant volatility, uncertainty, complexity, and ambiguity in everything from geopolitics to digital advances, cybersecurity, economics, social dynamics, talent considerations, environmental issues, and supply chain efficacy. Like Commander Lovell, today's CEOs need their own set of tools to successfully navigate their companies to the desired destination.

To discover how the best CEOs steer through an ever-more turbulent environment, we interviewed nearly 70 of the world's most successful business leaders for our 2022 book, *CEO Excellence: The Six Mindsets That Distinguish the Best Leaders from the Rest* (Scribner/Simon & Schuster, March 2022). We found that winning CEOs share a common set of mindsets that they apply to each of the six responsibilities inherent to the role. For example, great leaders adopt a "be bold" mindset when setting the direction of their organizations. They fulfill their role in mobilizing leaders by prioritizing team dynamics before mechanics. They ask, "What is it that only I can do?" to determine how to allocate their time, eschewing the idea that they need to handle every task, and so on.

Since we published *CEO Excellence*, we've continued to work through our list of the world's most successful CEOs of this century to learn from them. Our discussions with these iconic leaders have reinforced the findings we shared from our initial research, and the stories they tell are both instructive and inspiring.

In this article, we share excerpts from McKinsey senior partner Vik Malhotra's conversations with three such CEOs: Blackstone Group CEO Stephen Schwarzman, Merck executive chair Ken Frazier, and Morgan Stanley executive chair James Gorman. Each offers a window into how they deal with steep challenges and crises. Excerpts have been edited for clarity and length.

Stephen Schwarzman, Blackstone Group CEO

Stephen Schwarzman cofounded the Blackstone Group in 1985 and grew it into one of the largest investment firms in the world, with nearly $1 trillion in assets under management and businesses in private equity, real estate, and credit, among other areas.

McKinsey: *You have a systematic approach to analyzing and evaluating investments, which allows you to make moves that, from the outside, appear to be bold but are built on such a strong foundation that you don't view them as risky.*

Stephen Schwarzman: During the real estate recession in 1990 and 1991, many savings and loans went broke, and their assets were seized by the government. Somebody asked us to help them buy some of those assets. We didn't know anything about real estate; I didn't even know how to price it. We did it on a ratio familiar to me, which was six times cash flow, less capital expenditures, and we ended up generating a 64 percent compound rate of return. If you do that once, you want to do it twice, so we asked John Schreiber to help us do that. John and I, in effect, were the general partners.

What did it take to build that business? A giant market down on its luck that we knew would come back and an amazing natural leader and builder. We have now done that in a whole series of businesses. But there are no patents in finance, and as I watched almost every new product we launched become very successful, there was nothing to stop an infinite amount of money from crowding into the space, which causes margins to collapse. So I believed that we had to be continually innovative. I don't know whether this was due to inspiration or just abject fear that whatever we were doing might melt away. Now we have almost a trillion dollars in assets and 60 different strategies.

McKinsey: *What gave you the courage to make bold moves into real estate or credit at a time when those sectors were troubled?*

Stephen Schwarzman: If I had thought they were bold, I wouldn't have done them! I viewed them as businesses in which you couldn't lose. I went to an office opening with the mayor of Miami one day, and he asked me, "Why did you decide to take such a big risk on Miami?" I said, "I didn't think it was a risk. I don't like risk." And it turned out not to be a risk. I didn't view those moves as bold or audacious. I viewed them as completely logical, and I could explain why at the time. Part of being successful is imagining what will happen before it happens. It's much harder to have a great dream that you know will work than it is to execute it, because if you only select the ideas that you're sure will be dramatically suc-cessful, putting the pieces in place is like paint by numbers. The real art is coming up with something that will be profound.

McKinsey: *When making big moves, how do you think about resource allocation, whether it's capital or talent? You pioneered a "talent to value" approach, which identifies critical roles within organizations and then fills them with top performers.*

Stephen Schwarzman: In our business, capital doesn't matter. The question is where to place your talent and management attention. You learn over time that if you ask B-level talent to do an A-level job, they will fail every time. We're not creating semiconductors here; it's just finance. That means you can only rely on your A players, and nobody has that many. The opportunity needs to be very compelling for an A player to give up what they are doing. That makes decisions easier: if you can't get that A-level talent, you shouldn't pursue the opportunity. Particularly, if you're going into geographic locations or a business in which you have no experience, you need somebody who is a grand master or mistress of that domain. The compensation doesn't much matter if they accomplish the mission, because if you stick to missions that are truly consequential, it will work economically no matter what you pay that person.

It's no different than a sports team. What does it take to make a great football team? It takes a great general manager, a great coach, and a great quarterback. If you have people in those positions who are tens, the others don't much matter. You pay anything you can to your franchise quarterback, and the coach improves good players who the general manager is smart enough to hire. Each of those three leaders has to have a gift, and if they do, the rest of the team will show up and you will win championships.

Ken Frazier, Merck executive chair

As CEO of Merck, Ken Frazier gained the respect of his employees, shareholders, and the broader community not only through the company's performance during his 11-year tenure

"In our business, **capital doesn't matter.** The question is where to place your talent and management attention."

but also through his handling of several tests of his leadership.

McKinsey: *One of your first steps as CEO was to "reaffirm the purpose" of the company's history of R&D, building upon the words of the company's former president George W. Merck: "Medicine is for the people, not for the profits." This was a bold move at a time when many peers were shifting toward nonpharma assets. This vision led to the development of several highly successful drugs, including Keytruda and vaccines for Ebola. It also created strong bonds with the outside world that helped the business prosper and stay elevated by building resilience ahead of crises.*

Ken Frazier: That's right. Patients came first, then physicians and the medical community, regulators, investors, the communities in which we did business, employees, and society at large. All were important stakeholders, and they had conflicting needs most of the time, but the decisions I considered most important were those that could directly affect patients, and as a result patients' caregivers. A pharmaceutical company doesn't have to swear the Hippocratic oath, but "first, do no harm and hopefully help people" [is a] principle that certainly guided us.

McKinsey: *You dealt with several crises during your tenure. How did you approach them?*

Ken Frazier: All the crises I handled had some fundamental issue underlying them. The Vioxx litigation was a major crisis. Wall Street thought it would cost us $50 billion. We decided that we would not settle, which went against the typical industry practice of settling lawsuits in the belief that juries would not understand science cases. The underlying issue was the affirmation of our values. The plaintiffs were saying that the company had put profits ahead of patient welfare, and we couldn't live with that. We responded to every allegation without waiting for lawyers to vet statements. The board told me, "We will judge you by how we emerge from this financially, but more important, by whether you can maintain Merck's public trust and credibility." If people stop trusting Merck, that has big implications.

Another crisis was the NotPetya cyberattack. It was scary because such crises can put a company out of business. It didn't have implications on values like the others did, but we still needed to maintain our customers' and employees' trust. I learned from these crises that if you have to pay money, you can always make more, but if you give up your credibility, that's hard to get back.

McKinsey: *Did these events lead you to build or reinforce capabilities around crisis management?*

Ken Frazier: You can't prepare for a specific crisis, because each one is different, but you can prepare for being challenged in a crisis. We did tabletop exercises on critical risks, such as patients being hurt in clinical trials or by counterfeit drugs. During the cyberattack, a team of people was ready to swing into action, and we didn't miss a beat. But a company's resilience largely comes down to employees' sense of purpose.

McKinsey: *You have been a role model, especially in the African American community, to many people who had no direct involvement with Merck. How did that influence how you thought about your role?*

Ken Frazier: During my CEO tenure, there were at most five African American CEOs in the Fortune 500, and that did have an impact on me. People in the African American community expected me to speak to certain issues, such as voting rights when states were passing laws that could have affected people's ability to cast votes. I was watching the NCAA tournament when I got a call from a leader in the African American community who said, "Someone needs to urge the business community to

“I fully subscribe to the view that **CEOs should not be telling people,** including their own employees, **what to think about political issues.**”

speak up on this.” So together with [former American Express CEO] Ken Chenault and a few others, we set up a group of African American senior leaders and another with 700 senior leaders across all industries. We got the business community to say, “We stand for certain principles.”

There is a debate today about whether businesses should get involved in social issues.

ESG [environmental, social, and governance] has become a political football, and leaders fear being called a “woke CEO.” I fully subscribe to the view that CEOs should not be telling people, including their own employees, what to think about political issues. Businesses should not get involved in political issues unless absolutely necessary. At the same time, I strongly believe that for businesses to succeed, we need a climate conducive both to people and to commerce. The climate that makes American business successful is based on fundamental principles such as democracy, equal opportunity, respect for private property, and peaceful transfer of power. When government officials either abandon or fail to support those principles, it’s the responsibility of citizens to act—and CEOs are among the most influential citizens.

McKinsey: *Your board supported you when you chose to speak out on a matter of principle in 2017, when a Charlottesville rally turned violent as White nationalist protesters clashed with counter-protesters, and President Trump said there were “some very fine people on both sides.”*

Ken Frazier: Yes. When a CEO chooses to speak out on something like Charlottesville, you have to consider the impact on the company. I felt strongly about speaking out as a matter of conscience. I told my board, “I’m going to step off President Trump’s business council. My question for you is not whether I should or not, because I will, but whether the statement about it should be on my behalf or on behalf of Merck.” I’m very proud that the board unanimously said, “We want you to speak to the company’s values.”

James Gorman, Morgan Stanley executive chair

James Gorman is the executive chair and former CEO of Morgan Stanley who reshaped the portfolio of the global financial-services giant. He led the firm through its recovery from the 2008 financial crisis and into a decade of growth and profitability. Over his CEO tenure, Morgan Stanley's stock price and market capitalization tripled.

McKinsey: *Morgan Stanley is a vastly different organization today than it was when you became CEO, in 2010. How did you approach that change?*

James Gorman: Several things helped frame it. The most obvious was the current condition, because you can have the boldest strategy in the world, but if you're struggling to survive, nobody will invest behind it. We had just come out of the financial crisis, so that created a compelling need to "do stuff." I had the view that wealth management businesses were vastly underappreciated, largely because they had not been well managed, and that if you could professionally manage them, there were jewels to be polished. I also felt that institutional businesses—trading, supporting transactions, underwriting deals—while attractive and glamorous, were so volatile that they became at times uninvestable.

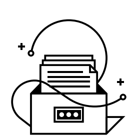
The financial crisis proved that. The vast majority of pure institutional firms disappeared. Some of the so-called survivors—us, Goldman Sachs—are here but in a very different form.

1986

McKinsey Quarterly
Number 3

When good management is not enough

What will differentiate the present and future industry leaders from those other companies that fall by the wayside? A key factor will be their ability to adopt approaches to managing change that differ profoundly from the way they have habitually managed business as usual.



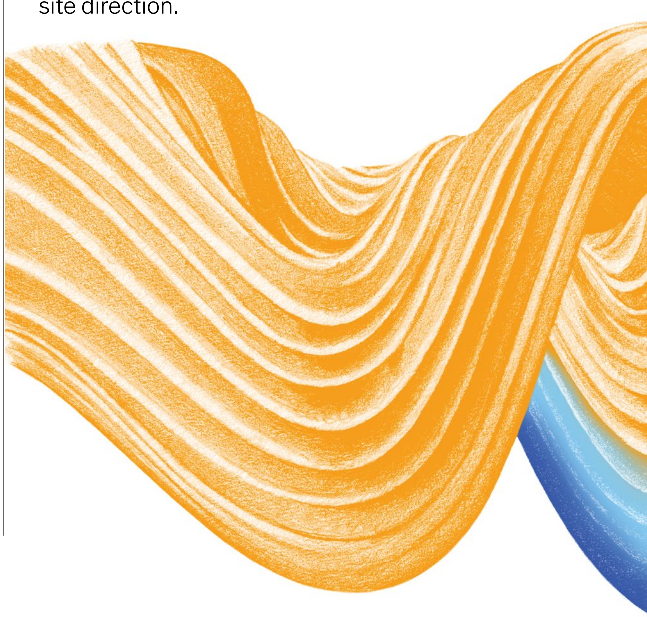
> “To me, **strategy comes from fundamental beliefs about the industry structure,** and then you put guiding principles around it.”

We became banks. My feeling on strategy was, first, let’s take stock of how bad this really is. We survived, but what would tip us again into catastrophic circumstances? Second, I viewed Morgan Stanley as an aircraft carrier. We needed to be OK when the seas got ugly, and for that we needed to have ballast. That ballast was wealth and asset management, and these businesses had to be big enough to steady the ship. My third belief was that if we allowed the businesses that involve intensive credit and liquidity risk to continue without constraint, we might still blow it. So it was a combination of compulsion to act, the need to build the ballast, and [the need to] control the extremes.

McKinsey: *You took over just as the financial crisis hit. How did you find the confidence to make such dramatic changes?*

James Gorman: I had no fear because to me, strategy comes from fundamental beliefs about the industry structure, and then you put guiding principles around it. Not everybody got an equal vote. I had plenty of people telling me, “You’re wrong.” I said to one of them, “OK, if I’m wrong, I’ll fail, and I won’t need to be kicked out; I’ll walk out. And maybe they’ll tap you on the shoulder and you can run the place. Until then, we’re doing it my way.”

First, you form a view about where the industry structure is heading. For example, a lot of people thought the wealth management advisory model was going entirely electronic. I’ve believed, at least since the mid-1990s, that that was wrong, that there would be a multichannel model. For example, Schwab, in the wealth space, built up the IRA [individual retirement account] business. They could see what I could see coming from the opposite direction.



With those fundamental views, I then tried to step back and say, "Where is the catastrophic risk that could do us in in the next crisis?" In our business, it's almost all liquidity risk. But take catastrophic risk off the table and get aggressive where you have natural strengths. It's like playing poker. I've played in poker tournaments and when you've got the cards, you're aggressive. You never know if you're going to win, but if the odds are way in your favor, you get aggressive. It's a combination of being extremely conservative, managing against catastrophic risk, and being extremely aggressive when you've got the cards.

McKinsey: *When making bold moves, how did you foster alignment among your top team?*

James Gorman: I thought about it in terms of the two "C's" of competence and collegiality. The competence idea is that if our main competitors were looking for a person to fill a role, would you be one of the top three people on their list? If you're not a top three risk manager, CFO, or head of wealth, you're not on our team. That's table stakes.

As for collegiality, you may have strongly held views, but you need to be open to others and listen with respect. You need to be able to engage in contentious debate without people walking out of the room feeling burned. There needs to be balance between your motivation for self and for the institution. If you don't have a strong sense of self, you will not deal with adversity and setbacks.

On the other hand, if you believe only in yourself, go and set up as James Gorman Securities across the street. The name of this place is Morgan Stanley for a reason. We want a strong drive, call it ego, the ability to withstand pressure, but at the same time people know they're coming to work for us. Q

James Gorman is the executive chair and former CEO of Morgan Stanley. **Ken Frazier** is the executive chair and former CEO of Merck. **Stephen Schwarzman** is the chair, CEO, and cofounder of Blackstone. **Vik Malhotra** is a senior partner in McKinsey's New York office.

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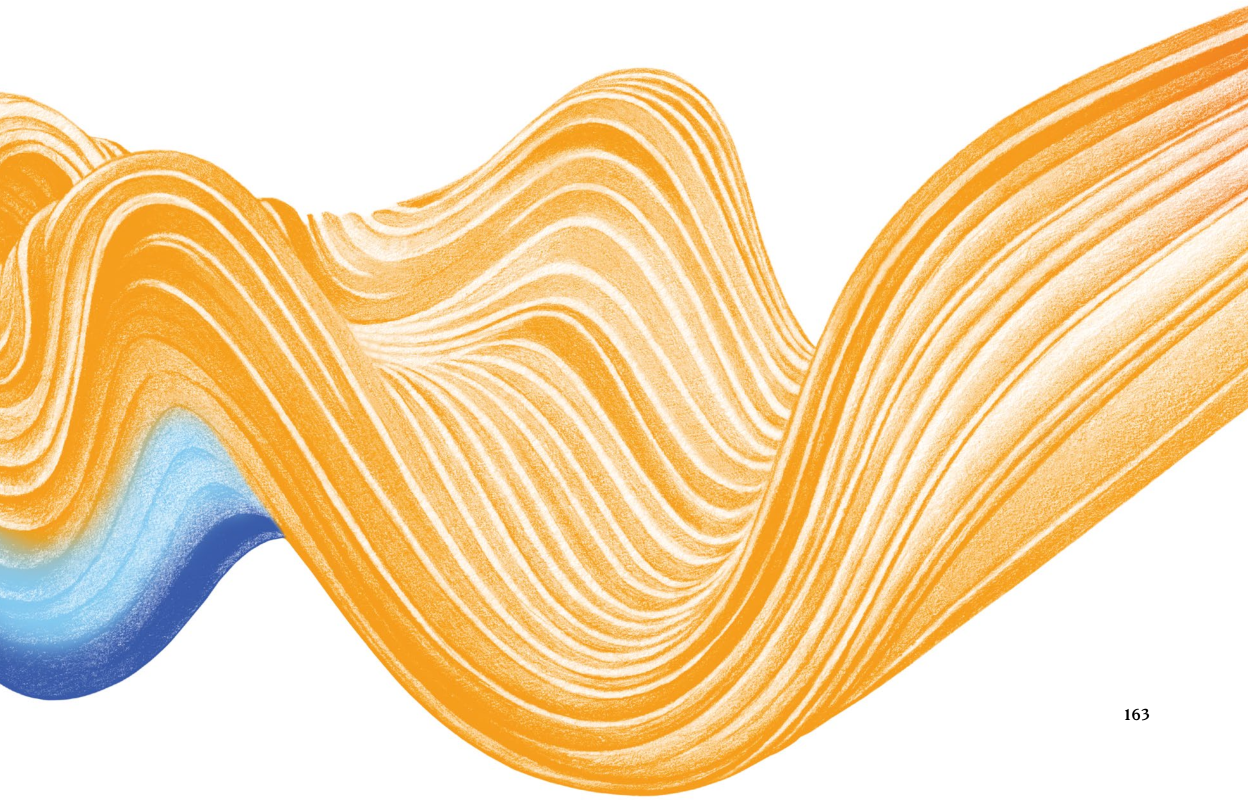
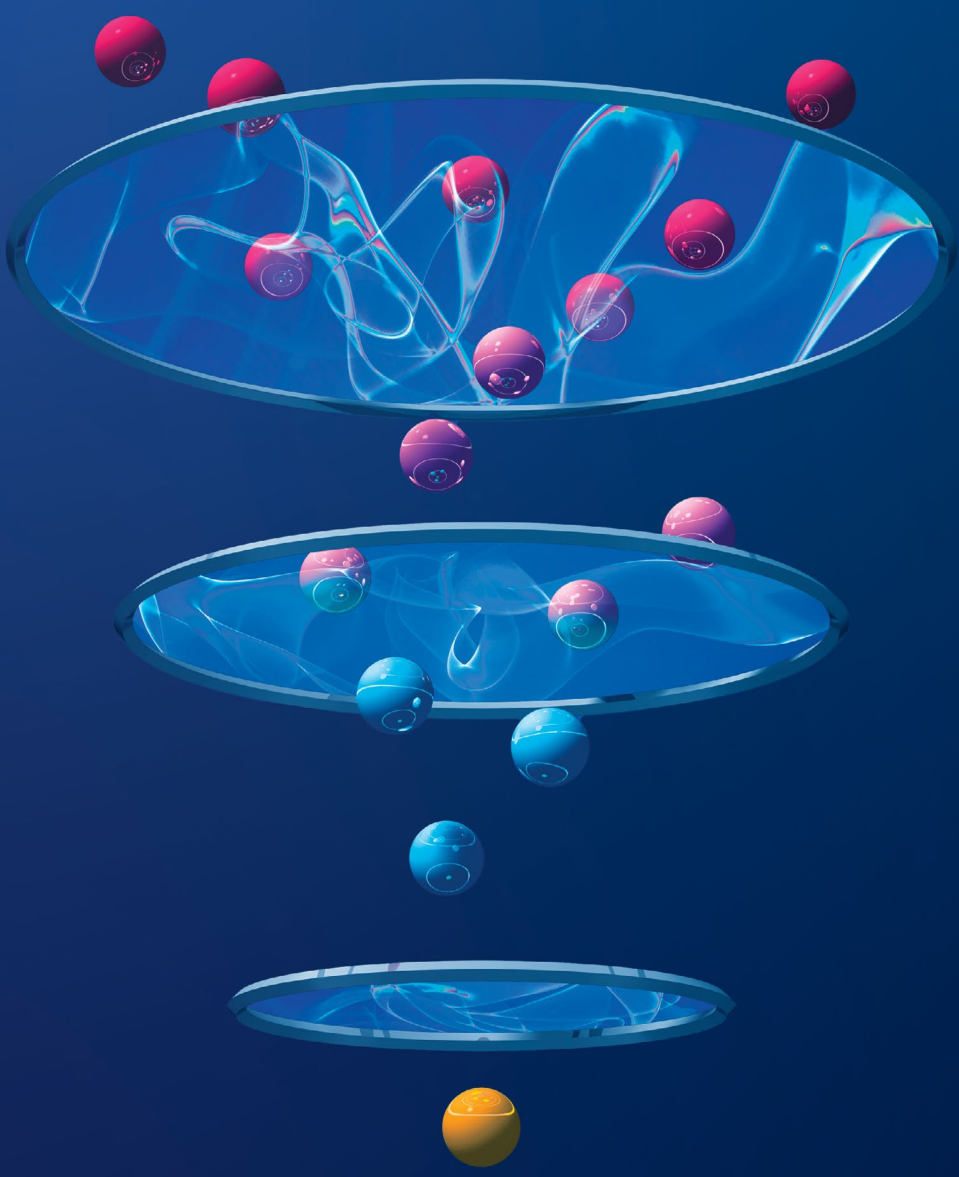


Next in line?

A structured approach to succession planning



by Tim Koller, with Derek Schatz

A good old-fashioned task force can help boards depersonalize the process of picking new leaders.

D

Despite their best intentions, executives fall prey to cognitive and organizational biases that get in the way of good decision making. In our *Bias Busters* series, on McKinsey.com, we highlight some of them and offer a few effective ways to address them.

Our topic this time?

Next in line? A structured approach to succession planning

The dilemma

When the founder CEO at one midsize oil and gas company originally announced his retirement, operations were solid, health and safety metrics were good, and the business was profitable. More recently, there were signs of decline in all those areas, and at least one of the newer members of the board viewed the CEO's retirement as an opportunity to right the ship. A formal CEO search could bring fresh ideas and leadership into the organization just when it needed them the most, she thought.

But the CEO had already chosen his successor: a senior executive whose career path and leadership style mirrored those of the outgoing CEO. The board didn't see the point in engaging in a long, drawn-out process when there was a viable, hand-picked internal candidate in the picture. Instead, directors voted unanimously to confirm the retiring CEO's pick to lead the company.

Nine months later, amid cratering investor confidence, the board reconvened—this time to vote the new CEO out.

The research

One of a board's most important tasks is to ensure the successful transition of power from one CEO to the next. Yet McKinsey analysis has shown that between 27 and 46 percent of executive transitions are viewed as failures or disappointments after two years.

To succeed with succession planning, boards must recognize and address their—and, potentially, the outgoing CEO's—tendencies toward *similarity bias*. This occurs when individuals are inclined to evaluate more favorably or behave in a more positive manner toward people they perceive as sharing their own identities or other characteristics. Research has shown, for instance, that venture capitalists are more likely to evaluate an investment opportunity favorably if they believe the founding entrepreneur thinks in a way similar to their own.

The departing oil and gas CEO wanted to replace himself with someone who had similar priorities and philosophies, even if they weren't what the company needed right then or might need in the future. Meanwhile the board of directors reflexively deferred to the founder CEO's vision of what was required for success in the CEO role. They were exhibiting the *representativeness heuristic* rather than seizing an opportunity for organizational renewal.

In the end, the oil and gas company managed to stabilize its performance, but only after installing an interim CEO to manage the company through a full CEO search and transition process—an incredibly disruptive and expensive course correction.

The remedy

A good old-fashioned task force, established by the board long before any executive departures are announced or even considered, can help depersonalize the succession-planning process. In this way, companies and boards can ensure that they're getting or building the leadership talent they need to keep up with their industry.

In the case of the oil and gas company, forward-thinking board directors could have invited the CEO to join with other C-suite, business unit, and HR leaders to form a succession-planning committee. The committee members could have met regularly to review the CEO's criteria for the ideal successor and mapped them against others' criteria for identifying and selecting the most appropriate candidates (internal and external). They could have provided regular succession-planning updates to the full board. The CEO would still have had significant input in the process, but there would have been room for others, like the newly joined board member, to consider who might be the best leader for the organization given current and future business needs—and to suggest their own candidates.

The task force could also have suggested possible development opportunities for likely internal candidates—job rotations, stretch assignments, and mentoring, for instance. All of this would have been less costly and less time consuming than simply going with the comfortable candidate.

Rather than fear the inevitable CEO departures and having to start from scratch, companies and boards should be thinking about the next CEO as soon as the current one is hired. Q

Tim Koller is a partner in McKinsey's Denver office, and **Derek Schatz** is a consultant in the Chicago office.

The authors wish to thank Eileen Kelly Rinaudo for her contributions to this article and the *Bias Busters* series.

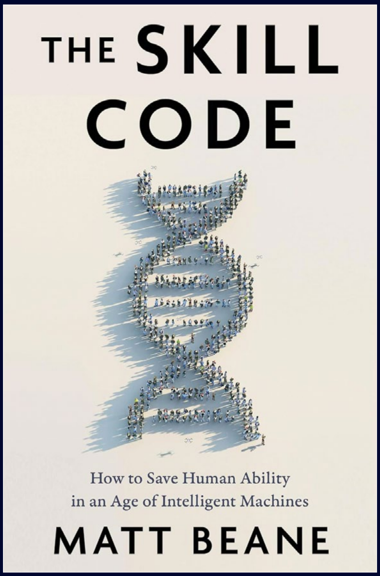
Dive in

Notable content on McKinsey.com to deepen your learning

Illustration by Christopher DeLorenzo

Matt Beane on how to make skill development count in the digital age

Matt Beane, assistant professor in the technology management program at the University of California, Santa Barbara, spoke with McKinsey Global Publishing's Mike Borruso about human-centered learning and skill building in the digital age.



What is the skill code that you talk about in your book?

The impetus for the skill code came from the realization that I was finding people who were building advanced skills very rapidly, in spite of new technologically infused barriers to skill building.

These people—across more than 30 occupations and types of technology—are all fighting to protect the same set of conditions in the work that allowed them to build skill. I looked across all these contexts and found that three things—challenge, complexity, and connection—were how one builds skill.

How can leaders help improve the relationship between technology and human skill development?

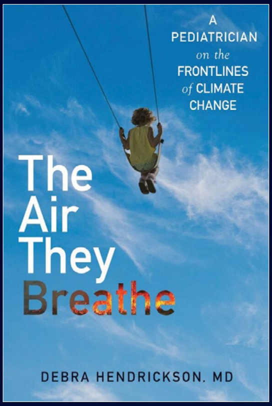
The daily mantra for a senior leader at this moment should be, "How can we get our productivity up and enhance human skill in the same move?" You can ask that question of yourself and your team. You can ask that question of a worker or of a professional body that works inside your organization or is connected to it. You can ask that of the vendors that supply the technology and infrastructure that you will rely on and operate.

That persistent, annoying visionary question is going to help you better decide the cases where it makes sense to go straight for productivity.

Redeploying people to more interesting or different kinds of jobs may be the outcome you think of first, but it should be thought of last. The first question is determining what you can do to the user interface and user experience—the core tech itself—so that at the end of every user session, workers in your organization can receive output *and* improve their skills. This includes enhancing meaningful human connections, the bonds of trust and respect. This refers not just to building my skills in an isolated digital space in my remote-working office. Rather, it refers to the possibility that your technology could improve my productivity *and* help to rebuild the social fabric that we're all disadvantaged from losing.

Debra Hendrickson on the hidden effects of climate on kids' health

Pediatrician Debra Hendrickson, in a conversation with McKinsey Global Publishing's Lucia Rahilly, explains how our climate is causing often-unseen harm to our children's physical and emotional well-being.



Why are kids more susceptible to environmental risk than the rest of us are?

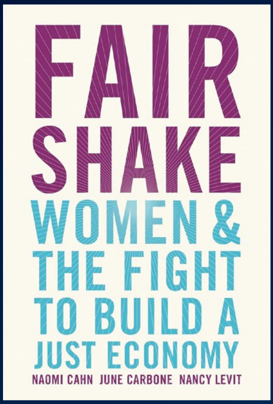
For children, a lot of organs are not fully developed after birth. Their organs and physiological systems are still forming. What happens in the environment around children shapes certain organs.

For example, the quality of the air kids breathe affects the growth and function of the lungs. Studies have been completed about kids in Southern California who were raised for decades in poor-quality air. These kids actually had stunted lungs, or poor lung function.

Another example is the brain. The brain is constantly interacting with the outside world, with parents, and with the environment. And we now know that air pollution causes brain damage in children. Air pollution is contributing to rates of autism, ADHD [attention deficit hyperactivity disorder], and learning disabilities in children. The trauma of natural disasters—drought, famine, and flooding—that children endure will have a big effect on them as well.

June Carbone on the fight for fairness at work

June Carbone, Robina chair in law, science, and technology at the University of Minnesota, spoke with McKinsey Global Publishing's Lucia Rahilly about the forces that have converged to reverse progress on college-educated women's wages and what can be done about it.



What should leaders do differently to strengthen parity—and performance?

The studies that show that women are overlooked for promotion because they don't show the same degree of potential tend to focus on characteristics like confidence, assertiveness, and dominance. Those attributes tend to correspond with narcissism and hubris. Management studies since the Henry Ford era refer to the best leaders and managers as those who are transformative, who pay attention to morale, and who try to get the unit to function more cohesively as a team that is greater than the sum of its parts. Those are the things that a transformative leader ought to be paying attention to.

If you enjoyed “Developing a resilient, adaptable workforce for an uncertain future” on page 88, read “Breaking operational barriers to peak productivity excellence.” The macro causes of declining productivity growth are visible in everyday life. For one, dramatic benefits of technological change—such as Moore’s law, the doubling of transistors on a chip every two years—have faded, with improvements becoming more incremental. Second, investments in restructuring and offshoring also reached a point of declining returns. The article explains that there are micro causes of declining productivity growth as well, which are harder to see.

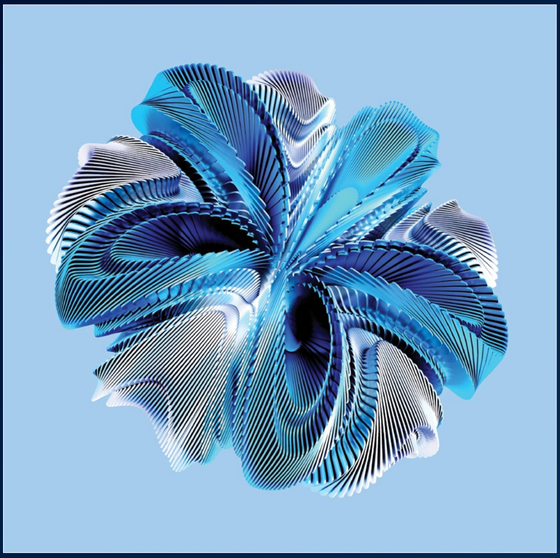
McKinsey.com/operationalbarriers

If you liked “Go, teams: When teams get healthier, the whole organization benefits” on page 66, you might appreciate “Beyond 9 to 5: The power of spiritual health in the workplace.” In this episode of McKinsey’s *Future of Asia Podcast*, three McKinsey experts—Jacqueline Brassey, a senior fellow at the McKinsey Health Institute (MHI); Kana Enomoto, a partner in the Washington, DC, office and director of brain health at MHI; and Atsushi Sorita, a partner in the Tokyo office and geographical leader in Japan at MHI—discuss the role of spiritual health in the workplace, with a focus on Asia.

McKinsey.com/spiritualhealth

If you enjoyed "How leaders can tap the power of vulnerability" on page 100, check out "How to embrace the CEO role: An interview with Daniel Vasella." In this interview, the former chairman and CEO of Novartis discusses negative vulnerability, which is exhibited by someone with thin skin who reacts negatively to criticism. Vasella suggests a leader should be "as normal a person as possible," adding, "It's very important to be aware that you need to be especially approachable."

McKinsey.com/embracetheceorole



If you liked "Racing to forge a new world of work" on page 142, explore "Gen AI's next inflection point: From employee experimentation to organizational transformation" to know more about who in the workplace is using generative AI (gen AI) and why many companies lag behind. The survey's findings provide a road map for organizations to harness employee enthusiasm, reinvent operating models, and, ultimately, realize gen AI's full promise.

McKinsey.com/genaiinflectionpoint

IT FIGURES

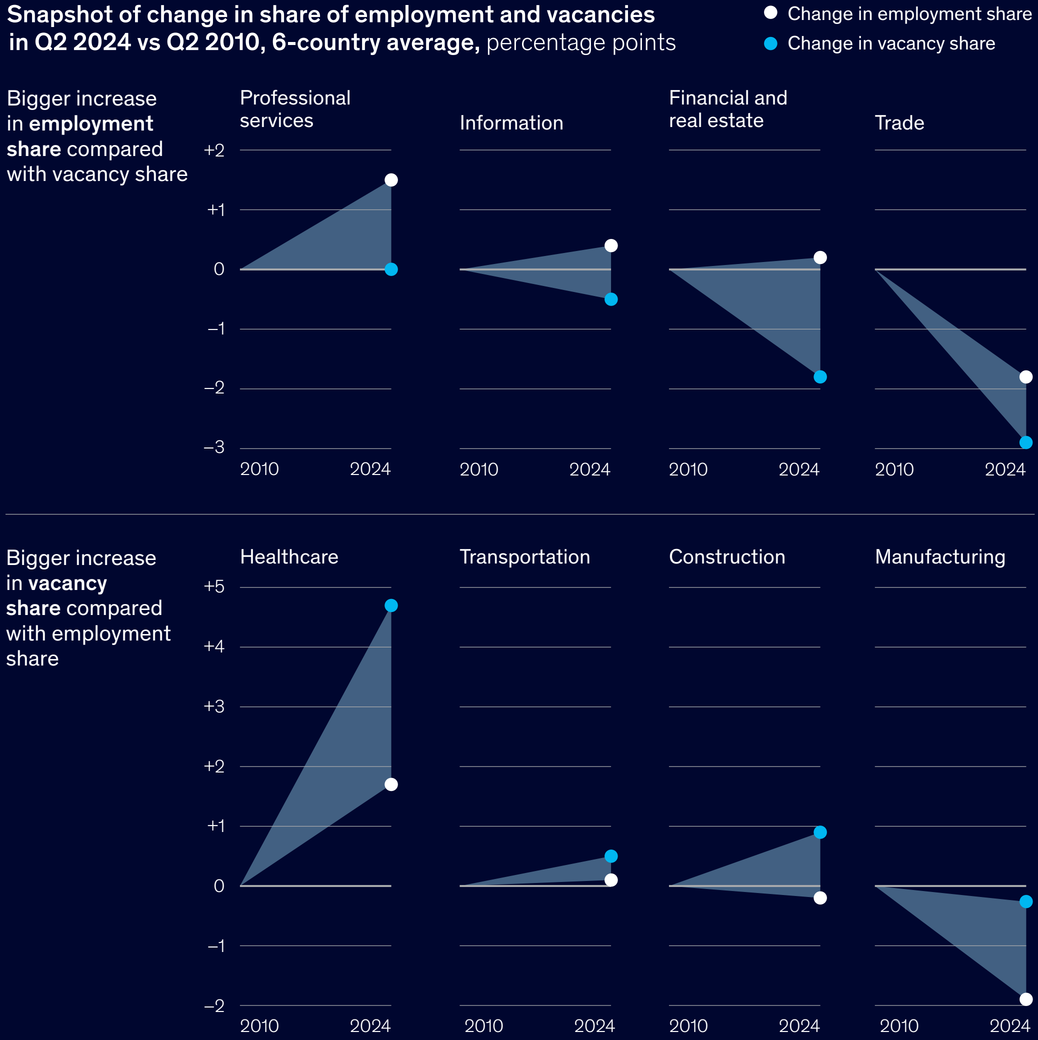
Help wanted

For nearly two decades, labor markets have tightened in 30 advanced economies and today are 4.2 times tighter, in the aggregate, than they were in 2010. This tightness indicates foregone economic output. The McKinsey Global Institute estimates that GDP in seven of the world's largest economies could have been 0.5 percent to 1.5 percent higher in 2023 if employers had been able to fill their excess job vacancies.

Vacancy rates for jobs requiring physical and manual skills have risen, while some higher-paying jobs are scarcer, as illustrated below in eight sectors with meaningful divergence between employment and vacancy share over time. To maintain even muted growth, advanced economies will need to boost productivity and find new ways to expand the workforce—a challenge given aging populations.

Divergence between employment and vacancy varies by sector.

Snapshot of change in share of employment and vacancies in Q2 2024 vs Q2 2010, 6-country average, percentage points



Note: Analysis of Australia, France, UK, and US data spans from Q2 2010 to Q2 2024. Analysis of Canada and Germany data spans from Q2 2015 to Q2 2024.
Source: Australian Bureau of Statistics; Eurostat; Statistics Canada; UK Office for National Statistics; US Bureau of Labor Statistics; McKinsey Global Institute analysis

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