IN THE ARENA

DOMINIC BARTON

IN 1910, US PRESIDENT Theodore Roosevelt gave a speech at the Sorbonne titled “Citizenship in a Republic.” He had left office the previous year and legacy must have been at the top of his mind. Like all presidents, Roosevelt had had both clear successes (including mediating the end of the Russo-Japanese War, for which he won the Nobel Peace Prize) and well-publicized regrets, such as his inability to fully negotiate the “square deal” that would bring peace between labor and capital in the United States. Roosevelt’s remarks in Paris captured in powerful words the fundamental meaning and challenge of leadership:

It is not the critic who counts; not the man who points out how the strong man stumbles or the doer of deeds could have done them better. The credit belongs to the man who is actually in the arena...who strives valiantly; who errs, who comes short again and again, because there is no effort without error and shortcoming; but who does actually strive to do the deeds....who spends himself in a worthy cause.

Leading an organization is the quintessential experience of being “in the arena.” It means having ultimate responsibility for outcomes yet limited control over shaping them. It means absorbing the fears and criticisms of others without giving way to one’s own doubts. It means pushing the organization to venture into unfamiliar terrain, challenging internal orthodoxies, and encouraging people to stretch their perceived limits. It means making private sacrifices and risking public failure. In short, as Roosevelt said at the conclusion of his speech, it means “daring greatly.”

One of the privileges of serving as Global Managing Partner of McKinsey & Company has been the opportunity to meet people at the very top of their fields around the world. I joined McKinsey to serve clients, and when I took on the leadership role in 2009, I made it a rule to meet with at least two CEOs or public or social sector leaders each day. Since then, I have met well over two thousand such individuals in more than 70 countries.

These leaders’ collective wisdom—on everything from selecting their teams to negotiating deals to managing their personal life—has been incredibly valuable to me over the years, and I am better for it. I have written this booklet to gather some of their stories and leadership lessons, which I hope will be equally helpful to you as you begin your tenure as a senior leader. I have also included lessons I’ve learned during my nine years as Global Managing Partner. They focus on five core areas: the need to find and nurture the best talent, the importance of exploiting your early momentum, ways to approach the fraught task of driving change, the unique challenge of leading during crisis, and the importance of developing resilience and staying grounded—the core qualities of character. This is not a comprehensive list; I have concentrated on the insights that have particularly influenced me—the things that I have found to matter most.

Ultimately, leadership is learned through experience, but I believe you can gain a great deal by studying the experiences of others, both within and outside your organization. I hope this booklet helps, at least in a modest way, to prepare you to “dare greatly” in your own arena.

Best regards,
Dominic Barton

CONTENTS

1

FIND AND INVEST IN YOUR PEOPLE

WHEN SHELLY LAZARUS WAS NAMED Chair of global advertising giant Ogilvy & Mather, she traveled to France, where David Ogilvy, the firm's patriarch, lived in retirement, to seek his guidance. She never forgot his advice: "No matter how much time you spend thinking about, worrying about, focusing on, questioning the value of and evaluating people, it won't be enough. People are the only thing that matters, and the only thing you should think about, because when that part is right, everything else works."

My experience completely backs that sentiment, and so does that of many veteran CEOs I have met. In conversation, they consistently identify three things they wish they had done differently: moved people ill-suited to their roles out faster; moved young leaders up more rapidly; and spent more time coaching up-and-comers.

I believe that managing human capital is as important as managing financial capital. In my experience, a small percentage of people in any organization drive the majority of the impact. Finding and empowering those few will determine whether and how well you execute your strategy, survive crises, and prepare the organization for change. "Businesses turn on the quality of the talent in key positions," says Brett White, Chairman and CEO of real-estate services company Cushman & Wakefield. "Those who control lots of profit and cash flow have to be the best in the business, no matter what it costs. We can't have any B-pluses in these roles. In early days, my ego said I could work around it, but I couldn't."

It is critical to make sure your team understands where you want to go and that it is committed to moving in that direction. For a leader, the people who will most affect your ability to serve your organization fall into three categories: your management team, your personal group of advisors, and the pipeline of future leaders you help develop.

YOUR LEADERSHIP TEAM

The CEO of one leading financial institution regularly asks his operating committee two questions: Which 10 people would you take out of your organization? And which 10 are your rising stars? As a new CEO, you may think it best to defer such team assessments to later in your tenure, but I believe you would be wise to move quickly on both fronts. You must be ruthless on such calls, because a significant gap between a manager's skills and the job creates problems for them, their peers, people they guide, and you. Delaying only hurts the organization and denies the individuals the chance at roles better suited to their talents.

"One of the best indicators of leadership is a leader's track record in developing other leaders and being decisive in making such calls," says Alex Gorsky, Chairman and CEO of Johnson & Johnson. "Investing in human capital—providing people with real and candid feedback and coaching that they can use to bolster their career and inspire organizational performance—is a lot like investing in financial capital: it takes energy, time and commitment. So treat your hours like dollars, and know when the investment isn't paying off."

I made major changes to our leadership team four times; each time was painful but also necessary. For example, in 2015, I changed more than half of the team in an effort to bring up the next generation of leaders because I felt it was essential to start developing the firm's future. You cannot delegate these kinds of decisions, no matter how difficult they are. "Every time you make the hard, correct decision, you become a bit more courageous, and every time you make the easy, wrong decision you become a bit more cowardly," Ben Horowitz, co-founder and General Partner of venture capital firm Andreessen Horowitz, has said. "If you are CEO, these choices will lead to a courageous or cowardly company."

So how do you identify "your people" in the organization—those individuals who will embrace and help shape what you want to accomplish? To some degree, you must follow your gut. I remember strongly disagreeing with a regional leader's recommendation of an individual to head up one of our offices. I did not fully trust my intuition back then, and wanted to keep this leader happy, so I relented—a decision whose outcome proved ill-fated for everyone. Today, you can lean on analytical tools that precisely assess employees' skills and identify candidates for particular roles whom the leaders may not know personally. Then you need to test those in whom you see potential by putting them into new roles and seeing how well they stretch to fill them. Can they make decisions under pressure, or do they tend to avoid the tough calls? Do they push their subordinates forward, or do they take the credit for themselves? How courageous are they in making difficult choices and standing behind them? What standards are they demanding and how high are their aspirations?

Having the right people in the right positions can be the biggest accelerator for your agenda—and the biggest bottleneck if you choose wrongly. Roberto Setubal, the outgoing CEO of Itaú Unibanco in Brazil, recalls how some top executives tried hard to adapt to a new strategy he instituted but eventually left the company. "You have to be prepared to make tough people decisions, sometimes about colleagues who are very close to you," he says. "But everybody has to understand that the company comes first."

In putting together the top team, I believe in looking for people who can provide leadership and guidance in areas that are not your strengths. But the most important criterion in the leaders you select is character (more on this later). The CEO of a major multinational once told me that during the financial crisis, a couple of the company's top leaders "cracked like glass"—they just could not handle the pressure when the "temperature was turned up to 1,400 degrees." Afterwards, he started to invite new senior executives to stay at his home over a weekend as part of his process to get a personal sense of their character and fortitude.

Once you have picked your team, it is crucial to be candid with them when you see risks or feel unsure. "You have to be able to express doubt to your team and to the board," says Dan Vasella, the former CEO of Novartis. "If you don't, and you pretend, then you are playing a role, which others will sense easily." Eventually, of course, you need to take action, he adds. "[It's] not to say you should act like you're in a confessional. If a decision is needed, you have to take the sword and cut through the Gordian knot."

You also must invest in getting your team to work together as a team, not just a collection of individuals. I have seen many leadership groups that are composed of outstanding individual talents, but whose members are often in conflict with each other, or are not clear on their roles and how they should be collaborating to drive impact. These situations make me think of a boat in which each rower is going at his or her own pace (and the boat is going nowhere), rather than everyone rowing together in rhythm to reach maximum speed. Getting the right norms and dynamics in place with your team must be a priority—work that needs to be repeated every time a new leader joins the team.

If you have chosen the leadership wisely and the organization is in a steady state, with strong governance, it can run itself to a large degree. "Most work that really contributes to excellence in an organization is performed by small, high-quality teams well led," says retired US Navy Admiral Eric Olson. "If the leader tries to micromanage, the organization won't perform." High performers want to be independent, and flourish when they are. Many times I have found that the job of the leader is to get out of their way.

YOUR PERSONAL BOARD OF ADVISORS

The CEO role is, by definition, isolating. When you become the leader, more people will think your jokes are funny and fewer will give you constructive, direct feedback. You need individuals around you to whom you can go for confidential advice or when you just need to vent—people who understand the toll that leadership takes and can help you to absorb the stress. Leaders often forget the importance of stable emotional relationships, especially outside the company. It helps tremendously to manage pressure.

I think of these people as my private board. The group is diverse, ranging from my long-time assistant to close colleagues at McKinsey, CEOs of other organizations, mentors from earlier in my life, and friends and family. Different people will serve different functions. My assistant knows the ins and outs of my role and helps me deal with the daily pressures. Close colleagues know the firm and my leadership style, and can offer advice on key decisions. There are, of course, things that you can't discuss with people inside your organization. External advisors are essential then. A close friend of mine from Toronto, a McKinsey alumnus, has been one such sounding board for me. He is not part of the firm's structure but is intimately familiar with it, and a long-time confidant who I trust completely. People like this are ideally placed to give you sound advice—and, when you need it, a reality check.

Current or former executives at other organizations can also play this role. Building a professional network of peers early in your tenure will provide you with an important source of counsel. Such individuals understand the stresses and loneliness of the job, and can empathize deeply with you. I have found this type of peer support, somewhat to my surprise, to be exceptionally nourishing, and have tried to return it whenever an opportunity has arisen. I will never forget the CEO of one client company, and a close friend, once saying to me: "When you've taken in too much and you're brimming, give me a call and I'll take some of it."

THE NEXT GENERATION OF LEADERS

The leader of an organization has to be its Chief People Officer. I am always impressed when CEOs, especially at the end of their careers, tell me with pride of executives who worked for them and went on to become senior leaders in their own right. For example, K.V. Kamath, Chairman of the New Development Bank based in Shanghai (which funds infrastructure in developing countries), made it his mission throughout his career to maximize opportunities for others—especially women—to become leaders themselves. In fact, he has had a hand in developing the majority of India's female CEOs.

Remember that the junior leaders you promote today may be the senior leaders on your team in a few years—and your successors in a few more. A McKinsey colleague of mine provided a fantastic metaphor of how different leaders approach this challenge. First, he showed a photo of a mature tree with a thick trunk and a vast canopy. This represented a respected leader generating major impact—but nothing is able to grow beneath his large shadow. Then he showed a copse of trees with interwoven canopies; you can't tell which tree grew first. In the first model, the leader creates a following by distributing the "fruit" of his relationships to other executives, who are thankful for the opportunities. "The real question," my colleague said, "is not, Are you developing followers but, Are you developing future peers?"

Developing those peers takes time, so you should immediately begin the process of building cross-generational relationships. In my view, about half of the top team should come from the next generation of the organization's leaders; another 20 percent or so should be outsiders you bring in to inject fresh thinking and expertise into the group. At a time of accelerating disruption in many industries, the distinctive perspectives such individuals offer are invaluable.

Appointing new people into leadership roles can release energy in the organization. It can be difficult, warns Edward Breen, former Chairman and CEO of Tyco who now leads DuPont. "You know everybody, you've gotten to know their families. But people go through different phases, and the person may not be right any more or they've lost energy." Making a change not only creates opportunities for young leaders but helps experienced leaders find ways to grow professionally. I was gratified to see that happen after we made leadership changes at McKinsey: junior leaders thrived and senior leaders found new roles that re-energized them, unleashing fresh aspirations.

2

SET YOUR AGENDA AND ACT FAST

A LEADER NEVER HAS AS MUCH power and propulsive drive as when he or she first takes on the role—even though, paradoxically, that's when they likely feel most insecure. Research by the Miller Center at the University of Virginia has shown that past American presidents made their greatest impact on policy and the nation's direction during their first year in office, because they had a clear mandate to lead and no electoral distractions on the horizon.

Incoming chief executives have the same opportunity—and a similarly small window to seize it. Our own research into what drives success among new CEOs found that those who act quickly (within the first two years) and boldly (making four or more strategic moves at once) significantly raise their odds of outperforming their competitors. You need to develop your strategy and start moving quickly because crises, changing business conditions and the simple passage of time can rapidly dissipate your momentum. As Tom Wilson, Chairman, President and CEO of Allstate, says about the first years in office, "The hallway looks wide and long but it narrows quickly."

This reality makes the period between your selection and the day you assume the top job incredibly precious: it is your chance to prepare for that all-important first year. As CEO of BlackRock Larry Fink has observed, many leaders end up being defined by what happened to them rather than by what they intended to accomplish. To avoid that fate, my advice is to get a clear reading on stakeholder expectations, but then focus on what you believe you need to do rather than on what others want. You have to develop a perspective on where the organization should go so you can start planning how you will balance competing priorities. I spent the three months prior to starting as Global Managing Partner meeting with more than 200 McKinsey colleagues around the world and some 50 CEOs. These conversations gave me a view of the firm that I could not otherwise have gained, and helped inform both our leadership team's strategy and how we went about implementing it.

Leaders hired from outside are more likely to launch ambitious agendas quickly, our research shows, because they are less encumbered by internal loyalties and bring greater objectivity to assessing the business. But insider CEOs can and should adopt the same bold outsider mindset. Facing a strategic crossroads in the 1980s, Intel's CEO Andy Grove famously asked his co-founder Gordon Moore, "If we got kicked out and the board brought in a new CEO, what do you think he would do?" That kind of question helps open the door to challenging organizational assumptions and inertia.

As a new leader appointed from within McKinsey, I knew it was critical for me to gain that objective view by analyzing the context in which our strategy would have to succeed. My colleagues have written about the three core factors that determine a company's performance relative to its peers: its endowment (or existing position and capabilities), industry trends (whether headwinds or tailwinds), and the boldness of the moves the company makes in response. A large part of the challenge the CEO faces is figuring out which trends truly matter, and how to respond to and shape them. Early on, my team and I launched a major research effort to understand how the global economy was evolving—both to inform our advice to clients and to guide our own firm's evolution. This work (eventually captured in the book *No Ordinary Disruption*) provided the context and rationale for our efforts to transform the firm, which I will elaborate in the next section. All leaders need to have such a personal map of the world—a distinctive perspective that informs their strategy. To this day, I carry a one-page “cheat sheet” on the core global forces, with statistics and examples that remind me to focus our (and our clients’) efforts on the key trends.

One of the findings from that research was the dramatic increase in the “metabolic rate” of business, driven by the rising pace of change. We realized that fulfilling our firm’s potential would require boosting our intensity and speed of decision-making and acting. As the leader, you have the power—and the responsibility—to raise the level of ambition in your organization. In my own experience, the higher you set the expectations, the higher the chances of seeing real change—you are more likely to score 90 percent if you set your sights on 100 than on 80.

Developing a clear leadership style and demonstrating it in a visible way early can help you signal the opening of a new chapter for the organization. For example, when I became Global Managing Partner, I felt we needed to become more open and externally oriented than we were. So I started a fortnightly blog, sent out to all colleagues, sharing updates on my travel, client meetings and firm priorities. I also took on some select roles outside the firm, serving on not-for-profit boards and speaking at diverse conferences. To signal the need for our firm to raise its operating speed and urgency, I made a point of meeting with CEOs every day, making decisions quickly and responding to emails about key initiatives within 24 hours. Such activities, which departed from our leaders’ usual practice, helped me establish a distinctive approach and voice.

A new leader still building credibility within the organization may find it tricky to strike the balance between going fast and hard enough to gain momentum, and going over the edge.

Your instincts about the organization's readiness for change may be still developing, but I believe you need to be somewhat bloody-minded. If you waffle, you will miss the window to set a new direction, and I have found that it is better to slightly overshoot than undershoot the mark.

Before I took on my new role, I received very well intentioned advice from two of my most senior and experienced colleagues to take it slow at the start and not rush into any significant changes. For better or worse—and I believe for the better, though I had underestimated the challenges ahead—I did not follow this advice. Few CEOs have ever said they should have delayed an important action, but many wish they had acted sooner. Mike Duke's experience leading Walmart, where he served as CEO from 2009 to 2014, is a good example. Duke realized very early in his tenure that e-commerce players such as Amazon and Alibaba represented a threat to Walmart's core business. The organization needed to start thinking and acting like a tech company, but it did not understand the speed required to do that. "When I look back, I wish we had moved faster," Duke told a business magazine in 2012.

3

DRIVE CHANGE WITH THE RIGHT LEVERS

AS I NOTED EARLIER, the start of your tenure is marked by a useful tension and weight of expectations. People are anticipating change under a new leadership, and you will never have as great an opportunity to jump-start the organization. After all, as CEO of Unilever Paul Polman says, "You most likely won't get fired the day you get hired."

However, as I have learned personally, bringing change to a large institution is incredibly hard. Surveys our firm has conducted of executives across the globe show that only one in three corporate transformations succeeds. Driving change requires a lot of "activation energy"—an initial jolt to get the ball moving—followed by effort sustained over a long period of time.

There is also a subtle, emotional component to transforming an organization. People need to feel ready to change tack, and the CEO plays a critical role in conditioning the organization for that change—nudging it to feel comfortable with the necessary shifts, and then picking the right moments to push. Timing is important here. The company will invariably be more ready for some changes than for others. So, you can begin with a difficult task (and risk having it become a Sisyphean one), or you can start with moves that you know will be easier to make and will help you build momentum.

While much has been written about how to successfully implement organizational transformations, I have found two questions especially crucial to shaping how you approach the task: Is your organization currently a strong performer or a poor one? And what does it take to change its particular culture?

THE PERFORMANCE CONTEXT

Making changes in a period of stability, when things seem to be going well and employees and leaders are confident in established practices, is especially hard. Roberto Setubal encountered such a challenge when driving a major transformation at Banco Itaú (and later at Itaú Unibanco). He recognized that the institution needed to make big changes in order to adapt to shifts underway in financial services, but when he launched the transformation plan in 2005, there was no clear "burning platform"—Banco Itaú had been growing at up to 25% a year. "There was some resistance," he recalls. "People were saying, 'We are doing well; why should we change?'"

In such instances, the CEO has to raise awareness of what's at stake. "You have to be very committed to what you are going to do," says Setubal. "You have to be persistent and brave at the same time." Showing yourself to be personally determined to execute the plan also sends a signal. We have found that transformations are two to five times more likely to succeed when company leaders (especially the CEO) are actively involved and serve as role models for the change.

First, you need to convince your colleagues, board, and other stakeholders that a change is needed. And one of the best ways I know to do that is to prove that a disruption is underway. In recent years, many companies woke up too late to the fact that small setbacks in performance were early signals of a tidal wave of industry transformation that within a few years turned them from leaders to laggards.

A case for bold action is easier to make when the organization is troubled, and that was the case with McKinsey in

2009, the year I took on my role. Our firm was dealing with the fallout from the financial crisis and some unprecedented reputation-related challenges (I will describe these in more detail in the next section).

Beyond that, I felt that our profession was undergoing fundamental shifts, which created an urgent need to modernize the firm. Client requirements were changing: we were seeing increasing demand for deeper, more specialized expertise; a blurring of the line between advice and implementation; and a growing interest in advanced analytics and digital services. New competitors were emerging on the scene, many offering specialized, technology-driven services. We needed to be more flexible in how we worked with clients and to bring in people with more diverse backgrounds.

So we launched a strategy review. Ten dedicated Senior Partners around the world spoke with client and non-client executives, as well as industry experts, about trends in their industries and ours. This work helped establish the context for the major strategic changes we would try to make at McKinsey. What we heard provided clear evidence that the shifts underway were not just threats, but also presented new opportunities for us in the digital space, infrastructure and other sectors. This gave us the platform for launching a wave of innovation at the firm that produced significant changes over the past seven years: over 50 percent of the work we do today involves capabilities we did not have when we completed this review.

Driving change is hard, sometimes dispiriting work, and it helps to find inspirational models to shore up your motivation to push on. One of the most impressive recent examples for me has been Marcelo Claure. A self-made telecommunications billionaire brought in by Sprint's new owner, SoftBank, three years ago to turn around the underperforming company, Claure cut costs but also introduced new services, new ways to serve customers, and a more entrepreneurial culture. I am particularly inspired by the speed with which he has tackled the transformation: Claure knew that Sprint urgently had to change, and he has not been afraid to move fast.

KNOWING WHAT MOVES YOUR ORGANIZATION

Proving that a change is needed is not enough, of course, to prove that your specific proposal is the best response. Many leaders at our firm recognized the shifts in our profession but had fundamentally different views on how we should react to them. McKinsey is a partnership, and major investments or changes in strategy require votes—and for a while, every such vote we held came up split almost evenly. There was an incredible amount of emotion, with people on both sides of the different debates feeling we were touching on the core of what defines our firm.

Every organization's culture and traditions are different, and how you push change needs to suit its particular situation and heritage. My friend Sandy Ogg, former Chief Human Resources Officer at Unilever and former Operating Partner at Blackstone, thinks of this as identifying an organization's "speed bumps": missing capabilities that may hobble the new strategy, traditions or behaviors that produce inertia, and insufficient capacity to focus beyond the immediate concerns.

But culture takes a very long time to change. "I thought I could do that in three or four years," says Susan Cameron, former Chairman, President, and CEO of Reynolds American of her efforts to push a new agenda at the company. "In hindsight, it actually takes a generation, and I've got to tell you, after ten years, we're just about there."

In our case, I felt that the firm had trouble taking its own medicine: we would advise clients on ways to innovate but we tended to resist change ourselves. Our internal evaluation processes discouraged our people from developing new tools or exploring new ways of working with our clients, and frustrated many bright younger colleagues.

Over the years, I have found that McKinsey responds to "jolts" to the system—big shots across the bow or challenges that in some way upset the current order and force people to start thinking or working in new ways. I delivered such a jolt at our 2012 Partners Conference, a biannual event that gathers all of the now over 2,000 global partners in the firm. At the conference, held that year in Berlin, I gave a speech that I hoped would light a fire under the partnership. I had worked on it for a week, but I went completely off script in the moment, frankly laying out the problems I saw. "The yellow lights are flashing," I told my colleagues: our growth was meager, we weren't entrepreneurial enough, we were not spending enough time with clients, we were too narrowly focused on a few large clients, and we were not thinking about our competitors. I then laid out what came to be called (initially quite disparagingly) "the Berlin Six": six imperatives for each of our partners, including spending four out of five days each week with clients.

The initial reaction was hugely negative—my colleagues bristled at being told how to manage their client relationships. Five years on, however, many tell me that the Berlin Six concepts are among the most important changes we have made to our firm. The point is that you sometimes need to say, "We're moving," even if that is difficult for the organization to hear.

Piloting new concepts and seeing what takes root organically is another powerful tool for persuading the organization to make a major change. It worked well for us. For example, the successful launch of our Recovery and Transformation Services (RTS) Practice, which helps clients rapidly transform their business models, lent credibility to other changes we were proposing and gave the partnership confidence to try new things. There is, of course, the risk that if the pilot project fails, it will become that much harder to get sign-off for future experiments. But if you are striving for a major transformation, you need to take this risk.

An important part of readying the organization for change is signaling that things are already moving in a new direction. I second the advice one chief executive gives in "9 Lessons from 9 Great CEOs," a report published by the CEO Academy: "Find three to four quick wins to pivot the organization, and make a statement that you're going to move quickly and decisively." It is not enough for you to feel a sense of urgency—you need to visibly exude it. I tried to signal that urgency through the amount of time I dedicated to certain issues, by challenging some of the orthodox assumptions we held as a firm, even through the subtle but symbolic implication in the speed with which I responded to emails. Still, this pales in comparison to the intensity of some leaders I have met and their relentless, laser-like focus on the matters they feel are important. One CEO of a financial institution who felt China was a top priority for the firm personally hired (and personally paid) a top diplomat to advance the company's agenda.

Sometimes, organizations get in their own way when it comes to making transformational changes. For example, GE has invested significantly in digitization, but adapting the company's culture to the new pace and focus was a struggle for the company's former CEO Jeff Immelt. "We're an old company, we live in highly regulated industries," he says. "We found our culture was too complicated to get the work done the way we needed to get our work done." So GE tried to dismantle regional and departmental divisions, and invested in digital tools and platforms for exchanging ideas. "When our approach works," the company's Vice Chairman John Rice recently told us about the ongoing process, "it has helped us speed up development times, expand globally at a faster pace, scale innovation across industries, improve productivity, and accelerate problem solving. When it does not work, we have a *Game of Thrones* scenario—silos and fiefdoms."

Any CEO driving change will face some pushback from those who oppose your agenda, and disappointment from those who wish you had gone further—all of which you will need to absorb. But if you truly believe in your strategy, you cannot relent or be discouraged. The late Steve Jobs put it in powerful words: "Remembering that you are going to die is the best way I know to avoid the trap of thinking you have something to lose. You are already naked. There is no reason not to follow your heart."

4

LEAD CRISES FROM THE FRONT

I BECAME GLOBAL MANAGING PARTNER of McKinsey in July of 2009, right on the heels of the financial crisis. This was a very difficult period for us, as it was for most companies, but our partners felt energetic and ready to address the challenge.

Then, in October of that year, Anil Kumar, a Senior Partner, was arrested in conjunction with an ongoing U.S. government insider-trading investigation. The following year, Rajat Gupta, McKinsey's former Global Managing Partner, was charged as part of the same investigation, by then dubbed the "Galleon scandal." This new crisis, when we were still struggling with the economic turmoil, felt like being punched in the gut. "It takes 20 years to build a reputation and five minutes to ruin it," Warren Buffett has famously said, and I worried we were facing our five minutes. It was a deeply emotional time for our firm; we now had to bear responsibility for recovering from this gross violation of our values. Having just become the leader, I felt like a kid who had taken the family car and driven it into a ditch.

Almost every CEO I have spoken with over the years has had to deal with a crisis at some point—often more than one at a time. "The rule of thumb," McKinsey's former Global Managing Partner Ian Davis warns incoming leaders, "is that you can expect at least one potentially career-threatening event a year." These situations are chaotic and traumatic, and require you to perform at your best when you are privately feeling at your very worst. "Everyone is looking at you and expecting you to deliver a message," says Frédéric Oudéa, CEO of Société Générale. "When you become CEO, you are permanently exposed."

I believe that when you face a crisis, you need to absorb the reactions swirling around you and get moving immediately to address the situation. It is under extraordinary circumstances that a person's true character and leadership ability are revealed. You may recall the story of the 33 Chilean miners trapped underground for more than two months in 2010. Many credit their survival to foreman Luis Urzua, a modest man whose leadership skills went unnoticed during everyday work, but who proved an exemplar of wise, calm crisis management in how he built consensus and trust, put the group's welfare before his own, and exerted influence beyond his ostensible authority, which in a life-and-death situation could have been ignored.

A leader "goes to the sound of gunfire"—an aphorism, usually attributed to Napoleon instructing his generals, that I love. To me, it implies both being at the forefront of the crisis, and not shying away from making decisions. You need to keep your head, because crises often create opportunities to mobilize the organization and move in new directions—rare moments you must seize.

MOBILIZE QUICKLY

When Oudéa became CEO at Société Générale in 2008—at the height of the financial crisis and right after a major trading scandal at the bank—he recognized "the need to project a strong sense of cohesion and confidence, and to communicate clearly a few critical decisions." The company's ability to raise capital, for example, "sent a message that despite our large losses, we had the financial resources to put the crisis behind us." Such moves not only reassured the markets but gave his team something to rally around.

Mountaineers talk about the critical importance of getting quickly out of the "death zone," which refers to elevations where the human body cannot survive long given the lack of oxygen. I think this concept applies equally well to organizations. In the face of a crisis, you have to react quickly. A strategy that is 60 percent baked but gets you out of the death zone is better than waiting for the perfect answer, which almost always will come too late.

The evening after the Galleon scandal broke, our senior leadership team met in my hotel room in Washington, D.C., where I had flown in for meetings. For the next 14 months, we had one or two meetings or calls each day. Having a strong leadership team proved absolutely crucial in this moment, reinforcing the importance of putting such a team together early—you never know when your first crisis will hit. Lee Kun-hee, Chairman of Samsung, believes organizations need to be able to withstand "seven torpedoes at once," as crises tend to come in multiples and compound one another. A reputational crisis can spiral into a financial crisis and then a talent-retention crisis.

At McKinsey, we were able to move quickly in part because we had a process already in place, although it had been set up to address economic crises. The firm under my predecessor had established a Standing Operating Risk Committee in 2007, a structure that dramatically reduced the potential for panic. The leadership team knew what to do, and could move rapidly but deliberately—reflecting the advice of the late UCLA basketball coach John Wooden, "Be quick but don't hurry."

ENGAGE STAKEHOLDERS IMMEDIATELY

During crises, leaders must promptly inform important stakeholders, both inside and outside the organization. You can't delegate such conversations: being the voice in these situations is at the core of a leader's responsibilities. You will need to provide consistent updates and likely have to repeat key messages to ensure they are truly getting through. And you must be available to people as they sort through the implications of the crisis for themselves and their organizations.

When we first learned of Anil Kumar's arrest, our team began calling clients immediately. I made more than 85 calls to key client CEOs that weekend, explaining what had happened and what we were doing about it. We also reached out to our alumni community, especially our retired Senior Partners, many of whom were understandably appalled.

Making these calls quickly—in many cases before clients had heard the news—lessened the shock and helped to shore up trust. But such conversations must be open and candid: people will catch on immediately (and be immediately put off) if they see you trying to appease or mislead. During this time, I continued attending and leading recruiting events at business schools, and the first topic I would raise was the scandal. We wanted people to know how we felt about it—humiliated, angry, and deeply disappointed—and what we were doing.

The foundation of goodwill we had built with clients over the years—a kind of trust bank—proved invaluable during this time. "Personal and long-term relationships are what get you through crises," says Vittorio Colao, CEO of Vodafone. "Relationships are resilience. Those with the deepest networks will be in the best shape at the end of a drawn-out crisis." This has been absolutely my experience.

When talking to clients and stakeholders, my goal was not to mollify. Such conversations can provide an external perspective that is very helpful in sharpening your thinking about how to respond. Making calls to clients also helped me stay focused—in a way, I was too busy to become overwhelmed. And the response I received often surprised me. Shortly after our crisis hit the news, I was invited to my first meeting at 10 Downing Street, with Gordon Brown, then Prime Minister of the United Kingdom, and several CEOs. I dreaded it; I would face a room full of senior British business and government leaders, none of whom I had ever met but many of whom were clients and had understandable concerns. I arrived at the event and for a while stood outside in the rain, trying to decide if I should go in. Ultimately, I told myself, "It's your job, for God's sake—don't wimp out." The reaction I received was an enormous relief: the group turned out to be warmly supportive, telling stories of crises they had faced and giving me thoughtful advice.

SEIZE OPPORTUNITY IN CRISIS

Paradoxically, conversations with clients about the crisis we were going through helped to strengthen my connection with many CEOs. In a way, our experience put us "in the arena" with them: they saw us dealing with a major challenge of our own rather than simply advising them on handling theirs. This was just one example of an important upside that can emerge out of deeply unfortunate and difficult circumstances.

When Ellen Kullman took over as CEO of DuPont in 2009, she used the financial crisis to test how the company's various businesses and executives responded to high-pressure conditions. Amidst the market turmoil, she reconstituted the leadership team and identified businesses she wanted to eliminate from the company's portfolio, so when the crisis passed, DuPont had already started on a new strategic path. "It was all about, if you weren't moving, somebody was going to run you over," she recalls. "People couldn't just go back to their comfort zone and the 'old normal.'"

Nokia is another company that has used crises as opportunities to reinvent itself—and has done so, dramatically, several times during its history. Its most recent metamorphosis has been amazing to watch. When Risto Siilasmaa was appointed Chairman in the spring of 2012, the company was in trouble: revenues from mobile handsets were plunging; the biggest layoff in the company's history loomed; and the press was speculating on the timing of its bankruptcy. One of the first things Siilasmaa did was force the team to assess both the good and the bad of the situation, he recently recalled. "What are we prepared to do? How do we make decisions? What are the rules by which we will live the part of our lives that we spend together?" The board discussed the possibility of bankruptcy but also options for ambitious moves. In the end, Nokia aggressively pivoted from mobile phones to networking equipment, and invested significantly in assisting laid-off staff, helping to bolster trust among the remaining employees. As of early 2018, the company's market cap was above $30 billion—back at pre-crisis levels.

As the leader, you cannot let a crisis stop you from continuing to build the organization for the future. Indeed, a crisis is a chance to turbo-charge that effort. I spoke to about 100 client CEOs about our response to the Galleon scandal, and these conversations proved to be an opportunity to get broader input from them on our firm's general direction. In fact, we used the crisis to accelerate the development of our new capabilities, changing our talent model and cultivating people from more diverse backgrounds. While making these changes, we were not consciously aware of using the crisis as an opportunity, but in retrospect, the tense atmosphere did make it easier to drive change: the sense of urgency helped prevent uncertainty from draining energy from people.

5

CHARACTER IS A MUSCLE—DEVELOP IT

EVERY LEADER FACES DIFFICULT choices that form a test of character. They may have serious ethical implications or a significant impact on employees' livelihoods, other executives' careers, investors' returns, or the trajectory of the organization. Amid waning public trust in corporations, combined with a proliferation of regulations and social media, boards have little tolerance for any lapses or mistakes by top executives.

Character-testing decisions are often further complicated by pressure from stakeholders who make it clear that your choices will deeply affect your career. One CEO of a European oil and gas company told me about learning of possible serious misconduct at a firm with which his company was about to merge. He closed the deal but quickly launched an investigation into the leader of the partner organization. He faced heavy criticism of what some (wrongly) perceived as an attempt to eliminate a rival leader, and he knew that some stakeholders (including members of the board) disagreed with his call.

We often talk about character as a trait that is permanently set—but, of course, this is not the case. Philosophy and religion have long emphasized our ability to develop character through mindfulness, reflection and effort. More recently, work by psychologists has demonstrated that character is something you build, not inherit. Carol Dweck's research, for example, highlights the difference between "fixed mindsets"—which assume that qualities such as intelligence or talent don't change—and "growth mindsets," which recognize that character is about owning up to your shortcomings, and then working to correct them.

I like to think of character as a muscle you develop, or lose, over time. There are numerous dimensions to character in leadership, but I have found two to be particularly important: resilience, and the ability to stay grounded.

RESILIENCE

I remember a CEO once explaining to me why a candidate to be his successor, widely viewed as the top contender, had not been selected. The reason was that the executive had "disappeared" during a very intense period for the company. As the CEO said, "People can have 99 out of the 100 characteristics needed to lead, but if resilience is the one that's missing, you can't do the job."

Resilience—or perseverance, drive, determination, will, grit—tends to be cultivated over time: you rise from defeat stronger for the next effort. Like West Point cadets during "Beast," their grueling initial training, each of us can build or strengthen our resilience when we embrace the pain and deal with setbacks head-on. I have long been inspired by the story of Hussain Dawood, Chairman of Dawood Hercules in Pakistan. He saw the company his father built into one of the country's largest pulled apart by government nationalization in the mid-1970s. Undeterred, Dawood rebuilt the company from scratch. It is now the largest conglomerate in Pakistan.

I think my ability to stay calm during the financial crisis and the Galleon scandal stemmed from my experience with earlier failures. It took me three tries to be elected partner at McKinsey—at the time, the maximum that our firm allowed before an aspirant was asked to pursue opportunities elsewhere. The first rejection was a shock, as I had received only positive feedback until then and had been set up to advance early. At my second attempt, the feedback was even more negative, with evaluators suggesting that I may not be "partner material." I vividly remember giving a speech at a close friend's celebration of his own election to partner. Everyone present knew that I had been rejected. It was a moment of very public humbling. I was finally elected—by the skin of my teeth—on my third attempt.

Another experience that prepared me psychologically for future challenges was my time in South Korea during the Asian financial crisis. As an advisor to the government at the time, I recommended major banking reforms that drew vociferous opposition from the labor unions. For weeks, union protesters burned me in effigy in the streets. At one point, a client CEO and I spent two days stuck in a set of rooms where we had food brought in to avoid altercations outside.

During my career, I have found a few strategies valuable in developing resilience. One is finding—and then listening to—what motivates you to enter the leadership arena in the first place. It will be impossible to sustain the effort needed to lead a large organization if you are not tapping into a genuine, deep drive inside yourself. Everyone has different reasons that stir them to strive. For me, that motivation comes from earlier experiences of being challenged and underestimated—being told I cannot succeed at something, or being put into seemingly impossible situations.

People—and organizations—often operate well below their potential. But put them under severe stress or constraint and their full capabilities emerge. In 1964, 2,700 union workers at an Esso refinery in Bayway, New Jersey, went on strike, and the management had to step in to keep operations going. For four months, that 450-person team not only ran the refinery, but raised performance and safety levels. The concept of "breakthrough goals" can also tap into hidden stores of energy and grit. At US utility Consumers Energy, CEO John Russell saw an amazing response when he set highly ambitious targets, such as moving from the bottom quartile to top within five years. “Once people started achieving these goals that many thought were just outrageous, they actually said, ‘We can do even better than that,’” he says.

Another core component of resilience is the ability to compartmentalize. You must cultivate this skill if you are to withstand the sheer volume of challenges that you will face as a leader. One former head of a major US insurance company recalls how, early in his tenure as chief executive, he had to deal with a large legal action that could potentially cripple the company. The lawsuit preoccupied his thoughts and left him with limited mindshare for other priorities. Later, he would deal with six or more challenges of this magnitude every day, having learned to set them aside when he needed to focus. He describes them as “plates spinning behind my head”—always present but distractions he could temporarily tune out.

Compartmentalization also means separating your public role as leader of an organization from your private life. “You need to be able to switch on and switch off,” says Dan Vasella of Novartis. “Are you entirely present when you’re present? And can you be entirely away when you’re away?” Of course, there will be occasions when work intrudes into time you had set aside, but private time is nevertheless necessary to your long-term ability to function.

As a leader, you often will be surrounded by a whirlwind of emotions. Learning to absorb them—both by swallowing your own and bearing the brunt of others’—is another aspect of resilience I find important. An effective leader “satisfies the psychological needs of his followers,” writes David Ogilvy in his 1985 book *Ogilvy on Advertising,* one of many leadership insights he shared that still resonate. People will come to you with their fears, complaints and criticisms, and you need to be able to set aside your personal challenges, listen and empathize.

This ability to absorb is particularly important during periods of crisis or change in the organization. I was impressed by the thick skin the leaders of Nokia exhibited during the whirlwind before, amidst and after the company's recent turnaround, in the face of media and analyst pressures that at times became very personal.

My own failures in absorbing the turmoil can serve as examples of what not to do. After a red-eye flight and a very long day, I once let loose at a meeting with a senior government leader in Thailand. Following a self-congratulatory preamble, the man proceeded to berate my colleague and me for work that McKinsey had done many years earlier, while also asking us to undertake a major pro bono effort. I cut him off in an irritated fashion. It was a failure of absorption that damaged our relationship with this leader, and made life more difficult for my colleague.

STAYING GROUNDED

When you assume responsibility for an organization, both the risk and the ramifications of losing touch grow enormously. You cannot become full of yourself and still lead effectively—CEOs who self-aggrandize, discourage dissent or prioritize their own interests will inevitably make poor decisions and stifle potential in the organization. You can have a healthy ego, but you have to channel it into a bigger purpose. The best CEOs have a personal drive to help their organizations and their employees not just to make money but realize their potential and make the world a better place.

The role of CEO brings an element of power and celebrity that can be dangerous. One chief executive I know well argues that it is the soft factors—the seductions of power, money and praise—that usually cause leaders to fail. "You need to be aware of how you can be seduced in order to be able to resist and keep your integrity," he says.

"Taming Narcissus," a study by a UK board advisory firm of behavioral risks among top business leaders, notes that the very qualities that set such leaders apart—unusual levels of confidence, drive and resilience—can apply corrosive influence on their character. "It is precisely those with great self-confidence who are most subject to hubris," the authors conclude. "It is the determined and decisive who will drive through bad decisions, brooking no opposition. It is those who are unafraid of risk who will take one that is too big." And the risks of a CEO turning into an uncontrollable narcissist are dramatically increased by success. In his memoir *A Passion for Leadership,* former US Secretary of Defense Robert Gates relates the story of an admiral whose extensive list of drink and food requests would send flight crews into panics—a level of personal high maintenance and self-regard I unfortunately have witnessed more than once in dealing with top executives.

At its core, being grounded means staying connected to every day, "real" life. Jeff Bezos's first job was working on his family farm. "Once you've palpitated a breech-birth cow, everything else is easy," he has said. Of course, a humble perspective based on personal background can diminish over time, and you need to find strategies to reinforce it. Tan Sri Dato' Azman Mokhtar, Managing Director of Khazanah Nasional Berhad, the Malaysian sovereign wealth fund, has instituted a practice called "Kembara," whereby senior leaders spend a week travelling across the country—via public transit and staying in modest accommodations—visiting local businesses incognito to witness how the Malaysian economy really functions. Jung Tae Kim, former CEO of Kookmin Bank in South Korea and a mentor of mine, grew up on a farm and continued to work on it on weekends. In fact, he often introduced himself as a farmer in conversation.

For my part, I draw on experiences working on a salmon trawler in British Columbia, in a sawmill and on a road-building crew in the Northwest Territories of Canada—stints that exposed me to people and life well outside the bubble of executive privilege. During my first assignment as a project manager at McKinsey, I pumped gas for four weeks in order to understand how things really worked at the stations and why a sales incentives program was failing. Two of the people who worked alongside me at the station were Iranians who had fled the country after the overthrow of the Shah—one had been a brand manager of P&G in Iran; the other was a physician whose credentials were not recognized in Canada. No one had asked them for their input, yet they had great insights about the retail operations.

You also need to find ways to remind yourself how fortunate you are and how quickly those fortunes can change. The head of a hospitality union in San Francisco, who makes a point of talking to the housekeeping staff at every hotel he stays in, once told me about a woman who made a particular impact on him. An immigrant mother of two boys working two jobs, she didn't have health insurance because the hotel chain would not let her work enough hours to qualify for benefits. Such encounters make you realize how the world works for the majority of people.

Being grounded also means staying connected to the frontlines of your organization. When Mark Carney was Governor of the Bank of Canada (he now serves in the same role in Britain), he met with fishermen, woodworkers and store clerks as he pondered policy decisions. Dick Boer, CEO of global supermarket chain Ahold Delhaize, spends ten percent of his time in the company's stores in order to stay in touch with "how money is actually made in the organization."

Peter Ma, Chairman and CEO of China's Ping An Insurance, is a model to me of an "orthodoxy challenger" and life-long learner. At the age of 65, he developed deep expertise in big data and digital platforms so he could personally help steer new digital strategies. These leaders are trying to "burst the CEO bubble," in the words of Hal Gregersen, Executive Director of the MIT Leadership Center, so they can glean information that might challenge their assumptions and potentially see looming threats or opportunities.

To me, being grounded ultimately means embracing "servant leadership": leading from a desire to serve your organization and the people in it, rather than from a need to assert your power or authority. This is somewhat related to the Buddhist ideal of bodhisattva: the commitment to put others first, and to cultivate the qualities of generosity, discipline and patience, among others. Max de Pree, former CEO of Herman Miller, once said, "The first responsibility of a leader is to define reality. The last is to say thank you. In between, the leader is a servant." These are words leaders should live by. A senior executive I know once spent half a day with the U.S. Army and White House staff to understand how a five-star general is selected, insights he hoped to use in his own succession planning. The answer was contained in two words, he told me: selflessness and judgment.

* * *

You are entering the arena of leadership at a challenging time. The pace and scale of change in the global economy are unprecedented in modern history. We at McKinsey believe that the next 20 years will be some of the most disruptive and exciting we have ever seen, driven by the shift of economic power to emerging markets (especially in Asia and Africa), accelerating industry disruption due to technological change, and the search for a new societal deal. Future CEOs will need to be fast learners who are able to adapt quickly to changing conditions and to lead an increasing diverse work force. Rather than bosses or heroes, they must be architects and catalysts for other leaders in the organization.

Over my years as a leader at McKinsey, I have done many things I am proud of, and have made many mistakes from which I hope I have learned. You, too, will make errors; it is inevitable and you cannot let the fear of mistakes paralyze you. All leaders enter the arena with their own unique shortcomings and vulnerabilities. Your instincts will usually be right, but it takes time to test them and trust them fully.

Many failures of leadership occur when people avoid the tough decisions or shy away from "going to the sound of gunfire." Ron Williams, former Chairman and CEO of Aetna, has compared the CEO's job to being a Navy Seal: "You don't have to do it; you choose to, so live up to the obligations."

Ultimately, you will be judged on the courage of your convictions. And you start building your legacy on day one.