The centred CEO getting the balances right

Running an organization requires balancing the interests of varied stakeholders, balancing short vs longterm priorities and achieving worklife balance.

Running an organization is a complex matter. Most decisions are not digital, they are not black or white. Should a CEO focus more on the shortterm performance or on building a legacy? How should a CEO balance the expectations of the various stakeholders? Should a CEO focus more on managing external stakeholders, or internal ones?

How should a CEO manage worklife balance? There is no right or wrong answer to those questions. But there is an approach to getting the balances right.

A balancing act

Running an organization is a balancing act. In frank and intimate conversations with more than 100 CEOs attending the Bower Forum we learnt that CEOs struggle in getting the right balance in three areas: balancing the expectations of varied stakeholders, balancing short vs longterm priorities and balancing professional vs personal demands.

Varied stakeholders' expectations

Most traditional economists would argue that the purpose of a business and consequently the focus of a CEO should be to maximize the value to shareholders. They believe that the business that seeks to generate profit and maximize shareholder value is instrumental in helping society to allocate resources optimally, and in creating efficient markets. This belief is so deeply rooted that several countries, including the US and the UK, have spelt out the legal obligations and fiduciary duties of boards and managements of public companies to act in the best interest of their shareholders.

But the reality of a CEO is different. The reality of a CEO calls for a more balanced approach of creating value for the various stakeholder groups of the corporation: shareholders, customers, employees, governments and regulators, and society as a whole. In particular, following the recent financial crisis, we are observing an increasing importance of focusing on external stakeholders such as regulators or NGOs. Today, on average, CEOs spend more than a quarter of their time outside their organizations.

However, rarely the varied stakeholders have consistent expectations. One of the CEOs at the forum talked about a merger where the mandate given was to "make the merger successful" but the expectations on the pace and depth of change were vastly different for the key shareholders and the chairman. Things came to a head when the CEO, backed by data, wanted to shut down a unit that was not generating any significant return on invested capital, but was facing a chairman who himself had started the unit years before and who was emotionally attached to it. The CEO trying to simultaneously please both investors and the chairman responded by delaying decisions, a fact that inevitably ended in creating tension and compromising the merger.

Short vs longterm priorities

A blinkered focus on financial performance and targets without adequate attention to the longterm health of an organization is a known problem. More often than not, CEOs and the companies they lead focus on stock price movements and quarterly results. A recent survey of more than 400 chief financial officers by the National Bureau of Economic Research of the US concluded that the majority of the companies surveyed consider quarterly earnings as the key metric for maximizing shareholder value. In the same survey, a majority of organizations mentioned that they would forgo valuecreating longterm investments if it meant missing their earnings targets.

But a strong focus on the long term can be a problem too. When the long term becomes an obsession, it can negatively impact current performance. A case in point is a wellknown Indian familyowned business where the CEO's single-point agenda was to build a company that would exist in perpetuity. He invested heavily in systems and policies to govern the business, implementing excellence models that leading groups had adopted. While many of these were admirable and visionary moves, others were superfluous and resulted in making the organization too complex and bureaucratic. Coordination roles and committees proliferated and mediocre performance became the norm.

Worklife balance

The demands on the time of a CEO can be limitless. With so many stakeholders, a CEO could spend 24/7 focusing on professional matters only.

But requirements to CEOs are not limited to professional matters. Most CEOs are in a phase of their life in which other realms of life matter a lot. Most CEOs are between 45 and 60 years of age, a period in which they see their children going through puberty and developing into adults, a period in which they experience their personal relationships maturing and changing, and a period in which their physical prowess gradually weakens.

At a Bower Forum, a very successful CEO told us about regretting having spent all his time on managing the business. He hadn't seen his children growing up and the relationships with them were tense, to say the least. Also, he had separated from his wife, a matter that brought him close to tears when he spoke about it. He summarized his feelings by saying, "You have to spend time for all the things that matter. The problem with time is that if you do not use it wisely, no one is going to give it back to you."

Getting the balances right

How to get the balances right? There is no right or wrong answer to these questions. In our conversations with CEOs, we learnt however that there is an approach to getting the balances right. It builds on three elements: understanding the organization's priorities and capabilities, being a centred leader, and having a collaborative mindset.

Understanding the organization's priorities and capabilities

Getting the balances right starts from having a good understanding of the organization's priorities and capabilities.

Some organizations may need a step change in performance and more attention to operational levers; some others may be under pressure from external constituencies—regulators, activist investors, NGOs for instance—and require more focus on engaging external stakeholders; some others again may need to focus on growth and expansion, and require more attention to engaging customers and inspiring and empowering employees.

Getting the balances right starts from a good understanding of the organization's situation, the strategic priorities and initiatives, and the capabilities required to execute the initiatives successfully.

Being centred

Getting the balances right does not mean satisfying or pleasing all stakeholders. Getting the balances right requires a CEO to not only understand the varied stakeholders' expectations, but also figuring out how his/her own values, capabilities and aspirations fit into the equation.

A centred CEO is one who knows what he/she stands for. He/she knows and acts authentically according to an explicit set of values. A centred

CEO is further someone who understands his/her strengths and limitations. He/she understands how he/she can add distinctive value to an organization. A centred CEO understands what he/she brings to the table. Finally, a centred CEO is one who knows his/her own aspirations and personal tradeoffs.

In adult development psychology someone who spends all his/her energy on addressing and pleasing all expectations of others is described as having a “socialized mind”. The limitation of a socialized mind is stalemate and lack of decisionmaking when the sheer amount of varied expectations can no longer be satisfied. The next stage of adult development is to develop a socalled “selfauthored” state of mind. A selfauthored mind understands the expectations of the various stakeholders, but acts in line with a set of inner values.

For instance, one CEO at the Bower Forum told us: “I understand the expectations from the various stakeholders, and I am trying to satisfy them. However, I am not in the job to please all stakeholders, who are not aligned among themselves anyway. I am here to run the company to the best of my abilities and in a way that is consistent with my convictions and my values. They are what I stand for. They are my inner compass.”

A collaborative mindset

Finally, getting the balances right requires having a collaborative mindset.

There is no perfect CEO. Every CEO has passions, strengths and distinctive capabilities, but also limitations. Understanding those and collaborating with others to best leverage oneself, is key for success. For instance, a CEO may enlist the support of the chairman or selected board members in addressing external stakeholders, or he/she may adjust the composition of the management team to secure capabilities he/she may lack.

We once had a CEO join us at the Bower Forum who was truly distinctive in engaging external stakeholders. He was spending almost 60% of his time in engaging stakeholders at industry forums, with regulatory authorities, with public opinion leaders. Given the state of the industry and the organization, which was experiencing increasing regulatory headwinds, his engagement with external stakeholders was seen as crucial. However, at the same time his management team felt that they weren’t seeing enough of him. They felt that by spending only roughly 40% of his time in the office, he was rarely available when they needed direction in managing internal operations. To address that, the CEO—after having debated the matter with the board and his management colleagues—decided to appoint a chief operating officer who would focus on managing internal affairs, and on providing more guidance and support to his management colleagues.

Running an organization requires balancing the interests of varied stakeholders, balancing short vs longterm priorities and achieving work life balance. There is no right answer, but there is an approach to getting the balances right. It builds on understanding the organizations’ priorities, being a centred leader, and having a collaborative mindset.

The Bower Forum is a twoday intensive leadership development and peercounselling programme for CEOs. It provides an opportunity for an exclusive group of fourfive CEOs to engage with each other, share experiences, discuss aspirations and challenges, and debate specific issues. The faculty comprises an experienced and recognized acting or former CEO or chairman, and a senior partner of McKinsey & Company.

Claudio Feser is a director in McKinsey’s Zurich office. **Vimal Choudhary** is chief operating officer of McKinsey Leadership Institute in Asia and **Gautam Kumra** is the founder of McKinsey Leadership Institute and a director in McKinsey India’s office.

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