Mastering the CEO's mandate

Managing a changing mandate requires developing a versatile engagement approach.

A mandate is the sum of expectations placed on the chief executive officer (CEO) by stakeholders towards what will be accomplished, by when, and to what standards. It is the licence given to the CEO to deliver on these expectations—freedoms, boundaries and resources—and with whom he or she is expected to work.

Every CEO has a mandate. It sounds simple, but several CEOs we know would not be able to simply articulate theirs, despite it being one of the fundamental issues every one of them has to wrestle with all the time. In our discussions with CEOs across Asia, we have developed a few principles to first crafting mandates and then executing them. To aid memory, we have simplified these principles into an acronym: eponymously, it's called CEO.

Crafting a mandate: conviction, expectation and objective

The starting point to crafting a mandate is conviction. The name Dashrath Manjhi might not leap to mind in a discussion on leadership, but this impoverished labourer from Bihar epitomizes the clarifying power of conviction. Manjhi lost his wife because she could not be taken in time to the nearest healthcare facility 70km away from his village near Gaya. Determined that no one else should suffer a similar experience, Manjhi decided to chisel a road through the mountain. Even as his family and fellow villagers wrote him off as being unhinged, he worked single-handedly for 22 years, putting in all his money into the effort. When after five years the community began to see the results of his conviction, the initial scepticism turned into widespread support. And when he finally completed his lonely task, he had cut down the distance to the health facility to 1km.

The business world has its fair share of leaders who intuitively grasp what it means to operate with conviction. The new CEO of an auto firm, given his deep-seated conviction in specialization, went against several stakeholders, including his own family, to shut down the core line of business of the company to invest for the future and drive profitability. Today, the business matches its closest competitor on revenue, but is almost twice as profitable.

Secondly, while crafting their mandate, CEOs should take the time to understand the many and differing expectations various stakeholders (board, investors, joint venture partners, regulators, or the organization) have of them.

India has many family-owned and family-run businesses. Almost all of them experience this problem. Not every family member sees the business in the same way: some are comfortable with risk while others are reluctant; some want to own and operate even without the appropriate skills while some are satisfied being just owners. It is important for the CEO to understand who the legitimate stakeholders are and where the differences in expectations arise.

In some cases, these expectations may not even be specifically communicated. Unearthing them is central to the CEO's role. For instance, the leader of an Indian company, a gifted individual with wide exposure to running global businesses, spent his first year focusing on what he thought was a global CEO's priorities: entering new markets, looking at mergers and acquisitions (M&A), and potential joint venture opportunities. In reality, however, the chairman of the board wanted him to turn around a middling domestic business in India because his personal reputation was at stake. The CEO never quite understood that expectation—and soon was looking for a new role.

The third important idea when crafting a mandate is clarifying the objective of the organization to its people. It should be communicated down the organization in a way that is compelling and gives people a sense of purpose. The mandate cannot simply be only about making more profit—that is only an outcome. As author and organization communications expert Simon Sinek explains, most people in organizations know what they do (whether making medicines or developing software); some know how they do it (by offering a better value proposition or better innovation); but very few know why they do it.

This last point, he believes, is the reason behind Apple Inc.'s runaway success. People at Apple passionately believe that they are not just making phones, but challenging the status quo through revolutionary product design and customer experience. When this passion transmits itself, it results in tremendous customer loyalty. Providing an objective that can inspire the organization creates a mandate that carries along all employees with it.

Mastering the mandate: continuous learning, engagement approach and operating model

Crafting the mandate is all about having strong convictions, managing expectations and clarifying the objective to the organization. However, the tougher part is mastering the mandate, mainly because the personal, business and institutional context are constantly changing around it. The mandate of a new CEO who has a decade ahead of him will be very different from that of the same CEO seven years later with only three years ahead of him.

Similarly, an entrepreneur who has just given a 20 percent stake in his company to a private equity investor faces a completely different set of expectations compared with the pre-sale environment; as does a CEO who has just entered a downturn and anticipates three years of depressed earnings. Delivering in this constantly changing environment requires CEOs to master the mandate.

We can summarize the principles to master the mandate also as CEO: continuous learning, engagement approach and operating model.

Two exceptional leaders, K.V. Kamath of ICICI Bank Ltd and Daniel Vasella, until recently the chairman of Novartis AG, have been deeply involved with McKinsey Leadership Institute (MLI) as advisers. When asked why they were devoting time to MLI, remarkably the first thing they both said was, "I want to learn". Inspirational leaders are always curious, and continuously learn, but it is not always clear: What do they need to learn about? Our answer? Personal mastery—increasing their self-awareness and getting beyond their limiting beliefs.

In an interesting experiment, a covered jar was filled with flies. The flies bobbed up and down the jar for a while—flying up to the top of the bottle, hitting the lid, coming back and repeating this. After a point, the researchers took off the lid, but the flies didn't try and escape any more. Even when there was no lid. They learnt, through experience, that they can only fly so high and can't leave the bottle. We human beings, all of us, also develop habits of mind, or we won't survive. But sometimes these come in our way. We all need these habits of mind to survive—they are essential. However, sometimes they can come in the way. We have come across three frequent derailers: bias, inertia and hubris.

Past successes often make us believe there are fixed paths to success. Driving sales to the cost of business health is one. A healthcare CEO was obsessed with performance and every meeting he chaired revolved around sales figures. This was spectacular and he achieved fabulous quarterly results. However, in reality he was biased towards performance to the exclusion of the fundamental health of the business, paying no attention to other aspects like accountability or innovation. Over time, the business suffered and is now close to becoming bankrupt because of this unhealthy bias.

Another stumbling block to learning could be inertia, as exhibited by the CEO of a conglomerate who shied away from making tough choices, and constantly hedged his bets on which businesses to keep or exit. In some cases, it could even take the form of hubris like when CEOs, overconfident of their abilities, impulsively enter big-ticket transformational deals that do not end well. For all these reasons, it is important to continuously reflect inwards and identify our enemies of learning that stand in the way of managing a changing mandate.

Managing a changing mandate also requires developing a versatile engagement approach. One of the most important ways CEOs exercise leadership is by engaging with people: whether in the form of individual meetings; or with a small group, like in a management committee meeting; or with large groups, like a town hall. Some of the very good CEOs are adept in maybe one or two of these three settings, but very few are effective in exercising leadership in all these settings. A consumer durables CEO we served was very convivial in social settings, would enjoy socializing with his team, great person to have on a Friday night, but really struggled to hold his people accountable one-on-one. So he was good in one context, but not quite as good in another context.

Finally, mastering a mandate requires a strong operating model. CEOs invariably do not have the requisite time or the natural skills to lead in all the areas that need their attention. It would be the most efficient use of their limited time to focus on things that they are naturally gifted at, and arrange to have people who complement their skills to look after certain other areas.

A media CEO, for instance, enjoyed participating in industry forums, networking, and attending conclaves at Davos and the Confederation of Indian Industry—in fact, 50 percent of his time was spent outside the company. The management team would murmur that they rarely saw him at the office. In this case, the CEO would have been well served in appointing a chief operating officer (COO) to take care of the day-to-day functioning, so he could concentrate his energies on the things he did best and created the most value for the company.

A useful exercise for CEOs to judge if they are using their time wisely is to answer the following three questions and see if their priorities match the time spent on them: 1) What do you drive or are personally accountable for—for instance, appointing a COO or driving M&A; 2) What do you shape (like being involved in problem-solving) even if you are not directly accountable for a particular deliverable; and 3) What do you delegate to your top team?

A blurring of these categories and the time spent on them is indicative that the CEO is not operating from the best model and could, perhaps, invest some thought on focusing his time and talents more efficiently. It is vital for CEOs to have an organizational architecture in place that allows them to concentrate on those roles that create the most value.

A mandate is mission-critical. Yet, most CEOs don't think actively about crafting it or understand what it will take to execute on it. Following these principles will help ensure that CEOs are more successful in this crucial task.

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