What Is Your Superpower?

One of the five principal skills of great leaders is the ability to set and adhere to priorities. But as any leader of an organization knows, both setting and adhering are really hard. This work by McKinsey & Company adds a framework not mentioned in The Manager's Handbook: the concept of identifying and then doubling down on your superpower.

What Is Your Superpower?

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CEOs, just like everyone else, suffer from the paradox of choice. Companies have endless initiatives and plans, all with the promise to "transform" the organization and deliver attractive financial returns. But how is a CEO to prioritize and make choices? Our experience indicates the answer may lie in focusing on the one institutional capability that can separate you from the rest. In a word, CEOs and their companies should look to build a superpower.

Two years ago, a retail giant with a glorious history was just barely surviving. It had made it through the darkest months of the COVID-19 pandemic but was in serious need of a profitable growth path in a disrupted industry. The CFO saw an opportunity in analytics-driven pricing.

With the top team as the driving force, the retailer embarked on a journey to build a world-class analytics capability and radically shift how the company conducted merchandising. It centralized pricing operations, embedded analytics in key parts of the company through a new technology platform, changed the way more than 600 merchants made pricing and markdown decisions, and trained and certified hundreds of employees on new ways of working. In its first year, the company's new pricing ability produced hundreds of millions of dollars in margin expansion. Even more important, the capability has stuck, and the value continues to roll in.

This company is not alone. Around the world, CEOs are concluding that success in congested, increasingly commoditized markets can be achieved by building a superpower. We've talked with hundreds of leaders and colleagues across all industries. They have shared with us the stories you're about to read, about companies that have made a choice, aligned their resources, and built their chosen superpower to deliver superior economics (and sometimes leapfrog rivals and

innovate entire industries). In this article, we'll explain what we mean by an institutional capability, sketch the reasons why building one now is the right move for many companies, and describe how a company can chart a path to building a superpower of its own.

What Are Institutional Capabilities and Why Are They Important?

The term "capability" gets thrown around quite a bit and means different things to different people. Often it refers to individual capabilities—the skills of individual employees and the company's efforts to build those skills through learning and development. But the retailer we described did something well beyond that: it built what we refer to as an *institutional capability*. What do we mean?

Simply put, it's an integrated set of people, processes, and technology that creates value by helping the company consistently do something better than competitors. An institutional capability should derive from the corporate strategy, of course. It must involve work that is integral to the company and the industry; it can't be a gimmick. Done well, such capabilities become a lasting edge, leading to consistent outperformance and growth in competitive advantage over time.

Think of any company that you admire, and you can likely rattle off one or two superpowers that make them uniquely successful. Some excel in a specific area of the business. Toyota has historically been revered for its lean manufacturing strengths. LVMH is well known for exquisite craftmanship and the entrepreneurship of its brand leaders. Disney is a paragon of imaginative customer experiences. Progressive Insurance is broadly admired for analytics-based pricing of auto insurance. Others excel in the way they operate. Netflix is renowned for its "freedom and responsibility" culture. Danaher is known for the Danaher Business System. In all these cases, institutional capabilities deliberately built over time have helped these companies succeed and thrive.

Broadly speaking, institutional capabilities fall into two categories:

Functional capabilities

These are core activities that a company does today (such as sales, supply chain management and procurement, performance marketing) but may need to change or improve dramatically to build an advantage. In these disciplines, gaining competitive advantage requires step-change improvements.

Here's an example. A global medtech company determined that supply chain management—forecasting demand accurately and manufacturing on time in the right quantities—was the key to rise to the next S-curve of performance. Customers were increasingly demanding and willing to reward companies that reliably delivered on time. Unfortunately, the company's track record on this dimension didn't stack up, so it embarked on a multiyear journey to turn this capability from a hindrance to a superpower. It created a global supply chain function with a new organizational structure and a clear division of responsibilities between the global center and the regional groups for four layers of employees. The company shifted the mindset of the organization to value global coordination and to abandon the historical complaint of a "global tax." It upgraded the talent and skills of the function by creating a supply chain academy that trained 1,000 people in the initial waves (and continues to train new employees). The company addressed its technology deficit by adopting a sales and operations execution tool and making a multiyear investment in a new advanced planning solution. The impact has been tremendous, with more than $100 million in savings and increased customer satisfaction. Importantly, the journey continues as the company adds new strengths to its superpower.

These are strengths that truly span the entire company (such as speed of decision making, ability to innovate, the operating system, customer centricity). They often relate to how the company is managed over time or are "net new" capabilities a company requires to remain competitive.

As an example, a large and established financial-services leader in Latin America was struggling to cope with the superior time-to-market, flexibility, and customer centricity of fast-moving and aggressive entrants. The bank's leaders determined that the bank needed to develop a "client obsession" and become a digital leader. It set out on a comprehensive redesign of its organization, operating model, talent, and technology to make it happen.

The new working model broke down silos by integrating technology, business, and support functions into communities and cross-functional squads aligned with customer needs. It encouraged greater collaboration through shared incentives and performance management. An agile academy trained staff and teams; more than 22,000 employees completed the course. Executives also received training on agile to shift their mindsets and enable collaboration. The bank revamped the talent mapping, recruiting, and hiring systems to attract thousands of new tech employees. On the tech side, about 4,000 business services were modernized, and half of the bank's computing moved to the cloud. This effort paid off with impressive increases in productivity, between 130 and 530 percent for a broad range of tech and nontech tasks. As a result, the incumbent has been able to gain market share. Importantly, the bank is recognized internally and externally as a digital leader.

Charting a VECTOR Toward Success

As Hooi Ling Tan, cofounder of Grab, told us, "To be successful in a dynamic environment, it is important to clearly identify and believe in the one single factor that is the stable core of your initial and future success."

Leading companies have an institutional capability (or two) that define them and contribute to their success. But how to build these superpowers? The elements in VECTOR provide a useful guide: vision, employees (and talent system), culture, technology, organization, and routines (or processes). Not all these elements will require massive reform, but a company should carefully consider each as it builds its institutional capabilities.

The VECTOR Approach

Vision and leadership
Employees
Culture and mindset
Technology
Organization
Routines

Flash back to high school physics: a vector has both direction of motion and magnitude of distance traveled. For CEOs and the companies they lead, vector is also an apt metaphor for the coordination and momentum required to build a new superpower. Here's a brief description of the six elements needed to build a successful, enduring, institutional capability.

Vision and Leadership

Companies often set financial targets for improvement programs. However, the most ambitious and successful CEOs go further and outline a vision for what they want to be known for. How will their company shape and innovate their industry? What are the markers that will clearly indicate that they have created a "superpower"? Equally important, the leadership team must commit to the journey and drive it unwaveringly until the superpower is fully ingrained and sustainable. Furthermore, in a Darwinian world, adaptation never ends. The capability needs to continue to evolve and grow, staying at the leading edge.

Employees

Superpowered companies build a full system of people and talent to support the institutional capability. Too often, companies fall back on one-off efforts such as training programs or targeted external hiring. We often hear executives boast "we have trained x thousand people" or "we have hired y hundred new people." Yes, training and hiring are needed, as noted in our examples. But for the superpower to be truly differentiating and sustainable, companies must do the hard work to build a full system that will run for years. A well-functioning talent system maps the pivotal roles and skills required for the capability; honestly assesses the existing strengths and gaps; efficiently balances new hiring (with a high bar) and reskilling of current employees; delivers training throughout people's careers to enhance existing skills and build new ones; designs and manages career paths to retain high performers; and maintains strong incentive and performance management systems.

Culture and Mindset

All companies like to think they have their own unique culture and mindsets. But if you put a dozen mission statements side by side, you will be struck by the similarities. Often, when building or enhancing a capability, a mindset shift is required. For example, companies creating a superpower in building new businesses usually shift their mindsets to accept failure and thrive on experimentation. Organizations looking to embed analytics throughout the business must help their people see data as a tool rather than a threat. The techniques of change management still work—change stories, top-team role modeling, change agents, and all the rest. What is often missing, however, is the stamina and consistency to make the change stick with thousands of employees. The key, in our experience, is to commit to ongoing measurement of culture and inclusion of culture change metrics in top management incentives. Culture can be measured and its shifts tracked over time.

Technology

Modern institutional capabilities require the combination of human and technology capital. In today's world, it's hard to imagine a true institutional capability that doesn't have at its core technology, data, and, increasingly, AI. But it's not easy to get right. We see two common mistakes. Mistake one is relying too heavily on an overhaul of core systems to solve all problems. That overreliance creates a risk of slowing down the company's pace of change. If you wait until the full enterprise resource planning system is upgraded to do anything else, chances are you will have missed some opportunities. But when work on core systems is needed, those who build distinctive capabilities don't stop there. They also make appropriate investments in the required technology foundations (including data products and machine-learning operations), and create the teams, ways of working, and practical solutions on top to propel adoption and ensure impact.

Mistake two is opting for a work-around solution and building one-off digital customer journeys or AI models. These thin solutions rarely gain the scale and traction to truly build an institutional capability. Superpowered companies build AI models that scale readily with critical moves, such as putting their data in the cloud (and structuring it the right way), guarding against systemic bias, and directing the effort from the top down to focus on areas that will produce the most

value. That ensures a distinctive and enduring capability and avoids a proliferation of pilots that are good for talking points but not much else.

Organization

The old saying is that "structure follows strategy"; it also applies to creating a new capability. The organizational structure and ways of operating must be designed and constructed to ensure clear roles, responsibilities, and accountabilities to enable the capability to grow and thrive. Too often, companies rely on temporary constructs such as SWAT teams. Pilots or temporary teams are useful in the early days to move quickly and experiment. However, companies need to eventually commit to the capability and build the permanent structure. This requires clearly defining the roles and responsibilities, reporting structures, and decision rights so the capability can flourish. Beyond this, superpowers require financial backing and should become part of the ongoing budgeting and governance processes.

Routines

Processes or routines are where the rubber meets the road. As in any part of the business, high-quality, well-designed routines are essential. Critically, organizations must practice any new processes with coaching to truly lock them into the organization at high quality. Too frequently, companies launch a new set of processes, codify them into standard operating procedures—and then expect employees to miraculously execute on them with consistent excellence. Leading companies treat their superpower like a star athlete treats his or her sport—as a craft that needs to be continually practiced, with world-class coaching, to ensure ever-increasing quality and performance.

Aligning on Your Vector

The companies profiled here invested considerable energy and dedication to build the capability that they're now known for. It takes a broad effort across the organization, which means that only the CEO can truly integrate all the necessary resources required to get from vision to execution. Building a new superpower is not to be delegated; it requires the top team as a driving force to be effective. As you start or continue your journey, we encourage you to consider three questions:

1. What is the one superpower (or, at most, two) that will determine your company's success over the next three years?
2. Are you aligned as a top team around this superpower, with a vision for what it needs to become?
3. Does your capability-building effort pass the "VECTOR test"—going deep enough on each dimension to build something differentiated and sustainable?

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