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The Wise Leader

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BY PRASAD KAIPA AND NAVI RADJOU

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Smartness is the operating currency of organizational culture in the 21st-century. Whether it's called cleverness, practical intelligence, or savvy, one can

never have too much of it in a company. Smart leaders can see patterns in seemingly random information, enabling them to take decisive action while their peers are still assessing a situation, and to make the strategic choices that bring competitive advantage. But there are two categories of smartness, both of which carry benefits and risks. Most executives favor one or the other, and that makes it more difficult for them to lead.

“Business smart” leaders, like GE’s Jack Welch and Oracle’s Larry Ellison, are big-picture thinkers who recognize that opportunities are unlimited, at least for those ready to seize those opportunities. They are competitive, dynamic, and proac-

tive. They relish high-stakes games, and display an aggressive, winner-take-all mentality. Bill Gates exemplified this form of leadership when he took Microsoft from a college dropout’s startup in 1976 to a company with a market capitalization of more than US\$616 billion by 1999. But these leaders’ expeditious and sometimes self-centered approach to decision making can also cause trouble. Gates learned this in 1998, when the U.S. Justice Department (followed by a number of European countries) filed an antitrust suit against Microsoft. By most accounts, this was a rude awakening for Gates. Under questioning at trial, he appeared combative and defensive. Although Microsoft settled the lawsuit in 2001, these events contributed to the company’s loss of dominance.

“Functional smart” leaders are grounded in the concrete, tangible, and tactical, enabling them to achieve operational and execution effectiveness. Like Genentech cofounder Herbert Boyer and HP founders William Hewlett and David Packard, functional-smart leaders tend to have deep expertise in narrow domains. They understand that constraints are unavoidable, but also know that they can be managed by those willing to design appropriate solutions. Tim Cook, for example, who took over as CEO of Apple after Steve Jobs’s death, brought a new level of operational efficiency and bottom-line productivity to Apple, honed during his years as chief operating officer. Functional-smart leadership may seem like a safer bet, but these leaders are prone to repeating poor decisions or procrastinating on tough decisions. They are more likely to be caught in the weeds of habitual practice, ne-



glecting things outside their purview. Cook, for example, in overlooking the poor working conditions at Apple's Chinese subcontracted factories, damaged Apple's reputation and some of its profitability.

Today's business leaders need to balance narrow and broad views of their business and of the world, and to combine flawless execution with big-picture thinking. This ability to navigate swiftly and effectively between the two forms of smartness based on the context, coupled with a focus on a higher purpose and enlightened self-interest—the belief that a rising tide can lift all boats—is what we call “wise leadership.” Practical wisdom gives executives the tools they need to achieve both professional and personal success: the flexibility to anticipate disruptive change, the execution capabilities to meet today's demand, and the opportunity to build their facility in ethics and shared values.

Most people, when they start their careers, have potential for both business-smart and functional-smart leadership. But over time, as they move up the hierarchy, they tend to favor one or the other. They take on what psychologists call a perceptual filter. They see what they expect to see—they become conscious of only one set of possibilities and accept only one type of behavior. The perceptual filters of business smartness and functional smartness are so prevalent and yet so subtle that it's hard to recognize the extent to which they govern behavior. They shape executives' world view; although people may have an intellectual or intuitive appreciation for both types of smartness, they miss chances to bring them together.

To see the world more clearly, leaders need to become aware of,

and then set aside, their perceptual filters. This type of reflection doesn't always come by choice—it is typically forced upon people. Bill Gates didn't wake up one morning and say, “I want to become a wise leader.” He must have been compelled, by the lawsuit and other factors, to reconsider his leadership style. Gates, who had been known for his intensely competitive personality and take-no-prisoners strategies, made a major course correction. In early 2000, while awaiting the antitrust court decision, he stepped down as Microsoft's chief executive. He took on the role of chief software architect, which emphasized functional smartness. In the same year, he embraced a higher purpose by establishing, with his wife, the Bill & Melinda Gates Foundation. Although some people initially accused Gates of using his charitable activities to sugarcoat his image, his foundation is today respected and appreciated for its highly effective approaches to combating global challenges. Gates, the successful but polarizing figure, has become more righteous and moral in the eyes of many people.

Tim Cook was driven by Steve Jobs's advancing illness to change his leadership style. He moved from a narrow form of smartness to a more opportunity-oriented perspective, turning his attention to the big picture and becoming sensitive to the changing context in the world around him. When the factory scandal broke, Cook went to China to inspect working conditions firsthand, and he is now striving to improve conditions there and elsewhere. He also started matching employee contributions to nonprofits, encouraging commitment to the greater good. Although he has not

fully emulated Steve Jobs's agenda or style—for example, he pays dividends, which Jobs avoided—Cook has adopted some important business-smart approaches. He discusses strategy with investors, reaches out to developers, focuses on top-line growth, and has defended Apple's position as a leading innovator by winning a patent infringement case against rival Samsung.

A balanced approach also enables leaders to lead their companies to sustained growth, even through trying times. Here we can look to Ford CEO Alan Mulally as a model of wise leadership. Long before coming to Ford, Alan Mulally was a general manager at Boeing in charge of developing the 777 passenger aircraft. Even at that time, he deliberately cultivated a mix of business-smart and functional-smart actions. Traditionally, Boeing teams operated in silos with little collaboration, leading to project delays and higher costs. Mulally's job was to coordinate multiple teams and integrate their efforts. In every project review meeting, he began by reminding all teams that they had to factor in the larger system, the whole plane, when making narrow decisions; then he moved to intensive, detailed review of the technical and design issues.

Mulally took the same decision logic to Ford. When he arrived in 2006, the company was losing market share and brand equity. Mulally mortgaged all of Ford's assets to secure a \$23.6 billion loan, which he said was needed to invest in R&D and serve as “a cushion to protect from a recession or other unexpected event.” This decision, made at a time when the economy seemed healthy, was widely criticized. But Mulally defended it on the grounds that “we have to control our own destiny.”

Two years later, this business-smart decision allowed Ford, unlike GM and Chrysler, to avoid government-funded restructuring.

Around the same time, Mulally also made a critical functional-smart decision. Walking through the parking lot at Ford headquarters in Detroit, he noticed the plethora of Ford brands, with no common attributes in shape or style. He set about pruning the Ford model portfolio. This allowed Ford to concentrate on improving the engineering quality of a smaller roster of models, to make life easier for Ford distributors and dealers, and to reuse components across brands, reaping big savings on supply chain costs.

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Tim Cook was driven to change his leadership style, from a narrow form of smartness to a more opportunity-oriented perspective.

Becoming a wise leader is not always a smooth journey—people can easily revert to their familiar smart behaviors. Practical wisdom requires the unlearning of one's past success formulas. Even today, Bill Gates becomes intense and defensive when addressing Microsoft's lack of growth in the past decade. And Tim Cook saw a significant decline in Apple's market valuation when he focused more on tangible products and services than on intangible connections to the marketplace and end-users. Such struggles are to be expected. But wise leaders are resilient, and they learn from failure. They are flexible, enabling them to maintain this crucial balance: The business-smart leader can give voice to aspiration, the functional-smart leader can appreciate limits and execute within them—and the wise leader can do both. +

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