The Wise Leader

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BY PRASAD KAIPA AND N AVI 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 proactive. 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 co-founder 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 pur-
view. Cook, for example, in over-
looking the poor working conditions
at Apple’s Chinese subcontracted
factories, damaged Apple’s reputa-
tion 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 be-
tween the two forms of smartness
based on the context, coupled with a
focus on a higher purpose and en-
lightened 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 disrup-
tive change, the execution capabili-
ties 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 function-
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 con-
scious of only one set of possibilities
and accept only one type of behav-
ior. 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; al-
though people may have an intellec-
tual 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 typi-
cally forced upon people. Bill Gates
didn’t wake up one morning and
say, “I want to become a wise lead-
er.” 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 func-
tional smartness. In the same year,
he embraced a higher purpose by
establishing, with his wife, the Bill
& Melinda Gates Foundation. Al-
though some people initially ac-
cused 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 perspec-
tive, turning his attention to the big
picture and becoming sensitive to
the changing context in the world
around him. When the factory scan-
dal broke, Cook went to China
to inspect working conditions first-
hand, and he is now striving to
improve conditions there and else-
where. He also started matching
employee contributions to nonprof-
its, encouraging commitment to the
greater good. Although he has not

fully emulated Steve Jobs’s agenda or
style—for example, he pays divi-
dends, which Jobs avoided—Cook
has adopted some important busi-
ness-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 en-
ables 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 com-
ing to Ford, Alan Mulally was a gen-
eral manager at Boeing in charge of
developing the 777 passenger air-
craft. Even at that time, he deliber-
ately cultivated a mix of business-
smart and functional-smart actions.
Traditionally, Boeing teams operat-
ed in silos with little collaboration,
leading to project delays and higher
costs. Mulally’s job was to coordi-
nate multiple teams and integrate
their efforts. In every project review
meeting, he began by reminding all
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 mar-
ket share and brand equity. Mulally
mortgaged all of Ford’s assets to se-
cure 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 unexpec-
ted 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.

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.

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