The Wise Leader

How CEOs can learn practical wisdom to help them do what’s right for their companies—and society by Ikuijo Nonaka and Hirotaka Takeuchi
In an era when discontinuity is the only constant, the ability to lead wisely has nearly vanished. All the knowledge in the world did not prevent the collapse of the global financial system three years ago or stop institutions like Lehman Brothers and Washington Mutual from failing.

No one could slow down the recession as it sped across the world, or ensure that market leaders like General Motors and Circuit City didn’t go bankrupt. No one realized that despite enormous government stimuli, the road to recovery would be torturous, with so few jobs created in the U.S. and Japan. Never did we expect more of leadership—and never have we been so disappointed.

It isn’t uncertainty alone that has paralyzed CEOs today. Many find it difficult to reinvent their corporations rapidly enough to cope with new technologies, demographic shifts, and consumption trends. They’re unable to develop truly global organizations that can operate effortlessly across borders. Above all, leaders find it tough to ensure that their people adhere to values and ethics. The prevailing principles in business make employees ask, “What’s in it for me?” Missing are those that would make them think, “What’s good, right, and just for everyone?” The purpose of business, executives still believe, is business, and greed is good so long as the SEC doesn’t find out.

The gulf between the theory and practice of ethics exists in business for several reasons: There is a big difference between what top management preaches and what frontline people do. There’s a philosophical tendency in the West, following Plato, to conclude that if a theory isn’t working, there must be something wrong with reality. People behave less ethically when they are part of organizations or groups. Individuals who may do the right thing in normal situations behave differently under stress. And common rationalizations, such as that you are acting in the company’s best interest, or justifications, such as that you will never be found out, lead to misconduct.

Hit by fraud, deceit, and greed, people are angry about the visible lack of values and ethics in business. There’s something wrong with the way B-schools, companies, and leaders are developing managers. As Bent Flyvbjerg pointed out in Making Social Science Matter (Cambridge, 2001), instead of trying to emulate the natural sciences, we should have ensured that management asked questions such as “Where are we going?” “Who gains, who loses, and by which mechanisms of power?” “Is this development desirable?” “What should we do about it?”

For leaders to cope with these myriad pressures, knowledge is more critical than ever before. Sixteen years ago we published The Knowledge-Creating Company. Since then executives have come to recognize that knowledge can yield sustainable competitive advantage. Companies have learned to capture, store, and distribute knowledge, so it continually catalyzes innovation. However, as we have seen, leading a knowledge-creating company is difficult.

Why doesn’t knowledge result in wise leadership? The problem, we find, is twofold. Many leaders use knowledge improperly, and most don’t cultivate the right kinds. The types of knowledge we discussed...
in our book are now well known: explicit and tacit. Managers tend to rely on explicit knowledge, because it can be codified, measured, and generalized. Wall Street firms thought they could manage greater risk by using numbers, data, and scientific formulas instead of making judgments about loans one at a time. The same holds for the U.S. automobile industry, which relies on offering financial incentives rather than understanding customer needs.

Dependence only on explicit knowledge prevents leaders from coping with change. The scientific, deductive, theory-first approach assumes a world independent of context and seeks answers that are universal and predictive. However, all social phenomena—including business—are context dependent, and analyzing them is meaningless unless you consider people’s goals, values, and interests along with the power relationships among them. Yet executives fail to do just that.

Leaders will continue to rely on new scientific discoveries to deal with the environmental, energy, and biodiversity issues facing the globe and on technological advances to develop smarter systems. Creating the future, however, must extend beyond the company; it must be about pursuing the common good. CEOs need to ask if decisions are good for society as well as for their companies; management must serve a higher purpose. Companies will then start thinking of themselves as social entities charged with a mission to create lasting benefits for society. Unless companies create social as well as economic value, they will not survive in the long run.

In addition, the world needs leaders who will make judgments knowing that everything is contextual, make decisions knowing that everything is changing, and take actions knowing that everything depends on doing so in a timely fashion. They will have to see what is good, right, and just for society while being grounded in the details of the ever-changing front line. Thus they must pair micromanagement with big-picture aspirations about the future.

Over the past two decades we have been studying leadership in different kinds of organizations; teaching business leaders, especially in Japan; and interviewing generations of leaders in some of the best companies in the world. Our goal has been to identify how leaders can systematically make decisions that will allow companies to live in harmony with society rather than clash with it. Our studies show that the use of explicit and tacit knowledge isn’t enough; CEOs must also draw on a third, often forgotten kind of knowledge, called practical wisdom. Practical wisdom is tacit knowledge acquired from experience that enables people to make prudent judgments and take actions based on the actual situation, guided by values and morals. When leaders cultivate such knowledge throughout the organization, they will be able not only to create fresh knowledge but also to make enlightened decisions.

**From Knowledge to Wisdom**

The origin of practical wisdom lies in the concept of *phronesis*, one of the three forms of knowledge that Aristotle identified. In *Nicomachean Ethics* VI.6, he wrote that phronesis is “a true and reasoned state of capacity to act with regard to the things that are good or bad for man.” He identified two types of wisdom: esoteric or metaphysical wisdom, and practical wisdom, which Samuel Coleridge later wryly interpreted as “common sense in an uncommon degree.”

Practical wisdom, according to our studies, is experiential knowledge that enables people to make ethically sound judgments. It is similar to the Japanese concept of *toku*—a virtue that leads a person to pursue the common good and moral excellence as a way of life. It is also akin to the Indian concept of *yukta*, which connotes “just right” or “appropriate.” For instance, executives who believe that the purpose of a business—and even of making profits—is to serve people and enhance society’s well-being observe yukta and shy away from excess and greed.

Aristotle also identified *episteme*, or universally valid scientific knowledge, and *techne*, or skill-based technical know-how. If episteme is know-why and techne is know-how, phronesis is know-what.
Idea in Brief

Business now demands a different kind of leader—one who will make decisions knowing that the outcomes must be good for society as well as the company. Leaders must keep a higher purpose in mind. Although such leadership demands more knowledge than ever, executives should not depend on just explicit or tacit knowledge. They also need a third, often forgotten kind of knowledge, called phronesis, or practical wisdom. Phronesis, acquired from experience, enables people to make prudent judgments in a timely fashion and take actions guided by values and morals. When leaders distribute such knowledge within their organizations, they can reach enlightened decisions.

Japan has a number of phronetic leaders, who possess six abilities: They can assess what is good; quickly grasp the essence of situations; create contexts for learning; communicate effectively; exercise political power to bring people together; and encourage the development of practical wisdom in others through apprenticeship and mentoring.

should-be-done. For instance, because no universal notion of a good car exists, episteme cannot answer the question “What is a good car?” That will depend on who is using the car and why, and it will change over time. Techne is knowing how to make a car well; phronesis is knowing both what a good car is and how to build it. Thus phronesis enables managers to determine what is good in specific times and situations and to undertake the best actions at those times to serve the common good.

To make the right decisions, managers need to understand why a company exists—its raison d’être. Companies often behave as though they’re willing to do anything to survive, even if that means destroying the world in which they operate. They would do better to pursue the common good—not because it’s right or fashionable but to ensure their sustainability. No company will survive over the long run if it doesn’t offer value to customers, create a future that rivals can’t, and maintain the common good.

We have observed the use of phronesis most often in Japan, although it isn’t specific to any country or culture. Governments in Japan may have come under fire for the mistakes they have made, but people still respect Japanese companies even though they haven’t proved to be world-beaters in recent times. Before the devastating earthquake and tsunami, there was no crisis of confidence in Japan’s corporate world as there is in America’s, partly because what happened on Wall Street did not happen in Japan. Japanese companies have often been criticized for not being sufficiently capitalistic—that is, not returning enough capital to investors, not maximizing shareholder value in the short term, not moving quickly with offshoring, not laying off employees to reduce costs, and not paying compensation that will incentivize top management. But the flip side is a continuing belief that the best Japanese companies live in harmony with society, have a social purpose in earning profits, pursue the common good as a way of life, have a moral purpose in running a business, and practice distributed phronesis.

These beliefs will influence tomorrow’s management theory and practice. Indeed, they are the very essence of what Gary Hamel described in his article “Moon Shots for Management” (HBR February 2009). In contrast to the old notion of capitalism, which pitted business and society against each other, the best Japanese companies, we believe, can become the exemplars of a new, communitarian approach to capitalism, as long as their leaders continue to imbue it with a social purpose.

The Six Abilities of Phronetic Leaders

It isn’t easy to lead with practical wisdom. A phronetic leader must make judgments and take actions amid constant flux. And he or she must do so while taking a higher point of view—what’s good for society—even though that view stems from individual values and principles. Our research over the past decade shows that to lead in this fashion, six abilities are essential. We will describe them in the following pages and offer suggestions on how to develop those skills.

Wise Leaders Can Judge Goodness

Phronetic leaders practice moral discernment about what’s good and act on it in every situation. Don’t get us wrong—maximizing shareholder wealth can lead to goodness, as can making a profit. But these leaders set their sights higher: They believe that their actions should have a moral purpose akin to what Max Weber had in mind when he linked Protestantism to capitalism.

According to Akio Matsubara, the former head of human resources at Toyota, Eiji Toyoda, the com...
Teaching Integrity in the Classroom

Since 2008 we have been developing a program to help create leaders who apply practical wisdom in Japanese companies. The Knowledge Forum, as we call it, takes place primarily at Hitotsubashi University’s downtown Tokyo campus and is essentially a ba (“shared context”) where executives can build character and integrity.

Company’s former president, always said, “To do what you believe is right. To do what you believe is good. Doing the right things, when required, is a calling from on high. Do it boldly, do as you believe, do as you are.”

Judgments must be guided by the individual’s values and ethics. Without a foundation of values, executives can’t decide what is good or bad. His values spur Shoei Utsuda, the chairman of Mitsui & Co., to ask before making any decision, “Is what I am attempting to do good quality work (yoi shigoto) for the company and society?” Values have to be one’s own; they can’t be borrowed. That’s why the question most frequently asked at Honda is “What do you think?” It encourages employees to reflect deeply about their own values in relation to those of Honda and society.

Managers must make judgments for the common good, not for profits or competitive advantage. Says Tadashi Yanai, the CEO of Fast Retailing, which owns Japan’s fastest-growing apparel brand, Uniqlo, “Not only does a company have to live in harmony with society, but to be accepted, it must contribute to society. The majority of companies that have failed did not maintain that balance. Everyone is, first, a member of society before one of the company. Thinking only about the company will undoubtedly result in failure.”

There are four ways of cultivating the ability to make judgments about goodness. One is experience, particularly that gained by facing adversity or failure. Yanai constantly reminds himself and others of the challenges he overcame—operating a single store way out in the country, being refused a bank loan, being pushed around by powerful wholesalers, facing near bankruptcy on numerous occasions. Yanai is so proud of having made mistakes that he called his first book One Win, Nine Losses.

Another way is to write down principles drawn from life experiences and share them. Over the years, Yanai has developed 23 principles, which he calls the “soul” of his company. “Without a soul, a company or a person is nothing more than an empty shell,” he says. Several of his canons address goodness head-on: Put good ideas into practice, move the world, change society, and contribute to society. Reward good conduct and punish evildoing. Demand the highest level of ethics in your business and work.

A third method is the relentless pursuit of excellence. That helps CEOs realize what’s worthwhile—what’s worth desiring and striving for—in a specific situation. Utsuda told us that he once served as an assistant to Mitsui’s former president Tatsuzo Mizukami, who revived the company after World War II: “He had already turned 80 when I worked for him. I was amazed at the standards of excellence he pursued. Never once did he cut corners.”

Finally, judgment can be cultivated by becoming well versed in the liberal arts, such as philosophy, history, literature, and the fine arts. Management is
Wise Leaders Can Grasp the Essence

Before making judgment calls, wise leaders quickly sense what lies behind a situation, project a vision of the future or the consequences, and decide on the action needed to realize that vision. Practical wisdom enables them to see the essence and intuitively fathom the nature and meaning of people, things, and events.

A telling example of how Soichiro Honda, the founder of the company that bears his name, did that is visible in a photograph hanging at the Automotive Hall of Fame in Dearborn, Michigan. It shows him at a motorcycle-racing track, crouching down low to put himself at eye level with a rider passing at full speed. Honda has his hands on the ground to feel the vibration and his ears cocked to absorb the sound of the engine. That’s how he captured the essence of the motorcycle. “When I look at a motorcycle, I see many things,” he used to tell his successors. “I see I should do such and such to maneuver past the curve. I think about the next-generation machine. I think, if I do this, it will have more speed. I move naturally into the next process.” Grasping the essence requires attention to detail and persistence. “If you are going to do something, you must do it relentlessly,” Yanai says. “Do what is 100% right, concentrate on small things, and continue going back to basics. Unless you do that, you cannot move to the next stage. The secret to success is doing the basics day in and day out.”

It’s also important that leaders grasp universal truths from the particulars and the details. Expanding particulars into universals requires continual interaction between subjective intuition and objective knowledge. Ratan Tata, the chairman of the Tata Group, conceived the idea of a $2,500 car in this way. In the now famous story, he noticed an entire family—father, mother, and children—on a scooter, snaking dangerously around cars on a rainy day in Mumbai. He knew that the cheapest car cost five times as much as a scooter did and that families near the bottom of the income pyramid couldn’t afford one. Tata realized, right there and then, that those people would buy cars if his company produced them at a price they could afford.

To cultivate their ability to grasp the essence of a problem, executives should practice three mind-stretching routines. The first is relentlessly asking what the basis of a problem or a situation is. At Toyota employees ask “Why?” five times to get to the root cause. At Honda they ask the “A, A0, and A00” questions. A questions are about specifications—such as “What should the horsepower of this engine be?” A0 questions are about concepts—such as “What is the idea behind this engine?” A00 questions are about the essential goals of the project—such as “What is this engine for?”

The second routine is learning to see the trees and the forest at the same time. In the words of Toshifumi Suzuki, Seven-Eleven Japan’s chairman, “It isn’t good if you just see a tree, not the forest. Many wrongly think that single-item management means managing a single item. But it’s necessary to place the item in the store as a whole.” God may live in the details, but leaders should never forget the big picture.

Over the next nine months participants meet frequently to discuss issues and to socialize over drinks, golf, and karaoke. Full-day sessions, held once a month, end in a publike atmosphere to stimulate more discussion. The executives also come together in a formal ba for three days to kick off a project that involves writing an article, ostensibly for Harvard Business Review, on a Japanese management practice that has global impact. There are other such programs in Japan. Twenty years ago Yotaro Kobayashi, the former CEO of Fuji Xerox, started Camp Nidom, which is held at Fuji Xerox’s center in Karuizawa, Nagano. An annual gathering of 20 or so influential Japanese CEOs and their spouses, it combines the study of business and the liberal arts. For the past 20 years we have both taught at Camp Nidom.

The CEOs interact with scholars of philosophy, history, literature, political science, military strategy, and economics to deepen their understanding of the liberal arts. They discuss the work of Peter Drucker and meet 12 B-school faculty members at weekly coaching sessions. The Knowledge Forum requires a substantial time commitment from executives as well as from the faculty.
THE BIG IDEA

The Six Abilities
Of Wise Leaders

Wise leaders make decisions only after they figure out what is good for the organization and society.

They can quickly grasp the essence of any situation or problem and intuitively fathom the nature and meaning of people, things, and events.

They constantly create informal as well as formal shared contexts for senior executives and employees to construct new meaning through their interactions.

They know how to use metaphors and stories to convert the essence of their actual experiences into tacit knowledge for individuals and groups.

They exercise political power to bring together people with conflicting goals and spur them to action.

They encourage the development of practical wisdom in others, especially employees on the front lines, through apprenticeship and mentoring.

The third entails constructing and testing hypotheses. For example, the employees in every Seven-Eleven Japan store—including high school students and homemakers who work part-time—decide what merchandise to order. Because each store caters to different customers and faces different situations at different times, employees cannot rely on rules set by headquarters. Nor can they mechanically fill shelves by ordering the same amounts of the same things each day. Every time a staff member places an order, she is encouraged to build a hypothesis about what customers want. When ordering beverages, for example, she must rely on her knowledge of local customers’ needs and also take into account factors such as the weather, school schedules, local festivals, power shutdowns, and so on.

**Wise Leaders Create Shared Contexts**

Phronetic leaders constantly create opportunities for senior executives and employees to learn from one another. In Japan a ba (place, space, or field) refers to the context in which relationships are forged and interactions occur. Those participating in a ba share information, build short-term relationships, and try to create new meaning. For example, an informal ba may take place at a bar or a pub, where strangers talk casually about their immediate concerns or problems, sometimes triggering insights or solutions.

In a more formal or organizational setting, a ba permits participants with a shared sense of purpose to interact closely. Each member sees himself in relation to others and tries to understand their views and values subjectively. Membership is voluntary. In that sense, a ba is a shared context in motion, with participants coming and going, relationships changing, and contexts shifting over time.

Honda’s waiwaigayagaya (short for the onomatopoeic waiwai-gayagaya, which imitates the hum created by people’s voices when they meet) is also a ba. As many as 30 members of a project team will get together for three days and nights at a hotel or ryokan (inn) with a hot springs. In the evenings they drink sake and visit the communal bath. Although there is no agenda, people typically begin by bad-mouthing their bosses and sharing frustrations. As the members start spilling their guts over sake, it isn’t unusual for fights, verbal or even physical, to break out. On the second day, barriers start to melt as people begin to understand one another’s motivations and feelings. They become more willing to listen and empathize. By the third day, they’ve often made an inductive leap, overcoming their personal issues and arriving at a team-based view about how to solve a problem.

Companies can set up a ba in any number of ways: in project meetings, training programs, ad hoc study groups, informal hobby groups, conferences, company-sponsored family or sports events, smoking rooms, cafes and canteens, virtual meetings, intranet systems, and blogs. A ba can be top-down or bottom-up. The CEO should initiate the former kind. Five months after Utsuda became Mitsui’s president, in 2002, he started a kurumaza (sitting in a circle) meeting that took place once or twice a month during lunch or after work. It was open to any employee who registered on the company intranet and wanted to discuss the meaning of good-quality work for employees, the company, and society. Over six years, 117 meetings involving 2,000 employees took place. The participants reviewed Mitsui’s past business practices—some of which were controversial, owing to compliance issues in foreign countries—and future aspirations.

A bottom-up ba, which companies outside Japan may find easier to use, gives employees firsthand experience of how consumers use products and services. Eisai, known for having developed medicines to treat dementia, sends all its researchers to take care of patients. The employees learn how patients behave, take medicines, bathe, and communicate with caregivers. They gain a deeper understanding of the needs of patients and their families—and of the company’s mission of human health care as articulated by Haruo Naito, Eisai’s president. One employee told us, “I was completely focused on the development of medicines, but at the hospital, the focus was not on medicines. Drugs are only useful in certain situations. The training gave me fresh awareness of the purpose of drugs and how we should develop them.”

**Wise Leaders Communicate the Essence**

Phronetic leaders must be able to communicate in a way that everyone can understand. The essence of a situation is often hard to express, so they must use stories, metaphors, and other figurative language. That allows individuals grounded in
different contexts and with different experiences to grasp things intuitively.

A metaphor provides a way of understanding one thing by envisioning another. Yanai is fond of using sports metaphors and analogies to get his point across. One of his favorites is “In baseball, teams with a large number of stolen bases have a high number of attempted steals. You can’t run if you’re thinking only about not being tagged. The same could be said of management.” Metaphors also convey messages in ways that capture the imagination. For example, Toyota likens the automobile industry—and, by extension, the company itself—to a green tomato, incomplete and growing.

A story can help us gain self-knowledge through the experiences of the protagonist or the antagonist. It can also explain the historical context (“How has this come to be?”) and communicate future scenarios (“What is it going to look like?”). At Mitsui, storytelling became an important part of the review process under Utsuda. In 2002 he changed the corporate performance criteria, putting much more emphasis (80%) on qualitative than on quantitative results. The process for achieving results thus became more important than revenues or profits. Utsuda encouraged all employees to tell a story at their annual review about why a goal was important to them and the company, how it aligned with their values as well as the company’s, and what good it would do them and the company in the future. The process of creating, telling, and sharing stories was instrumental in changing Mitsui’s culture. It led employees to sell their ideas more persuasively and made them think about the quality of the work they would do before calculating the profits.

Fujio Mitarai, Canon’s chairman, has institutionalized a similar process. He asks everyone to submit an annual business plan with a story. He kicks off the process by writing a story about how the company can achieve the numerical goals he has established. That trickles down through senior managers and middle managers to all employees. Everyone at Canon has to back up the numbers with a narrative. Mitarai explains. “It forms the foundation of Canon’s strength.”

Wise leaders exercise political judgment by understanding the viewpoints and emotions of others, gleaned through everyday verbal and nonverbal communication. They carefully consider timing—when to make a move or to discuss issues. No one

Wise Leaders Exercise Political Power

It isn’t enough to identify the essence or communicate it; phronetic leaders must bring people together and spur them to act, combining and synthesizing everyone’s knowledge and efforts in the single-minded pursuit of their goals. To mobilize people, executives must utilize all the means—including Machiavellian ones—suited to the situation. Shrewdness and stubbornness are often necessary to create something new and good.

Wise leaders exercise political judgment by understanding the viewpoints and emotions of others, gleaned through everyday verbal and nonverbal communication. They carefully consider timing—when to make a move or to discuss issues. No one
we know exercises these qualities with more passion than Toshiba’s chairman, Atsutoshi Nishida, who is a scholar of intersubjectivity—a field of phenomenology pioneered by Edmund Husserl. Nishida firmly believes that people are by nature both logical and emotional, so he stresses the importance of empathizing with others to develop genuine dialogues with them. It isn’t unusual for him to engage in discussions with his colleagues that run twice the allotted time.

Phronetic leaders also strive to understand all the contradictions in human nature—good and bad, civility and incivility, optimism and pessimism, diligence and laziness—and synthesize them as situations arise. Rather than seeking an optimal balance between contradictions, they engage in dialectical thinking, which enables them to deal with contradictions, opposites, and paradoxes by moving to a higher level. Some use the German word 

aufheben

to describe this process. By thinking in terms of “both and” rather than “either or,” phronetic leaders can make the decision best suited to a situation without losing sight of the goodness to be achieved. As F. Scott Fitzgerald pointed out, “The test of a first-rate intelligence is the ability to hold two opposed ideas in the mind at the same time, and still retain the ability to function.” In this age of discontinuity, these qualities matter more than ever.

Imagination and vision are key to rising to a higher level. For instance, Yanai has announced that Fast Retailing will need 200 next-generation leaders to bring about his vision for the company. He has used dialectics to identify the starting point—namely, the composition of the leadership pool. Half the future leaders will be Japanese, half will come from current employees, half will be geniuses (and the other half will be ordinary folks). Yanai wants them to transcend all the dichotomies and turn into globally minded business owners. His leaders must be both asura (demon) and Buddha: They must become tyrannical perfectionists who understand both the bad and the good in human nature.

Interestingly, demoting leaders can help them understand other viewpoints and emotions. This technique works especially well in Japan, and nobody uses it more than Fast Retailing. More than half the company’s senior executives have been demoted, which involves a 25% pay cut and sends a clear message that a particular judgment, decision, or action didn’t work. The executives are given another chance to excel. One of them, who has experienced two demotions, says, “Sure, it hurts both economically and psychologically. But the demotions made me tougher. I now have the stomach to give my subordinates the kind of feedback I received.”

Forgetting success is also effective in spurring people to do better. Yanai recently warned his team that doing the same thing year after year is synonymous with falling behind. The title of a book he wrote in 2009, 

Throw Away Your Success in One Day,

shows how quickly he thinks companies must reinvent themselves.
of himself when he heard this that he decided it was time to retire.

Fostering distributed phronesis will enable organizations to respond flexibly and creatively to any situation. One structural option is to use the “scrum” approach (see our article “The New New Product Development Game,” HBR January–February 1986) to stay agile. The rugby metaphor, first used in the manufacturing industry, is today the official name of the agile software development process. Although individual teams are usually limited to seven members, the number of teams rises as the scope of the project grows. The development process stops at two-week intervals, when members form a scrum (a “huddle” in American football) to make judgments on how to complete unfinished tasks. It’s possible to have hundreds of scrum masters and thousands of members working, learning, and making wise decisions concurrently.

Even part-time workers should be able to use phronesis, according to Seven-Eleven Japan’s Suzuki. “I have only two eyes and one mind,” he argues. “There are several thousand part-time workers in our stores. If everyone can make a judgment on his or her own, we will have quite a few more eyes and minds.”

People can often learn about practical wisdom by observing an exemplar’s behavior. At Honda the company’s founder is still the dominant exemplar. Takeo Fukui, a former company president, told us, “It is important for Honda to create many Soichiro Hondas.” That doesn’t mean Honda workers should imitate the founder; the situations they face are often different from those he faced when he was alive. Rather, it means that when a judgment call is necessary, a worker should ask himself or herself: “If I were Soichiro Honda, what would I do?”

Exemplars can frequently be found among middle managers. Consider Honda’s large-project leaders, who undertake work of strategic importance but have no hierarchical authority or personnel selection power. They work with as many as 200 of their colleagues at a time in design, engineering, testing, marketing, and other fields. Those colleagues all volunteer mainly because of the leader’s character. An exemplar enables ordinary people to perform in extraordinary ways.

Another method of fostering practical wisdom is to use a formal system of apprenticeship, which allows mentors to share experiences, contexts, and time. At Fast Retailing, for instance, Yanai serves as the mentor for 200 apprentices all over the world. He assigns them projects in three areas—product development, store operations, and administration (finance, human resources, IT, and legal)—and asks them to implement ideas that will change the status quo. Each project lasts about six months; apprentices work for 18 months on these jet-set projects, as employees call them, while maintaining their regular jobs. Yanai must personally evaluate the results of 600 change projects in a timely fashion, and in the process he helps create the next generation of wise leaders for the company.

TODAY’S KNOWLEDGE-CREATING company, we believe, must metamorphose into the wisdom-practicing company of tomorrow. That demands a new kind of leader—a CEO who is many things at the same time:

- a philosopher who grasps the essence of a problem and draws general conclusions from random observations;
- a master craftsman who understands the key issues of the moment and acts on them immediately;
- an idealist who will do what he or she believes is right and good for the company and society;
- a politician who can spur people to action;
- a novelist who uses metaphors, stories, and rhetoric;
- a teacher with good values and strong principles, from whom others want to learn.

That’s too idealistic or too much to expect, you may say. Perhaps. But companies have to create new futures in order to survive. Those futures can no longer be extensions of the past; they must be leaps of faith into tomorrow. CEOs cannot be content to analyze situations using empirical data and deductive reasoning; they must also make inductive jumps according to their ideals and dreams. If they aren’t idealistic, they simply can’t create new futures.

Being idealistic isn’t enough, though. Leaders must also be pragmatic—looking reality in the eye, grasping the essence of a situation, and envisioning how it relates to the larger context—if they are to judge what they must do right then and there to achieve the common good. CEOs have to become idealistic pragmatists, which is why they must turn the dual quest for knowledge and practical wisdom into a way of life.

For the record: Ikujiro Nonaka is on the board of directors of Mitsui & Co. and Seven & i Holdings, and was on the board of Eisai until 2009. He is also an adviser to Canon. Hirotaka Takeuchi is a personal adviser to Fast Retailing’s Tadashi Yanai.

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