

This Quarter

“Soft” leadership in business

The role of business in society is rightfully taking a prominent place on the agenda of today’s chief executives. Some feel confident speaking out on even the most controversial topics; as a group, however, CEOs can seem reluctant to engage in debates on social and political issues, let alone take a leadership position on them.

As this issue of *The McKinsey Quarterly* makes plain, it’s time for chief executives to lose their reticence and get on the front foot: they have much to add to the discussion, and it’s in the strategic interest of their companies, and of business and the global economy more generally, that they should. Social and political forces could alter an industry’s structure, damage or enhance a company’s reputation, and create market opportunities to address social needs and new consumer preferences. Moreover, chief executives are particularly well positioned to articulate and help resolve the complex trade-offs inherent in big social issues from climate change to health care to poverty. Business, particularly big business, has a vital role in resolving these immense challenges.

Speaking out on controversial issues, however, can make many CEOs uncomfortable. As my colleagues Sheila M. J. Bonini, Lenny T. Mendonca, and Jeremy M. Oppenheim point out in “When social issues become strategic,” chief executives are often ill at ease exercising what Harvard’s Joseph Nye has called “soft” forms of power. While Nye’s concepts are more often applied to the world of geopolitics, we believe that they can be extended usefully into the business arena, particularly in relation to sociopolitical issues. In contrast to the “hard” analytical skills and in-depth knowledge that most senior executives possess, these issues require statesmanship and diplomacy, the fostering of relationships with

stakeholders, and the nurturing of a company's reputation. Yes, there are risks to speaking out, but a failure to engage early in the debate and to frame the agenda often involves even bigger risks in the long term.

The concept of soft power is relevant to other articles in this issue as well. In "Competitive advantage from better interactions," Scott C. Beardsley, Bradford C. Johnson, and James M. Manyika describe the progression of work in developed economies toward ever-more complex and collaborative problem solving. Economists call these activities "tacit" interactions. Employees whose jobs primarily involve them—managing a supply chain, reviving a brand, negotiating a transaction—now make up anywhere from 25 to 50 percent of the workforce. Most of these employees respond poorly to traditional command-and-control forms of leadership, which Nye considers one use of hard power in business. They often become more motivated and effective through the promotion of shared values and non-hierarchical organizational structures and cultures.

Attracting others to shared objectives is the very essence of soft power. Yet this goal takes on further difficulty in a world of widely distributed knowledge and talent, since the "others" in question increasingly live and work across a diverse range of geographical and institutional settings. As John Seely Brown and John Hagel III explain in "Creation nets: Getting the most from open innovation," companies can adopt specific managerial approaches—many of them pioneered on the peripheries of commercial and scientific endeavor—not only to attract but also to engage diverse participants in the collaboration and interaction needed to bring innovations to market.

Soft power is difficult both to wield and to control. As Joseph Nye observed, legitimacy and credibility are essential. Only CEOs willing to engage in the debate on the big issues of the day can establish and cultivate these qualities.



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