

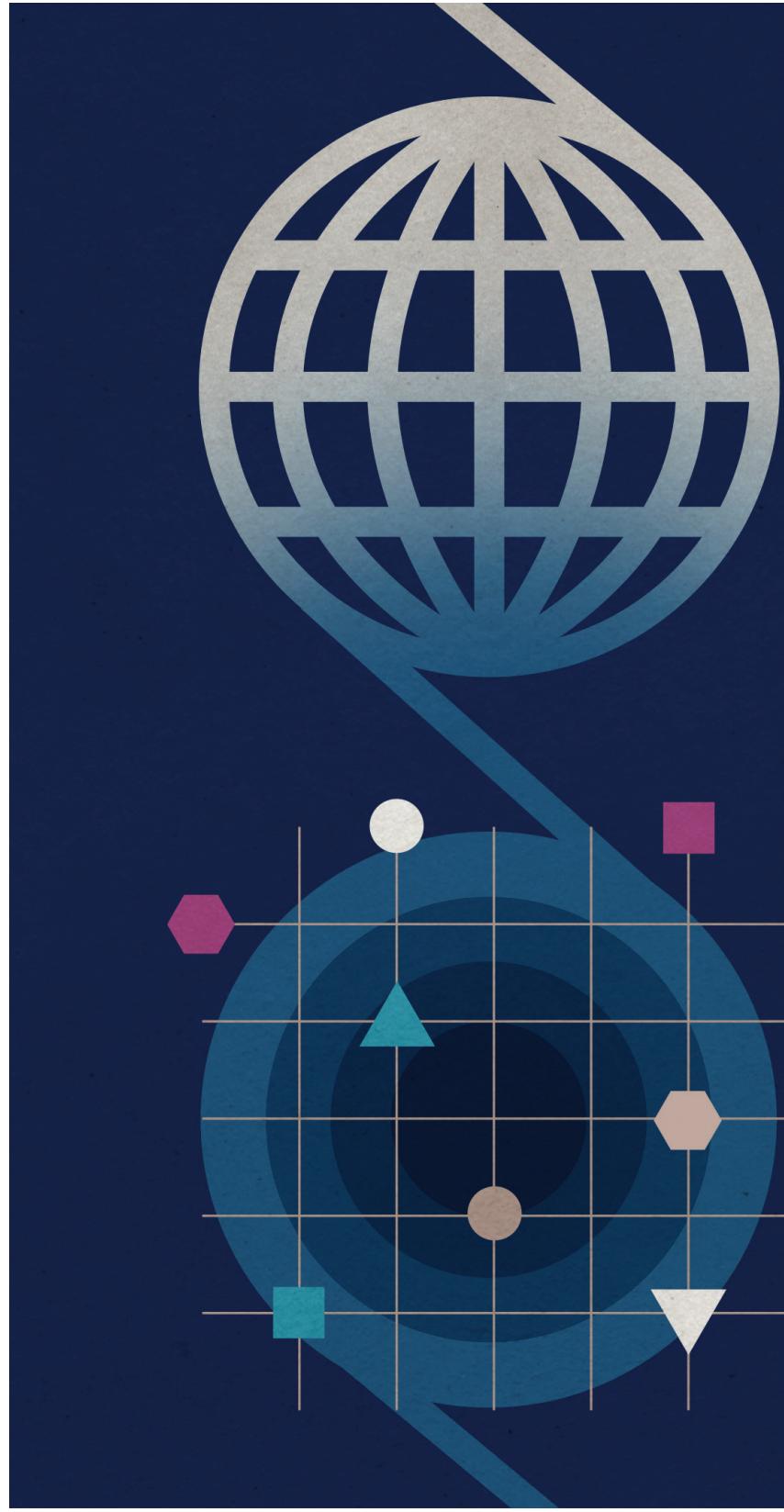
a year working at the U.S. Securities and Exchange Commission, which hired me in part because of these studies. The SEC believes that the size of investors' losses is often related to how long misconduct goes undetected, so it has a vested interest in spotting fraud as early as possible. To that end, the SEC hopes to become better at predicting where fraud might happen instead of waiting for it to be exposed. Some of this effort involves using financial modeling to identify firms whose financial reports bear similarities to prior cases of fraud. Adding leadership behavior or off-the-job red flags as another tool for prediction is a promising idea, but regulators are proceeding cautiously because of concerns about privacy and other ethical issues.

Meanwhile, the research continues. In 2021 two colleagues and I published a paper on the effects of incentives for corporate whistleblowers. We found that contrary to claims by critics, the bounties that some governments (including the United States) pay to whistleblowers *do* help uncover fraud, with no apparent rise in meritless claims. In another line of inquiry, I'm continuing to seek new ways to better distinguish materialistic CEOs from those who are frugal. It's worth asking, Should we consider the way a CEO's personal philanthropy offsets luxury purchases, and can that benevolent behavior act as a counter-weight to materialism?

As my work evolves, I hope to offer clearer answers to such questions. For now, let me state firmly that boards needn't reject CEO candidates simply because of a speeding ticket or an excessively valuable home. However, directors should view these as warning signs, especially if a legal infraction has happened recently or repeatedly. The data suggests that the risk is too great to ignore. ☺

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As the World Shifts, So Should Leaders

Research shows that different eras call for different approaches.



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MORE THAN 20 years ago my colleague Anthony Mayo and I launched the most ambitious research project I've ever undertaken. We started with a question: What are the defining characteristics of extraordinary business leaders? To answer it, we created a list of 1,000 outstanding 20th-century American business leaders and studied each in depth.

What we found surprised us: Great leaders were defined less by enduring traits and more by their ability to recognize and adapt to the opportunities created by a particular moment. They could sense the zeitgeist—the spirit, mood, ideas, and beliefs that define a period—and seize it.

Effective leadership, in other words, is largely context-specific: The same person who succeeds in one era might fail miserably in another. The zeitgeist, according to research we first published

in HBR in 2005, is shaped by six factors: global events, government intervention, labor relations, demographics, social mores, and the technology landscape. Individuals who can recognize shifts in those factors and exploit them have what we call “contextual intelligence.”

The most recent leadership transition at Apple illustrates how contextual intelligence matters. During the 2000s, Steve Jobs helped the company prosper by stringing together a series of breakthrough innovations, including the iPod and the iPhone. Since Jobs's untimely death, in 2011, Tim Cook has led Apple in an era of increased smartphone competition. Cook, an MBA who built his career managing Apple's supply chain, fits these times perfectly, emphasizing not new products but services that create a vibrant and profitable iOS ecosystem. Recognizing that product innovation was likely to be incremental,

Cook found a different vector for Apple's success. And in an age when employees expect their leaders to be more vocal on societal concerns, Cook has become a visible advocate for LGBTQ issues. He's not the same kind of leader as Jobs, but his contextual intelligence has helped him respond to the changing zeitgeist. And the results have been spectacular: On his watch, Apple's market capitalization has grown eightfold.

THE SIGNS OF A SHIFT

Why revisit this research now? Because as the Covid-19 pandemic becomes endemic and as the war in Ukraine reprises the Cold War, it's clear that we're experiencing a zeitgeist shift. Let's review the six factors I mentioned earlier:

Global events. Even before Russia invaded Ukraine, both Russia and China had signaled their waning tolerance for America's dominance of the world order. The war in Ukraine, however, has radically altered the geopolitical situation—with profound implications for business leaders. Many have had to decide whether to stop doing business in Russia—a choice that involves moral, economic, and political considerations that some CEOs feel ill-prepared to weigh. The combination of geopolitical strife and the pandemic has caused leaders to reevaluate their geographic footprints and supply chains. Many sense that the era of expansive globalization may be over, and they are exploring opportunities to localize their businesses to make them more resilient to international turmoil.

Government intervention. In the United States, a polarized electorate and



the resulting gridlock in Washington create uncertainty about how much legislation we can expect over the next decade. Yet consider the size of the government's fiscal and monetary response to the pandemic, and its efforts now to curb the sharp rise in inflation. Higher interest rates will reverse a long period of monetary easing, drive up the cost of capital, and have ripple effects throughout the economy. Proposals for tighter regulation of technology companies and new taxes on the ultrawealthy are also in the air. Those proposals may never be passed, but the support they've gotten from prominent politicians is a sign that we may well witness increased government intervention in the years ahead.

Labor. As we emerge from the pandemic, workers are rethinking their careers—and their relationship with work itself. During my 30-plus years teaching at Harvard Business School, I became accustomed to seeing high-potential MBA students shift their attention to the latest hot field—whatever promised the best opportunities and the most status. That meant Wall Street in one decade, consulting in the next, and then entrepreneurship and private equity. But today workers up and down the socioeconomic ladder are reexamining their commitment to employers and the fairness of the existing bargain between capital and labor. At Amazon this is illustrated by employees' first-ever vote to unionize. At other companies, employees are demanding autonomy and the right to live and work where they choose. More people are electing to work in the gig economy. At the same time, advances in artificial intelligence threaten to keep

eating up existing jobs. All those developments may require business leaders to reimagine the future of work.

Demographics. Around the world, fertility rates are falling. In the United States the working-age population is shrinking, and as the Boomers and Gen X combine to create a gigantic class of retirees, the workforce will soon be dominated by Millennials and Gen Z. These demographic changes present challenges and opportunities. Health care costs, correlated with age, may continue to rise, putting a strain on government and personal budgets and demanding innovative solutions to improve the quality of care and reduce costs. As the number of people drawing retirement benefits expands, we may see rising political tensions between generations. And digitally native Gen Zs may enthusiastically embrace the metaverse, while older people may seek more face-to-face connection. Thus, businesses may become more sharply segmented by age.

Social mores. It was once considered impolite to talk about politics with people at work or at the dinner table. How quaint. Generational shifts and social media have combined to create an era of uninhibited discussion about anything—and an expectation that leaders and employers will be ready to take stands on controversial matters. The speed at which diversity, equity, and inclusion have become a priority for companies illustrates this shift. Other social issues—especially economic, health, and educational inequality; climate change; and the stagnation of economic mobility—will also demand attention.

Technology. As social media sites such as Facebook and Twitter approach their 20th birthdays, their impact on society keeps growing. At the same time, newer shifts are happening in the technology arena. Fintech and crypto are creating alternatives to the traditional banking system. Web3 and the metaverse portend a new digital arena for work, commerce, and leisure. Yet many of the tech companies that went public in 2021 were trading this spring below their opening-day price. That could trigger a wave of consolidation in some sectors, similar to what we've seen throughout business history. For instance, just a century ago the automobile and breakfast cereal industries had hundreds of players; now we have the Big Three in each—General Motors, Ford, and Chrysler in autos, and Kellogg's, General Mills, and Post in cereal. History shows that navigating periods of consolidation requires different leadership qualities than navigating periods of creation does.

WHAT KIND OF LEADERS DO WE NEED NOW?

The new zeitgeist will require executives with the instincts to deal with shifting external forces, the ability to sense fresh economic opportunities, and the skills to lead and manage in a different age.

For entrepreneurs, the time is ripe to identify and develop innovations—not only in the technologies I've already highlighted but in others as well. For instance, we can expect the creation of new tools to support activities that blossomed during the pandemic, such as work from anywhere, entertainment streaming, and telehealth. For managers who excel at leveraging economies of scale and scope and consolidating industries with too many players, there may be opportunities in maturing fields such as cloud computing, software as a service, and cybersecurity. Finally, sectors that are showing signs



Avoiding land mines requires leaders to first broaden their thinking about what's relevant to their business.

of decline—including brick-and-mortar retailing, branch banking, manufacturing, and distribution—will require leaders who are adept at restructuring and reinvention.

This new era also calls for executives with a knack for perceiving how politics and public opinion play a role in decision-making, because the costs of miscalculations are rising. Consider the situation that Disney's CEO, Bob Chapek, faced this spring. Disney is a large employer in Florida, where legislators had proposed a controversial law restricting schools from discussing gender identity or sexual orientation issues with students. Disney employees and outsiders criticized the company for failing to oppose the bill publicly until after it had passed. Within weeks, employees led daily walkouts and some customers proposed a boycott. A *Wall Street Journal* article described the situation as “a dramatic example of the friction many companies have begun to see as workers exercise their power to influence corporate culture and decisions, and demand [that] their employers use their heft to publicly participate in politics.” Chapek apologized for not being a stronger ally in the fight for equal rights and said Disney would work to repeal the law. Then Florida legislators and the governor retaliated by revoking the company’s special tax status.

Avoiding land mines starts with anticipating how different stakeholders will react to events unfolding inside and outside the company. And *that* requires leaders to first broaden their thinking about what's relevant to their business. There was a time when a CEO could

say, “But what does this have to do with my company? Isn’t this matter in the personal or political sphere?” Such a perspective is unlikely to serve any executive well in the times ahead. Rather than resist, CEOs will have to embrace the broader responsibility into which they and their organizations will be drawn. They’ll need to empathize with people whose identities and interests may differ from their own. Gathering a wide range of views and listening carefully—even to thoughts and perspectives that may seem outlandish—will enable CEOs to be more in tune with those they lead.

Executives who operate this way are sometimes described as “diplomats” or “statespeople.” Leading as a statesperson implies not just reading the pulse of various constituencies but rallying them forward. Two good examples of this type of leader are Ken Chenault, the former CEO of American Express, and Ken Frazier, the executive chairman (and former CEO) of Merck. They are among the best-known Black executives in the United States, and when the Black Lives Matter movement erupted after the killing of George Floyd, they led America’s corporate response. Moving beyond declarations of support and solidarity that risked sounding hollow, Chenault and Frazier launched OneTen, a collaborative of major companies to train, hire, and promote one million Black Americans—particularly those without college degrees—in the span of 10 years. Another example is Larry Fink of BlackRock, who has mobilized investors and business leaders to focus on the long-term sustainability of enterprises and the planet.

The new zeitgeist will also require a greater emphasis on crisis management skills. Leaders can no longer assume that trouble may strike once every three or four years and be managed by outside crisis consultants. Instead, companies must prepare for a steady stream of upheavals—and hone their in-house skills for dealing with them. They can’t afford to merely react; they should anticipate, plan, and organize for potential challenges. For instance, the U.S. Supreme Court’s rulings on abortion rights will surely continue to ignite pitched political debates and put pressure on CEOs to take a stand. They should be ready.

A range of other talents will be necessary for business leaders. They include using social media adroitly, motivating employees who seek purpose and meaning from their companies, satisfying all stakeholders instead of just shareholders, and driving digital transformation. The importance of those skills has been gaining visibility for a decade; the new zeitgeist will bring them to the fore.

THE GOAL OF this article is to raise awareness of a historical fact: The business environment undergoes a major shift every decade or two. Each one creates new business opportunities and requires changes in leadership approaches. There are clear signs that we’re amidst such a shift right now. Smart leaders will consider the implications—and prepare for them. ☺

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