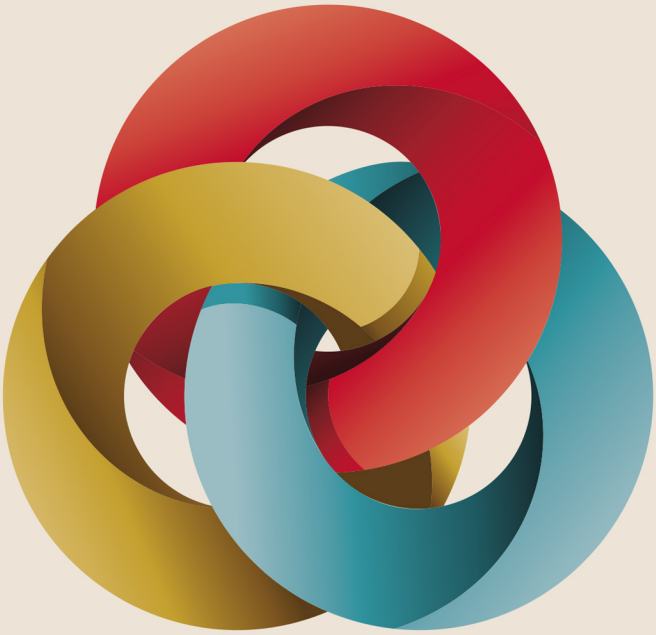
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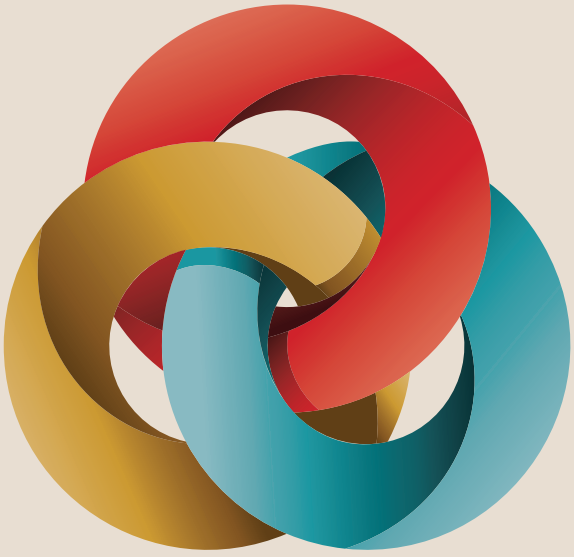


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Preface

THE REALITIES OF MANAGEMENT

We are deeply grateful for the feedback, encouragement, and support that we received on our first edition. When we set out to write a new management textbook, we sought to capture the realities of managing in an ever-changing and dynamic environment. The speed of change and the global interconnectedness of business necessitate that managers and their companies be flexible, quick, and nimble. Effective change and sustainable performance require that managers understand the impact of strategic choices, the optimal design of organizations, and the power of leadership. In our first edition of the textbook, we called these three core components (strategy, organizational design, and leadership) the pillars of management. These pillars stand together to form a solid foundation of support, yet they are not stationary or immobile. As the contextual environment changes so too must a firm's strategy. The adaptation of strategy often requires a reexamination and deployment of new organizational structures and leadership approaches.

Today's managers need to understand the subtleties of strategy and the nuances of organizational design to carve out a defensible and sustainable position in an increasingly competitive and volatile marketplace. And managers need to know the key leadership levers that enable them to build, inspire, and nurture high-performing teams to implement that strategy. To be effective and relevant for a long period of time, managers must understand the co-evolutionary nature of these three pillars—strategy, organizational design, and leadership. This understanding provides managers with a holistic view of the ways in which strategy informs organizational design, organizational design impacts external competitiveness and internal motivation, and leadership ultimately influences performance.

In this second edition, we have continued to explore how strategy influences organizational design, how leaders shape and defend strategic positions, how organizations impact performance and drive motivation, how leaders lead, and how global forces impact the competitive landscape. The second edition includes both core foundational components of strategic and organizational theory as well as contemporary research that are useful and relevant for aspiring and experienced managers. As with the first edition, we employ a performance edge—demonstrating the impact and result of decisions regarding strategic choices, organizational alignment, and individual leadership approaches. Our aim is to help students prepare for leadership roles by addressing the integrated facets of leading businesses in today's complex and ever-changing environment.

TEXT ORGANIZATION

Our management textbook is organized into four main parts including (1) setting the context for management; (2) the strategic perspective; (3) the organizational perspective; and (4) the individual perspective. The chapters in each of the sections have been expanded and updated to highlight new research and to showcase contemporary examples from the world of practice. Through this book, we have tried to bridge the divide between theory and practice by presenting examples that are relevant, illustrative, and compelling.

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The initial section of the book includes three chapters that are focused on the contextual landscape of business. We discuss the historical context of business and introduce the three pillars. This section also includes an overview of the internal and external components of the business environment with a specific focus on the global nature of business. This global focus is interwoven throughout the book including discussions on effective cross-cultural teams, market-entry strategies, global communication, and cross-boundary negotiations. In addition, this first section includes an in-depth discussion of ethics and corporate social responsibility. Similar to the focus on globalization, these themes are referenced throughout the textbook. In this second edition, we have provided a broader overview of the volatility in the business environment, including a discussion of the global financial crisis and its impact on companies, individuals, and countries. Alongside this discussion, we have included a deeper dive into the various stakeholders of a firm. The new edition also includes more examples of personal and corporate moral dilemmas and how individuals can successfully navigate them.

The second part of the textbook showcases the strategic perspective and includes three chapters—an introduction to strategy as well as overviews of business-level and corporate-level strategy. The second edition contains more global cases, a new section on the implementation of strategy, and a streamlined focus on related and unrelated diversification.

The third part of the textbook is focused on the organizational perspective of management and includes five chapters. In this section, we focus on the organization as an instrument for achieving strategic objectives, and we examine the way leaders make important decisions regarding organizational design, culture, human capital, and measurement. The second edition includes a broader discussion on different organizational forms, new content on delegation and empowerment, and a richer overview of the ways in which culture impacts organizational performance. The chapter on performance management has been extensively revised; it includes a new section on financial management, a streamlined overview of the balanced scorecard, and a review of new models of benchmarking. Finally, this section includes a deeper discussion on organizational change models and the role of innovation in shaping organizational and strategic evolution.

The final section of the textbook delves into the role of the individual. It includes a focus on how to manage oneself as well as how to manage others. This section includes nine chapters that provide a comprehensive overview of the important leadership levers that are needed to drive organizational performance, including the ability to motivate and inspire others, to effectively wield power and influence, to successfully navigate conflict, to reach win-win negotiations, and to communicate with passion and purpose. The second edition includes additional information about the effectiveness of different leadership styles, an integrated discussion on the use of power and how to channel personal power, and a broader overview of various cognitive biases that impact decision making. In addition, this section includes a new discussion on collective intelligence, extrinsic and intrinsic motivation, and network characteristics.

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connecting terms and concepts), *Perform* (real-world applications pertaining to concepts and theories), and *Lead* (higher level critical thinking and application that puts the student in the shoes of a manager). These assignment types are fully utilized in the MindTap/Aplia product, as described below.

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- *A Different View* showcases unique applications of chapter content including strategic corporate philanthropy (Chapter 3), culture in crisis (Chapter 8), servant leadership (Chapter 12), difficult conversations (Chapter 16), and crisis communication (Chapter 19).
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About the Authors

Ranjay Gulati



Ranjay Gulati is the Jaime and Josefina Chua Tiampo Professor of Business Administration and unit head of the Organizational Behavior Unit at the Harvard Business School. He is an expert on leadership, strategy, and organizational issues in firms. His recent work explores leadership and strategic challenges for building high-growth organizations in turbulent markets. Some of his prior work has focused on the enablers and implications of within-firm and inter-firm collaboration. He has looked at both when and how firms should leverage greater connectivity within and across their boundaries to enhance performance.

In his book, *Reorganize for Resilience: Putting Customers at the Center of Your Organization* (Harvard Business Press, 2009), he explores how "resilient" companies—those that prosper both in good times and bad—drive growth and increase profitability by immersing themselves in the lives of their customers. Based on more than a decade of research across a range of industries including manufacturing, retail, professional services, media, information technology, and healthcare, the book uncovers the path to resilience by showing companies how to break down internal barriers that impede action, build bridges across divisions, and create networks of collaborators. In another book, *Managing Network Resources: Alliances, Affiliations, and other Relational Assets* (Oxford University Press, 2007), he examines the implications of firms' growing portfolio of inter-firm connections. He demonstrates how firms are increasingly scaling back what they consider to be their core activities, and are at the same time expanding their array of offerings to customers by entering into a web of collaborations. He has also co-edited two books that focus on the dynamics of competition in emerging technology-intensive industries.

Professor Gulati is the past president of the Business Policy and Strategy Division at the Academy of Management and an elected fellow of the Strategic Management Society and the Academy of Management. He was ranked as one of the top 10 most cited scholars in Economics and Business over a decade by ISI-Incite. *The Economist*, *Financial Times*, and the *Economist Intelligence Unit* have listed him as among the top handful of business school scholars whose work is most relevant to management practice. He has been a Harvard MacArthur Fellow and a Sloan Foundation Fellow. His research has been published in leading journals such as *Administrative Science Quarterly, Harvard Business Review, American Journal of Sociology, Strategic Management Journal, Sloan Management Review, Academy of Management Journal*, and *Organization Science*. He has also written for the *Wall Street Journal*, *Forbes*, *strategy+business*, and the *Financial Times*. Professor Gulati sits on the editorial board of several leading journals. For the *Strategic Management Journal* he has been a co-editor of special issues including "Alliances and Strategic Networks" in 2000 and "Organizational Architecture" in 2011. He also co-edited a special issue of the *Academy of Management Journal* on "Multiplex Networks" that appeared in 2014.

Professor Gulati chairs the Harvard Business School's Advanced Management Program. He has directed several Executive Education programs on such topics as Building and Leading Customer Centric Organizations, Managing Customer Relationships, Managing Strategic Alliances, Mergers & Acquisitions, and Sustaining Competitive Advantage in Turbulent Markets. He is also active in custom executive education. He has received a number of awards for his teaching including the Best

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Professor Award for his teaching in the MBA and executive MBA programs at the Kellogg School, where he was on the faculty prior to coming to Harvard.

Professor Gulati advises and speaks to corporations large and small around the globe. Some of his representative speaking and consulting clients include: GE, SAP, Novartis, Bank of China, Sanofi Aventis, Caterpillar, Allergan, Metlife, Target, Hitachi, Novartis, Honda, Qualcomm, Aetna, Future Brands, Ford, Seyfarth Shaw, LaFarge, McGraw-Hill, Rockwell Collins, Merck, General Mills, Abbott Laboratories, Baxter, Credit Suisse, and Microsoft. He has served on the advisory boards of several startup companies and has appeared as an expert witness in business litigations.

He has been a frequent guest on CNBC as well as a panelist on several of their series on topics that include: the *Business of Innovation, Collaboration*, and *Leadership Vision*. Professor Gulati holds a Ph.D. from Harvard University, a Master's Degree in Management from M.I.T.'s Sloan School of Management, and two Bachelor's Degrees, in Computer Science and Economics, from Washington State University and St. Stephens College, New Delhi, respectively. He lives in Newton, Massachusetts.



Anthony J. Mayo

Tony Mayo is the Thomas S. Murphy Senior Lecturer of Business Administration in the Organizational Behavior Unit of Harvard Business School (HBS) and the director of the HBS Leadership Initiative. He currently is the course head for FIELD, Field Immersion Experiences for Leadership Development, a required experiential, field-based course in the first year of the MBA Program which covers leadership, globalization, and entrepreneurship. Previously, he co-created and taught the course, "Great Business Leaders: The Importance of Contextual Intelligence." In addition, Tony teaches extensively in leadership-based executive education programs. He is the co-author of *In Their Time: The Greatest Business Leaders of the 20th Century*, which has been translated into 6 languages. He is also the co-author of *Paths to Power: How Insiders and Outsiders Shaped American Business Leadership* and *Entrepreneurs, Managers and Leaders: What the Airline Industry Can Teach Us About Leadership*. These books have been derived from the development of the Great American Business Leaders database that Dean Nitin Nohria and Tony created (see http://www.hbs.edu/ leadership/database/index.html).

As director of the Leadership Initiative, Tony oversees several comprehensive research projects on emerging, global, and legacy leadership and manages a number of executive education programs on leadership development. He was a co-creator of the High Potentials Leadership Development, Leadership for Senior Executives, Leading with Impact, Maximizing Your Leadership Potential, and Leadership Best Practices programs and has been a principal contributor to a number of custom leadership development initiatives. He launched the executive coaching component for the Program for Leadership Development and currently provides strategic support for a variety of executive coaching programs.

Prior to his current role, Tony pursued a career in database marketing where he held senior general management positions at advertising agency Hill Holliday, database management firm Epsilon, and full-service direct marketing company DIMAC Marketing Corporation. Most recently, Tony served as the General Manager of Hill Holliday's Customer Relationship Management Practice.

At Epsilon, he served as acting co-chief executive officer where he had full responsibility for the delivery and management of strategic and database marketing services for Fortune 1000 companies and national not-for-profit organizations. He also held senior management positions in Epsilon's sales and account management departments. At DIMAC Marketing Corporation, Tony served as vice president of strategic development and acting chief financial officer. In this capacity, Tony led the development of an integrated strategic plan for DIMAC's disparate business units

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and coordinated the ultimate sale of the company. Prior to his work in the database marketing industry, Tony served as the Director of MBA Program Administration at Harvard Business School.

Tony completed his MBA from Harvard Business School and received his Bachelor's Degree, *summa cum laude*, from Boston College. He lives in Needham, MA.

Nitin Nohria



Nitin Nohria became the 10th dean of Harvard Business School on July 1, 2010. He previously served as co-chair of the Leadership Initiative, senior associate dean of Faculty Development, and Head of the Organizational Behavior unit.

Dean Nohria's intellectual interests center on human motivation, leadership, corporate transformation and accountability, and sustainable economic and human performance. He is coauthor or coeditor of 16 books. The most recent, *Handbook of Leadership Theory and Practice*, is a compendium dedicated to advancing research on leadership based on a colloquium he organized during HBS's centennial celebrations. Dean Nohria is also the author of over 50 journal articles, book chapters, cases, working papers, and notes. He sits on the board of directors of Tata Sons and is on the board of trustees of Massachusetts General Hospital. He has served as an advisor and consultant to several large and small companies in different parts of the world. He has been interviewed by ABC, CNN, and NPR, and cited in *Business Week, Economist, Financial Times, Fortune, New York Times,* and *The Wall Street Journal.*

Prior to joining the Harvard Business School faculty in July 1988, Dean Nohria received his Ph.D. in management from the Sloan School of Management, Massachusetts Institute of Technology, and a B.Tech. in Chemical Engineering from the Indian Institute of Technology, Bombay (which honored him as a distinguished alumnus in 2007). He was a visiting faculty member at the London Business School in 1996.

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PART 1

SETTING THE CONTEXT FOR MANAGEMENT

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CHAPTER

1

Introduction to Management

Chapter Outline

Introduction

Management and Leadership

Historical Perspectives on Business

Changing Perspectives on the Purpose of Business

Stakeholder Approach

- Stakeholder Mapping
- Stakeholder Management Processes
- Managing Uncertainty

Summary

Key Terms

Assignments

Endnotes

Learning Objectives

After reading this chapter, you should be able to:

LO1 Differentiate among the three pillars of managing organizations: strategic positioning, organizational design, and individual leadership.

LO2 Describe the complementary components of management and leadership and the relative importance of technical, interpersonal, and conceptual skills at various managerial levels in the organization.

LO3 Articulate how the practice of management has evolved.

LO4 Explain the changing perspectives on the purpose of business and how the relationship between the firm and its business environment has changed over time.

LO5 Describe the stakeholder theory of management and how various stakeholder relationships are managed to enhance overall firm performance.

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SELF-REFLECTION

What Are Your Managerial and Leadership Strengths?

Please respond True or False to the following statements to assess your leadership and managerial strengths.

1. I excel at planning projects.
2. When working with a group, I think strategically by creating a vision and setting goals to make that vision a reality.
3. I am skilled at budgeting and financial planning.
4. I encourage change by challenging the status quo.
5. I can organize people to get a job done by establishing structures and delegating tasks.
6. I understand how to motivate people.
7. I enjoy creating solutions for complex problems.
8. I have the ability to work with a diverse group of people to accomplish a goal.
9. I am a take-charge type of person who brings order to a variety of situations.
10. I influence people through passion and emotional connections.

If you answered True to the majority of the odd-numbered statements, you have a solid foundation of managerial strengths. If you answered True to the majority of the even-numbered statements, you have a solid foundation of leadership strengths. If both are true, you are adept at balancing the roles of managers and leaders.

INTRODUCTION

Now, more than ever, the world needs leaders who are versatile and flexible. The increasing pace of globalization, rapid deployment of technology, and constantly changing competitive landscape require leaders who can nimbly adapt themselves and their organizations to new realities. The one constant in business is that it is not constant. Change is a reality, and businesses that stand the test of time are led by individuals who not only embrace change, but proactively prepare their organizations for its impact. Sustaining relevance in a dynamic business environment requires leaders to confront difficult decisions on a daily basis. Do they expand product offerings to anticipate consumer demand? Or do they eliminate waste and focus the company's efforts on fewer products? Should they compete directly with rivals? Or do they invest money to innovate an entirely new product or service? How do they motivate their employees? How do they gain trust and commitment in the organization? Should they focus on learning and development or bottom-line results?

Leaders need to understand how to harness technological advancements, manage and lead a dispersed and diverse workforce, anticipate and react to constant

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competitive and geopolitical change and uncertainty, compete on a global scale, and operate in a socially responsible and accountable manner.[1] One increasingly popular acronym that captures the context in which today's organizations compete is **VUCA**, which stands for volatile, uncertain, complex, and ambiguous. A volatile situation is characterized by unpredictability and requires managers to be agile and flexible. An uncertain situation calls for managers to gather and decipher large amounts of information, some of which will be conflicting. This uncertainty is sometimes accompanied by complexity, a situation that is based on the interconnection of various business elements. Separating these interconnections and structuring individual responses to them helps managers cope with complexity. Finally, managers often face very ambiguous situations where the cause-and-effect relationships are not always clear. Experimentation helps managers to achieve a greater sense of clarity about ambiguous situations (see Table 1.1).[2] Success for organizations in this VUCA environment requires a strong knowledge of (1) strategic positioning, (2) organizational design, and (3) individual leadership (see Figure 1.1).

The interaction between the formulation of strategy, the design of the organization, and the leadership of the firm is not a functional or linear process; it is a dynamic and interactive one. Throughout this textbook on the principles, purpose, and perspectives of management, we demonstrate the mutual interdependence and interconnectivity between strategy, organizational design, and individual leadership action. The strategy of an organization depends on the nature and context of the competitive and environmental landscape as well as the skills and capabilities of the management team. The understanding of this contextual landscape is, in turn, dependent on the ability of the firm's management to recognize opportunities and threats as well as lead and organize the company's resources to effectively compete in the marketplace.

A firm needs to adapt and change its strategic choices and leadership approaches to retain its relevance. Strategy often dictates the organizational design and leadership required for success. The type of leaders and the organizational design of a business can also influence the strategic choices in which a business can credibly compete. In essence, strategy, organizational design, and leadership must work together in an integrative and dynamic fashion.

VUCA
An acronym for volatile, uncertain, complex, and ambiguous that captures the context in which today's organizations compete.

The chapters of this textbook are organized according to the three pillars of managing organizations—strategy, organization, and individual leadership. The strategic level or perspective will encompass an understanding of the environmental landscape in which businesses compete and the elements of strategy that help organizations align their resources for success in a changing context. Key questions that will be addressed in the strategic perspective include the following: How should a business compete? How does the competitive landscape shape the potential for its

		Situation Characterized by…	Response
V	**Volatility**	Unstable and unpredictable change	Be agile and flexible
U	**Uncertainty**	Lack of knowledge about significance of change	Seek knowledge and information
C	**Complexity**	Many interconnected parts	Adjust operations to match the environment
A	**Ambiguity**	Lack of knowledge about cause and effect	Experiment

Table 1.1 〉 Context in Which Businesses Operate: VUCA—Volatility, Uncertainty, Complexity, and Ambiguity

Source: Adapted from Nathan Bennett and G. James Lemoine, "What a Difference a Word Makes: Understanding Threats to Performance in a VUCA World," *Business Horizons*, Vol. 57, 2014, pp. 311–317.

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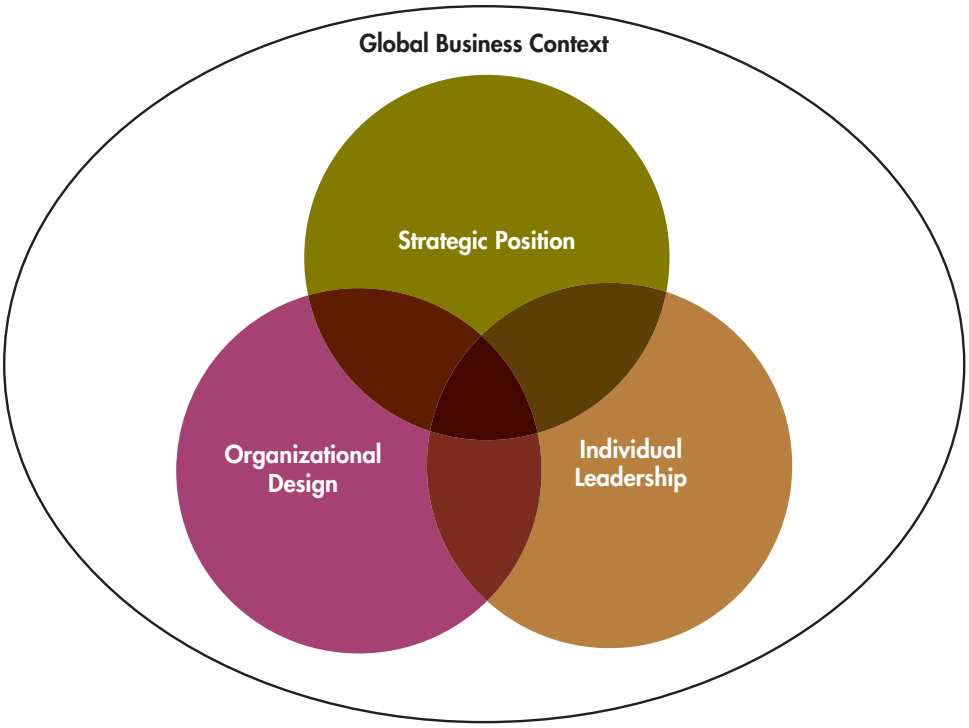


Figure 1.1 〉 The Pillars of Management

success or failure? What strategy will allow a firm to adapt as the context evolves? How has and will globalization impact the competitive positioning of a business?

Knowing what strategy to pursue is only the first part of the management puzzle. The next piece involves developing and aligning the organizational components (e.g., organizational design, culture, human resource practices, and performance management) to achieve these strategic objectives. Without this, no strategy will ever be properly implemented and all that thinking will come to nothing. To that end, the organizational perspective of the textbook will define the manner in which a business is structured to compete in its changing contextual landscape. Key questions include the following: What organizational structure will enable the firm to optimize its resources? How can the culture of the firm reinforce key values and lay the foundation for strong organizational performance? How will performance be measured? How does an organization remain relevant in a constantly changing competitive landscape?

Finally, an organization is nothing more than a collection of individuals who come together to achieve a common goal or objective. But how does one coordinate and motivate diverse individuals to work together? The answer is through effective leadership. The final section of the textbook addresses the key components and activities of leadership. This section is about you and how you can be a more effective leader in the global organizations of tomorrow. Leaders must first know who they are and what impels them to effectively motivate and influence others. Key questions addressed in the individual perspective section of the textbook include the following: How should managers wield power and influence? How do managers make critical decisions and navigate conflict? What motivates others, and how does one create and nurture effective teams? How do managers communicate with urgency and compassion?

The interplay of strategy, organizational design, and individual action operates within a broad contextual landscape. In fact, the context can directly impact the strategic opportunities open to a firm as well as the latitude of individual managerial action. That is why we have encircled the three perspectives of management

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in Figure 1.1 a contextual framing. While the context can shape the availability and viability of certain opportunities, managers can influence the context through a number of actions including their ability to commercialize technology, support or oppose government action, and capitalize on demographic movements.

In recent years, the growing importance of globalization and the expanding scope of corporate social responsibility have fundamentally impacted the business landscape. Chapters 2 and 3 of this opening section of the textbook will provide an overview of globalization and corporate responsibility, respectively, and how they have shaped the context for business.

In this first chapter, we will discuss how the perspective from which the firm is viewed has evolved over the years. As we'll see, the firm has shifted from owing a duty only to shareholders to owing a duty to various stakeholders. This view of a firm's purpose has changed as the complexity and turbulence in the marketplace have increased. We'll also discuss a firm's external and internal environments to demonstrate the various forces and stakeholders that a firm encounters in conducting its business. One thing that should become clear through the reading is that managing a firm's stakeholders and environments is a very difficult task, but doing so is critical to building a high-performing organization.[3] By responding to stakeholder concerns, the manager can drive the firm's performance and achieve a competitive advantage in the marketplace. Failing to understand the complexity of various stakeholders can have disastrous consequences, as evidenced by Walmart's attempt to enter the Inglewood, California, market.

Walmart's Business Environment

Walmart, the world's largest retailer, has followed a trajectory of growth and expansion since its inception in the 1960s. Started by the legendary Sam Walton, Walmart's historical strategy was to open stores in semirural markets to provide variety and competitive prices to customers who previously relied on a host of smaller stores for their shopping needs. Throughout the 1970s and 1980s, Walmart expanded aggressively across the United States, offering the lowest prices in many markets. As other retailing businesses such as K-Mart and Sears fell on hard times, Walmart continued to post ever-impressive results.[4]

In 2014, the company employed over 2.2 million people and earned net income of $16 billion on revenues of $476 billion.[5] Over the past two decades, Walmart has changed the mix of its retail stores, opening more Supercenters that offer groceries as well as traditional retail offerings (see Figure 1.2). Despite its growth, Walmart has struggled with expansion, especially in Vermont and California. Though rural Vermont would seem to be a natural fit for Walmart, the state has the fewest Walmarts per capita than any other state in the country. Several small Vermont communities have launched aggressive anti-Walmart campaigns in the state, concerned that the company's presence will erode the success of local retailers and irreparably damage the charm of the state's small towns.[6]



Andrew Nelles/Reuters

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Walmart faced similar resistance in California. Following its first successful opening of a Supercenter in La Quinta, Walmart looked next to a market closer to Los Angeles. However, as the company drafted plans to open a Supercenter in Inglewood, it began to encounter serious opposition from the members of the city council, who had attempted to pass legislation in 2002 to prevent stores of Walmart's size from building new units in their town. Walmart executives were confused about why a town would not want a new commercial enterprise that could generate new jobs (estimated at 1,200) and additional tax revenue for the city (estimated at $5 million annually).

The company also faced typical competitive pressures as it sought to enter this new market. Like many markets in the United States, the grocery business in California was very competitive, with low gross margins prevalent across the industry. The California market was dominated by established grocers such as Safeway, Albertson's, and Kroger. Just as the Inglewood proposal hit the headlines, many of Walmart's grocery competitors in California responded to the chain's potential entry with a series of competitive actions. In many markets, a Walmart entry into the grocery business had resulted in prices dropping 3%–5% for certain products. As a result, many of the biggest grocery chains in California attempted to lower employees' wages and healthcare coverage in an effort to remain cost competitive with Walmart.[7] As rival grocery workers suffered from wage cuts, the United Food and Commercial Workers (UFCW) union continued to put pressure on the Inglewood city council to block Walmart's Supercenter. Many argued that Walmart's arrival would continue to cause wage decreases across the city. This was a grim prospect for a city that already suffered high unemployment rates and lower income levels relative to those in other areas around Los Angeles.

As Walmart executives watched these events unfold, they debated what course of action to take. To many, it seemed pointless to take the proposal before a city council that had made its intentions clear. So the company moved forward with its efforts to put the proposal to a vote by citizen referendum. Critics responded that Walmart would hurt local citizens because its wage and healthcare programs kept employees below the poverty line. The city of Los Angeles commissioned a study showing that Walmart Supercenters destroyed jobs and forced competitors to pay lower wages.[8] In contrast, a report issued by the Los Angeles County Economic Development Corporation and funded by Walmart came to opposite conclusions, claiming that households shopping at Walmart saved on groceries, which allowed consumers to spend more on other items, in turn leading to job growth.[9] In the end, voters soundly rejected the initiative and Walmart was forced to abandon Inglewood.

Until recently, Walmart faced little if any opposition to new store openings. Today, it seems as though the company encounters resistance at every turn when opening new stores. If you were a manager at Walmart, how would you have dealt with the situation? What could they have done differently?



Figure 1.2 〉 Growth of Supercenters, 1994–2014

Source: Wal-Mart Stores, Inc. annual reports for 1999, 2004, 2010, and 2014.

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The Walmart case highlights the complexity of managing and leading in today's business environment. Effective management is responsible for more than generating a profit; management's job often requires the ability to understand the needs of a variety of key constituents including its employees and the broader community. In essence, success in the global business environment requires effective management and skillful leadership.

MANAGEMENT AND LEADERSHIP

The distinction between **management** and **leadership** is often very subtle. In fact, most people use the terms interchangeably when they refer to the operation of a business. In a seminal analysis on the difference between managers and leaders, John Kotter noted that leaders set a direction for a firm, align people to focus on the organization's vision, and motivate and inspire people (see Figure 1.3).[10] Conversely, he noted that managers generally focus their efforts on planning and budgeting, organizing and staffing resources, and controlling and problem solving.

Management
The act of working with and through a group of people to accomplish a desired goal or objective in an efficient and effective manner.

Leadership
The ability to drive change and innovation through inspiration and motivation.

Management has generally been defined as the act of working with and through a group of people to accomplish a desired goal or objective in an efficient and effective manner. Leadership has been defined as the ability to drive change and innovation through inspiration and motivation. The development and execution of strategy requires the skills and expertise of leaders and managers, and both are equally important to an organization's success. A vision or direction without a sound plan for execution is often merely a dream. The execution of a plan without a vision often lacks strategic or competitive advantage.

For instance, at Southwest Airlines, a vision was born when former chief executive officer (CEO) Herb Kelleher learned of a short-haul commuter airline in

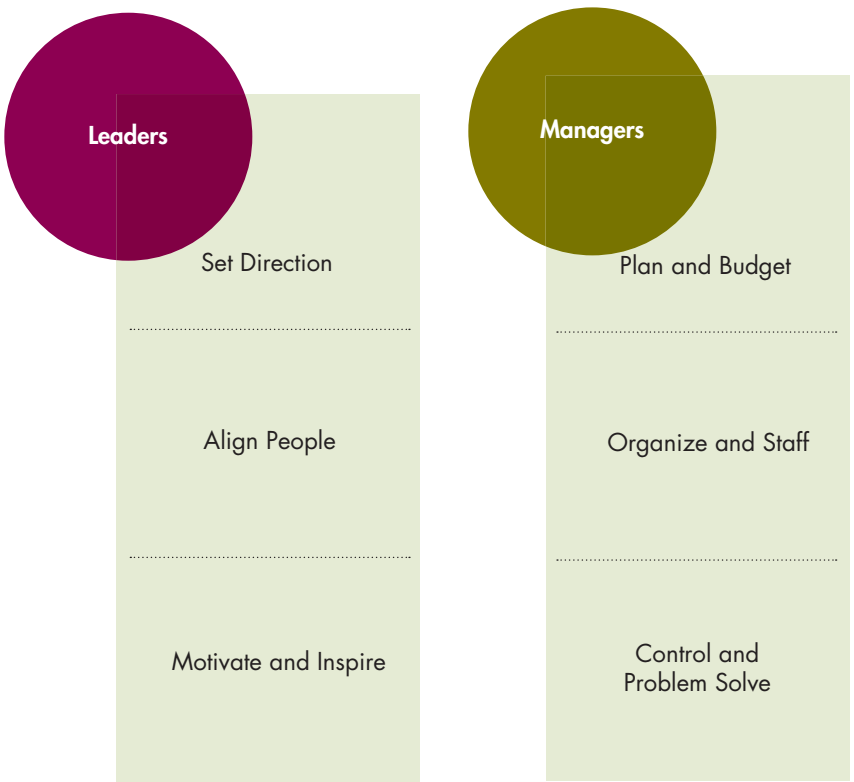


Figure 1.3 〉 The Roles of Leaders versus Managers

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