
MANAGEMENT

AN INTEGRATED APPROACH



SECOND EDITION

GULATI

MAYO

NOHRIA

MANAGEMENT

AN INTEGRATED APPROACH



SECOND EDITION

GULATI
Harvard Business School

MAYO
Harvard Business School

NOHRIA
Harvard Business School



Australia • Brazil • Mexico • Singapore • United Kingdom • United States

This is an electronic version of the print textbook. Due to electronic rights restrictions, some third party content may be suppressed. Editorial review has deemed that any suppressed content does not materially affect the overall learning experience. The publisher reserves the right to remove content from this title at any time if subsequent rights restrictions require it. For valuable information on pricing, previous editions, changes to current editions, and alternate formats, please visit www.cengage.com/highered to search by ISBN#, author, title, or keyword for materials in your areas of interest.

Important Notice: Media content referenced within the product description or the product text may not be available in the eBook version.

Management, Second Edition**Ranjay Gulati, Anthony J. Mayo,
Nitin Nohria**Vice President, General Manager, Social
Science & Qualitative Business: Erin Joyner

Product Director: Jason Fremder

Senior Product Manager: Person Scott

Content Developer: Tara Singer

Product Assistant: Brian Pierce

Marketing Director: Kristen Hurd

Marketing Manager: Emily Horowitz

Marketing Coordinator: Christopher Walz

Art and Cover Direction, Production
Management, and Composition:
Lumina Datamatics, Inc.

Intellectual Property Analyst: Diane Garrity

Project Manager: Sarah Shainwald

Manufacturing Planner: Ron Montgomery

Cover Image: ©Anita Ponne/Shutterstock

Internal Design Images: ©DeSerg/
Shutterstock, ©fonikum/iStockphoto.com,
Janos Levente/Shutterstock.com

© 2017, 2014 Cengage Learning

WCN: 02-200-203

ALL RIGHTS RESERVED. No part of this work covered by the copyright herein may be reproduced, transmitted, stored, or used in any form or by any means graphic, electronic, or mechanical, including but not limited to photocopying, recording, scanning, digitizing, taping, Web distribution, information networks, or information storage and retrieval systems, except as permitted under Section 107 or 108 of the 1976 United States Copyright Act, without the prior written permission of the publisher.

For product information and technology assistance, contact us at
Cengage Learning Customer & Sales Support, 1-800-354-9706

For permission to use material from this text or product,
submit all requests online at **www.cengage.com/permissions**

Further permissions questions can be emailed to
permissionrequest@cengage.com

Library of Congress Control Number: 2015949125

Student Edition:

ISBN: 978-1-305-50208-6

Loose-leaf Edition:

ISBN: 978-1-305-50210-9

Cengage Learning20 Channel Center Street
Boston, MA 02210
USA

Cengage Learning is a leading provider of customized learning solutions with employees residing in nearly 40 different countries and sales in more than 125 countries around the world. Find your local representative at **www.cengage.com**.

Cengage Learning products are represented in Canada by Nelson Education, Ltd.

To learn more about Cengage Learning Solutions, visit **www.cengage.com**

Purchase any of our products at your local college store or at our preferred online store **www.cengagebrain.com**

Unless otherwise noted, all items are © Cengage Learning

Brief Contents

PART 1	SETTING THE CONTEXT FOR MANAGEMENT	1
CHAPTER 1	Introduction to Management	2
CHAPTER 2	The Global Business Environment	26
CHAPTER 3	Ethics and Corporate Social Responsibility	60
PART 2	STRATEGIC PERSPECTIVE	87
CHAPTER 4	Introduction to Strategy	88
CHAPTER 5	Business-Level Strategy	116
CHAPTER 6	Corporate-Level Strategy	154
PART 3	ORGANIZATIONAL PERSPECTIVE	179
CHAPTER 7	Organizational Design	180
CHAPTER 8	Organizational Culture	206
CHAPTER 9	Managing Human Capital	226
CHAPTER 10	Performance Management	260
CHAPTER 11	Organizational Change	282
PART 4	INDIVIDUAL PERSPECTIVE	307
CHAPTER 12	Leadership in Organizations	308
CHAPTER 13	Becoming a Leader: Knowing Yourself	334
CHAPTER 14	Power and Influence	358
CHAPTER 15	Decision Making	380
CHAPTER 16	Conflict and Negotiation	404
CHAPTER 17	Leading Teams	430
CHAPTER 18	Motivation	454
CHAPTER 19	Communication	482
CHAPTER 20	Networking	510

Contents

Preface	xi	Confronting Moral Dilemmas	69
Acknowledgments	xv	<i>Fiduciary Responsibilities 70; Common Moral Dilemmas Faced by Organizations 70; The Role of the Individual in Confronting Moral Dilemmas 72</i>	
About the Authors	xvii		
PART 1 SETTING THE CONTEXT FOR MANAGEMENT	1	Corporate Social Responsibility	76
		<i>Economic, Legal, and Ethical Responsibilities 76; Corporate Social Responsiveness 78</i>	
1 Introduction to Management	2	Is Corporate Social Responsibility Good for Business?	78
Introduction	3	<i>CSR as a Competitive Advantage 79</i>	
Management and Leadership	8		
Historical Perspectives on Business	11		
Changing Perspectives on the Purpose of Business	13		
Stakeholder Approach	17		
<i>Stakeholder Mapping 17; Stakeholder Management Processes 18; Managing Uncertainty 20</i>			
2 The Global Business Environment	26	PART 2 STRATEGIC PERSPECTIVE	87
Introduction	27		
Globalization	34	4 Introduction to Strategy	88
<i>Global Trade Agreements 35; World Trade and Free-Trade Associations 35</i>		Introduction	89
External Environment	39	A Brief History of Strategy	93
<i>General Environment 40; Task Environment 50</i>		Strategy and the Organization: A Framework	95
Internal Environment	52	<i>The Purpose of Business 95; Analyzing the Internal and External Environments of a Firm 95; Vision, Mission, and Objectives 96; Strategy Formulation 98</i>	
<i>Owners 52; Board of Directors 53; Employees 54; Culture 54</i>		Defining Strategy	100
		<i>Choosing a Set of Activities 101; Making Trade-Offs 102; Creating Fit among Activities 102</i>	
3 Ethics and Corporate Social Responsibility	60	Business-Level versus Corporate-Level Strategy	103
Introduction	61	<i>Business-Level Strategy 104; Corporate-Level Strategy 104</i>	
Ethical Frameworks	64	Strategies for Going Global	105
<i>Utilitarianism 65; Kantianism 65; Virtues and Character 66; Justice 68</i>		<i>Multinational Strategy 106; Global Strategy 106; International Strategy 107; Transnational Strategy 107</i>	
		Market Entry Strategies	108
		<i>Exporting 108; Licensing and Franchising 108; Joint Ventures and Alliances 109; Wholly Owned Subsidiaries 111</i>	

5	Business-Level Strategy	116		
	Introduction	117		
	How the External Environment Impacts Industry Attractiveness	122		
	<i>Porter's 3-Forces Model 122; Threat of New Entrants 123; Bargaining Power of Suppliers 127; Threat of Substitutes 129; Bargaining Power of Customers 130; Rivalry among Existing Competitors 131; Limits of the 3-Forces Model 133</i>			
	How a Firm's Internal Environment Impacts Strategy	134		
	<i>Resource-Based View of the Firm 134; Company Resources 134</i>			
	The Firm as a Value Chain	136		
	<i>Primary and Support Activities 137; Value Systems 137</i>			
	SWOT Analysis	139		
	Competitive Advantage	140		
	<i>Cost Leadership 140; Differentiation 142; Focus 145; Stuck in the Middle 147; Employees in Generic Strategies 148</i>			
6	Corporate-Level Strategy	154		
	Introduction	155		
	Diversification Strategy	159		
	<i>History of Diversification 159; Why Firms Pursue Diversification Strategies 161</i>			
	Approaches to Diversification	162		
	<i>Related Diversification 163; Unrelated Diversification 166; The Diversification Test 167</i>			
	Results of Diversification	168		
	Vertical Integration	170		
	<i>Costs Associated with Vertical Integration 170; Alternatives to Vertical Integration 172</i>			
PART 3	ORGANIZATIONAL PERSPECTIVE	179		
7	Organizational Design	180		
	Introduction	181		
	From Strategy to Organizational Design	184		
	<i>Division of Labor 185; Coordinating Mechanisms 185</i>			
	Organizational Design: Formal and Informal Structures	187		
	<i>Functional Form 188; Divisional Form 189; Matrix Form 191; Network Form 192; Informal Structure 195</i>			
	Decision Rights	195		
	Organizational Design and the Life Cycle of a Firm	198		
	<i>Organizational Flexibility 199</i>			
	Recent Trends in Organizational Design	199		
8	Organizational Culture	206		
	Introduction	207		
	What Is Culture?	210		
	Impact of Culture on Performance	211		
	Levels of Organizational Culture	213		
	<i>Artifacts 214; Beliefs and Values 214; Assumptions 214</i>			
	How Does Culture Develop?	216		
	<i>Role of Founders 216; Role of Organizational Leaders 216; Role of Teams 217; Cultural Socialization 217</i>			
	Culture and Crucial Moments	220		
	<i>Evaluating Culture in Mergers and Acquisitions 221</i>			
9	Managing Human Capital	226		
	Introduction	227		
	Acquiring Human Capital	231		
	<i>Human Resource Planning 232; Recruiting Talent 233; Selecting Talent 235</i>			
	Managing Human Capital	236		
	<i>Training and Developing Employees 236; Feedback and Performance Reviews 239; Reward Systems 240; Managing a Multigenerational Workforce 243; Employee Separations 245</i>			
	Contextual Forces Impacting Human Capital	247		
	<i>The Legal Environment 247; Labor Relations 247; The Offshoring Trend 249</i>			
	Managing Yourself	251		

10 Performance Management	260	The Leader and the Followers	318
Introduction	261	<i>Transformational Leadership Theory</i> 318;	
Identifying Measures	264	<i>Transactional Leadership Theory</i> 319;	
<i>The Balanced Scorecard</i> 265;		<i>Leader–Member Exchange Theory</i> 321	
<i>Implementing the Balanced Scorecard</i> 267		The Leader, the Followers, and the Situation	323
Setting Performance Targets	269	<i>Fiedler’s Contingency Model</i> 323; <i>Hersey</i>	
<i>Benchmarking</i> 269; <i>Budgets</i> 269		<i>and Blanchard’s Situational Theory</i> 324;	
Monitoring and Measuring Performance	270	<i>House’s Path–Goal Theory</i> 325; <i>Leadership</i>	
<i>Financial Management</i> 270; <i>Total Quality</i>		<i>Substitutes and Neutralizers</i> 326	
<i>Management</i> 273; <i>Six Sigma</i> 274;		13 Becoming a Leader: Knowing Yourself	334
<i>ISO 8998</i> 274		Introduction	335
Taking Corrective Action	275	Forms of Intelligence	338
<i>Validating the Strategy</i> 276; <i>Aligning People</i> 276		<i>Multiple Intelligences</i> 339; <i>Triarchic</i>	
11 Organizational Change	282	<i>Theory of Intelligence</i> 342; <i>Emotional</i>	
Introduction	283	<i>Intelligence</i> 343	
The Case for Change	287	Understanding Your Personality	345
<i>The Role of the External Environment in</i>		<i>Personality Assessment</i> 346; <i>Locus of</i>	
<i>Driving Change</i> 287; <i>The Role of the</i>		<i>Control</i> 348; <i>Managing Adversity</i> 349	
<i>Internal Environment in Navigating</i>		Self-Monitoring	351
<i>Change</i> 290		<i>Managing Oneself</i> 352	
Key Aspects of Organizational Change	291	14 Power and Influence	358
<i>Triggers of Change: Reactive versus Proactive</i> 291;		Introduction	359
<i>Origination of Change: Planned versus Organic</i>		Interpersonal Power	361
292; <i>Magnitude of Change: Incremental versus</i>		<i>Forms of Interpersonal Power</i> 361; <i>Positional</i>	
<i>Transformative</i> 293		<i>and Personal Power</i> 362; <i>Relational Power</i> 365;	
The Change Process	294	<i>Challenges of Interpersonal Power</i> 366	
<i>Creating Dissatisfaction</i> 295; <i>Developing a</i>		Reactions to Power	368
<i>New Model for the Future</i> 295; <i>The</i>		Power and Conflict	370
<i>Implementation Process</i> 296; <i>Costs of</i>		<i>Interdependence</i> 370; <i>Resource Scarcity</i> 372;	
<i>and Resistance to Change</i> 298		<i>Disagreement about Priorities</i> 372	
Combating Resistance to Change	299	Using Influence	372
<i>Engaging Hearts and Minds</i> 300;		<i>Conducting an Organizational Power Audit</i> 375	
<i>Characteristics of Change Leaders</i> 301		15 Decision Making	380
PART 4 INDIVIDUAL PERSPECTIVE	307	Introduction	381
12 Leadership in Organizations	308	Rational Decision Making	384
Introduction	309	How Managers Make Decisions	385
The Leader	312	How Biases Impact Decision Making	389
<i>Who Is a Leader? Traits and Skills</i> 312;		<i>Heuristics</i> 389; <i>Confirmation Bias</i> 392;	
<i>What Does a Leader Do? Behaviors</i> 314;		<i>Escalation of Commitment</i> 392;	
<i>The Charismatic Leader</i> 316		<i>Status Quo Bias</i> 392; <i>Framing</i> 393	

The Impact of Emotions and Social Situations on Decision Making	394	Team Development	439
<i>Emotions 394; Social Situations 395</i>		<i>Stages of Development 439;</i>	
		<i>Team Norms 441</i>	
Decision Making in Organizations	396	Team Process	441
<i>Programmed versus Nonprogrammed Decisions 396; Models of Organizational Decision Making 397</i>		<i>Purposeful and Rigorous Decision Making 442; Effective Participation and Meaningful Influence 443; Constructive Conflict 444; Promoting Team Learning 445</i>	
Improving Decision-Making Skills	398	Team Effectiveness	446
<i>Managing Your Biases 399;</i>		<i>Role of a Team Leader 447; Managing Boundaries 448; Leading Geographically Distributed or Virtual Teams 448</i>	
<i>Preparing for Tough Calls 399</i>			
16 Conflict and Negotiation	404	18 Motivation	454
Introduction	405	Introduction	455
Levels of Conflict	406	Content Theories of Motivation	458
<i>Interpersonal Conflict 409;</i>		<i>Hierarchy of Needs Theory 459;</i>	
<i>Intergroup Conflict 409</i>		<i>ERG Theory 460; Two-Factor Theory 461;</i>	
Sources of Conflict	411	<i>Acquired Needs Theory 462;</i>	
<i>Affective Conflict 411; Cognitive Conflict 412</i>		<i>Four-Drive Theory 465</i>	
Managing Conflict	413	Process Theories of Motivation	466
<i>Diagnosing the Disagreement 414;</i>		<i>Goal-Setting Theory 466; Expectancy Theory 468; Equity Theory 470</i>	
<i>Resolving the Disagreement 415</i>		Reinforcing Motivation	471
Types of Negotiations	415	<i>Work Design 473; Prosocial Motivation 476; Reinforcing Strengths 476</i>	
<i>Distributive Negotiations 416; Integrative Negotiations 417</i>		19 Communication	482
Negotiating Effectively	419	Introduction	483
<i>Preparing to Negotiate 419; Reaching an Agreement 421; Avoiding Common Mistakes 423; Knowing When to Exercise Your BATNA 424; Mediation and Arbitration 424</i>		Interpersonal Communication	486
Negotiating across Cultures	424	<i>Verbal and Nonverbal Communication 487;</i>	
<i>Egalitarianism versus Hierarchy 425;</i>		<i>Communication Styles 489; Gender Differences in Communication 491;</i>	
<i>Low- versus High-Context Norms for Communication 425</i>		<i>Improving Interpersonal Communication 492</i>	
17 Leading Teams	430	Using Communication to Persuade	494
Introduction	431	<i>Storytelling 495</i>	
When Are Teams Appropriate?	433	Organizational Communication	496
Team Characteristics	434	<i>Communication Media 498;</i>	
<i>Team Composition and Size 435; Manager-Led versus Self-Directed Teams 436; Collocated and Geographically Distributed Teams 437;</i>		<i>Communication Channels 500;</i>	
<i>Leveraging Diversity 438</i>		<i>Communication Networks 502;</i>	
		<i>Communication Breakdowns 503</i>	
		Cross-Cultural Communication	504

20 Networking	510		
Introduction	511	Building Useful Networks	524
Interpersonal Networks	514	<i>Building Internal Networks 525;</i>	
<i>Advice Networks 515; Communication</i>		<i>Building External Networks 527</i>	
<i>Networks 515; Trust Networks 516</i>		Glossary	535
Network Characteristics	518	Name Index	545
<i>Centrality 518; Brokerage 520;</i>		Organization Index	553
<i>Types of Contacts 521</i>		Subject Index	557
Strength of Relationships	522		
<i>Strong Ties 523; Weak Ties 523</i>			

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.

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.

“ENGAGE. CONNECT. PERFORM. LEAD.” ADDRESSING MAJOR COURSE NEEDS THROUGH INTERACTIVE LEARNING

Management, 2e seeks to effectively engage the student to think and act like a manager. *Management, 2e* follows a path to obtain these results and other key course goals through various learning activities: *Engage* (pulling the student into the content and establishing relevance), *Connect* (mastering a body of knowledge,

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.

TEXT FEATURES

The focus on relevance and performance will be demonstrated in the text through the use of timely and relevant case examples, reflective exercises showcasing the diverse business landscape, and personal assessments to help students discover the key factors that drive organizational and individual results. Specifically:

- A *Self-Reflection* starts each chapter, giving students a quick way to assess their sense of the content of the chapter.
- *The Leadership Development Journey* is a comprehensive skills-based activity that allows students to develop who they are, or will be, as managers. From chapter to chapter, this activity translates theory into action—the “what” into “how.”
- 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).
- *Case in Point* activities ask students to further explore case examples and provide research opportunities based on text content.

INSTRUCTOR SUPPORT

- **Instructor’s Resource CD**

Discover all of the key instructor resources at your fingertips with this all-in-one resource. The Instructor’s Resource CD (IRCD) offers chapter-by-chapter tools for instructors who are new to the course as well as innovative materials ideal for experienced professors who are developing strong managers. The Instructor’s Resource contains the Instructor’s Manual, Test Bank, Examview Testing Software, and PowerPoint Presentation Slides for both the instructor and student. The Instructor’s Manual consists of lecture outlines, answers to pedagogical features, sample syllabi, and recommended teaching notes and additional case studies.

- **MindTap**

MindTap for Management is a personalized, fully online, digital learning platform. It is composed of authoritative Cengage Learning content, assignments, and services that engage your students with interactivity. The platform allows you to choose the configuration of coursework and to enhance the curriculum via complimentary web-apps known as MindApps. MindApps range from ReadSpeaker (which reads the text aloud to students) to Kaltura (allowing you to insert inline video and audio into your curriculum) to ConnectYard (allowing you to create digital “yards” through social media—all without “friending” your students). The Gulati interactive ebook is a media rich reader complete with figure animations, multiple choice concept

MindTap®

checks, and drag and drop figures—all aimed at raising student comprehension. *Management, 2e* is well beyond an eBook, a homework solution or digital supplement, a resource center website, a course delivery platform or a Learning Management System. It is the first in a new category—the Personal Learning Experience.



- **Aplia**

Have your students “think like managers” with Aplia’s premium student engagement tool for management. This tool allows you to easily manage the subtle dynamics of teaching Principles of Management, with problem sets that engage students, help them connect class concepts to the real world, facilitate their skill performance, and show them how to lead others. Assignable exercises are designed to get students to Engage, Connect, Perform, and Lead with the content. Engage exercises show students how management is relevant to their lives; Connect takes management theories and applies them to real-world applications; Perform scenarios provide students an opportunity to apply management concepts; and Lead illustrates higher-level problem types, such as video cases, giving students a chance to practice and improve leadership decisions. Engaging media is seamlessly integrated throughout including video cases, interactive diagrams, self-assessments, and vivid examples. Holding students accountable for their own engagement becomes easy with Aplia’s dynamic and flexible grading system, including grade analytics and easy grade book export tools that allow Aplia to work with any learning management system. Aplia™ assignments match the language, style, and structure of *Management, 2e* allowing your students to apply what they learn directly to their work outside the classroom.



- **Write Experience**

Cengage Learning’s Write Experience helps students write effectively without adding to your workload! Write Experience utilizes artificial intelligence to score student writing instantly and accurately. It also provides students with detailed revision goals and feedback on their writing to help them improve written communication and critical thinking skills. Write Experience is the first product designed and created specifically for the higher education market through an exclusive agreement with McCann Associates, a Vantage Learning Affiliated operating company, and powered by e-Write IntelliMetric Within™.

Acknowledgments

First and foremost, we would like to thank the faculty who adopted the preliminary and first editions of our textbook. Adopting a new textbook is not an easy decision, and we greatly appreciate the trust and belief that was placed in us. We are also grateful for the feedback that we have received on the initial edition, and we have made a concerted effort to incorporate these invaluable suggestions. We would also like to acknowledge our partners at Cengage who have demonstrated a deep commitment and passion for this new approach to teaching the principles of management. In particular, we would like to thank Scott Person who has been a source of encouragement and support from the very beginning of this journey. In addition, we are indebted to the work of our colleagues at Cengage including Sara Ginn and Tara Singer for developmental editing support; Carol Moore, for her work on the digital side; and Joseph Malcolm for production support and oversight.

Over the last few years, we were fortunate to work with a team of dedicated individuals who provided thoughtful insights and relevant research support for various chapters including Sara Christopher, Stephanie Creary, Johnathan Cromwell, Alyssa Levy, Todd Maher, Lisa Riva, David Romney, William Russell, Franz Wohlgezogen, and Lara Zimmerman. We want to specifically acknowledge Samantha Cappelletti, Caroline de Lacvievier, Seah Lee, and Devlin McConnell who provided invaluable support for the second edition.

In launching this textbook on the principles of management, we sought the advice and counsel of several colleagues who provided thoughtful recommendations and input. In particular, we are extremely grateful for the thoughtful feedback and compelling insights of Bonita Austin (University of Utah), Francesca Gino (Harvard Business School), Geoffrey Love (University of Illinois), Svjetlana Madzar (University of Minnesota), and Lamar Pierce (Washington University, St. Louis). In addition, we are deeply indebted to Lynn Wooten (University of Michigan), who not only provided feedback on several chapters but also contributed key pedagogical elements to enhance the text.

We would like to thank our colleagues and the Division of Research at Harvard Business School for their support as well as our families who have provided unwavering encouragement.

Finally, we would like to thank the following individuals for their invaluable feedback and insights throughout the many stages of manuscript reviewing:

Darlene Andert, *Florida Gulf Coast University*
Corinne Asher, *Henry Ford Community College*
Karen Barr, *Pennsylvania State University – Beaver*
Richard Bartlett, *Columbus State Community College Delaware Campus*
Rebecca Bennett, *Louisiana Tech University*
Ellen Benowitz, *Mercer County Community College*
David Biemer, *Texas State University – San Marcos*
Charles Blalack, *Kilgore College*
Jeff W. Bruns, *Bacone College*
Deborah Butler, *Georgia State University*
Ken Butterfield, *Washington State University*
James Cashman, *The University of Alabama*
Wendy Casper, *University of Texas at Arlington*
Jim Cater, *Nicholls State University*
Joseph Chavez, *Nova Southeastern University*

John Cichy, *Davenport University*
Paul Coakley, *The Community College of Baltimore County*
Brad Cox, *Midlands Technical College*
Suzanne Crampton, *Grand Valley State University*
Aleta Crawford, *The University of Mississippi – Tupelo Campus*
Dan Creed, *Normandale Community College*
Margaret E. Deck, *Virginia Polytechnic Institute and State University*
Vinit Desai, *University of Colorado – Denver*
Joe Dipoli, *Bunkerhill Community College*
Robert Eliason, *James Madison University*
Ronald Emeigh, *Henry Ford Community College*
Bruce D. Fischer, *Elmhurst College*
Mary Ann Gaal, *Franklin Pierce University*
Patrick Geer, *Hawkeye Community College*
Tamara Giluk, *Xavier University*
David Glew, *University of North Carolina – Wilmington*
Mary E. Gorman, *University of Cincinnati*
George Griffin, *Spring Arbor University*
Carol Harvey, *Assumption College*
Ahmad Hassan, *Morehead State University*
Nathan Himelstein, *Essex County College*
Richard S. Hyland, *Westchester Community College*
Jonatan Jelen, *City College of New York*
Kathleen Jones, *University of North Dakota*
Rusty Juban, *Southeastern Louisiana University*
Jason Kanov, *Western Washington University*
Marv Karlin, *University of South Florida*
Rob Konopaske, *Texas State University*
Lee Lee, *Central Connecticut State University*
Jeffrey Lenn, *George Washington University*
Kristie Loescher, *University of Texas*
Jennifer Malfitano, *Delaware County Community College*
Doug McCabe, *Georgetown University*
Jeanne McNett, *Assumption College*
Lorianne Mitchell, *East Tennessee State University*
John Myers, *Jefferson College*
Daniel Nehring, *Morehead State University*
David Nemi, *Niagara County Community College*
John Nirenberg, *Walden University*
Rhonda S. Palladi, *Georgia State University*
Deana Ray, *Forsyth Technical Community College*
Sandra Robertson, *Thomas Nelson Community College*
Kim Rocha, *Barton College*
Stanley Ross, *Bridgewater State University*
Paul Sears, *The University of Findlay*
Amit Shah, *Frostburg State University*
Mansour Sharifzadeh, *California State Polytechnic University – Pomona*
Herbert Sherman, *Long Island University – Brooklyn*
Shane Spiller, *Western Kentucky University*
Gregory K. Stephens, *Texas Christian University*
John Striebich, *Monroe County Community College*
Charlotte D. Sutton, *Auburn University*
Kenneth R. Thompson, *DePaul University*
Mary Jean Thornton, *Capital Community College*
Mary Tucker, *Ohio University*
Valerie Ann Wallingford, *Bemidji State University*
Wendy Wysocki, *Monroe County Community College*

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



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

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.





P A R T **1**

**SETTING THE
CONTEXT FOR
MANAGEMENT**



CHAPTER

1

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

Introduction to Management

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.



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

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.

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

VUCA

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

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.

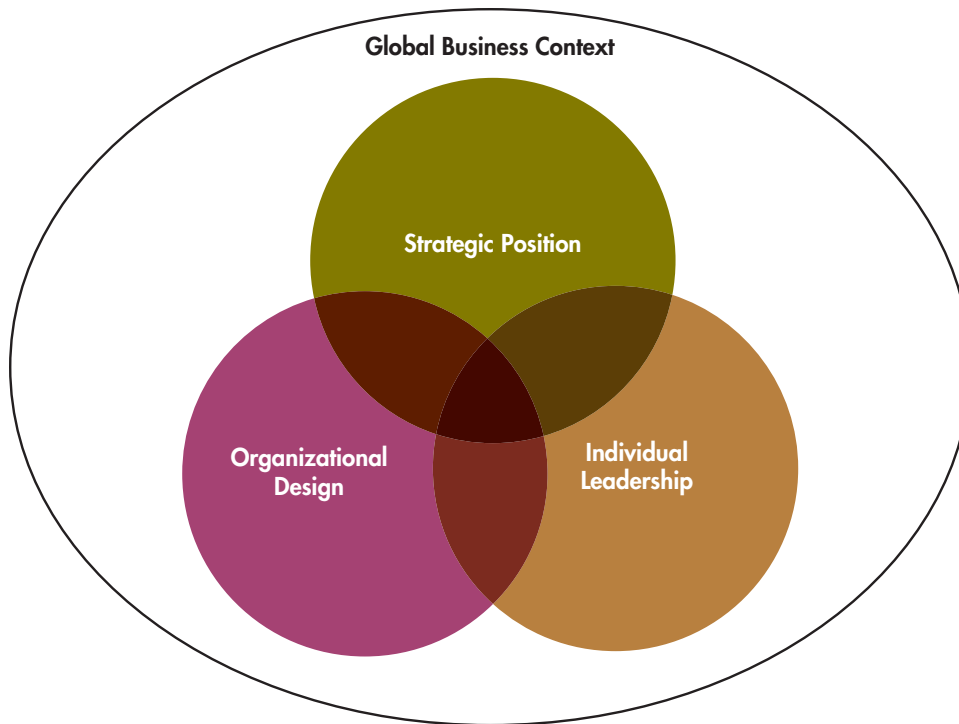


Figure 1.1 › The Pillars of Management

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

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

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.

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 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

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.

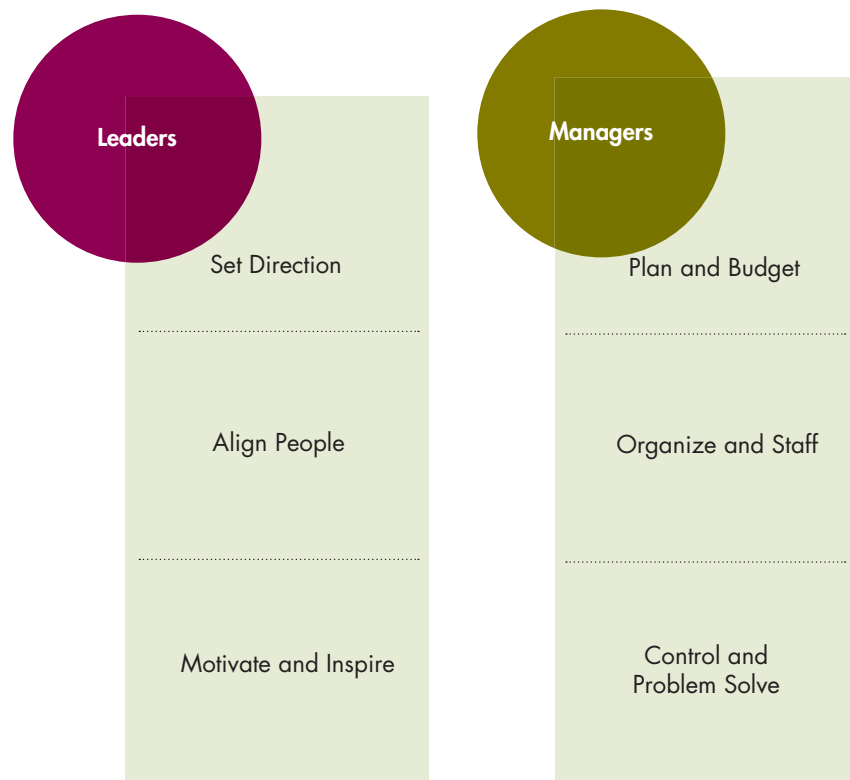


Figure 1.3 › The Roles of Leaders versus Managers

California that flew passengers over shorter distances than did major airlines. Kelleher surmised that many travelers were tired of driving long distances (between 500 and 1,000 miles) because the available flights were too expensive or not frequent enough. Kelleher's vision was to get passengers to trade their car trips for short flights. This vision of air travel competing with car travel differed greatly from the vision promoted by the major airlines that were more focused on long-distance flights. While Kelleher set forth the vision of the firm, his management team was able to execute it with precision and accuracy. They did so by organizing the resources of the company to focus on efficiency, consistency, speed, and cost-effectiveness.¹¹

To be successful, organizations need to develop and nurture managers and leaders at all levels, not just at the top. In fact, organizations often evolve and innovate based on the suggestions and input of individuals who are several levels below the CEO.¹² The skills required for success in business are often different depending on a person's level and responsibilities in the organization.¹³ While technical skills are very important early on, they tend to take a back seat to more strategic abilities as an individual advances in an organization. For instance, frontline supervisors must often focus on technical or process issues to ensure that operations are running smoothly, and new entry-level employees are often tasked with specific operational roles that require a certain level of proficiency and skills. While it is true that leadership skills become more critical as you move up in an organization, it is important to note that leadership is not just the monopoly of top management, and most organizations today expect even their lower-level managers to operate and think like leaders.

As individuals move up in an organization, they have to focus on managerial tasks such as financial reporting, planning, recruiting talent, and resource allocation. While technical skills are still important, middle-level managers sometimes have to spend more time applying their leadership skills such as motivating and developing teams while at the same time using managerial skills such as working with senior executives to provide analysis for the development or refinement of the organization's strategy.

And still higher up, senior executives are expected to set the vision and agenda for the organization as well as oversee strategic execution. They must balance short and long-term expectations while planning for certain expected and unexpected contingencies. To do so, they must leverage both leadership and management skills. If they lack one or the other they must ensure that someone with complementary skills is there to support them. To secure buy-in and support in the organization, senior leaders need to rely on strong communication and interpersonal skills.¹⁴ The ability to think conceptually is vitally important at this level (see Figure 1.4).¹⁵

While an individual's abilities must transform as they go higher in an organization, it is important to note that each person can have a very unique style and still be successful. Some leaders are extroverted, while others make decisions by listening to their inner voice. Some are quick and impulsive, while others are cautious and take longer to make a decision. Some leaders are vain, some are humble. According to Peter Drucker, an effective leader is not someone who uses a specific leadership style; he or she is someone whose style enables him or her to obtain results.¹⁶

Technical, interpersonal, and conceptual skills are important and relevant for all individuals regardless of their place in the organization. The key difference is the level of intensity of each skill.¹⁷ Conceptual skills consume more of a top executive's time, while technical skills are more important for new employees and frontline supervisors. This breakdown of skills is applicable to business and nonbusiness settings. Think about a soccer team. The players are focused on exercising their technical skills to the best of their abilities. They need to work as members of a team, and they need to know the team's plays (or strategies) but the players' primary concern is their own skills. The coaches are also focused on skills by providing instruction and training, but they must ensure that individual players work as a team. Coaches set strategy and create plays