

MANAGEMENT



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M A N A G E M E N T

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Preface

THE CHANGING PARADIGM OF MANAGEMENT

Leaders have always faced the challenge of inspiring others while making important strategic decisions for their organizations based on ambiguous and conflicting information. A leader's success or failure is often dependent on his or her ability to accurately interpret and process this information. Today's leaders are confronted with challenges and opportunities that are more dynamic and complex than ever before. Leaders need to understand how to harness technological advances, 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. In writing a new textbook on the principles, purpose, and perspective of management, we sought to demonstrate the mutual interconnectivity between three key facets—(1) strategic positioning, (2) organizational design, and (3) individual leadership—which cannot and should not act independently.

The strategy of an organization depends on the nature of the competitive and environmental landscape and the capabilities of the management team to lead within this context. Thus, there is strong interaction between the formulation of strategy, the design of the organization, and the leadership of the firm. Success in this evolving business environment requires a clear understanding that management interactions are not part of a linear process but a dynamic and interactive one.

In this text, we seek to showcase the co-evolutionary nature of strategy and organizational behavior. While these domains are often treated independently in many management textbooks, we take a more holistic and integrated approach by highlighting the manner in which strategy informs leadership and how leaders influence strategic positioning and ultimately performance. Throughout the text, 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 many integrated facets involved in answering one key question: how are leaders successfully managing competitive companies in the 21st century?

TEXT ORGANIZATION

Our management textbook takes a three-pillar approach by presenting the interconnectivity between strategic positioning, organizational design, and individual leadership perspectives. As in real life, a firm's strategic choices and leadership approaches need to adapt and change to retain their relevance.

The strategic perspective provides an understanding of the environmental landscape in which businesses compete.

The organizational perspective defines the manner in which a business is aligned and structured to compete in the changing contextual landscape.

The individual perspective focuses on the role of the leader in building effective teams and processes.

Through this holistic approach students will understand how a firm's strategy influences the type of leadership required for success and how a firm's leadership and resources influence the potential strategic choices at hand.

"ENGAGE. CONNECT. PERFORM. LEAD."

ADDRESSING MAJOR COURSE NEEDS THROUGH INTERACTIVE LEARNING

Management, 1e seeks to effectively engage the student to think like a manager as well as applying concepts to the real world. *Management, 1e* 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 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 "reality check" that helps situate students in the context 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* helps define the gray areas within the business landscape, providing students a glimpse of how chapter concepts translate into real-world context by addressing such diverse issues as the triple bottom line (Chapter 1), leading a "Small Giant" (Chapter 6), democratic workplaces (Chapter 7), managing positive office politics (Chapter 14), motivation in the 21st Century (Chapter 18), and nonprofit networking (Chapter 20).
- *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, recommended teaching notes and answers to pedagogical features, recommended additional case studies, and sample syllabi.

- **MindTap**

Management for Gulati/Mayo/Nohria, 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 while simultaneously allowing you to choose the configuration of coursework and the enhancement of 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 checks, and drag and drop figures—all aimed at raising student comprehension. **MANAGEMENT, 1e** 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 the 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**, allowing your students to apply what they learn directly to their work outside the classroom.



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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 latest 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. His previous book, *Managing Network Resources: Alliances, Affiliations, and other Relational Assets* (Oxford University Press, 2007), 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. He was ranked as one of the top ten 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 including *Administrative Science Quarterly* and *Strategic Management Journal*. For the *Strategic Management Journal* he has been a co-editor of special issues on “Alliances and Strategic Networks” in 2000 and on “Organizational Architecture” in 2011. He will be co-editing a special issue of the *Academy of Management Journal* on “Multiplex Networks” that will appear 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). He currently teaches FIELD, Field Immersion Experiences for Leadership Development, a new required experiential, action learning course in the first year of the MBA Program. 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 5 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>).

Tony also serves as the Director of the HBS Leadership Initiative. The Leadership Initiative is an interdisciplinary center that strives to serve as a catalyst for cutting-edge research and course development on leaders and leadership. 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, and the Leadership Best Practices programs and has been a principal contributor to a number of custom leadership development programs. He designed and launched the coaching component of Harvard Business School's Program for Leadership Development and currently oversees all executive coaching programs.

Prior to his current role, Tony pursued a career in database marketing where he held senior general management positions at an advertising agency (Hill Holliday, database management firm) Epsilon, and a 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 with his wife, Denise, and their three children, Hannah, Alex, and Jacob.

Nitin Nohria

Nitin Nohria became the tenth 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.

His intellectual interests center on human motivation, leadership, corporate transformation and accountability, and sustainable economic and human performance. He and Amanda Pepper collaborated with XPlane in creating the Paths to Power video to generate a discussion of the value and importance of leadership in addressing some of society's most pressing problems. In June 2010, in anticipation of a conference he hosted with Rakesh Khurana and Scott Snook, *Harvard Business Review* launched a six-week blog on how leadership might look in the future.

He is co-author or co-editor of 16 books. Recently, his *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.

In *Paths to Power: How Insiders and Outsiders Shaped American Business Leadership*, he chronicles how leaders from different backgrounds—some who could be considered insiders and others outsiders—rose to power in American business. This is a companion book to *In Their Time: The Greatest Business Leaders of the 20th Century*, which draws lessons from some of the most celebrated American business leaders of the 20th century. The third book in this trilogy of historical studies of leadership is *Entrepreneurs, Managers, and Leaders: Leadership Lessons from the Airline Industry*.

Dean Nohria is also the author of over 50 journal articles, book chapters, cases, working papers, and notes. 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*.

Dean Nohria has taught courses across Harvard Business School's MBA, Ph.D., and Executive Education programs. He also served as a visiting faculty member at the London Business School in 1996.

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 and his wife live in the Boston area with their two daughters.



P A R T



SETTING THE CONTEXT
FOR MANAGEMENT



INTRODUCTION TO MANAGEMENT

Learning Objectives

After reading this chapter, you should be able to:

- Differentiate among the three pillars of management: strategic positioning, organizational design, and individual leadership.
- 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.
- Articulate how the practice of management has evolved.
- Explain the changing perspectives on the purpose of business and how the relationship between the firm and its business environment has changed over time.
- Describe the stakeholder theory of management and how various stakeholder relationships are managed to enhance overall firm performance.

Chapter Outline

Introduction

Management and Leadership

Changing Perspectives of Management

Changing Perspectives on the Purpose of Business

Stakeholder Approach

- Stakeholder Mapping
- Stakeholder Management Processes
- Managing Uncertainty

Summary

Key Terms

Assignments



SELF-REFLECTION

What Are Your Managerial and Leadership Strengths?

Consider your own leadership and managerial strengths as you read the following statements. Please respond True or False to the following statements to assess your 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.

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INTRODUCTION

Today's leaders face myriad challenges and confront difficult decisions on a daily basis. Do they expand product offerings to match 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 advances, 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 Success in this new 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

Figure 1.1 • The Pillars of Management

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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 and 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's strategic choices and leadership approaches need to adapt and change to retain their 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 management—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 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 to achieve these strategic objectives. To that end, the organizational perspective of the textbook will define the manner in which a business is aligned and structured to compete in the 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 and competitive 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. Managers must first know who they are and what motivates them to effectively motivate and influence others. Key questions addressed in the individual perspective section of the textbook include the following: How do managers use power and influence? How do managers make critical decisions and navigate conflict? What motivates others, and how does one create 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 with 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 the basic fundamentals of management and explain 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 has 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. However, high-performing organizations manage environmental concerns better than their less-effective competitors.² By responding to these concerns, the manager can drive the firm's performance and achieve a competitive advantage in the marketplace. Not understanding 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 formats such as K-Mart and Sears fell on hard times, Walmart continued to post ever-impressive results.³

As the new millennium dawned, Walmart continued to maintain a stranglehold over the retail world. In 2004, the company had \$256.3 billion in sales and more than \$9 billion in net income. During that year, the company planned to open 500 new stores, half of which were projected to be Supercenters, a new format that offered groceries as well as Walmart's traditional retail offerings (see Figure 1.2). As 2004 began, Walmart eyed a possible expansion into California's huge grocery market, estimated to be worth \$71 billion.

Walmart started its Supercenter push in La Quinta, California, a town outside of Palm Springs. Following this first successful opening, the retailer 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 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 such as a Supercenter that could generate new jobs (estimated at 1200) 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.⁴ As rival grocery workers suffered through 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 boasted high unemployment rates and lower income levels relative to those in other areas around Los Angeles.



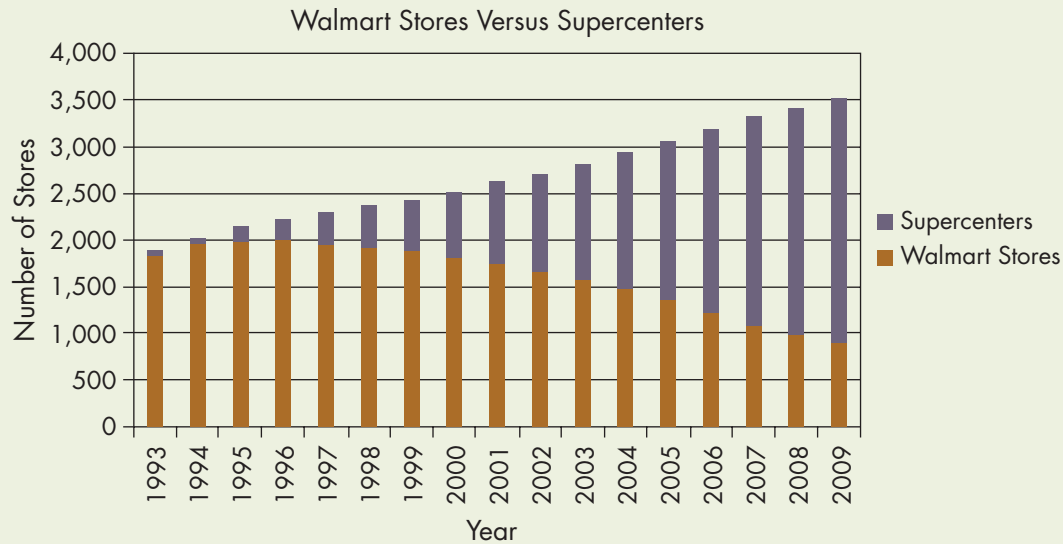
Guilavo Gray/Bloomberg/Getty Images

As Walmart executives watched these events unfold, they internally 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 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 commis-

sioned a study showing that Walmart Supercenters destroyed jobs and forced competitors to pay lower wages.⁵ 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.⁶ In the end, voters soundly rejected the initiative and Walmart was forced to abandon Inglewood.

Just 10 years ago, 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, 1993–2009



Source: Wal-Mart Stores, Inc., annual reports for 1999, 2004, and 2009.

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. 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).⁷ 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.

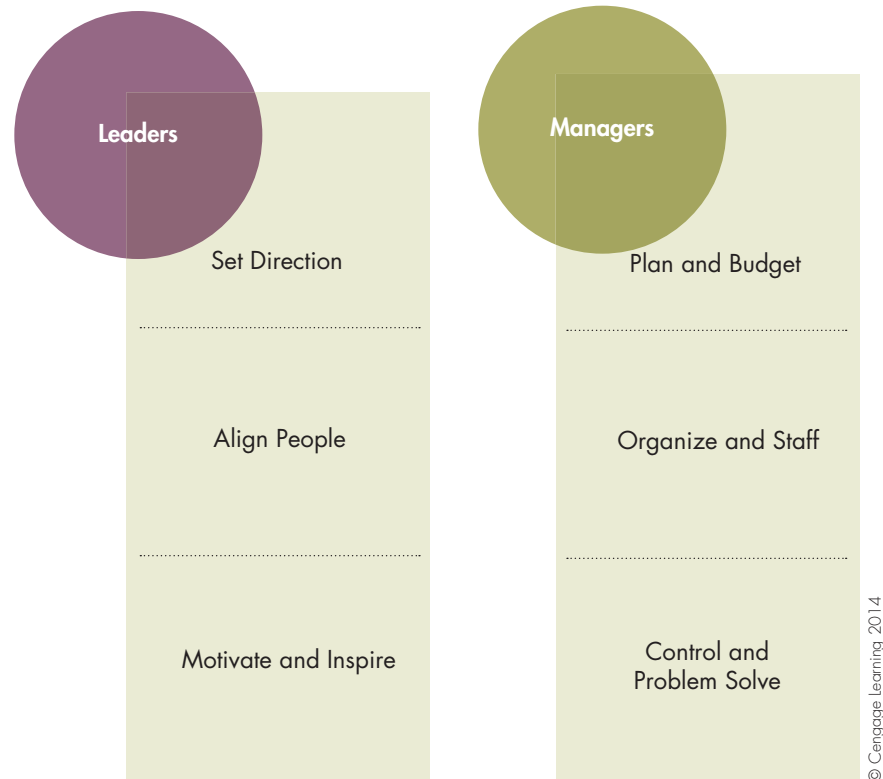
For instance, at Southwest Airlines, a vision was born when former chief executive officer (CEO) Herb Kelleher learned of a short-haul commuter airline in California that flew passengers over shorter distances than did major airlines. Kelleher

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

surmised that many travelers were tired of driving fairly long distances (between 500 and 1000 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.⁸

To be successful, organizations need to develop and nurture managers and leaders throughout the organization, 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.⁹ The skills required for success in business are often different depending on a person's level and responsibilities in the organization.¹⁰ 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 important 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.

Managers higher up in an organization tend to focus on tasks such as financial reporting, planning, recruiting of talent, and team development. While technical skills are still important, middle-level managers tend to spend more time on

interpersonal skills such as motivating and developing teams and using conceptual 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 secure buy-in and support in the organization, senior leaders need to rely on strong communication and interpersonal skills.¹¹ The ability to think conceptually is vitally important at this level (see Figure 1.4).¹² While an individual's ability must transform as they go higher in an organization, it is important to note that each 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, and 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.¹³

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.¹⁴ 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 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 to further develop the capacity of the team. Finally, the team's owners must be able to identify and support talent, but they spend the bulk of their time overseeing strategic issues such as revenue generation and long-term investment opportunities.

Figure 1.4 • Importance and Relevance of Skills by Managerial Level

