Organizational Dynamics, Vol. 34, No. 4, pp. 361–375, 2005 ISSN 0090-2616/$ – see frontmatter

doi:10.1016/j.orgdyn.2005.08.004
www.organizational-dynamics.com

Why Integrating the Leading and Managing Roles Is Essential for Organizational Effectiveness

GARY YUKL **RICHARD LEPSINGER**

THE LEADING VERSUS MANAGING CONTROVERSY

For more than two decades there have been debates about the difference between leading and managing and the relative importance of the two roles for the success of an organization. Some scholars contend that managing and leading are mutually exclusive roles that require different values and traits to be performed successfully. According to these scholars, managers value stability, control, and efficiency, whereas leaders value flexibility, innovation, and adaptation. Managers are practical, analytical, and rational, whereas leaders are visionary, creative, and emotional.

The assumption that each role requires a different type of person has implications for selecting people to fill positions of authority and determining their relative power over important decisions. Someone who defines ''manager'' in very negative terms (e.g., impersonal, risk-averse, unimaginative, control-oriented) will prefer to have leaders in positions of authority. Someone who defines managing in a more positive way will recognize a need for managers as well as leaders in business organizations.

Another perspective is that leading and managing are distinct roles, but both roles can be carried out by the same person. Kotter proposed that managing seeks to produce predictability and order, whereas leading seeks to produce organizational change. Both roles are necessary, but problems can occur if an appropriate balance is not maintained. Too much emphasis on the managing role can discourage risk taking and create a bureaucracy without a clear purpose. Too much emphasis on the leadership role can disrupt order and create change that is impractical.

According to Kotter, the importance of leading and managing depends in part on the situation. As an organization becomes larger and more complex, the importance of managing increases. As the external environment becomes more dynamic and uncertain, the importance of leadership increases. Both roles are important for executives in large organizations with a dynamic environment. When Kotter surveyed major companies of this type, he found very few had executives who were able to carry out both roles effectively.

The idea that leading and managing are both important is not new, but past theories do not provide a clear explanation of how the two roles are interrelated and how they jointly affect organizational performance.

The flexible leadership model provides new insights about these issues. The model builds on ideas from earlier theories of leadership, management, and organizational effectiveness. In this article we use the model to explain why it is necessary to integrate leading and managing in a way that is appropriate for the situation.

THE FLEXIBLE LEADERSHIP MODEL

The flexible leadership model identifies three distinct determinants of organizational performance: (1) efficiency and process reliability, (2) innovation and adaptation, and (3) human resources and relations. The relevance of each performance determinant for business organizations has been verified by decades of empirical research. A business organization is more likely to prosper and survive if it has efficient and reliable operations, it provides products and services customers want at prices they are willing to pay, and it has members with a high level of skill, commitment, and mutual trust. The three performance determinants are interrelated in complex ways, and they jointly determine organizational effectiveness.

Importance of Each Performance Determinant

The relative importance of each performance determinant at any given time depends on aspects of the situation. Efficiency means low operating costs, which are especially important when a company has undifferentiated products or services and must maintain low prices to retain customers (e.g., retail grocery stores, airlines, motels, commodities firms). Efficiency is also very important for a company with a few large customers who can demand cost reductions (e.g., suppliers to Wal-Mart Stores or the automobile industry).

Dell Computer Corp. provides an example of exceptional efficiency. There is no need for Dell to maintain an expensive inventory of assembled computers in warehouses, because the computers are made after they are ordered by customers. Costs are further reduced by just-in-time delivery of parts to the factory when they are needed to fill specific orders. Lower costs for production, distribution, and marketing have provided Dell with a 10% cost advantage over competitors, enabling it to make a profit on far slimmer margins.

Process reliability is especially important when accidents, mistakes, or defective products can negatively affect the health and safety of people (e.g., hospitals, medical labs, pharmaceutical companies, airlines) or cause financial loss (e.g., financial services companies, auditing firms). Process reliability is also important in organizations that rely on repeat business from satisfied customers (e.g., restaurants, express mail, auto repair shops, telecommunications services).

Innovation is especially important when the competitive strategy is to provide differentiated products or services, and there are rapid, unpredictable changes in technology, customer preferences, and the products of competitors (e.g., computers, telecommunications services and products, pharmaceuticals, medical equipment, fashion clothing). As the pace of global competition and technological change increases, rapid innovation is becoming more important for many types of organizations.

Human resources and relations are especially important when a company needs highly motivated and skilled employees who are not easily replaced (e.g., investment banks, professional sports teams, consulting companies, research universities, special forces combat units). There is growing evidence that the development and retention of ''human capital'' has a stronger impact on business results than was previously recognized. A recent study of 3,000 companies conducted by researchers at the University of Pennsylvania found that spending 10% of revenue on capital improvements boosted productivity by 3.9%. A similar investment in human capital increased productivity by 8.5%, or more than twice as much.

Organizations that regard human resources as a priority are more likely to have effective programs to facilitate the development and application of employee skills. General Electric Co. has long been recognized as an industry leader for the training and development of employees, and it is one of the best companies for grooming executive talent internally. The company uses succession planning to help ensure that talented people are ready to fill key leadership positions. At quarterly meetings the executive council reviews talent requirements and discusses the two or three most qualified candidates for any high-level position that may become vacant. If no qualified candidates are available, the council discusses ways to develop candidates with the necessary skills and experience.

Leadership Behaviors

One way to influence the performance determinants is with specific leadership behaviors such as those in Table 1. The many types of behaviors found to be relevant in empirical research on leadership over the past half-century can be grouped into three broad categories that align with the performance determinants. Task-oriented behaviors are primarily concerned with improving efficiency and process reliability. Relations-oriented behaviors are primarily concerned with improving human resources and relations. Change-oriented behaviors are primarily concerned with improving innovation and adaptation. Although the primary objective for each type of behavior is to improve

Table 1 Leadership Behaviors and Management Programs, Systems, and Structures for Influencing the Performance Determinants

Leadership Behaviors	Management Programs and Systems
A. To improve efficiency and process reliability	
• Clarify roles and task objectives	• Goal setting programs
• Monitor operations and performance	• Formalization and standardization
• Conduct short-term planning	• Functionally specialized subunits
• Provide contingent rewards	• Total quality management
• Resolve current operational problems	• Six Sigma programs
	• Process reengineering
	• Downsizing and outsourcing
	• Productivity incentives
B. To improve human resources and relations	
• Provide support and encouragement	• Quality of work-life programs
• Recognize worthy contributions	• Employee benefit programs
• Provide coaching and mentoring	• Recognition programs and ceremonies
• Consult with others about decisions	• Training and mentoring programs
• Empower and delegate	• Talent management programs
• Encourage cooperation and teamwork	• Recruiting and selection programs
	• Empowerment programs
	• Self-managed teams
	• Rewards for loyalty and skill acquisition
C. To improve innovation and adaptation	
• Conduct external monitoring	• Competitor analysis and market research
• Explain the urgent need for change	• Strategic planning systems
• Articulate an inspiring vision	• Intrapreneurship programs
• Encourage innovative thinking	• Benchmarking to import best practices
• Facilitate collective learning	• Knowledge management systems
• Take risks to promote change	• Cross-functional project teams
• Implement necessary change	• Semi-autonomous divisions
	• Joint ventures and strategic alliances
	• Incentives for innovation

one performance determinant, the behavior may affect other performance determinants as well. For example, consulting with team members about the action plan for a project may increase member commitment (human relations), improve the use of available personnel and resources (efficiency), and identify more innovative ways to satisfy the client (adaptation).

Management Programs and Systems

The performance determinants can also be influenced by the use of improvement programs, management systems, and structural forms. Examples of widely used programs and systems are identified in Table 1. Most are used primarily to improve one performance determinant, but they often have side effects for the other performance determinants. Top management has more authority than lower-level managers to implement or modify management programs and systems, but a coordinated effort by leaders at all levels in the organization is necessary to ensure that a program or management system is effectively implemented.

Adaptation is facilitated by programs designed to nurture innovative ideas for new or improved products and services. An example of a successful ''intrapreneurship'' program can be found at Johnson Controls Inc., a company that makes industrial controls and aircraft cockpits. Many ideas get limited funding early in the process, but a cross-functional team later determines which ideas have sufficient promise to warrant continued funding and serious development. In the final stage, a credible business plan is required for the idea to be accepted by the company.

Another example of a widely used management program is external benchmarking. It is a systematic process of searching for and importing good ideas to improve a company's products, services, and processes. Benchmarking can be used to improve efficiency as well as adaptation. For example, Southwest Airlines Co. wanted to significantly decrease the amount of time required to refuel its aircraft. The company already had one of the best refueling times in the airline industry, so management looked outside the industry for new ideas. By adapting the turnaround process used during pit stops in Formula One auto racing, Southwest was able to reduce the time required to refuel a plane from 40 minutes to just 12 minutes.

Joint Influence of Leader Behavior and Management Systems

The two different approaches for influencing performance determinants are complementary rather than mutually exclusive. The direct behaviors can be used to facilitate the implementation of new programs or systems and help make them successful. For example, a new knowledge management system is more likely to be successful if managers encourage their direct reports to input relevant information and use the system in appropriate ways. A new training program is more likely to be successful if managers encourage their direct reports to attend the program and provide opportunities afterward to use newly learned skills on the job.

Management programs and systems can enhance the effects of direct leadership behaviors. For example, leader efforts to encourage innovative thinking are more likely to increase innovation when an organization has a well-designed intrapreneurship program to facilitate the selection and evaluation of high-potential ideas. Without such a program, employees may doubt that their ideas for improving products or processes will be supported and eventually adopted by the organization.

Programs and structures can also limit the use of leadership behaviors or nullify their effects. For example, encouraging employees to be more customer-oriented may have little effect if the company has elaborate rules and standard procedures that prevent employees from responding effectively to customer needs and concerns.

Finally, management programs and systems can serve as substitutes for some types of direct behaviors, and they help to ensure that common activities are carried out in an efficient and uniform way. Company-wide training programs for generic skills can reduce the amount of training that managers need to provide direct reports. A company-wide bonus system with clear guidelines is likely to be more equitable than having each subunit manager determine the size and frequency of bonuses and the criteria for awarding them.

Reframing the Controversy

The flexible leadership model provides a helpful way to understand the leading-versus-managing controversy, and it points the way to a resolution. Scholars who debate the relative importance of leading and managing have usually defined the two roles in a very narrow way that does not adequately represent the literature on management and leadership. These definitions place the roles at opposite ends of a continuum, with order and stability at one end and innovation and change at the other end.

In terms of the performance determinants, the usual definition of managing emphasizes efficiency and process reliability, even though the management literature includes change management, strategic management, and human resources management. The usual definition of leading emphasizes innovation and adaptation, even though the leadership literature includes task-oriented and relations-oriented behaviors as well as change-oriented behaviors. These overly narrow definitions make it more difficult to understand how the two roles can be integrated.

We agree with Kotter that overemphasizing one role will have undesirable results, but finding the right balance is only part of the answer. How the roles are enacted is as important as how much they are emphasized. The behaviors and programs used to enact the roles can affect more than one performance determinant. Tradeoffs can occur when gains in one performance determinant are offset by losses in another, but such tradeoffs are not inevitable. Some behaviors and programs can be used to improve a performance determinant without negative side effects, or to improve more than one performance determinant at the same time.

HOW THE PERFORMANCE DETERMINANTS ARE INTERRELATED

Finding effective ways to integrate the dual roles requires an understanding of the complex relationships among performance determinants and the potential tradeoffs or synergies associated with improving one or more of them.

Adaptation versus Efficiency

Adaptation can be enhanced by appropriate changes in competitive strategy, and by better development and marketing of a company's products and services. However, major changes usually require a substantial investment of extra resources, and there is often a period of difficult adjustment and relearning by individuals and groups. Thus, changes made to improve adaptation may also reduce efficiency, at least in the short term.

Conversely, efforts to improve efficiency by refining work processes, establishing standard procedures, increasing functional specialization, and organizing around the strategy, can reduce adaptation. These management practices reduce flexibility for the organization and may make it more difficult to change strategies and work processes at a future time in response to new threats and opportunities. Moreover, when efficiency is the dominant concern, managers tend to focus effort and resources on this objective. New opportunities may be overlooked, and the organization may not allocate adequate resources to research and development of new products or services.

Events at Home Depot Inc. illustrate how changes made to improve efficiency can adversely affect sales and profits when superior customer service is an important aspect of a company's competitive strategy. After Bob Nardelli became the chief executive officer (CEO) of Home Depot, he implemented several changes designed to cut costs, such as centralizing purchasing decisions, standardizing personnel practices and displays, reducing inventory, and using more part-time employees (up from 26% of the workforce to 50%).

These changes had some adverse effects on the other two performance determinants. Reduced discretion to make purchasing decisions and plan displays at the store level made it more difficult to respond to local differences in customer needs. Less inventory meant that customers could no longer be sure of finding what they needed. Increased use of part-time employees in the stores resulted in more complaints by customers who could no longer get advice from knowledgeable, experienced salespeople. Many talented store managers quit because they resented the loss of their previous autonomy. In the first few years of Nardelli's tenure, sales slowed dramatically and the stock fell by 51%.

When Nardelli realized what was happening, he acted quickly to find a better balance among the performance determinants. He made several changes, including an increase in the number of full-time employees, new incentives for achieving quarterly sales goals, increased store inventories to provide customers with more choice, ''do-it-yourself'' workshops to attract more women customers, and a major remodeling program to make the stores more attractive. After these changes were implemented, sales and profits at Home Depot began to increase.

Efficiency versus Human Relations

Efforts to improve efficiency can degrade human resources and relations. Extensive rules and procedures and elaborate control mechanisms may improve efficiency and process reliability (e.g., by reducing errors, delays, and accidents), but employee motivation and job satisfaction may be adversely affected. Downsizing or cutting spending on salaries and benefits will reduce labor costs, but likely side effects include lower commitment, less skilled employees, and increased turnover. A downsizing program that involves early retirement of experienced older employees can result in a serious decline in expertise and tacit knowledge, and the remaining employees may be less satisfied and motivated, especially if they are asked to do more for the same level of pay.

Boeing's infamous 40-day strike by engineers and technicians in early 2000 illustrates how efforts to implement major improvements in efficiency can undermine human relations. In the late 1990s, the company entered a period of stiff competition, and sales depended on price as well as quality. Top management found it necessary to increase operating efficiency and cut costs. The increased priority of financial performance over engineering excellence caused the engineers to feel that their contribution was no longer valued as greatly as in the past, and top management failed to listen and respond to their concerns. As a result, many of the new efficiency and cost-cutting initiatives were resisted, and the tension between management and professional employees culminated in a devastating strike that had negative consequences for the company long after it was resolved.

Conversely, efforts to improve human resources and relations can reduce efficiency. Providing a high level of compensation and financial benefits will make it easier to attract and retain highly skilled employees. However, if the organization is overly generous about allocating resources to benefit employees, higher costs will make it more difficult to compete on the basis of price. In the face of increasing competition, many companies are forced to reconsider whether they can afford the cost of maintaining a high level of human resources and relations. An increasingly common response of top management in this situation is to seek reductions in the pay and benefits of current employees (as with major airlines) or to outsource many of the jobs to low-wage countries (as with financial services companies).

Adaptation versus Human Relations

Changes made to enhance adaptation can adversely impact human relations. The cost of implementing major change usually means that fewer resources are available to satisfy the individual needs of employees, and they may be asked to make unpopular sacrifices. Changes in job responsibilities or work processes can increase stress and conflict for employees and reduce their job satisfaction and motivation, especially when the changes are viewed as unnecessary or irrelevant. When leaders are preoccupied with making changes, there is less time for people-oriented concerns, such as being supportive or developing employee skills not directly relevant to the change. There will be less tolerance for people who lack the competencies or commitment necessary to implement change successfully.

Conversely, overemphasis on human relations can inhibit adaptation to a changing environment. Large increases in compensation and benefits may mean fewer resources are available for investment in activities that promote future adaptation, such as research and product development. Necessary steps to implement major change may be avoided when there is a high priority for protecting employee privileges, benefits, and job security. It is more difficult to reassign or dismiss employees who cannot do the new work or who refuse to accept the changes.

Levi Strauss & Co., the maker of blue jeans and other fashion apparel, provides an example of how overemphasis on human relations can reduce efficiency and adaptation. The company sought to maintain worker loyalty and trust by providing generous profit sharing, lavish quality of work-life programs, and high job security (for many years Levi resisted closing U.S. plants and moving production offshore). The emphasis on human relations served the company well for decades and contributed to its excellent financial performance during that time. However, in the 1990s, changing conditions in the marketplace made it essential to improve efficiency and responsiveness to changing customer preferences. Innovative adaptation was impeded by the company's strong cultural values for participative decision-making and ''principled reasoning,'' which made it necessary for managers to get widespread agreement on important decisions. A case in point was the collapse of sales after the company missed the trend toward wrinkle-free pants.

Mutual Facilitation and Synergy

An executive who understands complex relationships can often find ways to enhance more than one performance determinant at the same time. In retail stores that compete primarily on the basis of low price, a common approach to minimizing operational costs is to keep employee wages and benefits (such as health insurance) as low as possible. The usual result is low employee skills and high turnover. Costco Wholesale Corp., a chain of warehouse retail stores, provides a good example of how improving human resources and relations can also increase innovation and overall performance.

Costco pays higher wages and benefits than competitors such as Wal-Mart's Sam's Club and BJ's Wholesale Club. The higher cost of employee compensation is offset by a reduction in other human resource costs and by increased revenue from sales made by store employees. Costco has one of the most loyal and productive work forces in the retailing industry. Employee turnover after the first year is only 6%, compared with 21% at Sam's Club. Since it costs about $2,500 to test, interview, and train each new employee, there is a considerable savings from lower turnover. In addition, the strong motivation of Costco employees is reflected in higher sales per square foot ($795) than at Sam's Club ($516). The increased revenue, in combination with savings from better packaging and supply-chain management, yields higher profits per employee at Costco.

Sometimes the interdependence among performance determinants means that it is necessary to enhance more than one of them at the same time. For example, some competitive strategies used to improve adaptation will not be successful unless there are also changes in human resources and relations.

In 2002, Charles Schwab & Co. announced a global change in the company's strategy to adapt to changing client needs and decreasing investment activity among its core middle-class clients. The growing market of affluent clients with at least a half-million dollars to invest suggested that it might be more profitable to offer such clients personal financial advice instead of merely trading their stocks. Many of these potential customers wanted to manage their own portfolios rather than investing in mutual funds, and they would be attracted by the opportunity for conversations with a personal financial advisor who would provide investment ideas on matters ranging from asset allocation to stock selection. The new strategy required a change in workforce capabilities. Most of the order takers employed in Schwab's brokerage business were not qualified to offer the kind of advice the new clients wanted. To help close this skill gap, Schwab began hiring more expensive ''investment consultants'' from other financial companies.

ENHANCING PERFORMANCE DETERMINANTS SIMULTANEOUSLY

The experiences of Carlos Ghosn at Nissan Motor Co. show how all three performance determinants can be improved in a mutually compatible way. When Ghosn was appointed the chief operating officer of Nissan in 1999, the company was in a state of serious decline and had lost money in all but one of the previous eight years. Only Renault's willingness to assume part of Nissan's debt saved the Japanese company from going bankrupt. The problems at Nissan included excessive costs, declining sales, and weak management. There was widespread doubt that the alliance between Renault and Nissan could succeed, or that someone who was not Japanese could save Nissan. By the end of 2000, however, the company was once again profitable, and in 2001 earnings for Nissan were at a record high. The rapid turnaround at Nissan was accomplished with a series of decisions and actions that represent a combination of effective leading and managing.

Efficiency

Ghosn identified several ways to improve efficiency. Purchasing costs represent 60% of the cost of a vehicle, and at Nissan they were excessive. Ghosn formed a cross-functional team with representatives from relevant functions such as engineering and tasked them with finding ways to reduce purchasing costs. One solution was to reduce the number of local suppliers by half and place large orders with a smaller number of global sources. Another solution was to eliminate overly exacting specifications imposed on suppliers by Nissan engineers. These and other changes made it possible to attain Ghosn's goal of reducing purchasing costs by 20%.

Production overcapacity was another source of unnecessary costs. The company could manufacture a million more cars than it could sell, but any reduction in production capacity would have to be consistent with plans to increase sales in the future. Ghosn closed five factories in Japan and eliminated more than 21,000 jobs. To simplify production operations at the remaining factories and make them more efficient, Ghosn reduced the number of different car platforms and power-train combinations.

Innovation and Sales

Years of declining sales at Nissan were caused by a lack of customer appeal for most of the company's cars. Designers were taking orders from engineers who focused completely on performance, and there was little effort to determine what types of cars customers really wanted. To increase the appeal of Nissan vehicles to customers, a creative designer was hired to provide leadership in the design department. Ghosn encouraged the designers to be more innovative and gave them more authority over design decisions. Several new models were introduced, and for the first time in many years Nissan had cars that excited customers both in Japan and abroad.

Human Resources and Relations

Saving the company would also require major changes in human resource practices that were strongly embedded aspects of the company culture, such as guaranteed lifetime employment, and pay and promotion based on seniority. These changes would primarily affect managers and other salaried employees.

One change was to establish a merit pay plan. Instead of being rewarded for seniority, employees were now expected to earn their promotions and salary increases through effective performance. Areas of accountability were sharply defined so that performance could be measured in relation to goals. New bonuses provided an opportunity to earn up to a third of one's annual salary based on performance.

To facilitate management development, Ghosn delegated important responsibilities and provided opportunities to learn from experience. The changes in human resource practices made it possible to gradually replace weak managers with more competent successors.

Plant closings are unprecedented in Japan, and Ghosn understood that they could seriously undermine human relations. He took steps to ensure that all Nissan employees knew why the closings were necessary and who would be affected. He minimized adverse effects on employees by selling subsidiaries and using natural attrition, early retirements, and opportunities for part-time work at other company facilities. To reduce widespread doubts about the future of Nissan, Ghosn took every opportunity to communicate an optimistic image of a revitalized company to employees and other stakeholders.

GUIDELINES FOR INTEGRATING THE ROLES

The challenge of determining the best way to enhance the three types of performance determinants is further complicated by changes in conditions that affect them or alter their relative importance. As seen in the examples from Levi Strauss and Charles Schwab, one may achieve a good balance only to find that changing conditions in the external environment have upset it again. Changing conditions can also alter the relevance of specific leadership behaviors or management programs for influencing the performance determinants. Using a particular type of behavior or program because it proved successful in the past, or because it was successful for other companies, may not yield the desired results.

Despite the hundreds of books published in recent years on leadership and management, there is no magic formula or list of simple ''cookbook'' remedies that will guarantee success. Nevertheless, some useful insights are provided by the flexible leadership model, which is based on a half century of empirical research on effective leadership and management. The following guidelines seem especially relevant for achieving a better integration of the manager and leader roles in companies with a dynamic environment.

Increase Situational Awareness

Situational awareness means understanding external trends and events that are relevant for the effectiveness of an organization, and the internal processes that determine what types of strategies and changes are likely to be successful. It is difficult to diagnose the causes of a problem and identify good solutions without a clear understanding of the prior events and decisions that determine how the organization got to where it is now. It is difficult to implement major changes without understanding the attitudes and feelings of the people who will be affected by the changes, and the political processes that determine how strategic decisions are approved.

In the months before assuming his new position at Nissan, Ghosn met with hundreds of people – including employees, dealers, suppliers, union officials, and members of the Japanese government – to gain a better understanding of the company and its strengths and weaknesses. Soon after he became the new COO, Ghosn created cross-functional teams with broad representation to identify problems and recommend likely solutions to him and the executive committee.

Top executives need accurate, timely information about the organization, its members, and the external environment. Relevant measures include: (1) the cost and efficiency of the each process involved in providing goods or services, (2) the performance and contribution of each subunit to the bottom line, (3) the cost and effectiveness of each management program and system, (4) the level and distribution of skills among employees, (5) the activities of competitors, and (6) the perceptions of current and potential customers about the company's products and services. Ghosn found that Nissan's top management lacked information needed to understand the company and diagnose its problems accurately. An intensive analysis of sales data for the 43 different models made by Nissan revealed that only four of them had sufficient sales to be profitable. Comparing purchasing costs for similar auto parts at Nissan and Renault (a form of ''benchmarking'') revealed that costs were 25% higher for Nissan.

No matter how detailed and up-to-date a company's information systems are, it is difficult to develop a clear and complete understanding of organizational processes and problems merely by reviewing reports and financial information in one's office. Additional insights can be obtained by visiting facilities, observing operations firsthand, and meeting with employees, customers, and suppliers. The effective use of this behavior is demonstrated by top executives such as Carlos Ghosn at Nissan, and Sam Walton, the former CEO of Wal-Mart.

Embrace Systems Thinking

Understanding the complex interdependencies among performance determinants, the short-term and long-term effects of attempts to influence them, and the implications of changing situations requires the use of ''systems thinking.'' It is important to understand that complex problems often have multiple causes, which may include actions taken earlier to solve other problems. In large systems such as organizations, actions invariably have multiple outcomes, including unintended side effects. Changes often have delayed effects that tend to obscure the real nature of the relationship. A change in one part of a system will eventually affect other parts of it, and unintended negative effects can cancel out any positive effects. An example is when a manager downsizes the workforce to reduce costs, but pressure to maintain the same output requires expensive overtime and use of consultants (including some of the same people who were downsized), thereby negating any cost savings.

When making decisions or diagnosing the cause of problems, it is essential to understand how the different parts of the organization are interrelated. When determining how to improve one performance determinant, it is important to consider the likely consequences for other performance determinants and the possibility that any immediate benefits will be nullified by later events, as the effects of a decision ripple through the system. Understanding the complex relationships among system components makes it easier to identify potential tradeoffs among the performance determinants and to find ways to avoid or minimize them. Strategic thinking about these issues is clearly more important for top executives than for lower-level managers, but it is relevant at all levels.

The successful turnaround at Nissan demonstrates the importance of systems thinking. Making Nissan profitable again required mutually consistent changes to improve efficiency, adaptation, and human resources. Some of the changes made by Ghosn yielded immediate short-term gains, but other changes would take much longer to show positive benefits. Ghosn understood that sustained high performance at Nissan would require more than the temporary ''quick fixes'' commonly used when there is a financial crisis.

Coordinate Leadership Across Levels and Subunits

The performance of the organization depends not only on the decisions and actions of the chief executive. It requires commitment, cooperation, and coordination among all managers in the organization. Their fates are closely intertwined, and it is important for each individual to understand how his or her actions will affect other managers and the overall organization. The decisions made by managers at different levels and in different subunits must be compatible with each other and with the overall strategy of the organization.

At Nissan, Ghosn found that lack of cooperation across functional subunits was one reason for the failure to deal with serious problems. There was no coherent strategy with clear objectives and priorities to help achieve coordination among subunits. Functional managers had a ''silo mentality'' and were quick to blame each other for any problems. A major contribution of his cross-functional teams was to create shared objectives and increase cooperation among functional managers. For example, after working on the team responsible for reducing purchasing costs, the engineering managers eventually realized that their restrictive specifications were one reason for the excessive costs, and they changed this practice.

It is not necessary for every manager in an organization to view the performance determinants in the same way, because subunits may differ somewhat with regard to their tasks and local environments. Process reliability may be more important for one type of subunit (e.g., accounting, production) and adaptation for another (e.g., marketing, product development).

Some role differentiation may also occur within the top management team. For example, an executive such as the CEO may have more responsibility for adaptive strategy, and another executive such as the COO may have more responsibility for operational efficiency. However, it is best to avoid sharply differentiated roles in top management, because it is very difficult to integrate them effectively. Whatever the amount of role differentiation, it is essential for each executive to remain focused on the shared objective of improving overall organizational effectiveness.

It is difficult to achieve seamless coordination across different parts of an organization, especially when the subunits have different functions, markets, or subcultures. Formal plans and objectives are helpful, but effective coordination is unlikely unless the managers also have shared ideals and values to anchor judgments and guide decisions. A company is more likely to be successful over a long period of time if employees have strong shared values and beliefs about the mission and purpose, the quality of products and services, and the rights and obligations of individuals. A primary responsibility of top management is to ensure that the organization has a relevant core ideology, but leaders at all levels must build support for the core ideology and ensure it is understood and used to guide daily actions.

Lead by Example

Setting an example in one's own behavior is an important form of influence that can be used to emphasize any of the performance determinants. When top executives act in highly visible ways that emphasize the importance of efficiency, innovation, or human relations, the effects can cascade down through the organization. For example, selling the corporate jet and the company limousines used by executives is a way to communicate the importance of reducing costs.

Ghosn's effectiveness at Nissan was partly a result of demonstrating the accountability he expected from all employees. When he formally announced his turnaround plan for Nissan, Ghosn pledged that he would resign if the company failed to show a profit by the end of 2000. It was an impressive demonstration of his confidence and commitment, and it made what he was asking of others seems more acceptable.

Setting a bad example can be as powerful as setting a good example, and it is essential to keep decisions and actions consistent with espoused values and the core ideology for the organization. Unethical behavior and decisions based on the leader's self-interest can undermine the trust and commitment of employees.

During the financial crisis at American Airlines in 2003, the senior executives asked for major wage concessions from pilots and other employees, who were told that their cooperation was imperative to save the company from bankruptcy. Shortly afterward, employees learned that the senior executives had just awarded themselves large retention bonuses and a generous supplemental pension plan. Donald Carty, the company president, was due to receive $1.6 million under the new bonus plan if he stayed with American for another three years. Union members reconvened and voted to pull back from the cost-cutting agreement. It was only after Carty resigned that the unions agreed to renegotiate. The initial appeal to employees might have succeeded if it had included an announcement that top management would make significant cuts in their own salaries and benefits.

CONCLUDING THOUGHTS

The importance of efficiency, human resources, and adaptation may seem obvious, but many business failures and derailed management careers involve a lack of understanding and appreciation of these performance determinants and their complex interdependencies. Even though there is no simple formula for success, it is very helpful to have a mental model to remind us that the joint effects of all three determinants should be considered when planning how to improve organizational effectiveness.

It is also helpful to know that the options for enhancing the performance determinants include a wide range of leadership behaviors and many different types of management programs, systems, and structural forms. Additional research is needed to gain a better understanding of how they can be used together to influence the performance determinants effectively in different situations. To make faster progress in this research, we must build better bridges between the leadership and management literatures, and between academics and practitioners.

The managing versus leading controversy has continued so long because the roles are defined in a narrow way that makes it difficult to understand how they jointly affect organizational performance and how they can be integrated. It is time to find a better way to conceptualize the roles. If co-equal roles for leading and managing are desired, then each role should be defined more broadly to be consistent with its respective literature.

An alternative approach is to retain a relatively narrow definition for leading, but include it as part of managing. Mintzberg proposed that leading is only one of 10 managerial roles. He defined leading in terms of motivating subordinates and creating favorable conditions for doing the work, and he proposed that leading pervades the other nine roles.

A third approach is to identify a set of relevant roles without classifying them as either managing or leading. One possibility for a parsimonious taxonomy is to identify three roles that are based on the performance determinants in the flexible leadership model. The best approach is not yet obvious, and we end by issuing a challenge for scholars to find a meaningful set of roles that clearly and accurately describe what people in positions of authority must do to make organizations effective.

SELECTED BIBLIOGRAPHY

Distinct roles were initially proposed by A. Zalesnik, ''Managers and Leaders: Are They Different?'' *Harvard Business Review*, 1977, 55(5), 67–78. As evidence of continued interest in the leader/manager controversy, the article was reprinted in the January 2004 issue of the journal.

Other scholars who identified distinct roles include: W. G. Bennis and B. Nanus, *Leaders: The Strategies for Taking Charge* (New York: Harper & Row, 1985); C. F. Hickman, *Mind of a Manager, Soul of a Leader* (New York: John Wiley, 1990); J. P. Kotter, *A Force for Change: How Leadership Differs from Management* (New York: The Free Press, 1990); H. Mintzberg, *The Nature of Managerial Work* (New York: Harper & Row, 1973); and J. C. Rost, *Leadership for the Twenty-First Century* (Westport, CT: Greenwood Publishing Group, 1991).

The dilemmas and paradoxes confronting CEOs, and the behaviors and programs that can be used to improve organizational performance are described in more detail in the book by G. Yukl and R. Lepsinger, *Flexible Leadership: Creating Value by Balancing Multiple Challenges and Choices* (San Francisco, CA: Jossey-Bass/Wiley, 2004). The source for many of the ideas in the flexible leadership model, and the source for most of the examples from companies, can be found in that book.

Additional sources of examples include: S. Holmes and W. Zellner, ''The Costco Way: Higher Wages Mean Higher Profits; But Try Telling Wall Street,'' *Business Week*, 12 April 2004, 76–77; and C. Ghosn and P. Ries, *Shift: Inside Nissan's Historic Revival* (Currency-Doubleday, 2005).

Gary Yukl received his Ph.D. from the University of California at Berkeley and is currently a professor of management at the University at Albany (SUNY). He is a fellow of the Academy of Management, the American Psychological Society, and the Society for Industrial-Organizational Psychology. His research interests include leadership, power and influence, and management development. In addition to many articles published in professional journals, he is the author or co-author of several books, including *Leadership in Organizations*, 6th edition (Prentice-Hall) and *Flexible Leadership* (Jossey-Bass, 2004) (Tel.: +1 518 442 4932; fax: +1 518 442 4765; e-mail: G.yukl@albany.edu).

Rick Lepsinger is a managing vice president of Right Management Consultants. He has been consulting in the areas of management and organization development for over 20 years with clients such as Coca-Cola, Goldman Sachs, Siemens Medical Systems, Conoco, PeopleSoft, Northwestern Mutual Life, GreenPoint Bank, KPMG, Lehman Brothers, the New York Stock Exchange, Prudential, UBS, Subaru of America, Bayer Pharmaceuticals, Pfizer, and Pitney Bowes. In addition to several articles and book chapters, Rick has co-authored three books published by Jossey-Bass, including *The Art and Science of 360° Feedback*; *The Art and Science of Competency Models*; and *Flexible Leadership* (Tel.: +1 203 316 9613; fax: +1 203 326 3890; e-mail: rick.lepsinger@right.com).