



NE OF THE GREAT FRUSTRATIONS encountered by today's most powerful people is that the power they've worked so hard to amass may just stop working. It isn't that they could lose what they have—it's that it simply may no longer matter to the world. Consider: With 90% market shares in operating systems and applications, Microsoft could once use its dominance to crush competitors or simply buy them. But what happens when competing products like Linux can't be economically destroyed because they're free, and are created by thousands of volunteers instead of by a company that can be bought?

Another example: To induce employees to do their jobs, companies have been able to hold the ultimate threat over them—termination. But in a world where human capital is the most valuable resource, what if the best employees have two job offers in their back pocket at all times and may not care if they get fired?

Power isn't complicated. It's "the ability to obtain the outcomes one wants," says Joseph Nye, dean of Harvard's Kennedy School of Government. When that ability is pulled out from under you, you have a big problem—one that is rampant today. So Nye originated the concept of soft power, the ability to get what you want by attracting others to your cause. Nye's writings on the subject have focused on international relations, yet the underlying ideas are analogous to what's happening in business today.

Nye's thesis is that for many of the most important world issues facing America today, traditional military power alone won't work: We need soft power to bring people to share our values and help us pursue common goals. Today's businesspeople are in a similar situation. Just one suggestion: Let's change the terms. Generals and CEOs don't like "soft." Let's call the traditional kind of power that we used to value "hot power" and the new kind "cool power."

When John D. Rockefeller ran Standard Oil, he destroyed competitors not just by underpricing them until they failed but also by getting railroads to refuse to serve them. Today that kind of hot power is becoming irrelevant. Partly that's because in an information economy, startup costs and fixed costs are so low that new competitors can spring up anywhere there's an opportunity. Online banks, brokerages, and others have taken billions of dollars of revenue from once-almighty firms. It's a similar story in online media, as the former kings of TV, radio, music, and publishing try to figure out where their advantage lies. Their vast infrastructure of transmitters and printing presses matters less every day. Today's source of advantage is above all a good idea: That's cool power.

Exhibit A is the No. 1 name on our new Power 25 list, Steve Jobs. The company he runs, Apple, has a single-digit market share in computers that by traditional standards is meaningless, a mosquito among elephants. Jobs has never had any market power, no big distribution network, no giant factories. But a few

years ago he had a good idea, the iPod, and even that wasn't a new kind of product; it was a better-conceived, better-designed version of an existing one.

He's now doing something similar in phones. He had no hot power, indeed no presence at all in the phone business. Yet the major wireless service providers were competing for the right to offer the iPhone because they wanted Jobs' power to attract customers with his superior ideas. Cool power trumped hot power.

One result of this shift is the changing nature of today's most successful managers. Tom Neff, the high-profile executive headhunter from Spencer Stuart, says the kind of leader he's asked to find these days uses a new approach: "Rather than telling the troops, it's a

technique of asking probing questions that force the team to think and come up with the right answers. It's subtle and more acceptable than dictating."

Historically, that's a major change. In the 1980s FORTUNE used to run articles on America's ten toughest bosses. These guys (they were all guys) were the masters of hot power. They intimidated, humiliated, and threatened. Robert Malott, chief of the big Chicago manufacturer FMC, spoke for many of them when he declared, "Leadership is demonstrated when the ability to inflict pain is confirmed."

We can be confident that such a sentence would horrify today's leadership experts, but it won Malott quite a few fans.

Now other factors rob bosses of traditional hot power. They've been humbled by recent scandals. Shareholders wield more power over CEOs, and executives have shorter average tenures, so it's easier than ever for employees to wait them out rather than comply with unpopular orders. The only reliable way for managers to be effective is to get employees on their side.

Many managers will have trouble with that concept. They won't be able to abandon old notions of authority and market power. But the best managers understand the new dynamics already. As shown on the following pages, power players like Warren Buffett and P&G chief A.G. Lafley exert their considerable influence through intellect and inspiration. They realize that while cool power may feel new and strange, it's still power—and whoever understands it commands a lot of power indeed. ■

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## POWER PLAY IN TODAY'S ECONOMY, A BIG IDEA IS WORTH MORE THAN A BIG MARKET SHARE.