Chapter 12: Strategic Leadership (SL)

- **Overview:** Eight content areas
  - Strategic leadership and top-level managers’ importance
  - Top management teams and effects on firm performance
  - Managerial succession process using internal/external labor markets
  - Value of SL in determining firm’s strategic direction
  - Importance of strategic leaders in managing firm’s resources
  - Organizational culture and actions to sustain it
  - Ethical practices: establishment and emphasis
  - Importance and use of organizational controls
Introduction

• Regardless on time in position leaders can make a major difference in how a firm performs

• Effective strategic leadership is the foundation for successfully using the strategic management process

• Strategic leaders facilitate the development of appropriate strategic actions and determine how to implement them – these actions are the path to strategic competitiveness and above-average returns
Strategic Leadership (SL) and Style

• **Strategic leadership:** the ability to anticipate, envision, maintain flexibility, and empower others to create strategic change as necessary

• Multifunctional task
  – Managing through others
  – Managing an entire enterprise rather than a functional subunit
  – Coping with change which is increasing in the global economy
  – Most critical skill: attracting and managing human (includes intellectual) capital
Strategic Leadership and the Strategic Management Process

- Effective Strategic Leadership
  - shapes the formation of Vision and Mission

- Vision and Mission
  - influence

- Successful Strategic Actions

- Formulation of Strategies
  - yields

- Implementation of Strategies
  - yields

- Strategic Competitiveness Above-Average Returns
The Role of Top-Level Managers

• Managers use their discretion when making strategic decisions

• Primary factors that determines amount of manager’s decision-making discretion
  – External environmental sources
  – Organization’s characteristics
  – Manager’s characteristics
Factors Affecting Managerial Discretion

- **External Environment**
  - Industry structure
  - Rate of market growth
  - Number and type of competitors
  - Nature and degree of political/legal constraints
  - Degree to which products can be differentiated

- **Characteristics of the Organization**
  - Size
  - Age
  - Culture
  - Availability of resources
  - Patterns of interaction among employees

- **Characteristics of the Manager**
  - Tolerance for ambiguity
  - Commitment to the firm and its desired strategic outcomes
  - Interpersonal skills
  - Aspiration level
  - Degree of self-confidence

- **Managerial Discretion**
The Role of Top-Level Managers

- **Top Management Teams**
  - Helps avoid potential problem of CEO making decisions alone: that of managerial hubris
    - Hubris: excessive pride leading to a feeling of invincibility
    - Hubris can magnify the effects of decision-making biases
  - Composed of key individuals who are responsible for selecting and implementing firm’s strategies; usually includes officers of the corporation (VP and above) and BOD
The Role of Top-Level Managers (Cont’d)

- **Top Management Teams: Firm performance and strategic change**
  - A heterogeneous team: consists of individuals with varied functional backgrounds, experiences & education
  - Team members come with a variety of strengths, capabilities & knowledge and provide effective strategic leadership when faced with complex environmental forces and multiple stakeholder relationships to manage
    - Introduces a variety of perspectives
    - Has a greater propensity for strong competitive action
    - Tends to "think outside of the box," leading to more creative decision making, innovation, and strategic change
    - Offers various areas of expertise to identify environmental opportunities, threats, or the need for change
    - Promotes debate
The Role of Top-Level Managers (Cont’d)

- **Top Management Teams: CEO and top management team power**
  - Top management team characteristics give the CEO’s team the power relative to the board of directors (BOD) and can influence the amount of strategic leadership the board provides
  - **CEO Duality** – CEO serves as CEO and BOD
    - More common in the United States
    - Occurs most often in the largest firms
    - Increased shareholder activism recently brought the practice under scrutiny
    - Criticized for causing poor performance & slow response to change
Managerial Succession

• Defined: Preselect and shape skills of tomorrow's leaders
  – **Internal Managerial Labor Market** – opportunities for managerial positions to be filled from within the firm
  – **External Managerial Labor Market** – opportunities for managerial positions to be filled by candidates from outside of the firm

• This decision impacts company performance and the ability to embrace change in today's competitive landscape

• Succession, top management team composition and strategy are intimately related
Effects of CEO Succession and Top Management Team Composition on Strategy
Managerial Succession

• Benefits of Internal Managerial Labor Market
  – Continuity
  – Continued commitment
  – Familiarity
  – Reduced turnover
  – Retention of “private knowledge”
  – Favored when the firm is performing well
Managerial Succession

- **Benefits of External Managerial Labor Market**
  - Long tenure with the same firm is thought to reduce innovation
  - Outsiders bring diverse knowledge bases and social networks, which offer the potential for synergy and new competitive advantage
Key Strategic Leadership Actions

• Certain actions characterize effective strategic leadership
  – These actions interact with each other
  – The most effective strategic leaders create options as the foundation for making effective decisions

• Determining Strategic Direction
  – Definition: A firm's image and character over time, framed within the context of the conditions in which the company operates
Exercise of Effective Strategic Leadership

- Determining Strategic Direction
- Establishing Balanced Organizational Controls
- Effectively Managing the Firm’s Resource Portfolio
- Sustaining an Effective Organizational Culture
- Emphasizing Ethical Practices
Key Strategic Leadership Actions  (Cont’d)

- Effectively managing firm’s resource portfolio
  - Resources defined as financial, human, social and organizational capital
  - Exploiting and maintaining core competencies
    - Related to firm’s functional skills (i.e., manufacturing, finance, marketing and R&D)
- Developing Human (HC) and Social Capital (SC)
  - HC: Knowledge and skills of a firm’s entire workforce
  - SC: Relationships inside and outside the firm that help it accomplish tasks and create value for customers and shareholders
Key Strategic Leadership Actions (Cont’d)

• Sustaining an effective organizational culture
  – **Organizational culture**: complex set of ideologies, symbols, and core values shared throughout the firm
  – Influences the way business is conducted
  – Helps to regulate and control employees’ behavior
Key Strategic Leadership Actions (Cont’d)

- **Sustaining an effective organizational culture** (Cont’d)
  - **Entrepreneurial mind-set**
    - Source of growth and innovation
    - May be encouraged and promoted by strategic leaders
    - 5 dimensions of an entrepreneurial mindset
      - 1. Autonomy (Free of firm constraints)
      - 2. Innovativeness (Firms’ tendency to support new ideas)
      - 3. Risk Taking
      - 4. Proactiveness (Being a market leader vs. follower)
      - 5. Competitive aggressiveness (Firms’ propensity to take actions in order to outperform rivals)
Key Strategic Leadership Actions (Cont’d)

- Sustaining an effective organizational culture (Cont’d)
  - Changing the organizational culture and restructuring
    - More difficult to change culture than maintain it
    - Sometimes change must occur
      - Requires effective communication and problem solving
      - Selecting the right people
      - Engaging in effective performance appraisals
      - Measuring individual performance toward goals that fit with new values
      - Appropriate reward systems
Key Strategic Leadership Actions (Cont’d)

- Emphasizing ethical practices: Actions such as...
  - Establish and communicate ethics-related goals
  - Revise, update and disseminate code of conduct
  - Develop and implement methods & procedures to use in achieving firm’s ethical standards
  - Create/use specific reward systems that recognize acts of courage
  - Create a working environment where all are treated with dignity
Key Strategic Leadership Actions (Cont’d)

- **Establishing balanced organizational controls**
  - Controls: Formal, information-based procedures used by managers to maintain or alter patterns in organizational activities
    - **Financial Controls**
      - Focus on short-term financial outcomes
      - Produce risk-averse managerial decisions
    - **Strategic Controls**
      - Focus on the content of strategic actions
      - Encourage decisions that incorporate moderate and acceptable levels of risk
  
- **The Balanced Scorecard**
  - Framework that allows strategic leaders to verify that they have established both financial and strategic controls to assess firm performance
Strategic Controls and Financial Controls in a Balanced Scorecard Framework

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