

Chapter 12 Strategic Leadership

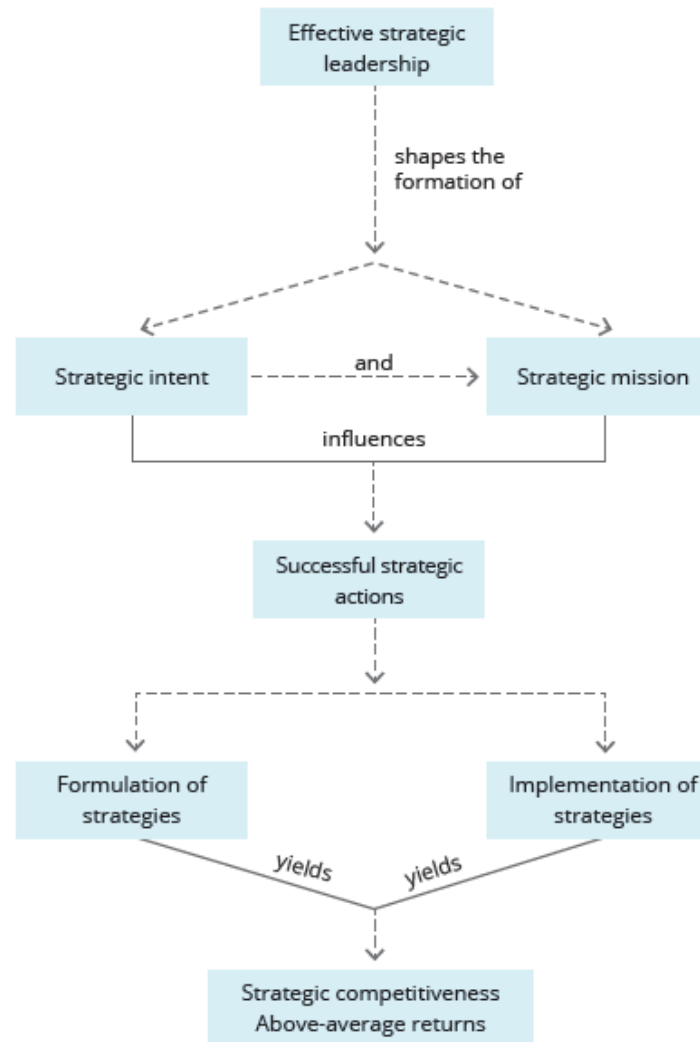
INTRODUCTION

- Effective strategic leadership is the foundation for the successful use of the strategic management process.
- Strategic leaders guide a firm in ways that result in a vision and mission.
- This guidance often prompts leaders to think of ways to create goals that stretch everyone in the organisation to improve performance.
- Strategic leaders facilitate the development of appropriate strategic actions and determine how to implement them.

STRATEGIC LEADERSHIP AND STYLE

- Strategic leadership:
 - Refers to the ability to anticipate, envision, maintain flexibility and empower others to create strategic change as necessary –
 - It is a multifunctional task that involves:
 - managing through others
 - managing an entire enterprise rather than a functional subunit
 - coping with increasing change in the global economy
 - attracting and managing human (includes intellectual) capital.

Figure 12.1 Strategic leadership and the strategic management process



STRATEGIC LEADERSHIP AND STYLE



ROLE OF TOP-LEVEL MANAGERS

- Managers use their discretion when making strategic decisions.
- Primary factors that determine the amount of a manager's decision-making discretion include:
 - external environmental sources
 - organisational characteristics
 - manager's own characteristics

Figure 12.2 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 organisation

- Size
- Age
- Culture
- Availability of resources
- Patterns of interaction among employees

Managerial discretion

Characteristics of the manager

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

Source: Adapted from S. Finkelstein & D. C. Hambrick, 1996, *Strategic Leadership: Top Executives and Their Effects on Organizations*, St Paul, MN: Western Publishing Company.

TOP MANAGEMENT TEAMS

- Help avoid **managerial hubris** (excessive confidence or arrogance that can lead to making wrong decisions)
- Are composed of key individuals who are responsible for selecting and implementing a firm's strategies
- Usually include officers of the corporation (VP and above) and the board of directors.

TOP MANAGEMENT TEAM, FIRM PERFORMANCE AND STRATEGIC CHANGE

- **Heterogeneous teams** are composed of individuals with varied functional backgrounds, experiences and education
- Team members bring a variety of strengths, capabilities and knowledge
- Provide effective strategic leadership when faced with complex environments and multiple stakeholder relationships

MANAGERIAL SUCCESSION

Managerial succession involves preselecting and shaping the skills of tomorrow's leaders.

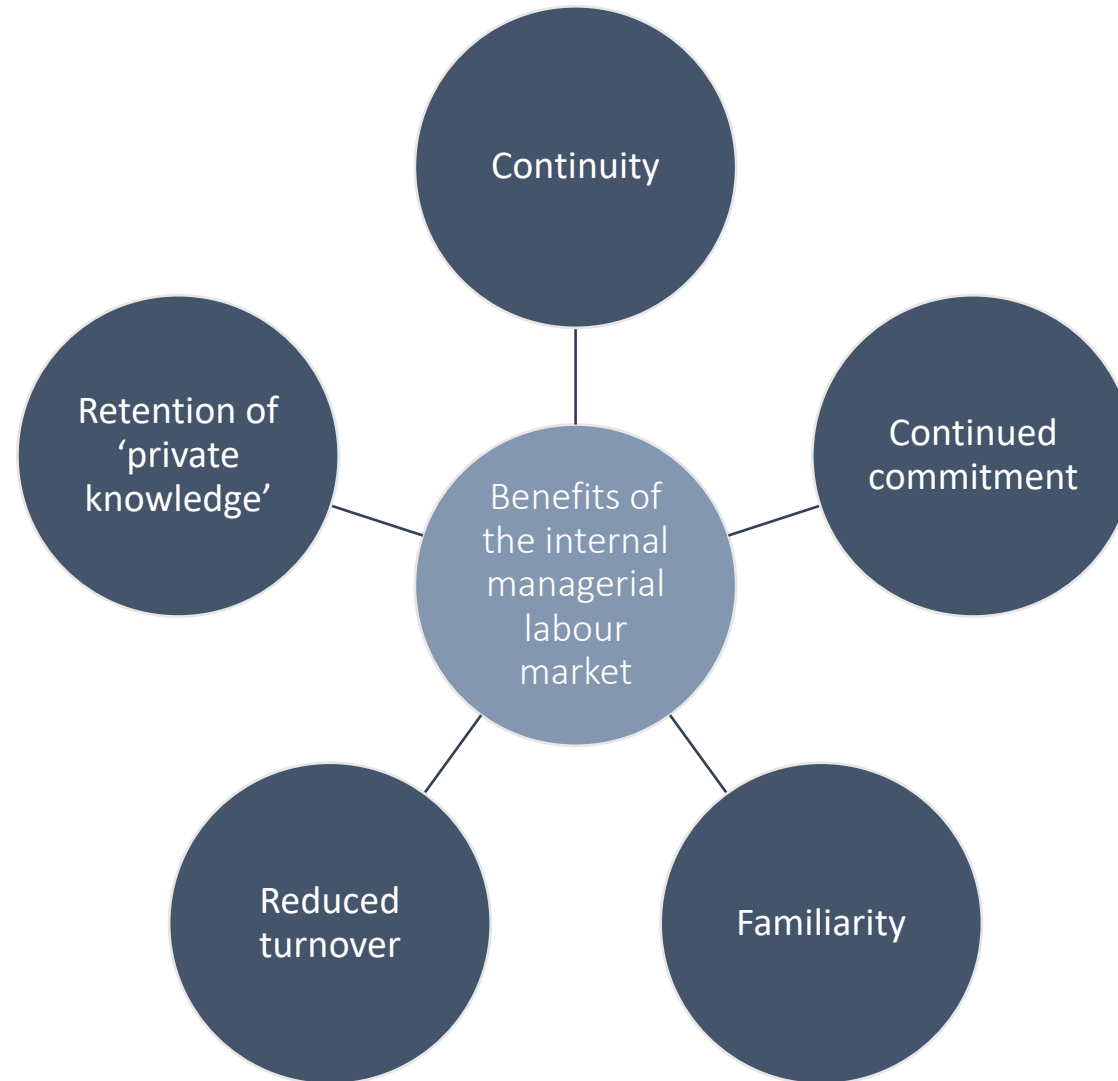
- **Internal managerial labour market:** opportunities for managerial positions to be filled from **within** the firm.
- **External managerial labour market:** opportunities for managerial positions to be filled by candidates from outside the firm.

Figure 12.3

Effects of CEO succession and executive management team composition on strategy

		Managerial labour market: CEO succession	
		Internal CEO succession	External CEO succession
Top management team composition	Homogeneous	Stable strategy	Ambiguous: possible change in top management team and strategy
	Heterogeneous	Stable strategy with innovation	Strategic change

MANAGERIAL SUCCESSION: INTERNAL LABOUR MARKET



MANAGERIAL SUCCESSION: EXTERNAL LABOUR MARKET

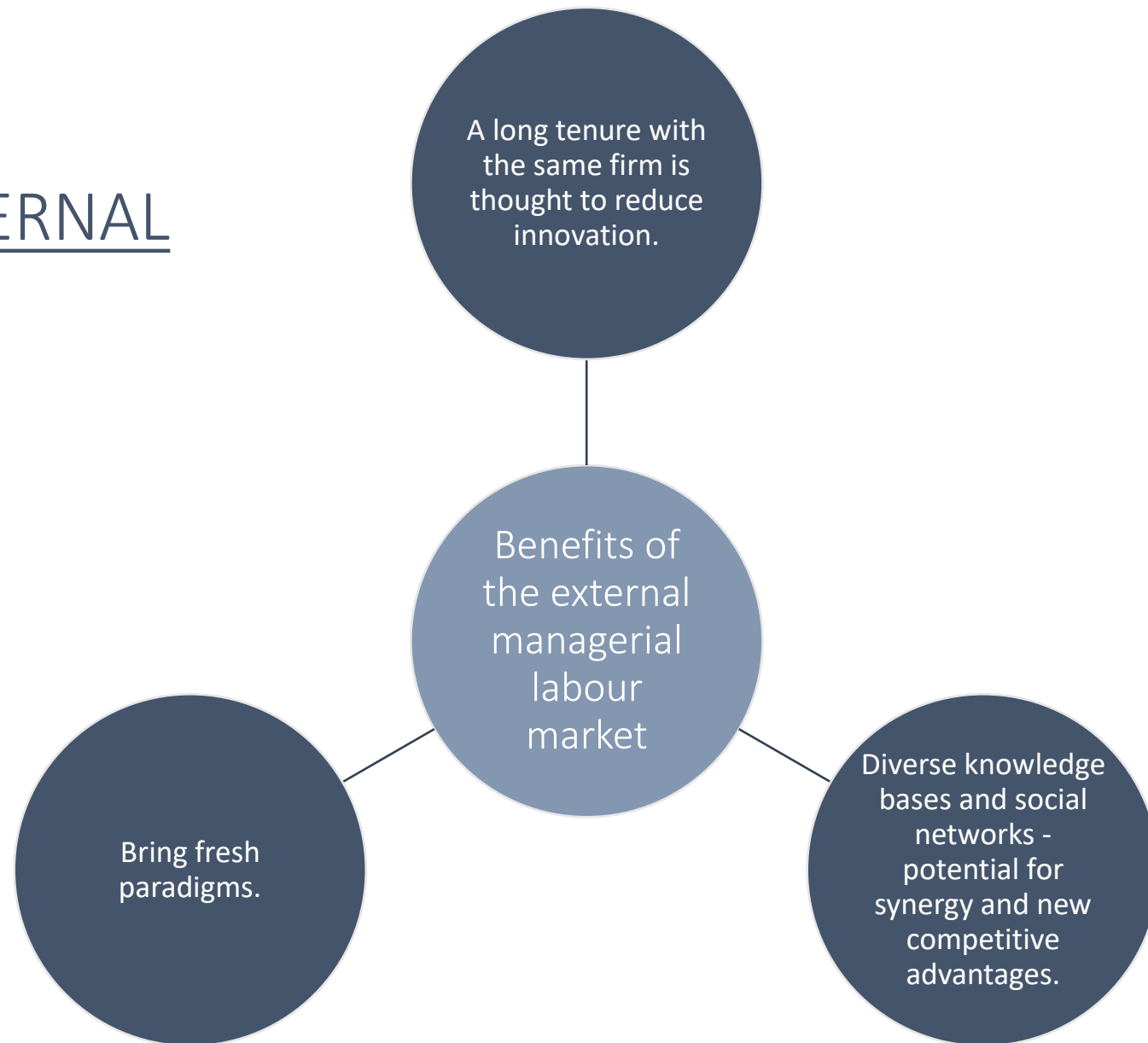


Figure 12.4 Exercise of strategic leadership



KEY STRATEGIC LEADERSHIP ACTIONS

Effectively managing a firm's resource portfolio

- This is the most important task.
- Resources are defined as financial, human, social and organisational capital.

KEY STRATEGIC LEADERSHIP ACTIONS

Effectively managing a firm's resource portfolio

- Effective strategic leaders manage their firm's resource portfolio by:
 - organising the resources into capabilities
 - structuring the firm to facilitate using those capabilities
 - managing each type of resource as well as the integration of resources (e.g. using financial capital to enhance human capital capabilities, such as training and development)
 - choosing strategies through which capabilities are successfully leveraged to create value for customers.

KEY STRATEGIC LEADERSHIP ACTIONS

Exploiting and maintaining core competencies

- Core competencies:
 - resources and capabilities that serve as a source of competitive advantage for a firm over its rivals
 - relate to an organisation's functional skills, such as manufacturing, finance, marketing, research and development.
- Leadership must verify that the firm's competencies are emphasised when implementing strategy.
- Firms must continuously develop/change their core competencies to prevail over competitors.

KEY STRATEGIC LEADERSHIP ACTIONS

Sustaining an effective organisational culture

- Organisationsal culture:
 - the complex set of ideologies, symbols and core values shared throughout the firm
 - influences the way business is conducted
 - helps regulate and control employees' behaviour
 - may be a competitive advantage when strong.

KEY STRATEGIC LEADERSHIP ACTIONS

Changing the organisational culture and restructuring

- It is more difficult to change culture than to maintain it.
- Sometimes change is essential.
- Effective strategic leaders recognise when change in culture is needed.
- Change requires:
 - effective communication and problem solving
 - selecting the right people
 - engaging in effective performance appraisals
 - measuring individual performance towards goals that fit with new values
 - using appropriate reward systems

KEY STRATEGIC LEADERSHIP ACTIONS

Emphasising ethical practices

- The effectiveness of strategy implementation processes increases when they are based on ethical practices.
- Ethical practices create social capital and goodwill for a firm.

KEY STRATEGIC LEADERSHIP ACTIONS

Emphasising ethical practices

- Actions that foster an ethical organisational culture include:
 - establishing and communicating ethics-related goals
 - revising, updating and disseminating a code of conduct
 - developing and implementing methods and procedures to use in achieving a firm's ethical standards
 - creating or using specific reward systems that recognise acts of courage
 - creating a working environment in which all are treated with dignity.

KEY STRATEGIC LEADERSHIP ACTIONS

Establishing balanced organisational controls

- **Controls** are formal, information-based procedures used by managers to maintain or alter patterns in organisational activities.
- Controls help strategic leaders:
 - build credibility
 - demonstrate the value of strategies to the firm's stakeholders
 - promote and support strategic change

KEY STRATEGIC LEADERSHIP ACTIONS

Establishing balanced organisational controls

- **Financial controls:**

- focus on short-term financial outcomes
- produce risk-averse managerial decisions because financial outcomes may be caused by events beyond managers' direct control.

- **Strategic controls:**

- focus on the content of strategic actions rather than their outcomes
- encourage decisions that incorporate moderate and acceptable levels of risk.

KEY STRATEGIC LEADERSHIP ACTIONS

Establishing balanced organisational controls

▪ **The balanced scorecard**

- is a framework to evaluate if firms have achieved the appropriate balance among strategic and financial controls to attain the desired level of firm performance
- is most appropriate for evaluating business-level strategies, but it can also be used with the other strategies firms implement (e.g. corporate-level, international and cooperative)
- prevents overemphasis on financial controls at the expense of strategic controls.

Figure 12.5 Strategic controls and financial controls in a balanced scorecard framework

Perspectives	Criteria
Financial	<ul style="list-style-type: none"> • Cash flow • Return on equity • Return on assets
Customer	<ul style="list-style-type: none"> • Assessment of ability to anticipate customers' needs • Effectiveness of customer service practices • Percentage of repeat business • Quality of communications with customers
Internal business processes	<ul style="list-style-type: none"> • Asset utilisation improvements • Improvements in employee morale • Changes in turnover rates
Learning and growth	<ul style="list-style-type: none"> • Improvements in innovation ability • Number of new products compared to competitors' • Increases in employees' skills