
MSL 686

Strategic Leadership
Belhaven University

Unit 6

- Understanding Strategic Leadership

Introduction: Understanding Strategic Leadership

- This unit addresses the importance of strategic leadership, its effects on organizational outcomes, and the challenges faced by strategic leaders. This indicates that effective strategic leaders must use the strategic management process to: Guide the firm in the formation of its vision and mission
 - Develop strategic actions
 - Providing guidance that results in strategic competitiveness and above-average returns
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Unit 6 Topics

- Strategic leadership
- Top management teams and firm performance
- Managerial succession process using internal and external managerial labor markets
- Strategic leadership and the strategic direction
- Strategic leaders managing the firm's resources
- Sustaining an effective culture
- Establishing and emphasizing ethical practices
- Importance and use of organizational controls

Unit 6 Objectives

1. Define strategic leadership and describe top-level managers' importance.
2. Explain what top management teams are and how they affect firm performance.
3. Describe the managerial succession process using internal and external managerial labor markets.
4. Discuss the value of strategic leadership in determining the firm's strategic direction.
5. Describe the importance of strategic leaders in managing the firm's resources.

Unit 6 Objectives, cont.

1. Explain what must be done for a firm to sustain an effective culture.
2. Describe what strategic leaders can do to establish and emphasize ethical practices.
3. Discuss the importance and use of organizational controls.

Strategic Leadership and Style

- *Strategic leadership* entails the ability to anticipate, envision, maintain flexibility, and empower others to create strategic change as necessary. *Strategic change* is change brought about as a result of selecting and implementing a firm's strategies. In other words, strategic leadership represents a complex form of leadership in organizations.

Strategic Leadership and Style, cont.

A manager with strategic leadership skills exhibits the ability to guide the firm by:

- Managing an entire enterprise
- Influencing the behavior, thoughts, and feelings of coworkers
- Managing through others
- Successfully processing or making sense of complex, ambiguous information by dealing with change and uncertainty

Strategic Leadership and Style, cont.

The strategic leader has several responsibilities, including the following:

- Establishing a context for efficiency
- Attract and then managing human capital (perhaps the most critical of the strategic leader's skills)
- Effectively managing the firm's operations
- Sustaining high performance over time

Strategic Leadership and Style, cont.

- Being willing to make candid, courageous, yet pragmatic, decisions
- Soliciting feedback from peers, superiors, and employees about their difficult decisions and vision
- Developing strong partners internally and externally to facilitate execution of their vision

Strategic Leadership and Style, cont.

- The style used to provide leadership often affects the productivity of those being led. The most effective leadership style used by strategic leaders is a transformational leadership style, which encourages followers to exceed expectations and place the organization above self-interests. The strategic leadership skills of an organization's managers represent resources that can affect the firm's performance.

The Role of Top Level Managers

- Top-level managers represent an important resource for organizations as they attempt to formulate and implement strategies effectively because of top-level managers' roles in designing the organization and the performance outcomes that result from using that design. Thus, it is important for organizations to have a top management team with superior managerial skills.

The Role of Top Level Managers, cont.

- Managers often use their discretion when making strategic decisions and implementing strategies.
- Factors affecting the amount of decision-making discretion:
 - External environmental sources
 - Characteristics of the organization
 - Characteristics of the manager

The Role of Top Level Managers, cont.

Factors Affecting Managerial Discretion

- *External Environment* (especially the competitive environment)
- Industry structure
- Rate of market growth
- Number and type of competitors
- Nature and degree of political/legal constraints
- Degree to which products are differentiated

The Role of Top Level Managers, cont.

Factors Affecting Managerial Discretion

- *Organizational Characteristics*
- Size
- Age
- Organizational culture
- Availability of resources
- Patterns of interaction among employees

The Role of Top Level Managers, cont.

Factors Affecting Managerial Discretion

- *Managers' (Individual) Characteristics*
- Manager's tolerance for ambiguity
- Commitment to the firm and its desired strategic outcomes
- Interpersonal skills
- Level of aspiration
- Degree of self-confidence

The Role of Top Level Managers, cont.

Other critical roles played by top-level managers include:

- Implementing an appropriate organizational structure
- Implementing the organization's reward systems
- Shaping the organization's culture
- Influencing organizational activities and performance

The Role of Top Level Managers, cont.

Top Management Teams

- A firm's *top management team* is responsible for using the strategic management process, especially for the purpose of selecting and implementing strategies. In the case of large organizations, members of the top management team usually can be identified as those individuals with the title of vice president or above and/or individuals who serve on its board of directors.

The Role of Top Level Managers, cont.

- The more heterogeneous a top management team is the more varied its expertise and knowledge, the more capacity it has to provide effective strategic leadership in *formulating* strategy. Members of a heterogeneous top management team benefit from discussing the different perspectives advanced by team members, and these discussions can increase the quality of the top management team's decisions.

The Role of Top Level Managers, cont.

A team with diverse backgrounds and expertise is more likely to:

- Change strategies when it is necessary to do so.
- Identify internal and external environmental changes that require the firm to change strategic direction.
- “Think outside of the box” and thus be more creative in making decisions.

The Role of Top Level Managers, cont.

The CEO and Top Management Team Power

- The composition of a top management team is important, a team that is too powerful may negatively affect performance. The involvement of outsiders on a board of directors has an impact on performance. Outside directors help shape the strategic direction resulting in higher firm performance.

The Role of Top Level Managers, cont.

- Top management team members with longer team and organization tenure have an increased ability to influence the board of directors. However, long tenure restricts an executive's knowledge base, which then limits the number of alternatives evaluated when strategic decisions are being made. The net impact is that these individuals may be able to forestall or avoid board involvement in strategic decisions.

Managerial Succession

- Organizations can select their strategic leaders from one of two labor markets.
- ***Internal managerial labor markets*** represent future promotion or transfer opportunities for managerial positions within the firm.
- ***External managerial labor markets*** represent the collection of managerial career opportunities outside of the current firm.

Managerial Succession

Because of insiders' experience within the firm and the industry the benefits of using the internal managerial labor market include:

- Familiarity with the organization's products, markets, technologies, and standard operating procedures
- Less turnover among existing personnel
- A desire for continuity and commitment to the firm's vision, mission, and strategic actions

Managerial Succession

- Selection of an outsider is unusual. But there are instances that call for selecting an outsider.
- Executives with overly long tenure with the firm may become stale, which reduces the number of innovative approaches developed to help the firm cope with changing conditions that the firm faces.

Managerial Succession

- Insiders may have less of an ability to innovate or create innovation-stimulating conditions, which can be a detriment to the firm's long-term success in the 21st Century competitive landscape.
- Outsiders generally have broader, less limited perspectives, which may mean that innovation and strategic change are encouraged.

Managerial Succession

- **Internal CEO Succession:** A homogeneous team generally results in a stable strategy. A heterogeneous top management team generally results in a stable strategy with continued innovation.
- **External CEO Succession:** A homogeneous team often results in changes in both top management team membership and strategy. If the top management team is heterogeneous, strategic change is likely.

Strategic Focus

- Determining strategic direction involves developing a long-term vision of the firm's strategic intent.
 - Five to ten years into the future
 - Philosophy with goals
 - The image and character the firm seeks
- Ideal long-term vision has two parts:
 - Core ideology
 - Envisioned future

Strategic Focus, cont.

It is important that strategic leaders also recognize that factors such as the following must not be overlooked:

- The firm's strengths must be considered when making strategic changes.
- The firm's short-term needs must be balanced with long-term growth and survival.
- The firm can maintain long-term survivability by effectively managing its resources.

Key Strategic Leadership Actions

The most critical actions that strategic leaders must perform:

- Determining strategic direction
- Establishing balanced controls
- Effectively managing the firm's resource portfolio
- Sustaining an effective organizational culture
- Emphasizing ethical practices

Key Strategic Leadership Actions, cont.

- *Determining the strategic direction of the firm* refers to developing a long-term vision. This means that a firm's managers must think beyond the current period to develop a “future” direction for the firm (normally 5 to 10 years forward).

Key Strategic Leadership Actions, cont.

- The ideal long-term vision has two parts—core ideology and envisioned future. Core ideology motivates employees through the company's heritage, but the envisioned future encourages employees to go beyond their expectations and requires significant change and progress. The envisioned future is a guide to the firm's strategy implementation, including motivation, leadership, employee empowerment, and organizational design.

Key Strategic Leadership Actions, cont.

- Probably the most important task for strategic leaders is effectively managing the firm's portfolio of resources.
- Firms may have multiple resources that can be categorized into the following categories:
 - Financial capital
 - Human capital
 - Social capital
 - Organizational capital

Key Strategic Leadership Actions, cont.

Strategic leaders manage the firm's portfolio of resources by:

- Organizing them into capabilities
- Structuring the firm to use the capabilities
- Developing and implementing a strategy to leverage those resources to achieve a competitive advantage

Key Strategic Leadership Actions, cont.

■ Core Competencies:

- ❑ Resources and capabilities of a firm that serve as a source of competitive advantage over its rivals.
- ❑ Leadership must verify that the firm's competencies are emphasized in strategy implementation efforts.
- ❑ Firms must continuously develop or even change their core competencies to stay ahead of competitors.

Key Strategic Leadership Actions, cont.

■ Human capital

- The knowledge and skills of the firm's entire workforce are a capital resource that requires investment in training and development.

■ Social capital

- Relationships inside and outside the firm that help it accomplish tasks and create value for customers and shareholders.

Organizational Culture

■ Organizational Culture

- The complex set of ideologies, symbols and core values shared through the firm, that influences the way business is conducted.

■ Entrepreneurial Mind-set (Orientation)

- Personal characteristics that encourage or discourage entrepreneurial opportunities.
 - Autonomy
 - Proactiveness
 - Innovativeness
 - Risk taking

Organizational Culture, cont.

- Changing a firm's organizational culture is more difficult than maintaining it.
 - Effective strategic leaders recognize when change in culture is needed.
- Shaping and reinforcing culture requires:
 - effective communication
 - problem solving skills
 - selection of the right people
 - effective performance appraisals
 - appropriate reward systems

Organizational Culture, cont.

- ***Organizational culture*** represents a set of complex ideologies, symbols, and core values that is shared throughout an organization and that influences the way that it conducts business.
- Because it influences how the firm conducts its business and helps regulate and control employee behavior, organizational culture can be a source of differentiation and, thus, competitive advantage.

Organizational Culture, cont.

- An organization's culture will either encourage or discourage employee efforts to tap into entrepreneurial opportunities.
- One way that the pursuit of entrepreneurial opportunities might be promoted is to invest in opportunities as real options. That is, invest in an opportunity to provide the potential of exercising the option of taking advantage of the opportunity at some point in the future.

Organizational Culture, cont.

Corporate culture characteristics and managerial actions that encourage an entrepreneurial mindset include:

- *Autonomy* – enabling employees to be self-directed in the pursuit of entrepreneurial opportunities
- *Innovativeness* – encouraging the pursuit of new ideas, experimentation, and creative processes that will find new ways to add value
- that enable the firm to consistently and significantly outperform the competition

Organizational Culture, cont.

- *Risk-taking* – promoting the willingness of both employees and the organization to accept risk in the pursuit of new market opportunities
- *Proactiveness* – being a market leader rather than a market follower by anticipating the market's future needs and being the first to satisfy them
- *Competitive aggressiveness* – taking actions

Organizational Culture, cont.

Changing the Organizational Culture and Restructuring

- A dramatic shift in strategy from the firm's historical pattern of strategy often means that major changes in the organization's culture are required, and perhaps even the selection of a new CEO or top management team.

Organizational Culture, cont.

The shaping and reinforcing of the new culture requires:

- Effective communication and problem-solving
- People with the values required
- Developing an effective performance appraisal process with goals and measures for individual performance
- A reward system that encourage behaviors that reflect the new core values

Organizational Culture, cont.

- Effective cultural changes must be supported fully by the CEO and other members of the top management team. If large-scale change is needed, support and involvement of mid-level managers is required as they generally are adept at energizing people and aligning their interests and actions.
- If the required cultural change is major or critical, new top management team members may need to be brought in from outside.

Organizational Culture, cont.

Emphasizing Ethical Practices

- The effectiveness of strategy implementation processes increases when they are based on ethical practices. Ethical companies encourage and enable people at all organizational levels to exercise ethical judgment, but unethical practices become like a contagious disease if they evolve in an organization.

Organizational Culture, cont.

- To properly influence employee judgment and behavior, ethical practices must shape the firm's decision-making process and be an integral part of an organization's culture. Research has found that a value-based culture is the most effective means of ensuring that employees comply with the firm's ethical standards.

Organizational Culture, cont.

- In the absence of ethical requirements, ***managerial opportunism*** allows managers to make decisions that are in their own best interests, but not in the best interests of the firm or its stakeholders.

Organizational Culture, cont.

Controls are the formal, information-based routines and procedures used by managers to maintain or alter patterns in organizational activities to help strategic leaders. These can be used to do the following:

- Build credibility
- Demonstrate the value of the firm's strategies to stakeholders

Organizational Culture, cont.

- Promote and support organizational change
- Provide the parameters within which strategies are implemented and corrective actions taken when implementation-related adjustments are needed

Organizational Culture, cont.

The following four perspectives are integrated to form the balanced scorecard framework:

- Financial – concerned with growth, profitability, and risk from shareholders' perspective
- Customer – concerned with the value customers perceive to be created by the firm's products
- Internal business processes – concerned with the priorities for various business processes that create customer and shareholder satisfaction
- Learning and growth – concerned with creating a climate that supports change, innovation, and growth

Organizational Culture, cont.

- Internal business processes – concerned with the priorities for various business processes that create customer and shareholder satisfaction
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Organizational Culture, cont.

- Generally speaking, strategic controls tend to be emphasized when the firm assesses its performance relative to the learning and growth perspective, whereas financial controls are emphasized when assessing performance in terms of the financial perspective. Study of the customer and internal business processes perspectives often is completed through relatively equal emphasis on strategic and financial controls.

Organizational Culture, cont.

- The effective use of strategic controls by top executives is often integrated with appropriate autonomy for the various subunits so they can gain a competitive advantage in their respective markets. Strategic control can be used to promote sharing of both tangible and intangible resources among the firm's interdependent businesses.

Organizational Culture, cont.

- The autonomy provided allows the flexibility needed to take advantage of specific marketplace opportunities. As a result, strategic leadership promotes the simultaneous use of strategic controls and autonomy.

Organizational Culture, cont.

- In diversified firms, successful strategic leaders also balance strategic controls and financial controls to make appropriate investments for future viability (through strategic controls), while maintaining an appropriate level of financial stability in the present (through financial control).

Organizational Culture, cont.

- In fact, most corporate restructuring is designed to refocus the firm on its core businesses, thereby allowing top executives to reestablish strategic control of their separate business units. Thus, both types of controls are important.

Unit 6 Recap

In Unit 6 we:

- Defined strategic leadership and describe top-level managers' importance.
- Explained what top management teams are and how they affect firm performance.
- Described the managerial succession process using internal and external managerial labor markets.
- Discussed the value of strategic leadership in determining the firm's strategic direction.
- Described the importance of strategic leaders in managing the firm's resources.

Unit 6 Recap, cont.

- Explained what must be done for a firm to sustain an effective culture
- Explained what strategic leaders can do to establish and emphasize ethical practices
- Discussed organizational controls

What's next?

- Complete reading assignments
- Complete writing assignments
- Answer discussion questions
- Complete unit quiz

References

Hitt, M., Ireland, R., & Hoskisson, R. (2017). *Strategic Management Competitiveness and Globalization 2015-2017*. Boston, MA: Cengage

Image References

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