 Chapter 2 - Strategic Leadership

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CHAPTER SUMMARY

This chapter begins with a focus on individual strategic leaders as a key resource for the firm. It discusses the importance of strategic leadership, skills and personal characteristics that make leaders effective, and factors which influence their ability to make effective strategic decisions.

Strategic leadership through top management teams is also examined, with a review of top management team dynamics which impact organizations and executive succession issues relevant to organizational performance.

The six key components of effective strategic leadership are then explored, along with how they influence the amount of value a firm creates and its economic outcomes.

CHAPTER OUTLINE

- Strategic Leaders as a Key Resource through Their Influences on Strategic Decisions
  - *Strategic Leadership Style*
  - *Managerial Discretion and Decision Biases*
- Top Management Teams
  - *Top Management Team Heterogeneity*
  - *The CEO and Top Management Team Power*
  - *Executive Succession Processes*
- Key Strategic Leadership Responsibilities and Actions
  - *Ensure That the Firm is Well Positioned Economically*
  - *Acquire, Develop, and Manage Key Resources*
  - *Develop and Manage Relationships with External Stakeholders*
  - *Determine and Communicate Strategic Direction*
  - *Oversee Formulation and Implementation of Specific Strategies*
  - *Establish Balanced Controls*
- Summary
- Ethics Questions

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KNOWLEDGE OBJECTIVES

1. Define strategic leadership and describe the importance of top-level managers as

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resources.

2. Discuss the characteristics of effective strategic leaders and the factors that influence their ability to make effective strategic decisions, including managerial discretion and decision biases.
3. Define top management teams and explain their effects on firm performance.
4. Describe the factors that influence the ability of top managers to be effective strategic leaders.
5. Describe the processes associated with ensuring that a firm is well-positioned economically and identify the characteristics of a well-defined strategy.
6. Explain how strategic leaders acquire, develop, and manage firm resources to create one or more competitive advantages.

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7. Describe how strategic leaders manage relationships with external stakeholders in order to reduce uncertainty and enhance value creation.
8. Discuss the roles of strategic leadership in determining and communicating the firm's strategic direction.
9. Discuss the importance and use of organizational controls.

LECTURE NOTES

Strategic Leaders as a Key Resource Through Their Influences on Strategic Decisions – This section introduces strategic leadership and the concept of skills hierarchy, which details the accumulative skill sets attained by effective strategic leaders.	
See slide 1. Introduction	***Competing for Advantage*** PART I: STRATEGIC THINKING Chapter 2: Strategic Leadership
See slide 2. Figure 1.6	**The Strategic Management Process – Overview** **Strategic Thinking** – driven by strategic leaders who establish and use the strategic management process in their firms. Strategic direction is reflected in the firm's vision, mission, purpose, and long-term goals.
See slide 3. Key Terms	**Key Terms** ▪ <u>Strategic leadership</u> - the ability to anticipate, envision, maintain flexibility, and empower others to create strategic change as necessary Discussion points: − Strategic leaders can profoundly influence firm performance. − Leaders can be effective and successful with very different approaches. − Effective strategic leadership is a requirement for successful strategic management. − Strategic leaders are a key organizational resource because of the influence they have on strategic decisions. 1. Name some examples of legendary leaders. Discuss their disparate approaches.

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	a. Jack Welch – General Electric CEO b. Sam Walton – Walmart Founder and CEO c. Akio Morita – Sony CEO d. Steve Jobs – Apple Founder and CEO

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	2. What role do strategic leaders play in the strategic management process? (From Chapter 1) a. They guide the strategic management process. b. They help the organization acquire and develop needed resources. c. They manage relationships with key organizational stakeholders. d. They develop adequate organizational controls to ensure desired outcomes are achieved.
See slide 4. Discussion	Despite different leadership styles, legendary CEOs do have some qualities in common. Having the ability to establish a strategic vision and create passion and energy among a firm's employees to realize the vision and achieve outstanding performance is essential.
See slide 5. Discussion	**Strategic Leadership –** the ability to anticipate, envision, maintain flexibility, and empower others to create strategic change as necessary 3. What does strategic leadership involve (in addition to the definition above)? a. It is multifunctional – and often global – in nature and scope. b. It entails managing an entire enterprise rather than a functional subunit. c. It involves managing through others and influencing human behavior. d. It requires the ability to meaningfully influence the behaviors, thoughts, and feelings of those with whom they work. e. It requires accepting and coping with an increasingly greater amount of change in an uncertain environment. f. It means motivating others to do more than is expected, to continuously enrich their capabilities, and to place the interests of the organization above their own. g. It is achieved through both communication and personal example.
See slide 6. Discussion	**Skill Hierarchy –** accumulative set of strategic leadership skills which serve as a framework for analyzing managers' capacity to become effective strategic leaders Includes personal characteristics which enable strategic leaders to make effective strategic decisions.

	Lower-level skills must be mastered before higher-level skills can be fully developed. Reference: *Good to be Great*, by Jim Collins Discussion points: − Level 1: Most basic to becoming a capable individual is developing task-related skills and a strong work ethic. − Level 2: Next, a person must be able to work effectively within a team structure and make useful contributions to the achievement of team goals. − Level 3: After mastering levels 1 and 2, competent management comes from the ability to organize people and resources to achieve organizational objectives. − Level 4: Not all competent managers can become effective leaders, which entails the ability to articulate a clear strategic intent and to motivate followers to high levels of performance. − Level 5: Also known as *Transformational Leaders*. Achieving executive-level skills requires leaders to possess an unwavering resolve to lead their company to greatness. Frequently, these leaders are humble and are comfortable attributing success to their team, rather than focusing on their own personal achievements. − **In addition to these skills, indicators of future success also include: o An understanding of the firm’s strategic situation to make appropriate decisions o Availability of human and social capital

Strategic Leadership Style – This section describes different styles of strategic leadership and their effectiveness in different situations.

See slide 7. Discussion	**Strategic Leadership Style –** Leaders engage in different styles of strategic leadership for effectiveness in different situations. They set the tone for the amount of managerial participation in strategic decisions and for how decisions are to be implemented. Discussion points: − *Directive* – Meet with top management team members to collect information, but individually decide on strategies and direct subordinates to carry them out. − *Collaborative* – Jointly arrive at strategies and implement plans with members of the top management team.

- *Delegation* – Give strategy-making responsibilities to subordinates, allocate resources to them, and give them responsibility for effectively utilizing the resources to achieve strategic goals.
- Appropriate use of each type of leadership style depends on the competitive situation.
- The cultural/functional backgrounds of top managers may also influence the way strategic decisions are made.
- An ongoing debate exists regarding whether it is appropriate to try to match backgrounds of managers with the competitive situation in which they will lead.

4. When is it appropriate to employ each strategic leadership style?
   a. *Directive approach* – A traditional "commander" style might be most appropriate when rapid decisions need to be made, such as during emergencies or unexpected shifts in the business environment.
   b. *Collaborative approach* – In general, this participative style usually yields better results when managers share and evaluate a greater amount of relevant information in their decision making. This style also enhances implementation of strategies, as managers take greater ownership of decisions in which they are involved.
   c. *Delegation* – This is an effective style when implementation of strategy can be improved through independent decision making by managers.

5. Provide examples of when it is appropriate or inappropriate to match manager backgrounds to competitive situations.
   a. Production/operation backgrounds are suited for low-cost strategies due to their internal focus on efficiency and engineering.
   b. Marketing/R&D backgrounds are suited for differentiation strategies due to their need for innovation and market awareness.
   c. Marketing backgrounds are suited for growth strategies.
   d. Managers who demonstrate a willingness to take risks and a high tolerance for ambiguity are suited for growth strategies, but not particularly for a turnaround situation.
   e. Younger, well-educated managers with less time at an organization are suited for a changing strategic direction and innovation strategies.

<table>
<tr><td colspan="2">Managerial Discretion and Decision Biases – This section presents a detailed discussion of the influence that managerial discretion and decision-making biases can have on the effectiveness of strategic decisions, highlighting how strategic leadership can be enhanced, factors that constrain managerial decision making, and how biases and hubris affect the quality of decisions.</td></tr>
<tr><td>See slide 8.
Key Terms</td><td>Key Terms
▪ <u>Managerial discretion</u> - latitude for action
▪ <u>Hubris</u> - excessive pride, leading to a feeling of invincibility

Managerial Discretion and Decision Biases – Managerial discretion and decision-making biases can have a strong influence on the effectiveness of strategic decisions, which are intended to establish competitive advantage and organizational success.

Discussion points:
− Hubris can magnify the effects of the potential biases in managerial decision making.
− Leaders must caution against positive media attention and public recognition which can lead to overconfidence and negatively affect strategic decision making.
− Leaders must guard against self-confidence growing to the point of hubris.
− Some of today’s greatest leaders exhibit an unusual degree of humility.</td></tr>
<tr><td>See slide 9.
Factors</td><td>Factors Impacting Managerial Discretion – Managerial discretion is also used for the implementation of chosen strategies. Effectiveness of strategic leadership can be enhanced by addressing the factors which impact managerial discretion.

Discussion points:
− Manager characteristics:
o Degree of orientation toward action which spurs the company to take action
o Level of commitment to the firm and its strategic outcomes
o Amount of tolerance for ambiguity
o Presence of skills in working with different personalities
o Level of aspiration
− External environment:
o Industry structure
o Rate of market growth
o Degree to which products can be differentiated</td></tr>
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<table>
<tr><td></td><td>
− Organization characteristics:
o Size
o Age
o Resources
o Culture

Refer to Figure 2.1 or Slide 10.
</td></tr>
<tr><td>See slide 10.
Figure 2.1</td><td>
Factors Affecting Managerial Discretion – Three major types of factors constrain managerial decision making.
External environment factors (such as industry structure, rate of market growth, degree of product differentiation).
Organizational factors (such as company size, age, resources, culture).
Individual manager factors (such as commitment to the firm, tolerance for ambiguity, interpersonal skills, and ambitions.)
</td></tr>
<tr><td>See slide 11.
Discussion</td><td>
Decision-Making Biases – influence the quality of strategic management decisions

Discussion points:
− Strategic managers tend to rely on a limited set of heuristics, or “rules of thumb”, to simplify overwhelmingly complicated and uncertain decision environments.
− From their past experiences and information picked up from various sources, executives bring a number of preconceived ideas into any decision process.
o beliefs about causality
o tendency to overlook information leading to different conclusions
o stereotypes – notions about abilities or potential behaviors based on gender, nationality, religion, or race
− A focus on limited targets can preclude broader (non-financial) objectives of strategic importance or more favorable stakeholder relationships.
− Limiting the number of decision alternatives aimed at achieving a particular goal simplifies and speeds up decision processes, but supplements rationality with intuition and tends to overlook potentially more viable alternatives.
− Decision makers may not understand, trust, or use common probabilities to guide decision processes. They can be more influenced by the magnitude of potential decision outcomes rather than the probability that they will occur. Or they may be inclined to discount information which is important to assessing
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	the probability of success because they consider the situation to be unique. This is dangerous as leaders may be attracted to high-potential returns without considering the unlikeliness of success. – Belief of greater control over outcomes than really exists manifests itself in lower assessments of the probability of failure or in the belief that the leader possesses the skills to fix problems that surface. Overconfidence or overoptimism can lead to poor decisions early in the decision process and to inadequate implementation planning.
See slide 12. Discussion	**Minimizing Decision-Making Biases –** The effectiveness of strategic leadership can be enhanced by minimizing the effects of decision-making biases. Discussion points: – Awareness of biases can help leaders overcome them. – An open decision-making environment invites new perspectives and challenges existing assumptions/strategies. – Use of real options analysis ensures the consideration of proper probabilities (discussed more fully in Chapter 13). – A top management team composed of individuals with divergent views and a variety of backgrounds reduces problems associated with decision biases. – It is important to evaluate the decision processes which are used to establish strategies. – A recent McKinsey study of over 1,000 business investments showed that companies working to reduce decision biases raised their returns by 7%.

Top Management Teams – This section identifies the top management team of an organization as a critical resource for firms seeking to successfully use the strategic management process. It is broken into three factors that influence the ability of top management teams to exercise effective strategic leadership.

See slide 13. Key Terms	**Key Terms** ▪ <u>Top management team</u> - group composed of the CEO and other key managers who are responsible for setting the direction of the firm and for formulating and implementing its strategies ▪ <u>Heterogeneous top management team</u> - managerial group composed of individuals with different functional backgrounds, experiences, and educations

	Top Management Teams – assortment of high-ranking managers typically represents major businesses or functional areas of the firm Discussion points: – The top management team of an organization is a critical resource for firms seeking to successfully use the strategic management process. – Addressing complex organizational challenges requires substantial information, knowledge, and skills. – The quality of strategic thinking and decisions made by the top management team impact the ability of the firm to *innovate* and effect *strategic change*. – Decisions made by top managers influence the design of the organization, the nature of its strategy, and the achievement of its goals. – Superior managerial and decision-making skills lead to organizational success. **Top Management Team Heterogeneity** – The formation of a diverse top management team with a variety and breadth of strengths, capabilities, and operational knowledge will provide effective strategic leadership to address complex environmental forces and to manage multiple (perhaps conflicting) stakeholder relationships. The more varied the expertise and knowledge within a team, the greater its capacity to effectively formulate strategy.
See slide 14. Factors	**Top Management Team Effectiveness –** Three factors influence the ability of top management teams to exercise effective strategic leadership and achieve organizational success.

Top Management Team Heterogeneity – This section discusses the formation of a diverse top management team with a variety of strengths, capabilities, and knowledge to provide effective strategic leadership while facing complex environmental forces and managing multiple stakeholder relationships.

See slide 15. Benefits	**Benefits of Top Management Team Heterogeneity –** Heterogeneous top management teams contribute to better strategic guidance and better organizational performance. Discussion points: – A variety of different perspectives is introduced and increases the quality of decision making (especially when synthesis occurs).

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	– Heterogeneous teams have demonstrated a greater propensity to take stronger competitive actions and reactions than homogeneous teams. – Heterogeneous teams are more likely to engage in thinking "outside of the box" (or beyond common mental models which shape viewpoints), leading to more creative decision making and yielding innovation and strategic change within their organizations. – Various areas of substantive functional and business expertise improve the identification of environmental opportunities and threats or the need for a new strategic direction. – Vigorous debate yields better decision making and higher firm performance. Example: Steve Ballmer's top management team at Microsoft
See slide 16. Challenges	**Challenges of Top Management Heterogeneity –** Once a decision is made, challenges of heterogeneity can interfere with the implementation of strategic change. In general, the more heterogeneous and larger the top management team, the more difficult it is to effectively implement strategies. Discussion points: – Creating a level of cohesion among team members is important to facilitate effective implementation of change. This involves integrating diverse opinions and behavior into a common way of thinking and acting. – Comprehensive and long-term strategic plans can be inhibited by communication difficulties among top executives with different backgrounds and cognitive skills, unless the decision making process is properly overseen. – Diverse top management teams may fail to comprehensively examine threats and opportunities in the external environment and can produce suboptimal strategic decisions unless effectively managed. – Given the need for diverse managerial perspectives in an increasingly competitive marketplace, it is unfortunate that some firms remain reluctant to fill top jobs with individuals with different views. – Minority groups and women are underrepresented in top positions, which indicates that the full set of available resources is being underutilized and that opportunities to foster relationships with diverse segments of society are being missed. Example: Virginia Rometty's challenges at IBM

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	6. Name some examples of progress that *is* being made in the advancement of women to upper-level positions. a. Xerox CEO Ursula Burns b. Pepsico CEO Indra Nooyi c. HP CEO Meg Whitman a. 17% of board members are now female

The CEO and Top Management Team Power – This section focuses on the characteristics that give the CEO and top management team power relative to the board and the influence these characteristics can have on the amount of strategic leadership the board provides.	
See slide 17. Key Terms	**Key Terms** ▪ <u>CEO duality</u> - practice of CEO also holding the position as chair of the board of directors ▪ <u>Independent board leadership structure</u> - practice of assigning the CEO and chair of the board positions to two different people ▪ <u>Stewardship theory</u> - concept suggesting that top managers intend to behave in the right interests of the firm's shareholders **The CEO and Top Management Team Power –** influences the amount of strategic leadership that the board ultimately provides
See slide 18. Discussion	**CEO Duality –** a source of CEO power relative to the board of directors Example: Pfizer's Ian Read The criticism of CEO duality causing poor performance and slow response to change is not clearly backed up by research.
See slide 19. Discussion	**Independent Board Leadership Structure**
See slide 20. Discussion	**Stewardship Theory –** If the strategic leader is the best possible steward of the firm's assets, these assumptions should stand.

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See slide 21. Discussion	**Sources of Top Management Power –** The board of directors is a governance mechanism for monitoring strategic direction and representing shareholder interests. Despite the premise that higher firm performance can be achieved by boards of directors that are actively involved with shaping the firm's strategic direction, some practices can increase the power of top management teams relative to its board of directors and can make it difficult for directors to guide the strategic actions of powerful CEOs and top managers. 7. Are boards an effective management control mechanism or are they a management tool to facilitate management initiatives? Example: Pfizer Answers will vary. Despite highly visible examples of poor governance in low-performing firms, close ties between the board and CEO do not always lead to less board involvement in strategic decisions. It is important for board members to recognize and safeguard against the risks. 8. How might long tenure impact the effectiveness of executives in their role as strategic leaders? a. Long tenure is known to restrict the breadth of an executive's knowledge base, which limits the strategic alternatives they develop. b. Executives with long tenure may be able to exercise more effective strategic control and achieve higher performance. 9. What steps can boards take to strengthen the firm? a. Develop an effective relationship with the top management team. b. Examine the relative degree of power held by the board and top management team members. c. Recognize the need for enhanced CEO power and less management diversity when a volatile or uncertain external environment exists.

Executive Succession Processes – This section analyzes the wisdom of selecting top executives, particularly CEOs, from either internal or external labor markets and the impact this decision has on company performance and the ability to embrace change in today's competitive landscape.

See slide 22. Key Terms	**Key Terms** ▪ Internal managerial labor market - seeking to fill managerial positions from a pool of candidates found within the firm

	▪ External managerial labor market - seeking to fill managerial positions from a pool of candidates found outside of the firm **Executive Succession Processes –** The choice of top executives, particularly CEOs, is a critical organizational decision with important implications for firm performance. Discussion points: − Many companies use leadership screening systems to identify individuals with managerial and strategic leadership skills and potential. − Effective screening systems can be used to assess firm employees to gain valuable information on internal management capabilities possessed by the firm. − With this input, training and development programs can be created to preselect and shape future leaders for the organization. Example: GE's 10-Step Talent program
See slide 23. Discussion	**Benefits of Internal Hiring Practices –** In the past, companies have strongly preferred to fill top management positions from the internal labor market for these types of reasons. Discussion points: − Desire for continuity − Ongoing commitment to the firm's current vision, mission, and chosen strategies − Familiarity with company products, markets, technologies, and operating procedures from firm and industry experience − Increased retention of existing personnel − Retention of valuable knowledge (such as unique routines, processes, documentation, or trade secrets) necessary to sustain high performance − Internal succession is favored when the firm is performing well. − Research shows that insider CEOs are more effective and are more successful implementing change programs after three years. − An effective succession management program to internally develop and prepare managers for advancement is necessary for the internal labor market to operate successfully. Examples: GE and IBM

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See slide 24. Discussion	**External Labor Market –** Because of changing competitive landscapes and varying levels of performance, an increasing number of boards are turning to outsiders to succeed CEOs. Despite valid reasons for turning to the outside labor market to fill top management positions, it is often done because boards have not established well-developed, internal succession plans. If strategic change is needed, an outsider is often selected to lead the change.
See slide 25. Figure 2.2	**Interaction between CEO Succession and Top Management Team Composition –** Figure 2.2 shows how the composition of the top management team and CEO succession (managerial labor market) may interact to affect strategy. For example, when the top management team is homogeneous (its members have similar functional experiences and educational backgrounds) and a new CEO is selected from inside the firm, the firm's current strategy is unlikely to change. On the other hand, when a new CEO is selected from outside the firm and the top management team is heterogeneous, there is a high probability that strategy will change. When the new CEO is from inside the firm and a heterogeneous top management team is in place, the strategy may not change, but innovation is likely to continue. An external CEO succession with a homogeneous team creates a more ambiguous situation.

Key Strategic Leadership Responsibilities and Actions – This section outlines the varied responsibilities and tasks associated with strategic leadership as they relate to the three strategic management perspectives presented in Chapter 1.

See slide 26
Figure 2.3
	Key Strategic Leadership Responsibilities and Actions – The primary responsibility for strategic thinking and effective strategic leadership rests with the top management team, in particular, the CEO. These responsibilities cannot be delegated. Here, the varied responsibilities and tasks associated with strategic leadership are related to the three strategic management perspectives (presented in Chapter 1).
	
	Discussion points:
	– Three major responsibilities of strategic leaders and the strategic management perspective with which they relate:
	    o Ensuring that the firm is well positioned economically – monitoring the external environment
	    o Acquiring, developing, and managing key resources – utilizing internal resources

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	o Developing and managing relationships with key constituents to create value – collaborating with stakeholders – Specific tasks are associated with these major responsibilities: o Determining and communicating strategic direction o Facilitating and overseeing the formulation and implementation of specific strategies o Establishing balanced controls – Outcomes that can be expected from effective strategic leadership: o The establishment of competitive advantage o The creation of greater value for the firm and its stakeholders o Above-average financial performance – The perspectives and the roles played by strategic leaders are linked and overlap. Responsibilities associated with all three perspectives influence strategy formulation, direction, and implementation.

Ensure That the Firm is Well Positioned Economically – This section discusses the positioning responsibilities of strategic leaders and highlights the five important elements that determine a firm's strategy.	
See slide 27. Key Terms	**Key Terms** ▪ Scope - breadth of a firm's activities across products, markets, geographic regions, core technologies, and value creation stages **Ensure That the Firm is Well Positioned Economically** – Strategic leadership involves selecting industries and industry segments in which to compete and responding to changes that occur in those environments. Continuous alignment between the firm and its environment and judgment in analyzing the external environment are essential.
See slide 28. Figure 2.4	**Five Elements that Identify a Firm's Strategy –** A firm's strategy is the central, integrated, externally-oriented concept of how the organization plans to achieve its objectives. It is a manifestation of the company's strategic intent. Discussion points: – Defining the business *arenas* (scope defined on Slide 27) – critical starting point for strategic planning and management – Commonly used *growth vehicles* – internal development, joint ventures, licensing, franchising, and acquisitions

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	– *Differentiators* – help a firm determine how it is expected to win customers in the marketplace – *Staging* – the timing of strategy and the sequence of moves the firm will take to carry it out (increasingly important because of the speed of change in the competitive environment) – *Economic logic* – pulls together all of the above elements and focuses on achieving above-average financial returns

Acquire, Develop, and Manage Key Resources – This section highlights two critical resources, human capital and organizational culture, which are closely tied to strategic leadership and can establish a core competency for a firm in its quest for competitive advantage. (Other organizational resources that offer the potential for competitive advantage are covered in Chapter 4.) This material supports the idea that firms can develop core competencies based on both the capabilities it possesses and the way the capabilities are used to produce strategic actions.	
See slide 29. Discussion	**Acquire, Develop, and Manage Key Resources –** Strategic leadership also involves realizing the value of organizational resources. Two critical resources, human capital and organizational culture, are strongly related to strategic leadership and play a significant role in establishing core competencies to aid in the firm's quest to achieve a competitive advantage. (Other organizational resources that offer the potential for competitive advantage are covered in Chapter 4.)
See slide 30. Discussion	**Managing Human Capital –** The ability to manage human capital may be the most critical of the strategic leader's skills. Building human capital is a challenge which is vital to strategic leadership. Discussion points: – Involves harnessing the knowledge and skills of the firm's entire workforce – Includes the ability to create and commercialize innovation with intellectual capital – Establishes context through which stakeholders (such as employees, customer, and suppliers) can perform at peak efficiency – Depends on the ability to manage the firm's operations and employees effectively to sustain high performance over time – Requires more than using temporary employees, improving recruitment and selection techniques, and seeking star players in the search for adequate human capital to run an organization – Dictates building effective commitments to organizational goals – Mandates building an effective organizational team committed to achieving the company's strategic intent – Requires strategic leaders with collaborative abilities

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See slide 31. Discussion	**Developing Global Competencies –** Increasingly, international experience has become essential to the development necessary for strategic leaders. Nearly every industry is targeting fast-growing foreign markets, which requires global competency amongst top managers. 10. What is “inpatriation”? a. *Inpatriation* is the process of transferring host-country or third country national managers into the domestic market of multinational firms. b. It has become an important means of building global core competencies.
See slide 32. Discussion	**Investing in Employees as a Capital Resource –** Much of the development of U.S. industry can be attributed to productive investment in the effectiveness of human capital. “…as the dynamics of competition accelerate, people are perhaps the only sustainable source of competitive advantage.” This suggests that human resource management activities are increasingly important to the success of businesses around the world. Human resource management is a support activity (discussed more fully in Chapter 4) which facilitates efforts to successfully select and use the firm’s strategies. 11. How do effective training and development programs increase the probability of strategic leader success? a. They contribute to the development of core competencies. b. They build the knowledge and skills integral to gaining and sustaining a competitive advantage. c. They inculcate a common set of core values. d. They establish a systematic view of the organization which promotes strategic vision and organizational cohesion. e. They develop skills critical to performing strategic leadership tasks, such as determining strategic direction, exploiting and maintaining core competencies, and developing an organizational culture which supports ethical practices. Example: GE

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	Discussion points: − Firms that value human resources and have instituted effective reward plans have obtained higher returns on their initial public offerings. − When human capital investments are successful, a workforce capable of continuous learning is established. − Leveraging the firm's expanding knowledge base is also linked with strategic success.
See slide 33. Key Terms	**Key Terms** ▪ <u>Organizational culture</u> - a complex set of ideologies, symbols, and core values that is shared throughout the firm and influences the way business is conducted **Ensuring an Effective Organizational Culture –** Firms can develop core competencies based on both the capabilities it possesses and the way the capabilities are used to produce strategic actions. Discussion points: − Because organizational culture influences how the firm conducts its business and helps regulate and control employee behavior, it can be a source of competitive advantage. − Shaping the context within which the firm formulates and implements its strategies is a central task of strategic leaders. − Changing a firm's organizational culture is more difficult than maintaining it, but effective leaders recognize when change is necessary.
See slide 34. Discussion	**Entrepreneurial Opportunism –** The pursuit of entrepreneurial opportunities is an important source of growth and innovation. Firms of all sizes rely on developing innovation as a foundation for earning above-average returns, but it is especially important in large firms, where the organizational culture can easily stifle entrepreneurial activity. Chapter 12 describes how large firms use entrepreneurship to pursue opportunities and gain first-mover advantages. Chapter 13 describes investing in opportunities as real options. Five dimensions characterize a firm's entrepreneurial orientation. Combined, they influence a firm's actions and efforts to innovate and launch new ventures.

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	Discussion points: – *Employee autonomy* – allows actions which are free of organizational constraint – permits self-direction – *Innovativeness* – tendency to engage in and support new ideas, novelty, experimentation, and creative processes that may produce new products, services, or technological processes – encourages thinking beyond existing knowledge, technology, and parameters to add value – *Risk taking* – reflects a willingness to accept risk when pursuing new opportunities, such as assuming significant levels of debt or allocating substantial resources for incomplete or unproven projects – *Proactiveness* – describes the ability to lead rather than follow in the firm's industry or markets – uses processes to anticipate future market needs and to satisfy them before competitors learn to do so – *Competitive aggressiveness* – propensity to take actions which allow the firm to consistently outperform rivals
See slide 35. Discussion	**Shaping and Reinforcing a New Culture –** Incremental changes to a firm's culture are commonly used to implement strategy. Radical changes to culture support the selection of entirely new strategies for the organization. Discussion points: – A new culture requires effective communication and problem solving. – It requires the selection of the employees with the values desired by the organization. – Establishing goals that fit in with new core values and measuring individual performance toward those goals are necessary. – Appropriate reward systems must be developed to reward desired behaviors that reflect new core values. – Cultural changes are likely to succeed only with the active support of the firm's CEO, top-level managers, and key middle-level managers. Example: J.C. Penney

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Develop and Manage Relationships with External Stakeholders – This section emphasizes the responsibilities that top managers have, in addition to motivating and directing the internal organization, to create and manage relationships with external stakeholders.

See slide 36. Benefits	**Benefits of Effective Stakeholder Management –** depend on the actions and attitudes of strategic leaders who develop and manage relationships with key stakeholder groups As complexity and interdependency increase in the business world, the leadership role of maintaining external stakeholder relationships increases in strategic importance.

Determine and Communicate Strategic Direction – This section uses the example of Novartis' mission statement to illustrate that strategic direction is embedded in a firm's mission, vision, purpose, long-term goals, and values. A full discussion of establishing values and ethical practices within the framework of the strategic management process then follows.

See slide 37. Key Terms	**Key Terms** ▪ Strategic direction - definition of a firm's image and character over time, framed within the context of the conditions in which the company operates ▪ Sustainable development - concept that a firm can and should operate without adversely influencing its environment Discussion points: − Strategic Direction o A function of the firm's strategic intent, resources and capabilities, and stakeholder expectations o CEO is the chief architect o Guides decisions and actions of internal stakeholders o Positively affects performance, measured by growth in sales, profits, employment, and net worth o Is of interest to external stakeholders, particularly in the wake of recent corporate scandals o Is reflected in the firm's interconnected vision, purpose, long-term goals, and values o Must be clearly communicated to both internal and external stakeholders − Sustainable Development o Concept has been gaining strategic importance in recent years Example: Novartis' mission statement

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	12. What are some of the vehicles through which firms can communicate strategic direction to external stakeholders? a. Annual reports b. Speeches c. Press releases d. Training sessions e. Meetings f. Interpersonal communication g. Comments from executives 13. What external stakeholder groups can benefit from understanding what the firm values and how it conducts business? a. Customers b. Communities c. Suppliers d. Venture partners e. Special interest groups f. Regulators
See slide 38. Table 2.1	**Novartis' Mission Statement –** illustrates that strategic direction is embedded in a firm's mission, vision, purpose, long-term goals, and values A full discussion of establishing values and ethical practices within the framework of the strategic management process can follow. A carefully constructed mission statement should inspire the firm's employees and define the scope of its operations and unique purposes (what it intends to do for specific stakeholders).
See slide 39. Discussion	**Long-Term Vision –** Two components constitute an ideal long-term vision for a firm. "Stretch goals" promote higher levels of personal and organizational performance, but can cause underperforming firms to fail.
See slide 40. Discussion	**Guiding Employee Decision Making –** tools used by top managers to guide employees in their decision making A fully-defined and well-communicated *strategic direction*. Well-established *values and ethical practices* integrated into the firm's culture.

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See slide 41. Discussion	**Establishing Values and Ethical Practices –** To properly influence employee judgment and behavior, ethical practices must shape the firm's decision-making processes and be integrated into the fabric of the organization. A value-based culture is the most effective means of ensuring that employees comply with the firm's ethical requirements. 14. Name some actions that strategic leaders can take to develop an ethical culture within their firms. a. Employ ethical strategic leaders who include ethical practices in their long-term vision, who desire to do the right thing, and who value honesty, trust and integrity. Managers' values are critical in shaping a firm's cultural values. b. Institute formal programs to establish ethics. They inculcate values throughout the organization and are more effective when performed simultaneously. i. Develop a code of ethics to reinforce the organization's values. Examples: United Technologies and Enron ii. Communicate specific goals to describe the firm's ethical standards. iii. Continuously revise and update based on stakeholder input to keep standards current. iv. Disseminate to all stakeholders to inform them of ethical standards and practices. v. Develop and implement methods and procedures to use in achieving the firm's ethical standards. Use internal auditing practices which are consistent with the standards. vi. Create and use explicit reward systems to recognize bold acts that demonstrate ethical behavior and decision making. Reward those who use proper channels and procedures to report wrongdoing. c. Create a work environment where all people are treated with dignity. 15. Name some examples of recent corporate scandals or CEO departures based on ethical lapses. a. Jon Corzine of MF Global b. Michael Woodford of Olympus c. Rupert Murdoch of News Corp.

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Oversee Formulation and Implementation of Specific Strategies – This section briefly reviews implementation actions as they are related to each of the three strategic perspectives on value creation. We are reminded that strategic direction serves as a guide to the implementation of a firm's specific strategies.

See slide 42. Discussion	**Strategy Formulation and Implementation** – The three strategic perspectives on value creation each suggest a slightly different (but interrelated) view of the strategy oversight and implementation responsibilities of leaders. Discussion points: – Implementation within the *I/O economics framework* involves developing structures, systems, and programs to reinforce the external positioning of the business. – Implementation plans within the *resource model* involve making optimal use of and supporting the resources and capabilities that provide a competitive advantage. – Implementation under the *stakeholder perspective* involves activities such as collecting information from stakeholders, assessing their needs and desires, integrating this knowledge into strategic decisions, effectively managing internal stakeholders, and forming interorganizational relationships with external stakeholders. – Strategic direction also serves as a guide to the implementation of a firm's specific strategies.

Establish Balanced Controls – This section brings top manager responsibilities full circle by introducing control systems and their role in measuring the degree of strategic success and in guiding alterations needed to improve performance. In advance of a more detailed discussion in Chapter 11, financial and strategic controls are introduced here because strategic leaders are responsible for the development and effective use of the parameters within which strategies are to be implemented. The balanced scorecard framework provides a method to establish an appropriate balance between financial and strategic controls to promote desired performance results.

See slide 43. Key Terms	**Key Terms** ▪ <u>Controls</u> - formal, information-based procedures used by managers to maintain or alter patterns in organizational activities ▪ <u>Balanced scorecard</u> - framework that strategic leaders can use to verify that they have established both financial and strategic controls to assess firm performance

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	Establishing Balanced Controls – Once strategic leaders have guided the firm's strategic direction, strategies, and implementation plans, their final responsibility is to establish control systems to ensure that the plans are actually executed, to provide feedback, and to measure their success at achieving desired outcomes. Responsibilities for control systems bring top managers full circle in their role, requiring measurement of strategic success and guidance of altered actions to improve performance. In advance of a more detailed discussion in later chapters, financial and strategic controls are introduced here because strategic leaders are responsible for the development and effective use of the parameters within which strategies are to be implemented. The balanced scorecard framework provides a method to establish an appropriate balance between financial and strategic controls to promote desired performance results. 16. In what ways do controls support strategic leader efforts? a. Build credibility b. Demonstrate the value of strategies to the firm's stakeholders c. Promote and support change d. Provide parameters within which strategies are to be implemented e. Provide parameters for corrective action when adjustments are required
See slide 44. Discussion	**Control Systems –** the focus of financial and strategic controls and how they affect management behavior Discussion points: − An emphasis on financial control often produces more short-term and risk-averse managerial decisions because financial outcomes may be caused by events beyond the manager's direct control. − Strategic control encourages lower-level managers to make decisions that incorporate moderate and acceptable levels of risk because outcomes are shared between the business-level executives and the corporate-level executives who evaluate them.

See slide 45. Figure 2.6	**The Balanced Scorecard –** The underlying premise of the balanced scorecard is that firms jeopardize future performance potential when financial controls are emphasized at the expense of strategic controls. Discussion points: – Financial controls provide feedback about outcomes achieved from past actions, but do not communicate drivers of the firm's future performance. – An overemphasis on financial controls can promote organizational behavior that sacrifices long-term, value-creating potential for short-term gains. – Appropriate balance between financial and strategic controls allows managers to effectively monitor performance. – Four perspectives are integrated to form the balanced scorecard framework. o *Financial* – concerned with growth, profitability, and risk from the shareholder's perspective o *Customer* – concerned with the amount of value customers perceive in the company's products and services o *Internal business processes* – focuses on the priorities for various business processes that create customer and shareholder satisfaction o *Learning and growth* – concerned with the firm's effort to create a climate that supports change, innovation, and growth – Framework allows the firm to understand how it looks to shareholders and customers, the processes it must emphasize to apply its competitive advantage, and what is necessary to improve performance and growth. Example: Porsche – Different firms use different criteria to measure their standing relative to the four perspectives, based on their strategic intent. (Performance criteria are covered further in Chapter 4.)

Ethical Questions – Recognizing the need for firms to effectively interact with stakeholders during the strategic management process, all strategic management topics have an ethical dimension. A list of ethical questions appears after the Summary section of each chapter in the textbook. The topic of ethics is best covered throughout the course to emphasize its prevalence and importance. We recommend posing at least one of these questions during your class time to stimulate discussion of ethical issues relevant to the chapter material that you are covering. (See slides 46-51.)