

*Lecture 6*

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# Strategic leadership

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# Next discussion

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- ❖ Tim Cook at Apple:
  - ❖ explore personal traits attributed to Steve Jobs
  - ❖ outline Steve Jobs achievements
  - ❖ identify Tim Cook's curriculum at Apple
  - ❖ outline Tim Cook's achievements
  - ❖ define key traits of a strategic leader

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# Learning objectives

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- ❖ Define strategic *leadership* and top management team importance
- ❖ Explain what TMT are and how they affect firm *performance*
- ❖ Describe the managerial *succession* process
- ❖ Discuss the value of strategic leadership in determining strategic *direction*
- ❖ Discuss organizational *culture* importance, ethics and values
- ❖ Discuss the importance of organizational *controls*

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# Opening case

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- ❖ Selecting a new CEO

- ❖ *Yahoo* CEOs

- <http://www.usatoday.com/story/tech/news/2016/02/03/yahoo-ceo-history/79753262/>

- ❖ *Satya Nadella* at Microsoft

- <http://www.forbes.com/sites/andrewcave/2014/02/04/ms-sos-how-not-to-organise-ceo-succession/#3b7a1625ebea>

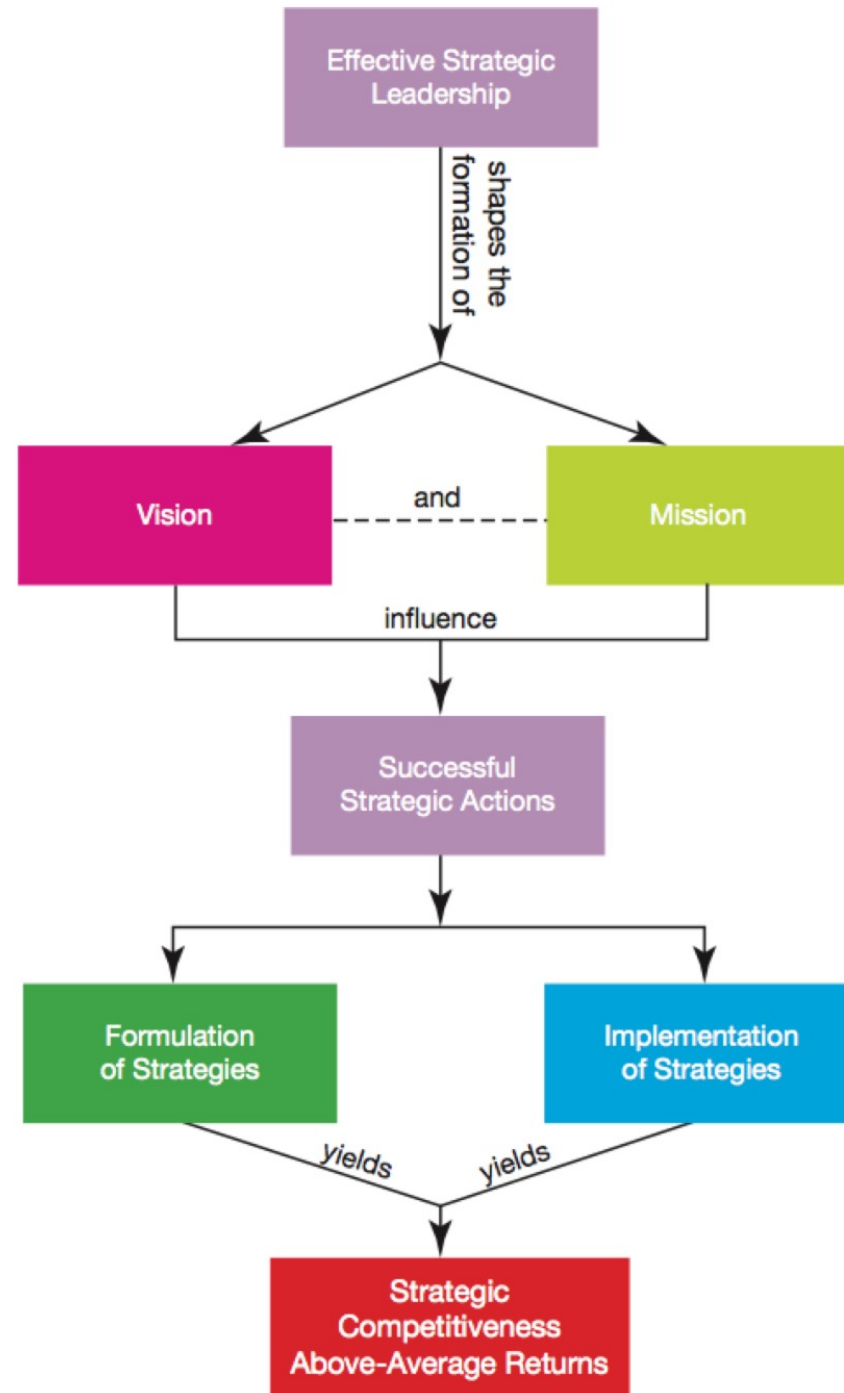
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# Key terms 1/3

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- ❖ The *work* of a strategic leader is challenging, demanding and may last for a long period of time.
- ❖ Strategic leaders can make a *major* difference in how well firms perform.
- ❖ *Strategic leaderships* is the ability to anticipate, envision, maintain flexibility and empower others to create strategic change as necessary.

**FIGURE 11.1** Strategic leadership and the strategic management process



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# Key terms 3/3

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- ❖ The styles used to provide leadership often affect the productivity of those led:
  - ❖ *transactional* style increases productivity and innovation as it promotes a sense of fairness and reward for clearly specified objectives,
  - ❖ *transformational* style is particularly effective in promoting and nurturing innovation in firms as it encourages to continuously strive for higher levels of achievement.

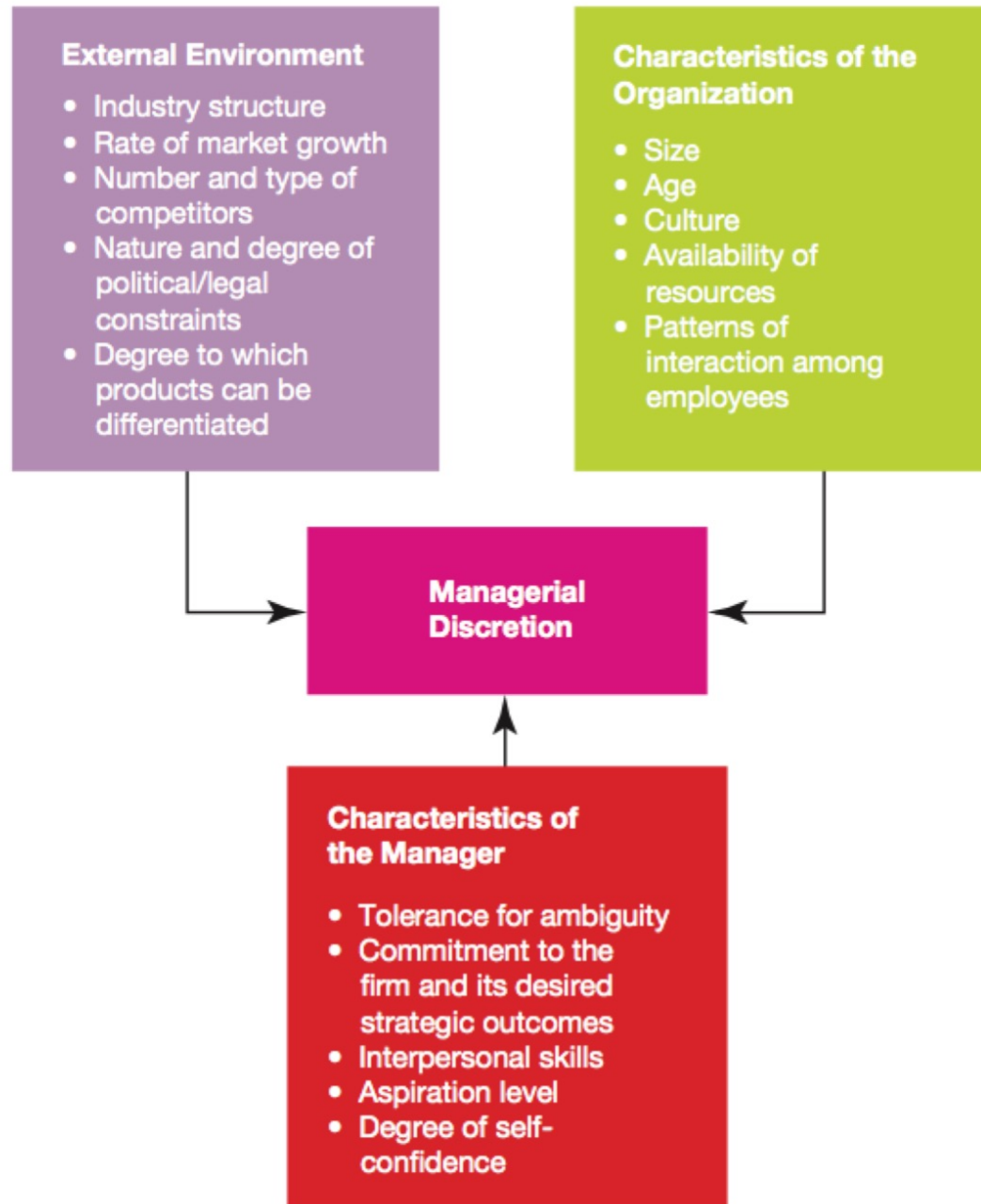
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# Role of Top-Managers 1/5

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- ❖ Top managers play a *critical role* as they are charged to make certain their firm is able to effectively formulate and implement strategies.
- ❖ Managers often use their *discretion* (latitude for action) when making decisions.

**FIGURE 11.2** Factors affecting managerial discretion



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

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# Role of Top-Managers 3/5

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- ❖ Top Management Team (*TMT*) is composed of key individuals who are responsible for selecting and implementing the firms strategies.
- ❖ Typically include *officers* of the corporation, defined by the title of Vice-Presidents or members of the board of directors.

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# Role of Top-Managers 4/5

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- ❖ A *heterogenous* TMT is composed of individuals with different functional backgrounds, experience and education:
  - ❖ gives the benefit of discussions with various perspectives,
  - ❖ increases the quality of decisions,
  - ❖ *positive effect* on market share, above-average returns, higher level of innovation.

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# Role of Top-Managers 5/5

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- ❖ Higher performance is normally achieved when the *board of directors* is more directly involved in shaping the firm's strategy.
- ❖ However, CEOs often appoint a number of sympathetic outside members or may have inside board members, which *influences* heavily the board's actions.

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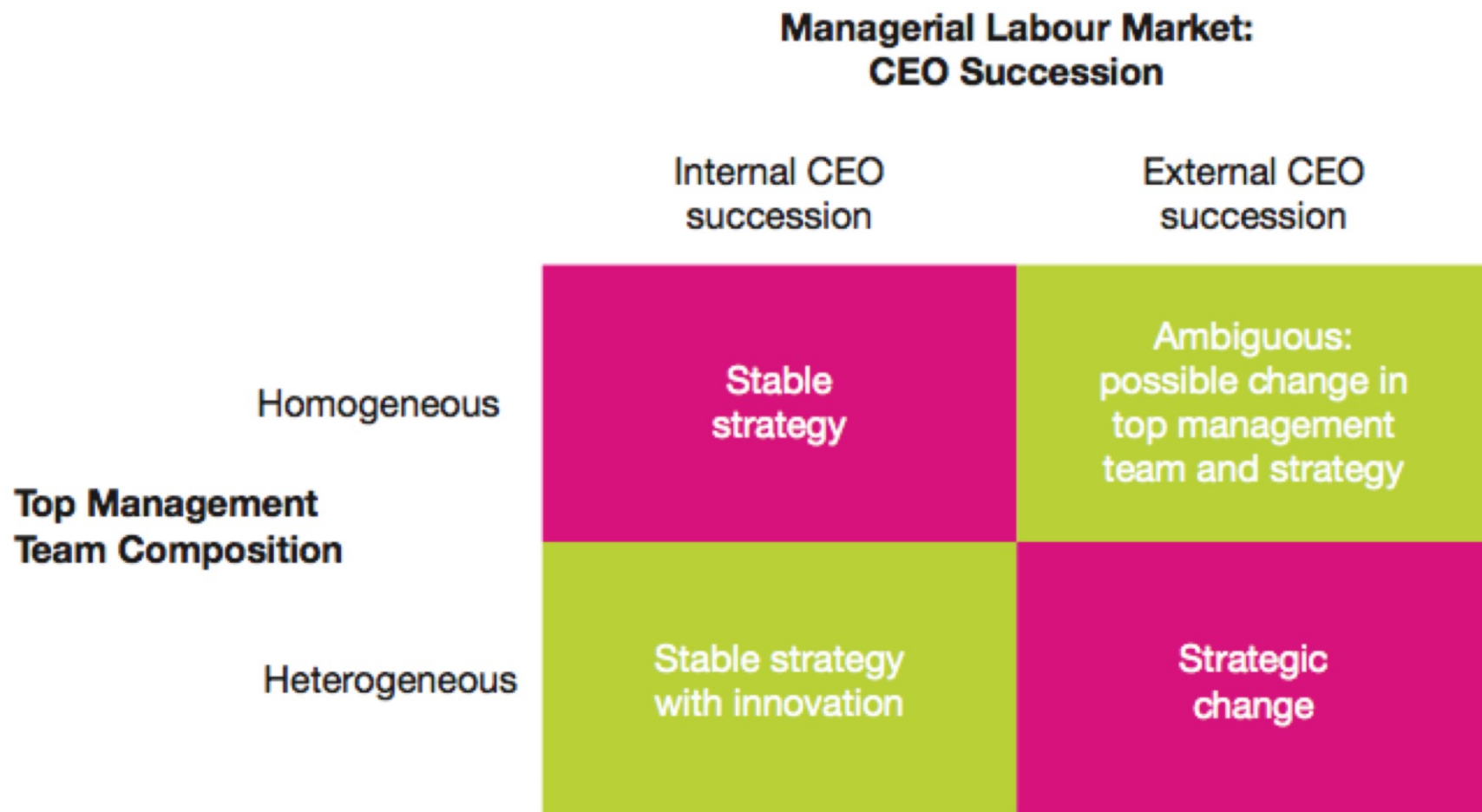
# Managerial succession 1/4

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- ❖ The choice of top executives, especially the CEO is a *critical decision* with important implications for firm performance.
- ❖ Organizations select managers and strategic leaders from two types of *managerial labour markets*:
  - ❖ an internal managerial labour market,
  - ❖ an external managerial labour market.

# Managerial succession 2/4

**FIGURE 11.3** Effects of CEO succession and top management team composition on strategy



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# Managerial succession 3/4

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- ❖ Benefits from the *internal managerial labour market*:
  - ❖ experience with the firm and industry,
  - ❖ familiar with the company,
  - ❖ lower turnover among existing personnel,
  - ❖ when the firm is performing well it helps sustain high performance,
  - ❖ firms appointing insiders outperform those appointing outsiders.

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# Managerial succession 4/4

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- ❖ *Outside managerial labour market:*
  - ❖ changing competitive landscape and varying levels of performance incite to hire from outside,
  - ❖ rebuilding management team,
  - ❖ increase commitment to push innovation throughout the firm,
  - ❖ need for strategic shift.

# Key strategic leadership actions 1/8

**FIGURE 11.4** Exercise of effective strategic leadership



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# Key strategic leadership actions 2/8

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- ❖ *Determining* the strategic direction involves specifying the image and character the firm seeks to develop over time.
- ❖ The ideal long term strategy has:
  - ❖ a *core ideology* to motivate employees,
  - ❖ *envisioned future* to stretch beyond expectations.

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# Key strategic leadership actions 3/8

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- ❖ *Effectively managing* the firm's portfolio of resources may be the most important strategic leadership task:
  - ❖ *organizing* resources into capabilities,
  - ❖ *exploiting* and maintaining core competencies,
  - ❖ *developing* human capital and social capital.

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# Key strategic leadership actions 4/8

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- ❖ *Sustaining* an effective organizational culture is an essential strategic leadership action.
- ❖ *Organizational culture* is a complex set of ideologies, symbols and core values that are shared throughout the firm and influence the way business is conducted.
  - ❖ entrepreneurial mindset involves: autonomy, innovativeness, risk taking, pro-activeness and competitive aggressiveness,
- ❖ Changing the organizational culture is *more challenging* than sustaining it.

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# Key strategic leadership actions 5/8

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- ❖ Emphasizing *ethical practices* increases the effectiveness of processes used to implement firm's strategies.
- ❖ To properly influence employee's judgement and behavior, ethical practices *must shape* the firm's decision-making process and *be an integral part* of organizational culture.
- ❖ Firms should employ ethical leaders.

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# Key strategic leadership actions 6/8

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- ❖ *Establishing balanced organizational controls* is necessary to achieve firm's desired outcomes.
- ❖ Controls provide the *parameters* for implementing strategies as well as the corrective actions to be taken when implementation-related adjustment is required.
- ❖ Financial control *focuses* on the short term, while strategic control on the content of actions.

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# Key strategic leadership actions 7/8

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- ❖ *The Balanced Scorecard* is a framework firms can use to verify that they have established both strategic and financial controls to assess their performance.
- ❖ The *underlying premise* is that firms jeopardize their future performance possibilities when financial controls are emphasized at the expense of strategic controls.

**FIGURE 11.5** Strategic controls and financial controls in a balanced scorecard framework

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

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# Summary

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- ❖ Effective leadership is a *prerequisite* to successfully using the strategic management process.
- ❖ Top-level managers are an *important resource* for firms to develop and exploit competitive advantages.
- ❖ Managerial succession is a *critical* process.
- ❖ Effective strategic leadership has *five* major components.