

## **Executive and Strategic Leadership\***

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### **ABSTRACT**

Many challenges face the strategic leader who must deal with both the need for continuity and the need for change. Strategic leadership sets the directions, meaning, purposes, and goals of the organization. A long-term perspective is required along with many other competencies. Examples are provided of successful strategic executives and of why other CEOs fail.

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## I. INTRODUCTION

Chief executive officers and top management set policies for acquiring and integrating resources for the organization. Among their goals are to reduce uncertainty, increase stability, increase resources, and reduce competition. They strive to create favorable public images and opinions of the organization and its products and services. They oversee conformance with government policies, regulations, taxes, and trade. Indirectly, they influence government through personal influence, support of lobbyists, trade associations, and political campaigns. Ideally, top-level business leaders choose markets based on strategic planning and location of their facilities. They manage the management, production and services systems. Their evaluations, coordination, and policies influence the organization's subsystems of finance, capital, and personnel (Day and Lord, 1988). In the nonprofit sector, James Webb, long-term Director of the National Aeronautic and Space Agency exemplified the effective chief administrator of a federal agency. According to Sayles (1979), NASA was superbly managed. In under ten years, the agency went from no knowledge of man in space to an operational space program. It was a tremendous accomplishment in organizational leadership. The strategic thinking and implementation had to occur in the face of many risks, uncertainties, and unknowns.

Strategies are a product of the interaction of the individual leader and the organization's internal and external environment. Systems thinking is required that aims to produce the synergies that are more than the sum of the individual parts of the organization. Complexity is the rule rather than the exception. The complexity is illustrated by two organizations jointly supporting basic research but competing in the same market.

Providing strategic leadership is an important role for the CEO and for many other senior executives (Farkus and De Backer, 1996). They need to understand the health of their available markets, the products and services that can serve those markets advantageously, balance sheets and the availability of capital, how to optimize the interests of the various organizational constituencies, how to manage change in good times and bad times, how to use authority and accountability, and how to shape an effective management team of diverse competencies and interests.

## II. RELATIONS OF THE CEO AND SENIOR EXECUTIVES TO THE BOARD OF DIRECTORS

Rational economic theories like agency theory assume that the Board controls the CEO who will try to maximize his or her own utilities at the expense of the shareholders. Governance protects the shareholders. But a behavioral model assumes that CEOs are selected as stewards who have to balance interests of different types of stakeholders, including firm profitability, market value, product quality, and the development and stability of employment, community, and markets. The selection and evaluation of the CEO by the Board will depend on which models the Board endorses. Application of Board controls will diminish as the CEO learns the role, increases decision making competence, learns how to work with the Board and top management, and learns who are the most important stakeholders.

### III. CHALLENGES

Along with the oft-cited "loneliness at the top" syndrome, as Bruce (1986: 19) noted, the tension between attention to the present and attention to the future is specific to CEOs: "... if you don't take care of the present, you will not have a future. A survey of executives reported by Hughes (1998) suggested that the most important challenges facing their organizations are dealing with change; thinking strategically; dealing with business issues; and achieving focus, consensus and vision. Competing firms are a challenge connected to a number of strategic factors that senior executives may be able to control. But as foreign competitiveness increases for various reasons such as lower labor costs, the challenge may be met with increased innovation and productivity, more judicious capital investment, more attention to human resources, quality, and innovation, and less focus on mergers and acquisitions (cf. Franke and Miller, 2007). Also needed is a long-term global strategy.

History judges the CEO on the strategic conceptualizations that contribute to future success, not on maintenance of the present situation. But the present imposes strong demands on the CEO's time, with its numerous review committees, preparations for Board meetings, annual shareholder meetings, critical regulatory responses to governmental requests, and exorbitantly time-consuming internal and external ceremonial duties. Top corporate managers have to free themselves from these day-to-day operations and short-term goal orientations to focus more attention on long-term threats and opportunities, to provide long-term leadership on strategic issues and their analysis, and on implementation, on interpretation, and on evaluation (Wortman, 1982). The strategies reflect the CEO's inclination and leadership style (Staw and Sutton, 1993). As might be expected, CEOs remain in office longer in stable than in turbulent industries (Norburn and Burley, 1988).

#### A. Strategic Change

Business needs to define how it is going to become distinctive and continue to improve on its ability to deliver to its stakeholders. It has to maintain continuity of strategy as well as continually improving. Continuity and change and continuity support each other. The more you can be explicit about your strategies and goals, the more you will be able to recognize new opportunities. Choice, trade-off, and fit are required for strategic change (Porter, 2001). To make changes, the organization needs to rethink its current values and reorient itself (Fitzgerald, 1988). Strategic change is more likely to occur when a new CEO is brought into the firm with a mandate for change from the Board of Directors based on tentative agreements between the CEO and the Board. If the mandate was for continuing the old policies, little change would be expected. Many case studies suggest that less change in strategy would be expected with a long-tenured CEO or if the CEO retired and was replaced by an insider without the Board mandate for change (Hambrick and Fukutomi, 1991). When first appointed, CEOs, even before they move into office, may visit plants and shops, ask a lot of questions of personnel at various levels, talk with key people, talk with customers, and examine reports and other information sources to develop an understanding of operations and needed improvements. Initial changes are usually made in functional areas in which the CEO has had previous experience, in order to demonstrate successes early on. If hired during

a crisis, change will be for immediate relief in the short-term to find time for longer-term solutions. Over time, commitment to a chosen strategy will increase, barring new alternatives. The relatively brief tenure of CEOs--currently averaging 7.3 years--may be due to CEOs' increasingly key and demanding roles given the exigencies of rapidly changing business environments (Yukl, 1998).

## B. Strategic Leadership

Sun Tzu's *Art of War* (ca.400 B.C.) is widely cited as a source of strategic principles for leaders. McNeilly (1996) cast them into strategies for successful business: 1. Avoid using expensive resources and price wars to destroy competition when other ways can be used to end the competition; 2. Avoid attacking strengths of competitors; attack their weaknesses; 3. Know and deceive your competition; 4. Be prepared to deal rapidly with opportunities; 5. Create conditions making it easy to overcome opposition; and 6. Treat people with consideration, justice, and confidence in them.

Strategic leaders look forward in time to set directions for the organization (Arnott, 1995). Their power is increased when they scan and cope with the critical sectors of their environment (Hambrick, 1981). Strategic leaders make and communicate decisions for their organization's future (Zaccaro, 1996). They formulate the organization's goals and strategies, develop structures, processes, controls and core competencies for the organization, manage multiple constituencies, choose key executives, groom the next generation of executives, provide direction with respect to organizational strategies, maintain an effective organizational culture, sustain a system of ethical values, and serve as the representative of the organization to government and other organizations and constituencies as well as negotiate with them. Such strategic leadership must be able to deal with ambiguity, complexity, and information overload requiring adaptability and a sense of timing (Boal and Hooijberg, 2001). The strategies reflect the organization's top management and its internal and external environments. Innovations are most likely to be pursued by firms identified as *prospectors*, rather than as *defenders* of the status quo, *analyzers* who try to maximize profits by minimizing risks, or *reactors* who are inconsistent in dealing with their environment (Miles and Snow, 1978). Prospectors look to discover and work with innovative products even though risks are high. Their firms are flexible in administration and technology. Their organizations invest in human resources and favor decentralization, organicity, and decentralization (Heller, 1994). The top managements of prospectors are most likely to be former outsiders (Chaganti and Sambhara, 1987). Prospectors look for strategies that have already proved successful. Therefore, they enter second into a market. This appears more advantageous than pioneering an innovation and entering the market first (Schnaars, 1994).

Strategic leadership requires creating meaning and purpose for the organization with a powerful vision and mission that creates a future for the organization (Ireland and Hitt, 1999). In many organizations, while the CEO and top management formulate and implement its strategies, inputs from lower levels of management and employee networks contribute in a collaborative effort particularly in the implementation of the strategies (Cogliser, 2002). *Strategic maneuvering* is required when a firm is challenged by hypercompetitiveness in price and quality, timing and knowledge, strongly held markets, products, and service. *Hypercompetitiveness* was illustrated by the airline

pricing fare wars. At the beginning of 2005, two discount airlines, Southwest and Jet Blue, with lower costs, simpler fare structures, and lower prices than the main carriers, had captured 30% of the U.S. market. A main carrier, Delta Airlines, cut its prices and fare rules drastically to match Southwest and Jet Blue. Then other main carriers, American Airlines, Northwest, and US Airways followed suit although they could not afford the potential loss of revenues in their effort to meet the competition. US Airways did not have the necessary “deep pockets.” It was already bankrupt as was another main carrier, United Airlines. A firm’s seizing the initiative with hypercompetitiveness disrupts the status quo and may create a series of temporary competitive advantages with speed, surprise, and accurate forecasting (D’Aveni, 1994). Structural equation modeling for 76 executives and 528 colleagues who rated them showed that positive interpersonal relations and confident speech were antecedents of strategic leadership. In turn, the executives’ strategic leadership contributed to their rated effectiveness, potential, and the performance of the unit they supervised (Gist and Gerson, 1998).

### **C. Strategic Decisions**

These decisions are made to coordinate diverse divisions in the organization, analyze contradictory and ambiguous information, and interpret events. Sometimes, they need a long term perspective (as much as 20 years ahead in the military or government and in industries requiring heavy capital investments). It has been demonstrated in many studies that what the top leadership did had a strong influence on the corporations' profitability. Niehoff, Enz, and Grover (1990) reached similar conclusions about the effects on employee commitment and satisfaction of 862 employees if their top management teams encouraged innovation, supported employee efforts, shared a vision, and participated in decisions. Crosby (1990) argued that creating and clarifying the vision and the organization’s direction was accomplished by the chief executive and implemented by his subordinates. Farkas and De Backer (1998) found that strategic approaches, envisioning the future, and planning how to get there, were employed by firms such as Coca-Cola, Newmont Mining, Staples, and Deutsche Bank. All top managers interviewed saw the strategic approach as one of their roles, but only 20% saw it as their *defining* role.

### **D. Using Intuition**

According to Miller (2002), intuition may be seen as *automated expertise* or as a *holistic hunch*. Much prior learning has been stored in memory with less than complete awareness and rationale. Automated expertise is brought to the surface of awareness. Years of experience and learning are packed together into an instantaneous insight. Sadler-Smith and Sheffy (2004) suggested that rational and intuitive decision-making should be seen as reinforcing rather than opposing each other since much cognition occurs automatically and is intuitive. Intuition is the interplay of knowing based on expertise and sensing based on feeling. Understanding can be gained directly from intuition without rational thought or logical inference, and executives make considerable use of intuition when strategizing. It increases with seniority since it depends on experience. It is likely to develop from implicit, incidental and unplanned learning experiences, and feedback. Also important are emotional memories and a

“library of expertise” built up over the years. Intuitive understanding can be gained from gut feeling by attending to experiences when it seemed to work and when it is was contraindicated (Simon, 1987).

### **E. Strategic Formulation**

Korn/Ferry International (1988) and Columbia University conducted a survey in 1988 and then again in 2000 of 1500 chief executives in the United States, Western Europe, Latin America and Japan about the requirements of the position. Among the 10 most important areas of competence required both times by 75 to 80% of the respondents, *strategy formulation* was ranked first. Almost all agreed that it is very important for the CEO to convey a vision of the organization’s future.

In a study of 97 randomly selected small, 85% Francophone firms in a variety of industries in Quebec, Miller and Toulouse (1986) arranged for questionnaires and interviews to be administered to the CEO and senior executives. Their findings agreed with Miller and Friesen (1980) who suggested that CEOs in office for a long time resist change. This rigidity was often a cause for strategic failure (Kets de Vries & Miller, 1984). Miller and Toulouse found that the CEOs’ years in office correlated -.33 with Return on Investment (ROI). On the other hand, Net Income Growth correlated .36 with the strategy to spend on R&D and with commercialization of products. Net Income Growth correlated .47 with a strategy of delegating authority.

Long tenured top management teams’ strategic decisions about investing in R&D tend to be tempered by the oversight of the Board of Directors and individual investors, particularly when the outside directors are the prominent members of the Board, and the senior executives are long-tenured in the team and organization and are diverse in their functions in the organization (Kor, 2002). The tenure of senior executive teams affected their strategies and performance according to a study by Finkelstein and Hambrick (1990) in 100 chemical, computer, and natural gas distribution firms. If long in tenure, they followed more persistent strategies and conformed closer to the average in their industry in strategy and performance. The more discretion they had, the more their strategies were successful.

### **F. Importance of the CEO and Top Management Team**

There is an interplay between the corporate strategy which is formulated by CEOs and what is required of them. A CEO who pursues a human assets strategy for the organization instead of one based on bureaucratic rules will need to be ready to be more participative, consultative, and considerate. In such firms, interpersonal skills are seen as the *sine qua non* of the effective top executive (Sessa, 1999). The more there is uncertainty and ambiguity in the organizational environment, the more the CEO will need to be adaptable, flexible, and open (Zaccaro, Gilbert and Thor, 1991). For Streufort and Swezey (1986), executives need to engage in long-term planning but only if their firms are in stable environments. In unstable environments, inflexible long-term plans may not make much sense.

Top management needs to be committed to a strategy for it to be successful. A meta-analysis of 18 studies of the impact on organizations of management by objectives (MBO) found that the gain in job satisfaction from the installation of MBO occurred

only in the top third of the organizations with highly committed top management. There was little gain in job satisfaction in firms where top management was less committed toward implementing the MBO program (Rodgers, Hunter and Rogers, 1993).

The profitability of a firm depends on the CEO's actions. Those CEOs whose firms are consistently profitable maintain their focus on the "bottom line." They pursue a corporate strategy and structure with profitability as a goal, as do their subordinates. Accounting and finance are stressed in analysis of daily decisions. It is unclear whether this approach is optimal for the various stakeholders and the long-term health of the organization. The successful implementation of strategies formulated by the CEO and top management will depend on their leadership and the qualities of their relations with managers and employees (Cannella and Monroe, 1997).

### **G. Example of the Interplay between Strategy and Leadership**

Eddie Rickenbacker was President of Eastern Airlines from 1934 to 1959 and then CEO until 1963. His strategy and leadership style, which made Eastern the largest and most profitable U.S. airline, also led to its bankruptcy. The World War I hero, although personally adventurous, when it came to business was extremely cost conscious, and was last to invest in new models of planes and equipment. He let other airlines do the necessary learning how to deal with the problems of new aircraft. Maintenance costs were kept low. Before 1978, the federal government highly regulated the airline industry and allowed no competition on Eastern's lucrative New York-Miami route. Eastern had a monopoly on flights from the Northeast to Florida, and promoted summer vacations in Florida to provide year-round business. The external environment changed in three ways: 1. Instead of limiting carriers to one for each route, another one or more were added to Eastern's routes; 2. Piston engine planes with propellers were replaced by jets; and 3. The federal regulators did not allow Eastern to fly to the Pacific Coast as all of its competitors did. Rickenbacker's strategies now resulted in his continuing to purchase propeller planes like the Lockheed Electra while his competitors purchased jets. In 1955, he ordered 26 jets but cut back orders to 16, foreseeing an oversupply of jet seats. This allowed Delta to obtain a competitive advantage by purchasing them. To minimize costs, he directed tight scheduling heavy use of his fleet, arranging the middle of first-class seats five in a row instead of four, overbooking, and reducing passenger services. He lost many customers. When he tried to attract more passengers by scheduling more flights on the same routes, the result was a lot of empty seats. Eastern never recovered its preeminence in the industry and finally went bankrupt.

Personally, "Captain Eddie" dominated the company. He was a stickler for detail. Where he found problems or inconsistencies, he was immediately on the phone to the offending unit head. He challenged, heckled, and threatened his managers and executives who were presenting performance appraisals of their units. But, instead of hurting morale, it built a sense of comradery. While he was feared, he was also respected. He knew all his pilots by name. He was a benevolent autocrat in seeing that employees with good ideas were rewarded, and he gave many managers a lot of responsibility. Eastern employees felt as members of one big family with a patriarch at its head. Unfortunately for Eastern, Captain Eddie couldn't change his ways as needed (Spencer and Carte, 1991).

## H. Required Competencies for CEOs and Senior Executives

Jacobs and Jaques (1987) pointed out that executives develop a framework of understanding that provides meaning for the organizational members' efforts towards collective action. Problem complexity needs to be matched with the problem-solver's capacity (Zaccaro, 1996). *Conceptual capacity* is required in executives as they deal with issues of *cognitive complexity*--external and internal organizational environments, and novel, unstructured and ill-defined problems (Davidson, Deuser and Sternberg, 1994). Executives must be able to display *behavioral complexity* --the ability to enact different and sometimes opposing roles. They must attend to *social complexities* when proposing actions. Senior executives are likely to be boundary spanners and need to deal with subordinates from different cooperating and competing groups, managers, employees, and functions (Zaccaro, 1996).

Through in-depth interviews with 18 business leaders, Tait (1996) revealed that requisite qualities for their success included the ability to make sense of complicated patterns of events and extract clear goals for the organization. They also needed to be able to take independent and unpopular courses of action, when necessary. As strategic leaders, CEOs and senior executives needed to know how to harness the brainpower within their organizations according to Percy Barnevik of ABB. In a similar vein, Jack Welch at General Electric would ask GE managers about their ideas, with whom they have shared them, and who had adopted them (Bennis, 1999).

A high level of conceptual development is needed by senior executives. Their cognitive capacity should enable them to construct a perspective on a broad and complex understanding of events inside and outside the organization and to handle highly complex managerial work (Lewis and Jacobs, 1992). They must deal with cognitive complexity (Hunt, 1991). Sashkin (1990) added cognitive capacity, self-efficacy and the power motive as personal requirements for competence in strategic leadership. Farkas and De Backer (1996) also noted that entrepreneurial leaders could be intuitive about what customers want next as well as about the next maneuver of a competitor. Nevertheless, cognitive capacity is involved in the goal of adding value to the organization, with systematic and structured analysis of the state of the organization now and the future desired state. Strategically-oriented CEOs focus on what comes next and try to make it happen. In 1995, Coca Cola senior management concentrated on continually reinventing the brand to make it new and relevant. CEO Michael Dell aimed to position the Dell personal computer for the future. Tom Sternberg, the CEO at Staples, carefully studied purchasing patterns and competitors. He questioned customers about what his chain of stores could do better. Jack Welch reinvented General Electric by selling those companies that were not profitable and keeping only those companies which dominated their markets and fit with a strategy to move into high technology and services.

To enhance executive accountability and discretion, Grossman and Hoskisson (1998) suggested that there was a need to identify the organization's strategies and what can provide it with competitive advantages. If cash flow and operating efficiency are keys to corporate success, then accounting measures should be used to link executive competence to compensation. If innovation is a key factor, then compensation should be tied to measures of marketing success. If short-term success is emphasized, annual bonuses can be awarded. If long-term success is more important, restricted shares, stock

options or other forms of delayed compensation should be linked to performance. It should be kept in mind from lower level employee compensation studies that all the afore-mentioned economic benefits may primarily induce the executive to consider and accept the position, but whether CEOs or executives remain with the firm will depend on with whom they compare themselves.

### **I. When Chief and Senior Executives Fail**

The turnover of CEOs increased 53% between 1995 and 2001. Average tenure declined from 9.5 to 7.3 years. Poor financial performance of the firm led by the CEO increased 130% and was the primary reason given for discharge or resignation. Furthermore, based on a survey of 91 chief executives and 7 interviews, Judge (1999) concluded that executives failed when they did not provide a vision of the needed strategic path, did not understand the different interests of their important constituencies, did not prioritize goals, and failed to exemplify trust and integrity for their organization.

Charan, Rosen, and Abarbanel (1991) described cases where the easier-to-do top management's strategic formulation failed in the harder-to-do strategic implementation. As examples, the CEO discovered that top management team members delayed high priority strategic divestitures with which they disagreed. A critical computer system conversion had not started when its expected time for implementation was already half over. Internal pricing disagreements held back sales efforts to reach strategic goals.

Levinson (1988) argued that many executives fail because their strategies focus on short-term results and are insensitive to the feelings of employees and customers. They run a tight, highly controlled organization which is inflexible and maladaptive when faced with the need to change. Nutt (1999; 2002) pointed out that self-interest that causes executives to fail takes many forms. They keep secret their strategic planning for fear that openness will reduce the success of the plans. They pursue a plan and want to keep secret their self-interest in the plan. They make quick decisions without considering alternatives. They ignore ethical considerations and carry out deceptions to protect themselves. They skip or limit search. They make premature commitments and misuse resources. They blunder by making premature commitments and misuse resources. They make poor decisions. Examples include the decisions by Quaker's executives to acquire Snapple and by Disney's executives to open EuroDisney, and insistence of the World War I French high command in 1914 on continuing with a no-longer-valid Plan 17, which called for concentrating their forces on an offensive in Alsace when the Germans were overrunning Belgium. They also kept insisting that French soldiers' *élan*, with frontal assaults, could overcome the German military's entrenched machine guns.

Senior executives fail when their strategic visions of the future direction for the organization involve too much of their personal interests and not enough of their constituents' and organizations' interests; when the vision blocks out important opportunities; when the vision distorts market realities; and when the vision fails to recognize a changed environment (Conger, 1998). Strategies fail when they stretch the organization's resources beyond limits (Ulmer, 1998). They fail when they confuse a good, well-communicated strategy with their organizational implementation of the strategy. They fail when their strategy for change is one that is "narrow, unsystematic, and programmatic that does not address root causes" (Beer and Eisenstat (2000). They

fail when they allow narcissism to dominate strategic thinking. They fail when they create illogical organizational structures and compensation plans (Levinson, 1994). Like Levinson, Kets De Vries (1989) attributes executive failure to internal personal considerations. Those that isolate themselves from reality self-destruct by becoming divorced from it, as do those who fear success. According to Hitt, Hoskisson, and Harrison (1991), external forces cause executive failure. They put too much emphasis on mergers and acquisitions, diversify too much, and ignore their human capital. They fail because of lack of attention to productivity, quality, innovation and need for a global strategy.

As described for a new business venture in *New Business* (1998), Dale Sundby was a good salesman but an ineffective CEO. He sold his investors on his business plan to revolutionize on-line advertising. Customers were to register on-line to receive ads in exchange for points to discount the cost of purchases. The highly persuasive CEO organized a Board of Directors, backers for the necessary capital, and 60 employees. But he was highly self-oriented and could not see beyond his own vision, which dominated his thinking, and his expectation that everyone would agree with him. He ignored market research. He spent lavishly on himself and associates. Without a product or production staff, he budgeted over half his capital on advertising. He expected to outsource software coding. This delayed the internet process. He invested heavily in a marketing management team. He didn't listen when told that many prospects were lost because registration was too long. Also, prospects wanted daily tips, not daily ads. As he did not tell anyone else in the organization what was happening, morale and support disappeared. The Board split on his spending and business plan. Refinancing he expected because of his persuasiveness did not materialize. In 20 months, he burned through \$20 million and 60 employees.

#### **IV. COMPONENTS OF EFFECTIVE STRATEGIC LEADERSHIP PRACTICES**

Top management sets the strategic purpose and direction of the firm by articulating and communicating a desired vision of the organization's future. Effective strategy is needed for an organization to achieve and maintain comparative advantage to keep up with competition in changes in technology and markets. According to Beer and Eisenstat (2000), required for formulating and implementing an effective strategy are: 1. top-down direction which accepts upward influence, 2. clear strategies and priorities, 3. an effective top management team with a general management orientation, 4. open vertical communication, 5. effective coordination, and 6. allocation of clear accountability and authority to middle management. Effective strategic leadership practices also include: 1. focusing attention on outcomes and processes, 2. seeking to acquire and leverage knowledge, 3. fostering learning, and creativity, 4. improving work flows by attention to relationships, 5. anticipating internal and external environmental changes, 6. maintaining a global mindset, 7. meeting the diversity of the interests of the multiple stakeholders, 8. building for the long-term while meeting short-term needs, and 9. developing human capital. These and other effective practices can give the organizational advantages in a competitive environment (Ireland and Hitt, 1999). Competitive advantages in a global economy can also be gained from a strategy that depends on the leaders' global leadership skills as well as reputation of the

organization (Petrick, 1999). Strategies include decisions to restructure and to change size through acquisitions, divestments, and entering new markets or leaving old ones.

Additionally, CEOs and top management can decide to channel and support champions of innovation, adaptation and the incubation of new ideas in a safe space without higher ups who prematurely criticize new undeveloped ideas. Controls need to be minimized and innovators need to feel free to speculate (Nutt, 1999).

In their strategizing, executives are faced with many alternatives, conflicting demands of constituencies, and information overload. Their decisions depend on their values, experiences, knowledge, and preferences (Finkelstein and Hambrick, 1996; Hambrick and Mason, 1984) and sometimes on their whimsy. W.R. Grace stopped for breakfast at Coco's, a coffee shop, and liked it so much that he bought the company that owned the chain (Hall, 1984). IBM President Thomas Watson, Jr. chose a small prairie town, Rochester, Minnesota, as a site for a new plant because of a World War II Army Air Force buddy who came from there.

Elenkov and Judge (2002) collected responses to the Multifactor Leadership Questionnaire (Form 6S) from 490 presidents, CEOs, managing directors and 371 other top management team members in the US, UK, Germany, Austria, Russia, and Ukraine (Bass and Avolio, 1992). These executives were all involved in strategic decisions. Their transformational leadership scores accounted for 52% of the variance in product-market innovations and 55 % of their administrative innovations.

#### **A. Effective Strategic Decision-making**

Effective strategies depend on effective decision-making. While snap judgments based on intuition may sometimes work out well, effective decisions ordinarily require an order to the process: Opportunities, threats, variance from expectations or disturbances are observed. The problem is diagnosed, usually calling for more information, a search for solutions and development of innovations occurs, evaluation and choice among alternatives takes place. The selected alternative is authorized and implemented. Whenever a phase cannot be completed successfully there is a return to an earlier phase (Bass, 1983). Murnighan and Mowen (2002) add more in the process to the importance of feeling and intuition. The search phase is for detecting signals of threats and opportunities, followed by finding the causes. Blind spots need to be eliminated. The risks and rewards of alternative solutions are estimated with choice based on avoiding a missed opportunity or a needless blunder. Whether or not to implement the choice should be based on a calculation of the *risk ratio*, the maximum estimated risk compared with the *probability estimate of success*. This rational approach must be balanced with intuition (wisdom based on many reinforced experiences), particularly at top management levels, even though rationality outperforms intuition in experimental studies (Nutt, 2002).

#### **B. Ineffective Strategies**

Cognitive shortcomings explain poor strategic decisions such as paying too much for an unneeded acquisition. This seems to occur more often than not. Irrational and overconfident bidders do not know they are competing with other bidders who are similarly overconfident (Zajac and Bazerman, 1991). Overall, as a consequence of the

self-confidence and hubris of their CEOs, premiums are paid by acquiring firms beyond the worth of the acquisitions. *Firms that acquire other firms tend to decline in long-term profitability* (Valle, 1998).

A number of critics argue that CEOs take self-serving positions in their strategic thinking—that they attribute good performance to their own organizations and poor performance to faults in the external environment (Mowday and Sutton, 1993). D’Aveni and MacMillen (1990) found evidence that CEOs should take this to heart in a very specific way: They compared the letters written by the leaders of 57 banks that had declared bankruptcy with a matched sample of letters by solvent bank leaders. The letters were written during the five years before the declaration of bankruptcy. The *bankrupt-to-bes*’ strategies tended to ignore or to deny problems in the *external* environment, such as critical lack of demand for their products and services. Instead, they focused *internally* on their debt, their creditors’ demands, and on changing their organization. Along these lines, Greenwald (1985) pointed to three cognitive biases in strategic decision-makers: 1. they look at events primarily in relation to themselves; 2. they see themselves responsible for desired but not undesired outcomes; and 3. they stick to their initial and favorite alternatives even when the supporting evidence is disconfirming. Other cognitive sources of error include attention directed away from goal direction by frequent disruptions, causal attributions, and implicit, readily available strong beliefs, all of which may be erroneous (Peterson and Sorenson, 1990).

### C. The Role in Strategy of Middle Managers

Effective middle managers contribute to changes in strategy by making innovative use of resources to explore and exploit opportunities for profitable activities, according to a study of 120 middle managers in a large European services firm (Mair, 2002).

Middle-level managers have special expertise and access to vital information. They interpret and implement policies and programs formulated at higher levels and may contribute to planning them. Their perspectives stretch two to five years (Colvin, 2001). They influence their superiors’ strategic decisions and thereby enhance their own credibility. They develop and implement market-oriented, customer-oriented thinking. They need to align their personal with organizational goals, and move easily between leader and follower roles.

Often, middle managers are responsible for implementing strategic decisions made by senior executives. Separating planning from implementation creates special problems (Bass, 1970a). Senior executives complain that middle managers fail to take the necessary steps to implement strategies. The commitment and understanding are poor about what need to be done. The middle managers don’t articulate the same goals as the senior executives. If the middle managers disagree with the strategic initiatives, they frequently work against implementation. To promote commitment, rewards systems and structures need to be aligned to fit the intended strategy. Middle managers’ and supervisors’ understanding of the strategy will be fostered by increased discussions with senior managers about the strategy and their criteria for success. Consensus is needed on how to implement the strategy (Floyd and Woolridge, 1992).

#### **D. The Role in Strategy of Supervisors**

At the lowest leadership levels of the organization are department heads, supervisors and team leaders. They may make suggestions upward that have implications for company strategy. Sales supervisors as well as salespersons can bring home to the organization important ideas about competing products and organizational practices. They can provide early warning signals. Production supervisors and their employees can contribute significant ideas about needed changes in internal organizational processes. “Strategically significant ideas – those may emerge from anywhere in an organization ... there is no way of telling where an idea of strategic significance will come from ... perhaps the most vital organizations ... have leaders who develop the best ways of stimulating, valuing, and disseminating new ideas ... [Furthermore] leaders should look beyond immediate realities to a future that organizational members feel compelled to create” (Ponder, 1958).

#### **V. BUSINESS LEADERS AND SENIOR EXECUTIVES**

Some successful business leaders may be more directive and task-oriented in their leadership style. Other examples can be found of business leaders who were successful and effective by being more consultative, participative, and relations-oriented. *Generally, they need to be both directive and participative as well as concerned for task and relationships.*

*Edwin Locke* (2000) finds in Ayn Rand’s novel, *Atlas Shrugged*, the prescription for heroic business leaders like Jack Welch, who formulated the rule for business leaders to face reality as it is not as it was or he wants it to be. Although the many current business scandals would suggest otherwise, honesty and candor are needed to avoid self-deception and lack of ethical behavior. Failing executives refuse to face reality. Other characteristics of business heroes according to Rand and Locke are independence, self-confidence, an active mind, vision, and competence. They also need to be sufficiently intelligent to understand their markets, to make causal connections of consequence, and to have the ability to accurately generalize from what they have observed. They need to have passion in the work. These tough-minded, directive, and task-oriented CEO’s are best known for their success and effectiveness in turning around large previously successful businesses which were encrusted with strong bureaucracies that failed to adapt to changes in their markets. Examples are Lou Gerstner at IBM and Jack Welch at General Electric. The more directive leaders like Gerstner and Welch were likely to ask a lot of direct questions, and made some subordinates feel like it was an inquisition rather than a consultation. They may have made shareholders happier and employees unhappier.

*Lou Gerstner* was described as tough, ferocious, and driven, yet respected by associates. At the same time he contributed a great deal to philanthropies and worked hard to invigorate educational systems in many locations. He was a demanding boss, highly disciplined, stayed focused, set very high standards, and could go beyond less important matters to get at key issues. He had earned a magna cum laude degree in engineering and had been a successful top executive previously at American Express and RJR Nabisco. He envisioned that giant IBM as a smaller firm with fewer hierarchical levels would be better able to adapt and compete in the world marketplace.

He consolidated operations, closed plants, sold subsidiaries, and laid off many managers and a large number of employees. He wanted to take advantage of the IBM potential to offer consulting and full-range service to provide an integrated information system for its business customers. He brought in 60 new executives and changed the firm from bleeding losses back to profitability (Waga, 1997). His legacy continued after he retired. IBM continued to divest itself of much of its computer manufacturing and reduced its barriers to integrating its efforts with non-IBM programs and products.

**Jack Welch** of General Electric projected himself in his 1997 annual letter to shareholders, in which he said that grade "A" leaders have "a vision and the ability to articulate that vision so vividly and powerfully to the team that it also becomes their vision ... [These leaders have] enormous personal energy ... and the ability to energize others ... [The leaders] have the ... courage to make the tough calls ... [In engineering,] they relish the rapid change in technology and continually re-educate themselves. In manufacturing, they consider inventory an embarrassment ... In sales, they emphasize [the] enormous customer value of the Six Sigma quality program that differentiates GE from the competition. In finance, 'A' talents transcend traditional controllership. The bigger role is full-fledged participation in driving the business to win ... " (Henry, 1998: 7a). Welch made sure his frank and honest opinions on management and operations were known and were a guide to GE's future. Welch demonstrated his ability to change a large firm with strong historical institutions. He remained personally involved in everyday matters. He charted clear, specific directions for GE, emphasizing its core businesses, venturing into new businesses, and making GE fast and flexible. He invested heavily in R&D to ensure GE's future, reduced its top heavy, hierarchical levels and the number of its employees. Welch insisted on consolidating GE's 150 businesses into 15 lines and reducing the lines to three circles: services, industrial automation and high tech, and manufacturing. By 1985, GE had 25% fewer employees than in 1981. Executives were under orders to make every business they ran either first or second in share of their market. Businesses without the potential to grow were divested and plants closed. They were replaced with others judged as having more potential. Many of these acquisitions were made in Europe and Asia. Under Welch, decisions were made more rapidly. He made it possible in 20 years for GE to become one of the largest and most successful multinational conglomerates (Lueck, 1985).

When **Michael Armstrong** accepted the CEO position at Hughes Aircraft, he informed the current top management team that he admired them, but either they accepted his vision for restructuring Hughes or they should resign. Hughes had a strong culture focused on product development. Need for restructuring had been recognized but not implemented. Armstrong successfully reorganized attention toward market needs and increased revenue growth (Cole, 1993).

## **VI. EXAMPLES OF CONSULTATIVE, PARTICIPATIVE, EGALITARIAN, AND HUMAN RELATIONS-ORIENTED BUSINESS LEADERS**

Although these leaders are above the norm in task-orientation, and can be directive when necessary, they also are inclined to be individually considerate and concerned about human relationships. Ten CEO's and managing directors of divisions in a large, world-wide multinational firm were identified by a group of senior executives at the firm's headquarters. Vansina (1982) carried out a qualitative description of the 10

leaders using semi-structured taped interviews which were subsequently content-analyzed. The ten leaders were selected for their consistently “excellent performance in different business situations in different parts of the world” (p. 2). Vansina concluded that the leaders work through people for whom they care. They create an operating climate in which employees know what they are working for and what work needs to be done for which employees need the means, authority, knowledge and resources. The leaders have a keen interest in spotting and developing young talent and a low tolerance for poor performers. To establish organizational commitment, they see their need to develop personal and professional relationships and collaboration through personal example, consultation, and the removal of obstructions and of incompetent people. They keep actions simple and follow them up to monitor progress. They carefully manage linkages between headquarters and key persons, and of business objectives with social responsibilities. They are self-confident, responsible, and open-minded. They learn the local language and have direct contact with employees.

**Herb Kelleher** was credited by Wall Street analysts as the major reason for Southwest’s continuing profitability after the first two years of business. Southwest often generated larger earnings than any of his competitors, who as of 2005 have registered increasing losses or gone bankrupt. He was cofounder of the airline in 1971 and introduced low priced and frequent point-to-point service instead of the hub-and-spoke service of the major airlines--with a fleet of one type of aircraft, the Boeing 737, instead of the many types found among his competitors. His cost per available seat mile, employees per aircraft, and employees per passenger were as low as 50 to 75% of his competitors. But he also provided employee and customer satisfaction. In addition to giving employees 15% of the net profits and matching up to 100% of individual employee contributions to their 401K retirement plans, his unusually good labor-management relations and his unusually friendly personality resulted in strong loyalty to the company. Employees were willing to do whatever was needed. (I was surprised on my first trip on Southwest to see at one stop the flight attendants cleaning up the aircraft cabin.) Pilots may help as ticket agents; ticket agents as baggage carriers. Individualized consideration, kindness, and spirit were nurtured. Recruits were selected for their sense of humor. But Kelleher’s humor is hard to keep up with. While “employees are our most important resource” is a cliché, it is a major principle at Southwest. Kelleher was like some very funny father of the family and the center of formal and informal festivities (Labich, 1994).

**Andrew Grove**, CEO of Intel, was known for his innovation in the design and manufacture of computer chips. His egalitarianism comes from his escape from Hungary during the Nazi occupation. For him, America is symbolized by the respect for intellect and each other as human beings. The culture of Intel combines informality, high standards, and hard work (Tolkoff, 1998).

**Ben Cohen** and **Jerry Greenfield**, founders of successful *Ben and Jerry’s*, were extremely egalitarian and strongly focused on the human side of enterprise with a strong sense of social responsibility. Before selling their homemade ice cream company, they ran it like a human service agency. They practiced walk-around management, having fun with employees at work and at their annual meetings. They formed a committee to put more joy in employee’s work and decrease stress. They created an organizational culture of charity, goodwill, and respect for the community,

and kept their top salaries down to five times the lowest employee's base pay (Levine, 1988; Severance, 1988).

Other CEO's showed they care about their employees in a variety of different ways. **Jack Stack** of Springfield Manufacturing emphasized teaching employees the financial aspects of the business. **Patricia Gallup** of PC Connection nurtured her employees and interacted directly with her more than 800 employees by E-mail, **Mary Kay Ash** of Mary Kay Cosmetics felt she had compassion for her people and saw them as more important than the bottom line. **Robert J. Eaton** of the former Chrysler Corporation believed that the firm could reach its goals through organizing teams and empowering its people. Known for his strong sense of business ethics, **Adrian Cadbury** of Cadbury Schweppes built personal relationships within the firm, emphasized openness and fairness, and worker participation in decision-making. **Bernard Marcus**, founder of Home Depot was on closed-circuit television twice a month from one of their many stores presenting corporate news and answering questions. Instead of sales commissions, employees could purchase shares in the company at 15% below market price. They were expected to treat customers as if they were fine China, and were provided all necessary training. Marcus had high expectations of employees and their involvement (Avolio and Bass, 1999).

## VII. CONCLUSION

Providing strategic leadership is an important role for the CEO and senior executives. They are challenged by the need to honor the past and present while considering the future of the organization and its environment. They need to support both continuity and change. Based on scanning their organization and its environment, strategic leaders formulate the goals and directions of the organization and communicate them to their organization. Based on consultation, intuition, and a long-term perspective, they make strategic decisions that affect corporate profitability. Strategies can follow a variety of approaches ranging from purely economic considerations to emphasis on good human and customer relations. Requirements for effective strategic leadership and senior executive teams are provided in examples from successful strategic leaders.

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