STRATEGY AND THE IMPORTANCE OF STRATEGIC LEADERSHIP
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> *You've got to eat while you dream. You've got to deliver on short-range commitments, while you develop a long-range strategy and vision and implement it. The success of doing both. Walking and chewing gum if you will. Getting it done in the short-range, and delivering a long-range plan, and executing on that.*
>
> Jack Welch, former CEO of General Electric

Introduction

The business world is changing more rapidly and more dramatically than ever before: technology, globalisation, competition, the rise of Asian business superpowers, have fundamentally reshaped the business environment. To deal with such a complex and dynamic environment, organisations need experienced people with well-developed leadership abilities and acumen. This article will briefly address the nature and importance of organisational leadership, and will then focus primarily on leadership at the senior management level of the organisation, and in particular on the nature, the roles and the leadership styles of this critical group of management.

The Nature of Leadership

Leadership permeates society, but from a business perspective it is the identification, development, and use of organisational leadership which is critical to organisational performance. It is generally accepted (see for example, House and Podsakoff, 1995) that leadership is a key determinant of organisational performance: leaders make a difference. For example, when one reviews the success of Irish firms, it is easy to conclude that senior managers such a Michael O'Leary of Ryanair, Denis Brosnan formerly of Kerry Group, Myles Lee and Albert Manifold CPA of CRH have been integral to the success of their respective businesses. Similarly, when one reviews the collapse of the main Irish banks, it is difficult to escape the conclusion that poor leadership was a significant contributing factor to what happened.

While leadership is clearly important, there is debate about the process and nature of leadership. Robbins *et al* (2010) define leadership as

> *…the ability to influence a group toward the achievement of a vision or a set of goals*.

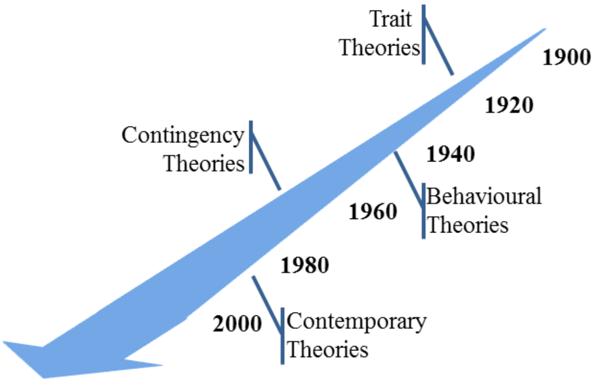
Daft views leadership as

> *...the ability to influence people toward the attainment of organisational goals.*

Robbins *et al* (2010) distinguishes the leadership role from the managerial role, stating that managers merely use the authority inherent in formal positions to obtain compliance from organisational members. An effective manager will however have to possess and utilise significant leadership ability.

Leadership Theories

As a starting point in looking at strategic leadership, it is useful to briefly highlight the evolution of leadership theories.



Leadership Trait Theory tried to identify the personality traits associated with being a leader. The main issue with trait theory is that there is no accepted set of traits that can be linked to effective leadership. A more current perspective on trait theory, and more politically correct, is that everyone has varying levels of necessary leadership traits, and it is how one uses them that matters. The sense today is more that leaders can be developed; they are not just born. More recently, Kirkpatrick and Locke (1991) identified the following wider trait components of leadership:

1. Drive
2. Leadership motivation
3. Integrity
4. Self-confidence
5. Emotional Maturity

Leadership Behavioural Theory tries to better understand what effective leaders do; that is, their behaviours. Behavioural theory suggests that there are two categories of leadership behaviour: Task Centred and People Centred. Well known research in this area includes research from Ohio State University and from the University of Michigan, as well as Blake and Mouton's "Managerial Grid".

Task behaviours

- Emphasises roles and tasks
- Plans and schedules work
- Sets performance standards and procedures

People Behaviours

- Friendly and supportive
- Shows trust and confidence
- Concerned with employees' welfare

Contingency Theories attempt to analyse the importance of the situation to the impact of the leader, and conclude that leadership effectiveness depends on the context in which the leader must operate. In other words, a leadership approach that may be successful in one organisation, or at one point in time, may not be successful in another organisation or another point in time. Two popular contingency theories are Fielder's Leadership Contingency Theory and House's Path-Goal Theory. A well-known example of the impact to situational factors on leadership is illustrated by Simmons (2007). He describes John Scully's tenure as CEO of Apple. Scully was already a very successful senior manager in PepsiCo, when he moved to California to become the CEO of Apple. It was his opinion that Scully's lack of experience in the computer sector, his more traditional management style and his failure to fully understand the industry ultimately lead to Apple falling to fulfil its potential and build on their technological advantages, at least at that time.

There are a variety of more contemporary theories or perspectives on leadership, including substitutes for leadership, "authentic" leadership, charismatic leadership and transformational leadership. For example, in transformational / charismatic leadership, leaders empower and coach followers while the followers closely identify with the leader. This leads to a more motivated workforce that performs to a high level and embraces major changes. The transformational and charismatic leadership styles share similarities with Rowe's "Strategic Leadership Style" discussed below.

The Senior Management Team and Leadership

Organisations, especially large organisations, are very complex and need a range and depth of knowledge and experience to be effectively managed: this is provided by the senior management team. The analysis, insight and decisions made by this group of managers are key to the success of an organisation. Through their vison, what they say and in how they act senior management influence the thoughts, feelings and actions of people in the organisation.

Effective strategic leadership, and the responsibility for strategic thinking and decision-making, rests at the top of the organisation. In particular the CEO, but other senior management also, must make the strategic decisions and create the organisational context which can lead to long-term organisational success. From this perspective, the senior managers and the top management team are an important strategic resource for the organisation: strategic leaders can make a competitive difference.

As Hoskisson *et al* (2004) note, a new CEO can have a significant difference on the performance of a firm. A classic example of this, and of the strategic leadership style outlined below, is Steve Jobs. Jobs was a co-founder of Apple Computers, but was pushed out of the firm in 1985 in a power struggle with CEO John Scully, mentioned above. In 1997, Jobs returned as CEO, and as Figure 1 shows, his impact was incredible. Almost bankrupt when he returned to become CEO, Jobs turned Apple around, and then into the most valuable firm in history. While successful, Jobs was a very controversial figure, with a Fortune Magazine article stating how he "oozes smug superiority, lacing his public comments with ridicule of Apple's rivals", and "periodically reduces subordinates to tears, and fires employees in angry tantrums". Notwithstanding this, because of Apple's success, Jobs was a business superstar.

Figure 1: Share Price of Apple

Source: Yahoo Finance

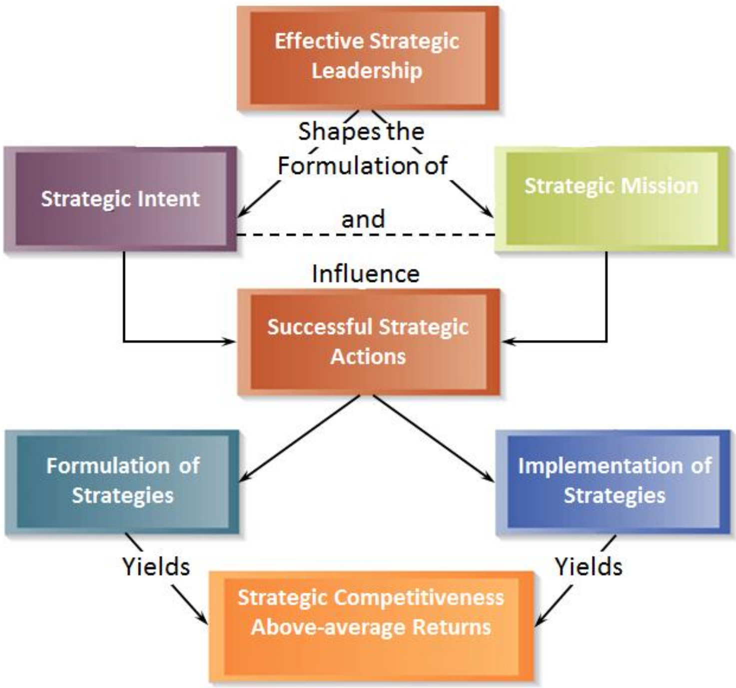
Strategic Leadership

According to Hoskisson et al (2004) Strategic Leadership is:

"…*the managerial ability to anticipate, envision, maintain flexibility, and empower others to create strategic change as necessary*".

Figure 2 illustrates how senior management impact on all stages in the strategic management process. Senior management set the direction for the organisation, energise the creation of innovative strategies and drive the effective implementation of those strategies. Without effective senior management leadership organisations would be rudderless and lack energy and drive.

Figure 2: Strategic Leadership's Influence in the Strategic Management Process

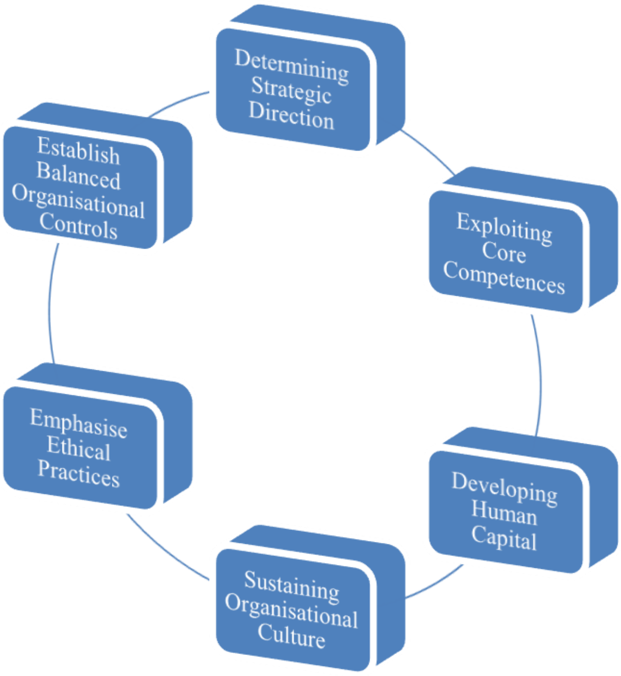


Source: Hoskisson et al, p36

Key Strategic Leadership Actions

Hoskisson et al (2004) identify a number of activities that effective strategic leaders and top management teams focus on to contribute to the performance of the organisation. These activities are necessarily overlapping and interlinked more so than isolated, independent activities.

Figure 3: Key Strategic Leadership Actions



Determining Strategic Direction
The top management team must develop a clear vision for the organisation. The development, articulation and communication of an exciting vision are critical tasks of the strategic leadership of the organisation. They need to "paint a picture" of where the organisation will be in 5-10 years and get staff to buy into and commit to this future. The vison will seek to push and stretch employees beyond their current expectations. The vison serves as a destination for the organisation and therefore as a guide for strategy formulation and implementation. In addition, the vision propounded by the senior management team should outline the core values and ideology that the organisation intends to "live by". If it is to have any impact, the vision must to communicated and reinforced throughout the organisation and over time. For example, Mullane (2002) discusses the need to translate the generalities of the vision into measurables – or specific targets – with commitment from all management levels and areas of the business.

Exploiting and Maintaining Core Competencies
Core competences can be described as the resources and capabilities of a firm that serve as a source of competitive advantage over its rivals; they are those things the firm has or does that allow it to set itself apart from competitors. Senior management must ensure that the firm's core competences are maintained, invested in and developed over time to ensure they remain relevant. Relatedly, senior management need to ensure the firm's competences are part of the building blocks of the competitive strategy of the firm and that they are leveraged effectively in implementing that strategy.

Thompson et al (2007) would additionally suggest that senior management need to put constructive pressure on the organisation to continually improve performance, for example by:

- Nurturing a results-oriented work climate.
- Promoting an enabling culture.
- Setting stretch objectives and expectations.
- Promoting the use of tools such as benchmarking, business process reengineering, TQM, and Six Sigma

Developing Human Capital
In the context of developing human capital, employees are a capital resource that requires investment. Many would accept that in the globalised and dynamic competitive environment, "people are perhaps the only truly sustainable source of competitive advantage". Building human capital requires investment in training and development, and requires that senior management provide the support and budget necessary to make this happen. HRM activities have a central role in this, but without active support from the senior management in the organisation, such activities will neither have the impetus or budget to be effective.

Sustaining an Effective Organisational Culture
A quote attributed to the management writer Peter Drucker, "Culture eats strategy for breakfast!" illustrates the importance of organisational culture. In a sense, organisational culture is the personality of the organisation. Thompson *et al*, (2007) sees culture as "*the character of a company's internal work climate and personality – as shaped by its core values, beliefs, business principles, traditions, ingrained behaviours, work practices, and styles of operating*." More simply, culture is "*the way we do things around here*…"

Organisational culture can be a source of competitive advantage. It creates the context in which the organisation develops and implements its strategy, and helps to regulate employees' actions and attitudes. For example, organisational culture can encourage entrepreneurial activity – or discourage it. If an organisation can build a strong, healthy culture it can be a powerful competitive asset and facilitate strategy implementation.

Due to its nature, it is not possible to manage culture in the same way as, for example, a production process. However, it is possible to help shape an organisation's culture. There are a number of influences on the nature of an organisation's culture and the senior management team are perhaps the most important. This group "set the tone" for the organisation, through the values they espouse, the behaviours they reward, and probably most importantly, through the recurring communication of the type of culture they wish to see evolve in the organisation. Similarly, senior management are in the position to create the selection and promotional policies and criteria that can promote the desired behaviours.

Emphasising Ethical Practices
The effectiveness of the implementation of a firm's strategies improves when based on strong ethical foundations and in a culture that promotes ethical behaviours. In the absence of such an ethical culture staff and management may act opportunistically, taking advantage of their positions to benefit themselves. To create and ensure a strong ethical ethos in the organisation, senior management must themselves set an excellent ethical example. They must also build a compliance and enforcement process around ethical behaviour. For example

- Develop and communicate a code of ethics
- Provide ethics training to employees
- Form an ethics committee to give guidance on ethics matters
- Openly encourage employees to report possible infractions

As well as being the "right" thing to do, there is a business case for being an ethical firm. In addition to the issues identified above, taking ethical issues seriously can lead to:

- Increased motivation of employees
- Attracting higher calibre talent
- Enhanced reputation in the marketplace, or customer and supplier goodwill

Establishing Balanced Organisational Controls
Organisational controls are a critical element of effective strategy implementation processes. Described by Hoskisson *el al* (2004) as *"Formal, information-based procedures used by managers to maintain or alter patterns in organisational activities"*. Organisational controls facilitate making reactive and proactive corrective adjustments to strategies as they are implemented. Organisational controls allow senior management to determine when adjustments are needed and what adjustments to make. In light of changing circumstances, senior management can reshape long-term direction and strategy and intervene to align internal activities and behaviour with strategy.

From the perspective of the implementation of strategic plans, it is also important not to overemphasise financial controls. An overemphasis on financial controls tends to lead to more short term, conservative managerial decision-making, and undermine longer-term strategic development. The "Balanced Scorecard" developed by Robert Kaplan and David Norton is a performance measurement framework that uses strategic non-financial performance measures as well as financial metrics to give managers a more "balanced" view of organisational performance.

The balanced scorecard uses four perspectives to identify what measures to use to track the implementation of strategy:

- Financial metrics
- Customer metrics: "How do customers see us?"
- Internal business processes metrics: "What processes and activities must we excel at?"
- Learning and growth metrics: "How can we continue to improve and innovate?"

The Nature of the Strategic Leadership Style

In addition to the activities or responsibilities of the senior management team as outlined in the previous section, to understand the interaction of leadership and strategy, it is useful to look at the styles of leadership that senior managers may use.

Rowe (2001) emphasises the need at the top of organisations of what he labels "Strategic Leadership". He describes Strategic Leadership as the

> *…ability to influence others to voluntarily make day to day decisions that enhance the long-term viability of the organisation while maintaining its short term financial stability*.

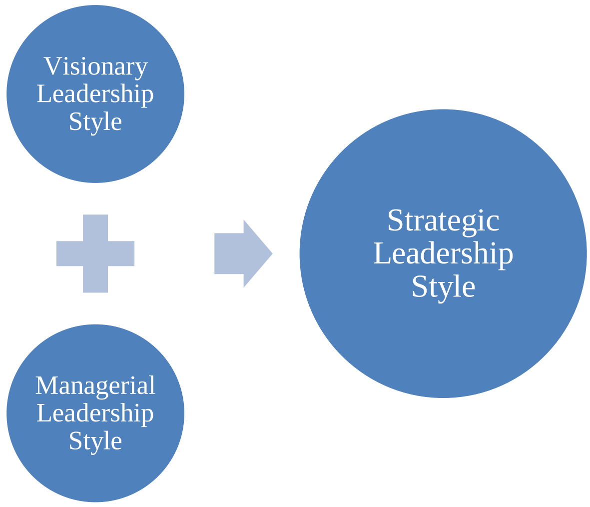
A key element of this definition is the balance between the importance of the long term direction of the organisation, with the equally important short term financial stability. It is important to recognise that in this context Strategic Leadership is not an organisational position, it is an approach, or style that senior management may employ. Unfortunately, according to Rowe, the ability to deploy this style is comparatively rare.

Rowe (2001) relates a quote from Steven Ross, former CEO of Time Warner:

> "*There are three categories of people – the person who goes into the office, puts his feet up on his desk and dreams for twelve hours, the person who arrives at 5am and works for 16 hours, never once stopping to dream; and the person who puts his feet up, dreams for one hour, then does something about those dreams*."

This quote instinctively captures the essential differences in leadership approaches suggested by Rowe.

Figure 4: The Three Leadership Styles in the Senior Management Team



The Visionary Leader
The Visionary Leader is a dreamer. They are able to connect with people in an intuitive and empathic way, and can change how people think about what is possible. They create excitement in the organisation. They understand the importance of organisational culture to the success and long-term viability of the organisation. They are proactive and creative: they believe their decisions will make a difference in their organisations and in the environment. Ultimately, they seek to shape the future and will invest in human capital and in innovation to achieve this.

While these characteristics are admirable and potentially very useful from an organisational point of view, the Visionary Leader also brings with them significant possible downsides. The Visionary Leader focuses so much on the future; they do not pay close enough attention to the operational and shorter term management of the business. Through their style and approach, the Visionary Leader tends to create turbulence and uncertainty in the organisation, which can be energising, but which can alternatively confuse. More fundamentally however, the Visionary Leader takes significant risks. When the risk works out, the business performs exceptionally, but when the risk does not work out, the business can be badly undermined.

Named the "Worst CEO of 2013" by the BBC[1], Brazilian businessman Eike Batista is perhaps the archetypical visionary leader. He made his initial fortune in mining: in Brazil and Canada. In 2007, he promoted a huge opportunity in offshore oil off the coast of Sao Paulo, Brazil through a company called OGX. However, the gamble has not paid off and he lost an estimated 99% of his wealth of US$30bn!

To ensure that there is a level of consistency, Visionary Leaders need to be supported by a strong team of Managerial Leaders. If they are not, Visionary Leaders can even jeopardise the very existence of the firm.

The Managerial Leader
The Managerial Leader does not have time to dream. The Managerial Leader focuses more on the day-to-day and operational side of the business, and overtime they build an in-depth understanding of their part of the business. They tend to see themselves as implementers of procedures, policies and budgets, rather than providing creative energy or vision. The Managerial Leader will tend to react to situations and believe that the decisions they make are effectively determined – or limited - by the environment. They tend to interact with people in a formalised impersonal way, where the role is more relevant than the person filling it.

While not as exciting, Managerial Leadership is critical to the effective running of the organisation. However, it is possible that over time, rather than create wealth Managerial Leaders destroy it; or at best maintain it. In organisations lead by Managerial Leaders, there is more emphasis on financial and operational issues and insufficient investment and focus on innovation and creativity. This means that over time, the competitiveness of the organisation erodes.

The Strategic Leader
According to Rowe, the Strategic Leader is relatively rare. They are a synergistic combination of what is best about both the Visionary Leader and the Managerial Leader. They can balance the more short term financial and operational needs of the organisation with the longer term strategic opportunities that may become available. They integrate the vision, creativity and innovation necessary for long term success with the operational focus and understanding that maintains organisational stability. The Strategic Leader is able to connect with the people around them and has strong performance expectations.

As a result of their ability to balance the short and long term strategic requirements of the organisation, over the longer term, Strategic Leaders create the most wealth in organisations. Steve Jobs of Apple, noted earlier, would be a frequently cited example of a Strategic Leader, as would Michael O'Leary of Ryanair, albeit on a smaller stage. Both of these managers used vision, creativity and energy to reinvent their respective organisations and make them leaders in their sectors. This was balanced however with a strong managerial and operational understanding of their businesses.

This does not mean that the visionary or managerial styles of leadership are no longer required. Both of these styles contribute to the organisation and to senior management performance, but they must be balanced to gain the benefits both bring to the organisation. A dominant visionary may lead to overly risky strategic decision-making, while a conservative managerial style will likely result in cautious decisions that lead to organisational competitive decline over time.

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[1] See http://www.bbc.com/capital/story/20131212-the-worst-ceos-of-2013.

Conclusion

Leadership is integral to the management and to the success of any organisation. There is a clear relationship between the abilities and performance of the CEO and senior management team of an organisation and the success of the organisation. The senior management team influence every stage in the strategic management process. The decisions and actions of the CEO and senior management, whether it is setting the strategic direction of the organisation, or exploiting the organisation's core competences for competitive advantage, impact on the development and implementation of the strategy of the organisation.

In parallel, there are a number of relevant styles of leadership that senior management may deploy, depending on their personal characteristics and experience. The organisation and senior management need to utilise an appropriate balance of leadership styles to enhance the likelihood of longer term strategic effectiveness. Rowe would argue that ideally a CEO and perhaps other senior management would utilise a "strategic leadership style", but at the very least Rowe concludes that the senior management team should seek a balance between the more visionary leadership style and more managerial leadership style. Ultimately, appropriate senior management leadership actions and leadership styles are integral to an organisation's strategic effectiveness and long term success.

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