Competing for Advantage 2nd Edition Hoskisson Solutions Manual

Chapter 2: Strategic Leadership

CHAPTER SUMMARY

This chapter begins with a focus on strategic leaders as individuals. It discusses the importance of strategic leadership skills and personal characteristics that make leaders effective, and the influences on leaders' abilities to make effective strategic decisions.

The strategic leadership through top management teams is also examined, with a review of how top management teams influence their organizations and the factors associated with executive succession.

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 performance.

CHAPTER OUTLINE

- Individual Strategic Leaders and Influences on Their 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

KNOWLEDGE OBJECTIVES

1. Define strategic leadership and describe the importance of top-level managers as 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.
7. Describe how strategic leaders manage relationships with external stakeholders in order to reduce uncertainty and enhance value creation.

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8. Discuss the role of strategic leadership in determining and communicating the firm's strategic direction.
9. Discuss the importance and use of organizational controls.

LECTURE NOTES

<table>
<tr><td colspan="2">Individual Strategic Leaders and Influences on Their Decisions - This section introduces strategic leadership and the concept of skills hierarchy, which details the accumulative skill sets attained by effective strategic leaders.</td></tr>
<tr><td>See slides 1-3.</td><td>Key Terms
▪ <u>Strategic Leadership</u> - the ability to anticipate, envision, maintain flexibility, and empower others to create strategic change as necessary.</td></tr>
<tr><td>See slide 4.

See slide 5.

See Figure 2.1: A Hierarchy of Strategic Leader Capabilities (slide 6).</td><td>1. Despite different leadership styles, what do legendary CEOs all have in common?
a. They are visionary—they have a clear view of what they want to accomplish.
b. They are transformational—they are agents of change.
2. What does strategic leadership involve (in addition to the definition above)?
a. It is multifunctional in scope.
b. It involves managing through others and influencing human behavior.
c. It requires accepting an increasingly greater amount of change in an uncertain environment.
d. It entails motivating others to do more than is expected, continuously enriching their capabilities, and placing the interests of the organization above their own.
3. Describe the skills hierarchy concept.
a. Level 1: Capable Individual—developing skills and work ethic
b. Level 2: Contributing Team Member—working effectively in team structure and making useful contribution to achievement of team goals
c. Level 3: Competent Manager—organizing people and resources to achieve organizational objectives
d. Level 4: Effective Leader—articulating a clear strategic intent and motivating followers to high levels of performance
e. Level 5: Transformational Leader—possessing an unwavering resolve to lead company to greatness; often attributing success to their team</td></tr>
</table>

Strategic Leadership Style - This section describes different styles of strategic leadership and their effectiveness in different situations.	
See slide 7. See slide 8.	4. Discuss the different styles of strategic leadership and when they may be appropriately employed. a. Directive approach - a traditional "commander" style—might be most appropriate when rapid decisions need to be made. 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. c. Delegation - effective style when implementation of strategy can be improved by independent manager decision making. 5. Several examples of well-known CEOs are mentioned throughout the chapter to illustrate their leadership styles. Who do you think has the most effective leadership style, and why? a. Answers will vary.

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.	
See slide 9.	**Key Terms** ▪ <u>Discretion</u> - latitude for action ▪ <u>Heuristics</u> - rules of thumb used in decision making ▪ <u>Hubris</u> - excessive pride, leading to a feeling of invincibility
See slide 10. See slide 11.	6. How can the effectiveness of strategic leadership be enhanced? a. By matching the cultural and functional backgrounds of top managers with the challenges that a firm faces in its current competitive situation b. By using managerial discretion that is action-oriented and spurs the company to action c. By minimizing the effects of decision-making biases i. Awareness of biases ii. Open decision-making environment iii. Use of real options analysis to ensure the consideration of proper probabilities (discussed more fully in Chapter 13)

	iv. Depending on a top management team composed of individuals with divergent views and a variety of backgrounds d. By maneuvering around constraints on managerial decision making
See Figure 2.2: Factors Affecting Managerial Discretion (slide 12).	7. What type of factors constrain managerial decision making? a. External environmental factors (such as industry structure, rate of market growth, degree of product differentiation) b. Organizational factors (such as company size, age, resources, culture) c. Individual manager factors (such as commitment to the firm, tolerance for ambiguity, interpersonal skills, and ambitions)
See slide 13.	8. What are some of the decision-making biases that influence the quality of strategic management decisions? a. Reliance on a limited set of heuristics when making decisions b. Reliance on previously-formed beliefs c. A focus on limited objectives d. Exposure to limited decision alternatives e. Insensitivity to outcome probabilities f. An illusion of control
See slide 14.	9. What is hubris, and how can it affect the quality of strategic decision making? a. Hubris is excessive pride leading to a feeling of invincibility. b. Hubris can magnify the effects of decision-making biases.

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 15.	**Key Term** ▪ <u>Top Management Team</u> - group composed of the CEO and other key managers responsible for setting the direction of the firm and formulating and implementing its strategies.

See slide 16.	10. What three factors influence the ability of top management teams to exercise effective strategic leadership? a. Top management team heterogeneity b. The CEO and top management team power c. Executive succession processes

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 17.	**Key Term** ▪ <u>Heterogeneous Top Management Team</u> - managerial group composed of individuals with different functional backgrounds, experiences, and educations.
See slide 18.	11. How can a heterogeneous top management team contribute to better strategic guidance and better organizational performance? a. A variety of different perspectives are introduced into decision making. b. These teams have a greater propensity toward stronger competitive action and reaction. c. These teams may be encouraged to "think outside of the box," leading to more creative decision making and yielding innovation and strategic change within their organizations. d. Various areas of expertise are likely to stimulate the identification of environmental opportunities and threats or the need for a new strategic direction due to changes within the firm. e. Debate over various ideas is promoted.
See slide 19.	12. What are some of the challenges faced by heterogeneous top management teams that can lead to suboptimal decision making? a. Creating cohesion—integrating diverse opinions and behavior b. Communication difficulties, which can inhibit comprehensive and long-term strategic planning c. Comprehensive examination of threats and opportunities

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 20.	**Key Terms** ▪ CEO Duality—practice of the CEO serving as the chair of the board of directors to achieve power relative to the board ▪ Independent Board Leadership Structure—structure for the board of directors designed to enhance the board's ability to monitor top-level managers' decisions and actions (particularly in terms of financial performance) by employing two different people to serve as CEO and board chair. ▪ Stewardship Theory—concept suggesting that top managers want to do the right thing for the firm's shareholders and that reducing the amount of interference with their actions will increase the profit potential of the firm.
See slide 21. See slide 22.	13. Despite the premise that higher firm performance can be achieved by board of directors that are actively involved with shaping the firm's strategic direction, what practices can increase the power of top management teams relative to its board of directors? a. Members of top management can use their social and business ties with directors. b. Powerful CEOs can appoint members of the top management team or other sympathetic associates to serve on the board. c. CEO duality d. CEO tenure 14. Describe the practice of CEO duality in today's business environment? a. It has become more common in the United States. b. It occurs most often in the largest firms. c. Increased shareholder activism has recently brought the practice under scrutiny. d. It has been criticized for causing poor performance and slow response to change.

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 ability to embrace change in today's competitive landscape.

See slide 23.	**Key Terms** ▪ Internal Managerial Labor Market—opportunities for managerial positions to be filled from within the firm ▪ External Managerial Labor Market—opportunities for managerial positions to be filled by candidates from outside of the firm
See slide 24. See slide 25. See Additional Notes Below.	15. What are the benefits of filling top management positions from the internal labor market? a. Continuity b. Continued commitment c. Familiarity d. Reduced turnover e. Retention of "private knowledge" 16. When is internal succession favored? a. When the firm is performing well 17. What are some of the valid reasons for turning to the outside labor market to fill top management positions? a. Long tenure with the same firm is thought to reduce innovation ("stale in the saddle"). b. Outsiders bring in diverse knowledge bases and social networks that offer the potential for synergy and new competitive advantage.
	Additional Discussion Notes for Managerial Labor Market - These notes present two examples to illustrate when a CEO should be hired from the inside and outside labor markets. **Example: IBM *The Case for New Blood - I*** During John Akers' reign, IBM had gone from a workforce of 407,000 in 1986 to 300,000 in 1992. Its stock had dropped from a peak in 1987 of $1757/8 to $25 (split adjusted) in 1993; and a loss of $2.8 billion in 1991 and of $8 billion in 1993. In early 1993 IBM dismissed John Akers. Lou Gerster, a former president of American Express, was recruited to become IBM's CEO—a successful outsider with strong managerial reputation in the financial industry—not the computer industry. Sixty days after taking the CEO's reins, Gerster faced his most challenging decision: whether to break up IBM. ***Fast Forward*** Gerster instituted radical change: reengineering, downsizing, product to service, and efforts to weld the different pieces of IBM back into a coherent whole. Lou Gerster, who stepped in at IBM, successfully turned the company around.

See Figure 2.3: Effect of CEO Succession and Top Management Team Composition on Strategy (slide 26).	Gerster's successor inherited a more stable company, with a sound strategic trajectory. Given the strategic position of IBM, who should be the next CEO? An insider groomed by Gerster was chosen--Palmisano. **Example: Compaq** ***The Case For New Blood - II*** In 1991 Eckhard Pfeiffer, an insider, was recruited to take advantage of this opportunity. Before becoming CEO in 1991, Pfeiffer served as Compaq's Executive Vice President and Chief Operating Officer. Prior to that, he was President of Compaq Europe and International. Before joining Compaq, Pfeiffer spent 20 years with Texas Instruments. Pfeiffer instituted an aggressive strategy for growth: cut-throat pricing to gain share and merger with Digital and Tandem to gain product and service scope. Compaq became the number one PC maker with strong dominance of distributor channels. ***Fast Forward*** After eight years as the company's CEO, Pffeifer was ousted by his board of directors. The move came days after the company disclosed that profits would be only half of what Wall Street analysts had been expecting. The board called into question Pffeifer's strategy to stave off intense competition (particularly from Dell) and poor execution. The two-year-old acquisitions of Digital and Tandem were not yet fully integrated into the Compaq universe. **Managerial Labor Market** When should a CEO be hired from than outside, from the inside? (Computer/IT industry) Given the strategic position of the firm, who should be the next CEO? Wall Street let out a collective gasp: Compaq had been searching for a CEO for months and the best it could do was its own COO, Michael Capellas, an insider, to stabilize the ship or groom for a possible sale. Hewlett-Packard buys Compaq Computer. The new company is becoming number one globally in combined Unix and Intel-based servers, PCs, and external storage, and third in services behind IBM and EDS. Six months after completing the merger between Compaq and Hewlett-Packard. Capellas quits his number two post at Hewlett-Packard.

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 Figure 2.4: Strategic Management Models and Effective Strategic Leadership (slide 27).	18. What are the three major responsibilities of strategic leaders and which strategic management perspective do they satisfy? a. Ensuring that the firm is well positioned economically. (The I/O Model of Above-Average Returns) b. Acquiring, developing, and managing key resources. (The Resource-Based Model of Above-Average

	Returns) c. Developing and managing relationships with external stakeholders. (The Stakeholder Model of Responsible Firm Behavior and Firm Performance) 19. What specific tasks are associated with these major responsibilities? a. Determining and communicating strategic direction b. Overseeing the formulation and implementation of specific strategies c. Establishing balanced controls 20. What are the outcomes that can be expected from effective strategic leadership? a. The establishment of competitive advantage b. The creation of greater value for the firm c. Above-average financial performance
See Additional Notes below.	
	Additional Discussion Notes for the Exercise of Strategic Leadership - These notes provide an example to illustrate the importance of effective leadership. **Example: Wal-Mart** What was the market potential for discount retailing in the 1980s? In 1987, Wal-Mart marked its 25th anniversary. It had sales of $15.9 billion at 1,198 stores and 200,000 employees; but that was not enough. ***Strategy*** Continue aggressive growth strategy, expand to capture opportunity, while investing in the "business" to perfect the formula: • Invest in the core business, (i.e. logistics, pricing, marketing, etc.) • Become undisputed price leader, attracting emergent "price-sensitive" customer • Capture market share from competitors by attacking their strongholds, (some of their victims include: Jamesway, Hills, Montgomery Wards, Kmart???) ***Results*** Continued growth into their core-market and experimentation with market extensions (Sam's Club) International expansion to further fuel growth ***Fast Forward*** Wal-Mart became an undisputed champion: Operates over 2,600 Wal-Mart and 475 Sam's Club stores (2003 statistics) 2002 ranked #3 on Fortune's Most Admired Company (2003 statistics)

<table>
<tr><td colspan="2">Ensure That the Firm is Well Positioned Economically - This section discusses the positioning responsibilities of strategic leaders and highlights the five important elements that identify a firm’s strategy.</td></tr>
<tr><td>See slide 28.</td><td>Key Terms
<u>Scope</u> - breadth of a firm’s activities across products, markets, geographic regions, core technologies and value creation stages.</td></tr>
<tr><td>See Figure 2.5: The Five Major Elements of Strategy (slide 29).</td><td>21. Discuss five important elements that identify a firm’s strategy.
a. Defining the business arenas (scope of business) is a critical starting point for strategic planning and management.
b. Growth vehicles, such as internal development, joint ventures, licensing, franchising, and acquisitions, are also important to understanding a firm’s strategy.
c. Differentiators help a firm determine how it is expected to win customers in the marketplace.
d. Staging refers to the timing of strategy and the sequence of moves the firm will take to carry it out (especially important because of the speed of change in the competitive environment).
e. The economic logic of a strategy pulls together all of the above elements and focuses on achieving above-average financial returns.</td></tr>
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<tr><td colspan="2">Acquire, Develop, and Manage Key Resources - This section highlights two critical resources; human capital and organizational culture. These two 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.</td></tr>
<tr><td>See slide 30.</td><td>Key Terms
<u>Organizational Culture</u> - complex set of ideologies, symbols, and core values that is shared throughout the firm and influences the way business is conducted.</td></tr>
<tr><td>See slides 31-32.</td><td>22. What human resource practices are linked to strategic success?
a. Managing intellectual capital
b. Investing in capital resources
c. Building effective commitments to organizational goals
d. Incorporating international experience into the skill sets of employees</td></tr>
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<td>See slide 33.

See slide 34.

See Additional Notes below.</td>
<td>
e. Employing effective training and development programs to promote strategic vision and cohesion
f. Establishing effective reward plans
g. Instituting continuous learning
h. Leveraging the firm’s expanding knowledge base
23. What cultural qualities should be encouraged to maximize an organization’s strategic effectiveness?
a. Entrepreneurial opportunism
b. Employee autonomy
c. Innovativeness
d. Risk taking
e. Proactiveness
f. Competitive aggressiveness
24. How can the difficulties of shaping and reinforcing a new organizational culture be overcome?
a. Effective communication
b. Effective problem solving
c. Effective staffing
d. Effective performance appraisals
e. Effective reward systems
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Additional Discussion Notes for Sustaining an Effective Organizational Culture - These notes provide two examples to illustrate the importance of organizational culture to sustain a firm’s performance.

Example: General Electric
Overview
▪ Build pervasive organizational culture based on simple principles:
▪ Comprehensive leadership characteristics embodied in GE Leadership Model
▪ Goal to be #1 & #2 in every market served; if not, then exit that market
▪ Strict rank-ordering of employees, especially senior executives
▪ Practice of “managing-out” bottom 10% of employees each year
▪ Rigorous HR practices, (STAR Model, talent planning, assignment management, coaching, performance management, etc.)
▪ Operational Discipline—Champions of “Six Sigma” approach to process management
Highlights
▪ Unprecedented growth and financial performance (at least under Welch)
▪ Consistent growth in earnings from 1980-2001
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	Results ▪ Consistent 15% growth of for 15 years straight ▪ World Most Admired Company ranked #1 by Fortune from 1998-2002 **Example: General Electric Wanna-Be's** ***Overview*** The types of companies that emulate General Electric include Allied Signal, Honeywell, and so on. Allied Signal's recruitment of Larry Bossidy is an example of efforts made by these types of competitors. ***Strategy*** Emulate the GE model based on a few key principles: ▪ Poach GE talent, (i.e. executive-level managers) ▪ Adapt GE cultural traits and blend into existing organization ▪ Replicate GE processes (e.g., talent management, assignment management, Six Sigma, etc.) ▪ Grow via M&A into new product markets in order to expand portfolio and to gain economies of scale to compete with GE ***Larry Bossidy Story*** In 1991, Bossidy was recruited to Allied Signal to invigorate GE principles into a "mediocre" performing firm. His strategy was: ▪ Focusing on aggressive, but disciplined growth initiatives ▪ Instituting many GE HR practices (STAR Model, talent planning, performance management, etc.) ▪ Instituting Six Sigma-led productivity initiatives ***Allied Signal Results*** ▪ Bossidy's tenure lasted from 1991-1999 ▪ Successful merger with Honeywell in 1999 ▪ 31 consecutive quarters of EPS growth of 13% or more

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 Table 2.1: Mintzberg's Managerial Roles (slide 35).	25. Discuss the application of Henry Mintzberg's CEO study to top managers' attempts to develop and manage relationships with external stakeholders. a. The skills required for top managers to fulfill all of the interpersonal, informational, and decisional roles in Mintzberg's model can be applied to their responsibilities to effectively relate to the firm's external stakeholders.

<table>
<tr><td colspan="2">Determine and Communicate Strategic Direction - This section uses the example of the 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.</td></tr>
<tr><td>See slide 36.</td><td>Key Terms
<u>Strategic Direction</u> - definition of a firm’s image and character over time, framed within the context of the conditions in which the company operates.
<u>Sustainable Development</u> - concept that a firm can and should operate without adversely influencing its environment.</td></tr>
<tr><td>See Table 2.2: Mission of Novartis (slide 37).

See slide 38.

See slide 39.

See slide 40.

See slide 41.</td><td>26. In terms of which stakeholders is Novartis’ mission statement defined?
a. Customers
b. Employees
c. Shareholders
d. Society
27. What are two components that constitute a desirable long-term vision for a firm?
a. A core ideology to motivate employees through the company’s heritage.
b. An envisioned future to encourage employees to stretch beyond their comfort zones.
28. What tools do top managers use to guide employees in their decision making?
a. A fully-defined and well-communicated strategic direction.
b. Well-established values and ethical practices integrated into the firm’s culture.
29. Name some actions that strategic leaders can take to develop an ethical culture within their firms.
a. Employ ethical strategic leaders.
b. Establish and communicate specific goals to describe the firm’s ethical standards.
c. Continuously revise and update the code of conduct based on stakeholder input.
d. Disseminate the code of conduct to all stakeholders to inform them of ethical standards and practices.
e. Develop and implement methods and procedures to use in achieving the firm’s ethical standards.
f. Create and use explicit reward systems to recognize bold acts that demonstrate ethical behavior and decision making.</td></tr>
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	g. Create a work environment where all people are treated with dignity.

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.	30. What implementation considerations relate to each of the three strategic perspectives? a. Implementation within the I/O economics framework involves developing structures, systems and programs to reinforce the external positioning of the business. b. Implementation plans within the Resource model involve making optimal use of and supporting the resources and capabilities that provide a competitive advantage. c. 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.

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** ▪ Controls - formal, information-based procedures used by managers to maintain or alter patterns in organizational activities. ▪ Balanced Scorecard - framework that strategic leaders can use to verify that they have established both financial and strategic controls to assess firm performance.

See slide 44.	31. Define the focus of financial and strategic controls and how they affect management behavior. a. Financial control focuses on short-term financial outcomes and often produces risk-averse managerial decisions. b. Strategic control focuses on the content of strategic actions (rather than their outcomes) and encourages decisions that incorporate moderate and acceptable levels of risk.
See Figure 2.6: Financial Controls and Strategic Controls in a Balanced Scorecard Framework (slide 45).	32. What perspectives are integrated to form the balanced scorecard framework? a. Financial b. Customer c. Internal business processes d. Learning and growth

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.)

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