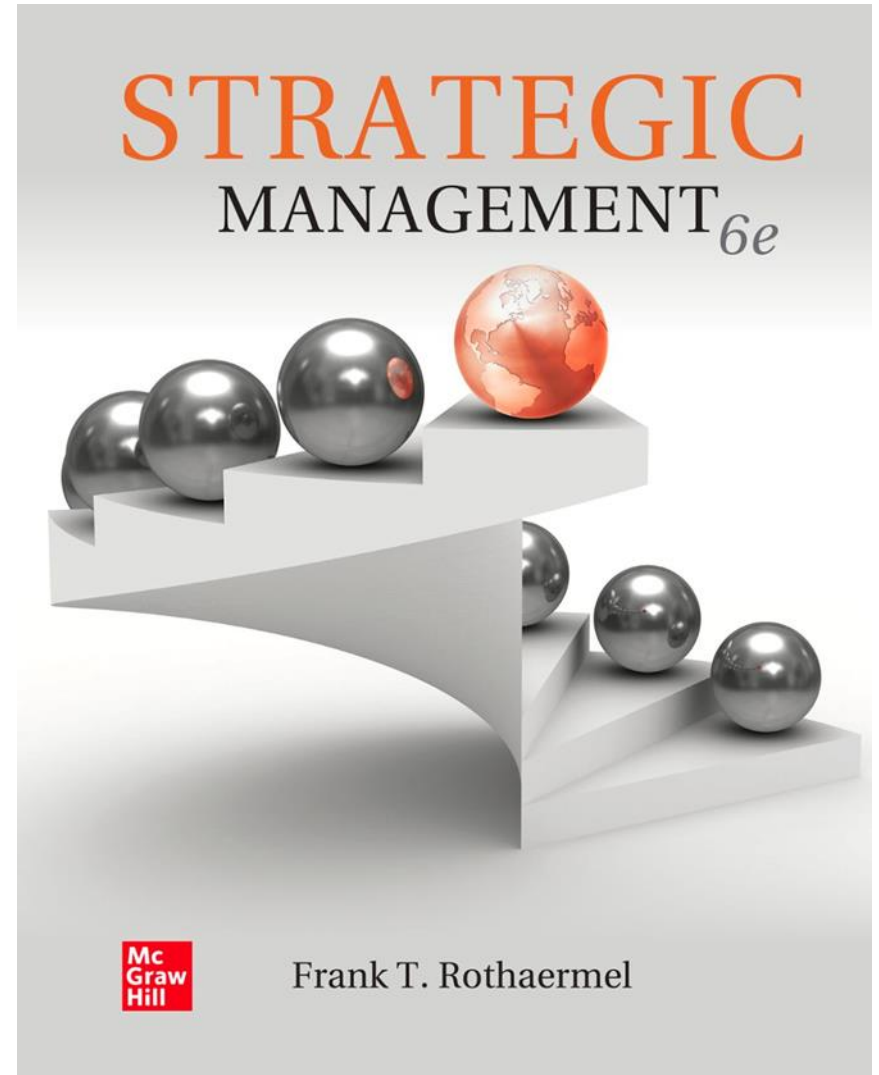


Chapter 2

Strategic Leadership: Managing the Strategy Process

Because learning changes everything.®



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LEARNING OBJECTIVES

1. Explain the role of strategic leaders and what they do.
2. Outline how you can become a strategic leader.
3. Compare and contrast the roles of corporate, business, and functional managers in strategy formulation and implementation.
4. Describe the roles of vision, mission, and values in a firm's strategy.
5. Evaluate the strategic implications of product-oriented and customer-oriented vision statements.
6. Justify why anchoring a firm in ethical core values is essential for long-term success.
7. Evaluate top-down strategic planning, scenario planning, and strategy as planned emergence.
8. Explain the causes of strategic dissonance and how to navigate strategic inflection points.
9. Describe and evaluate the two distinct modes of decision making.
10. Compare and contrast devil's advocacy and dialectic inquiry as frameworks to improve strategic decision making.

What Is Strategic Leadership?

Successful use of power and influence.

Directing the activities of others.

Pursuing an organization's goals.

Enabling organizational competitive advantage.

Power:

- The ability to influence others to do things.
- Formal authority (position), informal authority (persuasion).

Leaders Can Positively Impact Performance

- Mark Zuckerberg of Meta Platforms (formerly Facebook).
- Sheryl Sandberg of Meta Platforms (formerly Facebook).
- Elon Musk of Tesla and SpaceX.
- Jeff Bezos of Amazon.
- Oprah Winfrey of HARPO.
- Rihanna of Fenty Beauty.
- Karen Lynch of CVS Health.
- Rosalind Brewer of Walgreens Boots Alliance.
- Whitney Wolfe of Tinder and Bumble.
- Angela Ahrendts of Apple.
- Phil Knight of Nike.
- Jack Ma of Alibaba.
- Mary Barra of General Motors.
- Howard Schultz of Starbucks.
- Sundar Pichai of Google.
- Indra Nooyi of PepsiCo.
- Satya Nadella of Microsoft.

Leaders Can Destroy Shareholder Value

- Ken Lay of Enron.
- John Sculley of Apple.
- Bernard Ebbers of WorldCom.
- Charles Prince of Citigroup.
- Richard Fuld of Lehman Brothers.
- Richard Wagoner of General Motors.
- Robert Nardelli of The Home Depot and later Chrysler.
- Martin Winterkorn of Volkswagen.
- Ron Johnson of JC Penney.

Strategic Leadership and the Future of Work

Strategic leaders have a strong preference for face-to-face interactions learning.

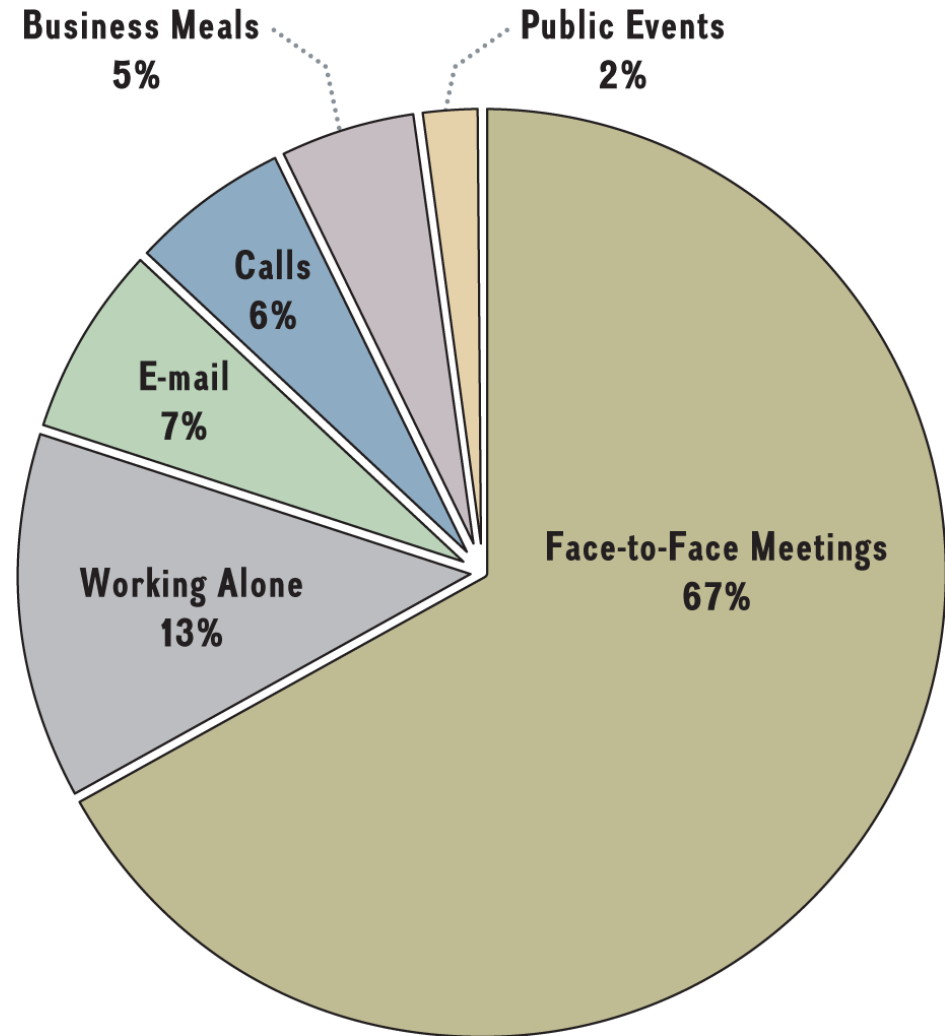
Covid-19 pandemic showed the importance of conducting work remotely.

Some companies (e.g., Meta, Slack, Twitter) have fully embraced remote work indefinitely.

Others (e.g., Netflix, Goldman Sachs, JP Morgan, Morgan Stanley) have required employees to return to the office.

What Strategic Leaders Do

Exhibit 2.1



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How Do You Become a Strategic Leader?

It is a function of innate abilities and learning.

Leadership actions reflect:

- Age, education, and career experiences.
- Personal interpretations of situations.

Upper Echelons Theory:

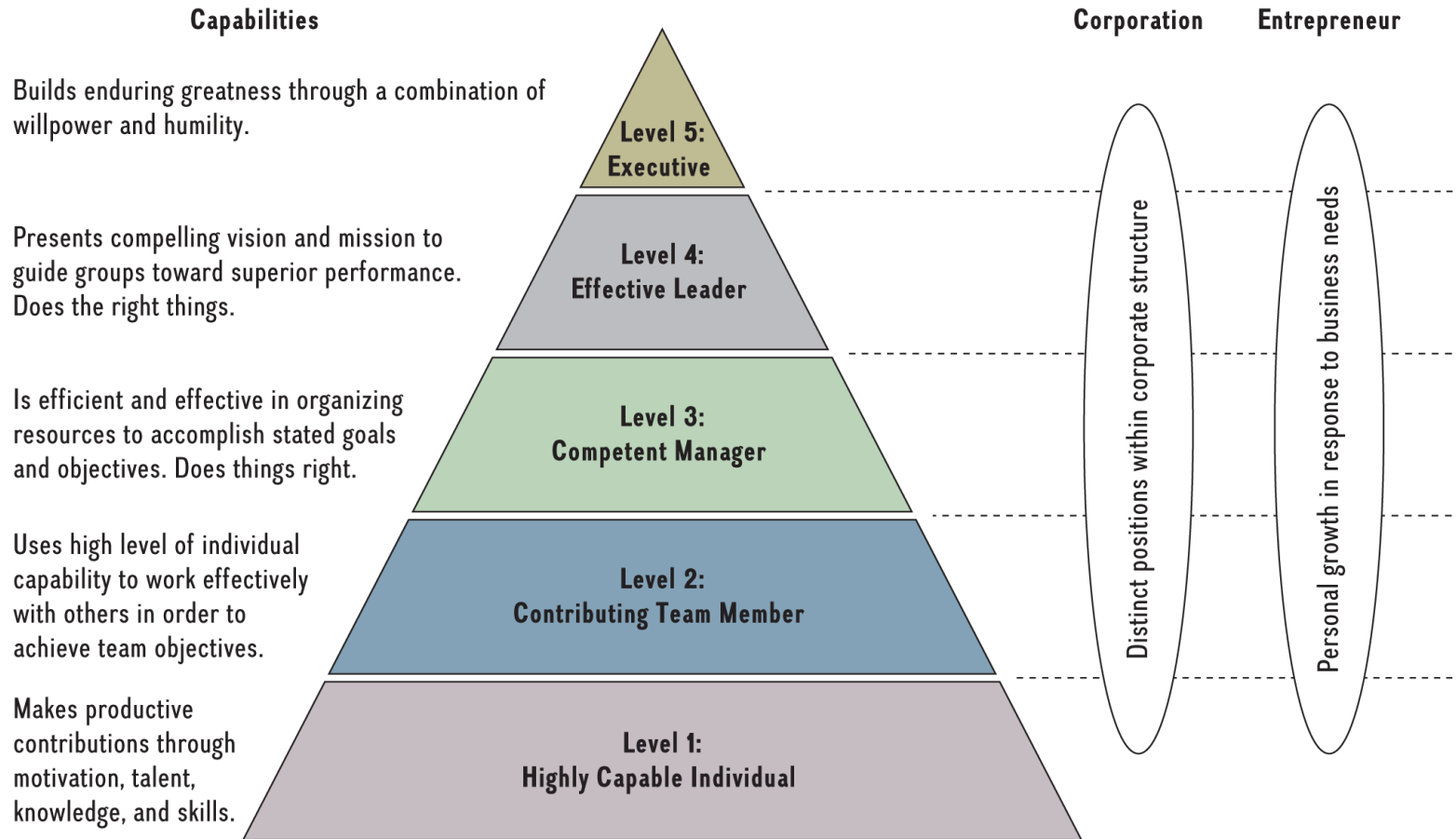
- Organizational outcomes reflect values of top management team.
- Their unique perspectives and values.

Outcomes include:

- Strategic choices and performance levels.

Strategic Leaders: The Level-5 Pyramid

Exhibit 2.2



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Great Companies

Great companies share:

- Transition from average performance to sustained competitive advantage
- Stock returns 7x the general market.
- Consistent patterns of leadership.
- Summarized in the Level-5 Leadership Pyramid.

Best-selling book *Good to Great*:

- Written by Jim Collins.
- Over 1,000 companies were analyzed.

Progression of Leaders Through the Pyramid

Each level builds upon the previous one.

Prior levels must be mastered before moving on.

Each level helps individuals develop the capacity for greater success.

A Level-5 executive:

- Works to help the organization succeed.
- Helps others reach their full potential.

The Strategy Process

Strategy Formulation:

- The choice of strategy.
- Where and how to compete.

Strategy Implementation:

- Organization, coordination, integration.
- How work gets done.
- The execution of strategy.

Three distinct areas:

1. corporate,
2. business, and
3. functional.

The Strategy Process Across Levels

Corporate Strategy

- Where to compete?
- Industry, markets, and geography.

Business Strategy

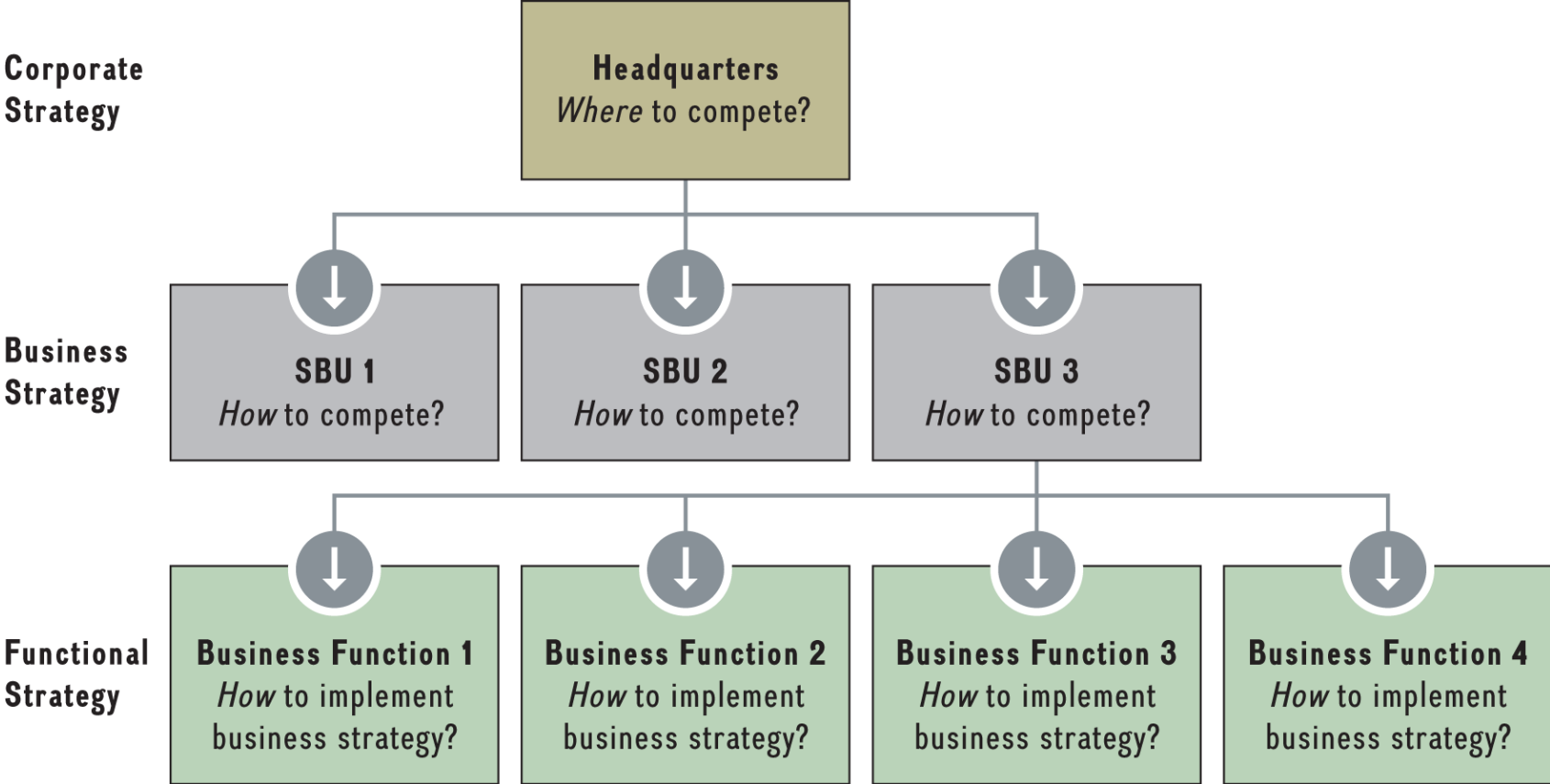
- How to compete?
- Cost leadership, differentiation, or value innovation.

Functional Strategy

- How to implement a chosen business strategy?
- Different strategies require different activities.

Strategic Formulation and Implementation across Levels: Corporate, Business, and Functional Strategy

Exhibit 2.3



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Vision, Mission, Values

Vision: What do we want to accomplish ultimately?

Mission: How do we accomplish our goals?

Values:

- What commitments do we make?
- What safeguards do we put in place?
- How do we act both legally and ethically as we pursue our vision and mission?

Vision

Captures an organization's aspiration.

Spells out what the organization wants to accomplish.

Identifies the long-term objective.

Should be forward-looking and inspiring.

An **effective** vision:

- Is expressed as a statement.
- Should be forward-looking and inspiring.
- Should provide meaning for employees in pursuit of the organization's ultimate goals.

Vision Is Strategic Intent

Outlines a firm's stretch goal.

Is based on a firm's vision.

Actions based on vision will:

- Build necessary resources.
- Build capabilities.
- Ensure continuous organizational learning.
- Ensure learning from failure.

Vision and Competitive Advantage

Research shows that vision statements and firm performance are related.

This relationship is strongest when:

- The vision is customer-oriented.
- Internal stakeholders help define the vision.
- Organizational structures align to the vision, for example, compensation.

Customer- vs. Product-Oriented Vision Statements

Customer-oriented vision statements:

- Allow companies to adapt to changing environments.
- Focus on problem solving for the customer.

Product-oriented vision statements:

- Focus on improving existing products and services.

Product-Oriented Vision Statements

Define a business in terms of a good or service provided.

- Force managers to take a more myopic view.
- Can hinder understanding of the competitive landscape.

Example: U.S. Railroad companies.

- They were focused on the railroad business.
- They should have been focused on transportation and logistics.

Customer-Oriented Vision Statements

Define a business in terms providing solutions to customer needs.

- Customer needs may change.
- The means of meeting those needs may change also.

Example: Ford Motor Company.

- Entered the market in the early 1900s.
- Ford didn't build a better horse and buggy.
- Ford's focus: "to provide personal mobility for people around the world."

Mission

What an organization actually does.

- The products and services it will provide.
- The markets in which it will compete.

Defines how the vision is accomplished.

Mission: Strategic Commitments

Credible actions that back up the vision and mission statements.

These commitments are often:

- Costly.
- Long-term oriented.
- Difficult to reverse.

Customer-Oriented Vision Statements: Exhibit 2.5

Company	Vision Statement
Amazon	To be Earth's most customer-centric company, where customers can find and discover anything they might want to buy online.
Better World Books	To harness the power of capitalism to bring literacy and opportunity to people around the world.
Facebook (a subsidiary of Meta Platforms)	To make the world more open and connected.
Fenty Beauty by Rihanna	To include women everywhere.
Google (a subsidiary of Alphabet)	To organize the world's information and make it universally accessible and useful.
Ikea	To create a better everyday life for the many people.
Nike	To bring inspiration and innovation to every athlete in the world.
Tesla	To accelerate the world's transition to sustainable energy.
Walmart	To be the best retailer in the hearts and minds of consumers and employees.

Values

Organizational core values:

- Ethical standards and norms.
- Govern the behavior of individuals.
- Provide stability to the strategy.
- Serve as guardrails to keep the company on track.

Help employees:

- Understand the company culture.
- Deal with complexity.
- Resolve conflict.

Three Approaches to Organizational Strategy

Strategic planning:

- A formal, top-down approach.

Scenario planning:

- A formal, top-down approach.

Strategy as planned emergence:

- Begins with a strategic plan, but it is less formal.

Top Down Strategic Planning: Overview

Data-driven strategy process.

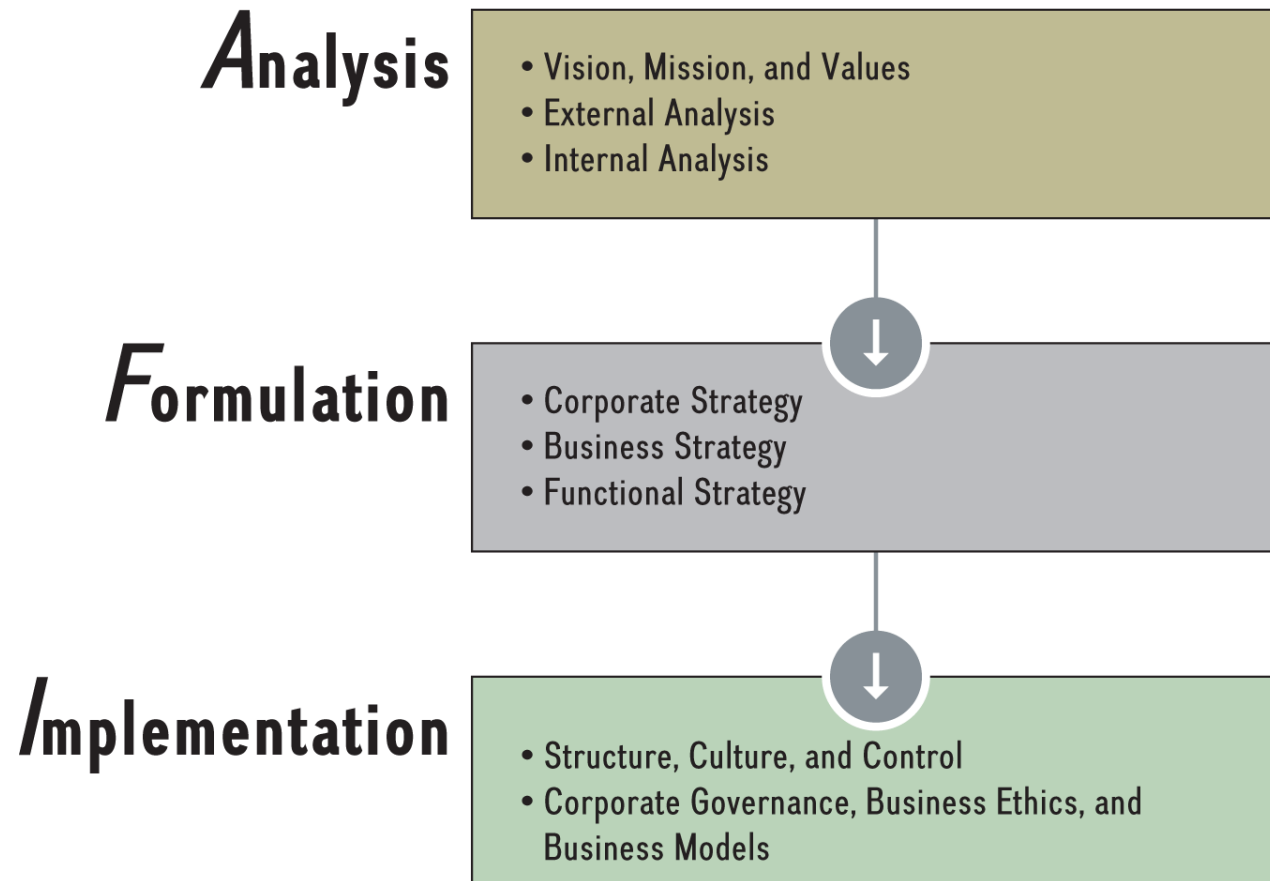
This process served Apple well in its journey to become the world's first company to be valued at \$3 trillion.

Top management attempts to program future success through analysis of:

- Prices and costs.
- Margins.
- Market demand.
- Head count.
- Production runs.
- Five-year plans and budgets.
- Performance monitoring.

Top-Down Strategic Planning in the AFI Strategy Framework

Exhibit 2.6



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Shortcomings of the Top-Down Approach

1. May not adapt well to change.
2. Formulation is separate from implementation.
3. Information flows one-way.
4. Leaders' future vision can be wrong.

Example: Apple.

- Steve Jobs predicted customers needs.
- Apple didn't engage in market research.
- Since Cook took over, their planning process has evolved.

Scenario Planning: Overview

Asks “ **what if** ” questions:

- Top management envisions different scenarios.
- Then they derive strategic responses.

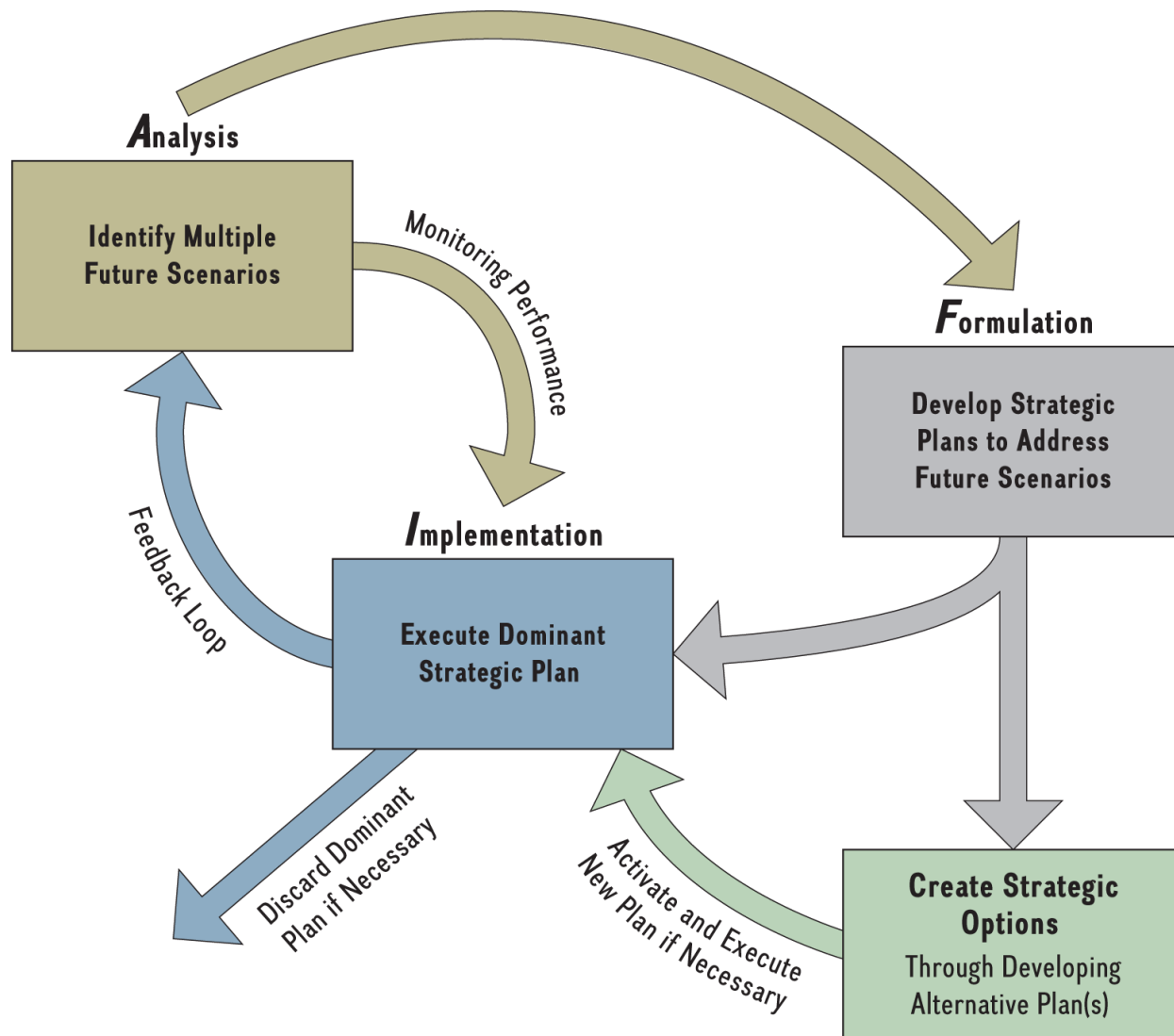
Optimistic and pessimistic futures are planned.

Considerations can include:

- New laws.
- Demographic shifts.
- Changing economic conditions.
- Technological advances.

Scenario Planning within the AFI Strategy Framework

Exhibit 2.7



[Access the text alternative for slide images.](#)

Approaches to Scenario Planning

Obtain input from different levels and functions:

- R&D, manufacturing, and marketing and sales.

Determine how to compete **situationally**.

Attach probabilities into different future states:

- Highly likely vs. unlikely.

Black Swan Event

The high impact of a highly improbable event.

It can affect strategic planning

People once assumed all swans were white.

- When they first encountered swans that were black, they were surprised.

Examples:

- 9/11 terrorist attacks.
- British exit from the European Union (Brexit).
- Covid-19 pandemic.
- Russia's invasion of Ukraine in 2022.

Questions to Ask in Scenario Planning

1. What resources and capabilities do we need to compete successfully in each future scenario?
2. What strategic initiatives should we put in place to respond to each respective scenario?
3. How can we shape our expected future environment?

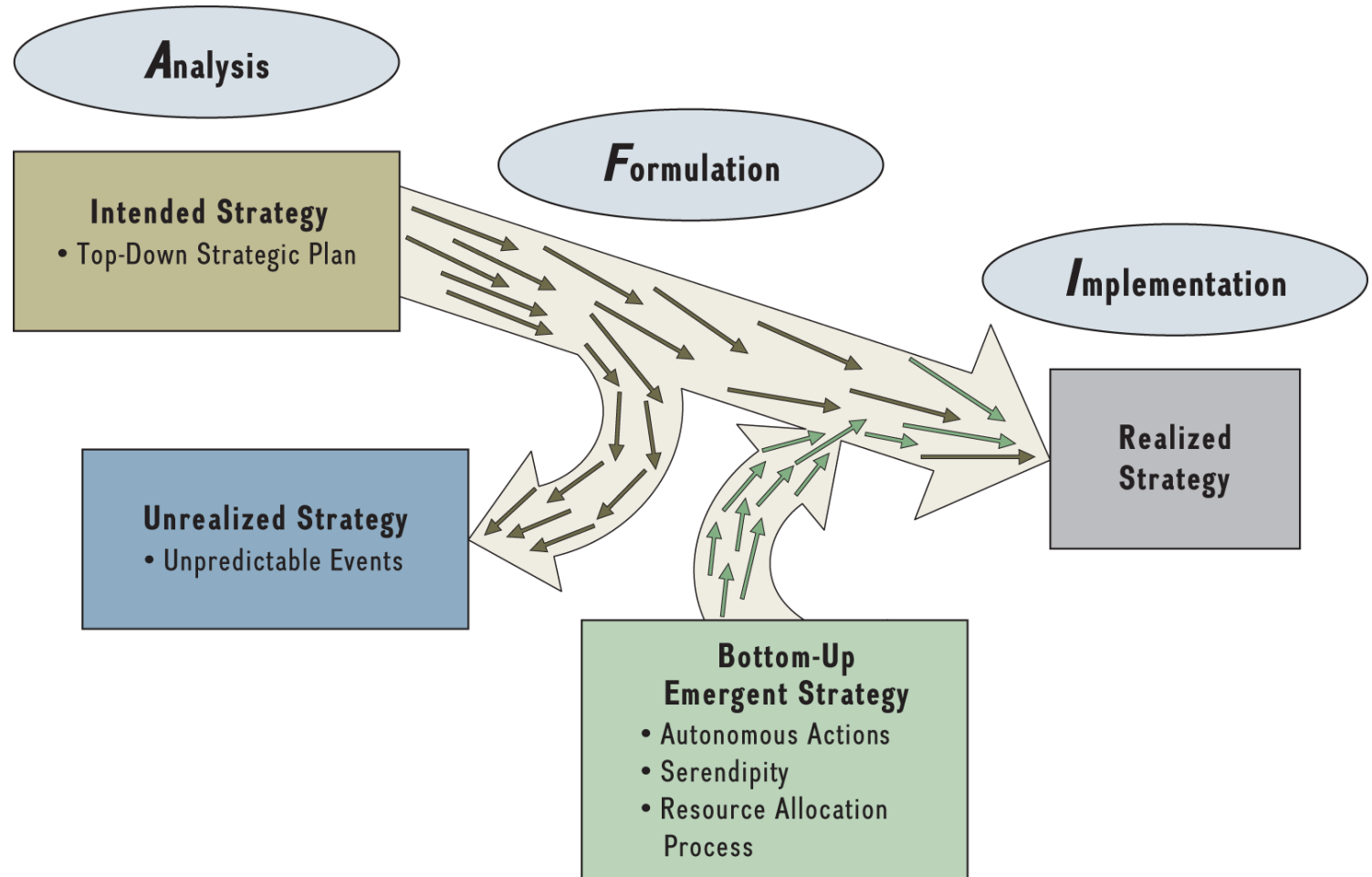
Strategy as Planned Emergence

Top-Down & Bottom-Up: Relies on data, plus:

- Bottom-up strategic initiatives emerge.
- Evaluated and coordinated by management.
- Less formal and less stylized.
- Personal experience.
- Deep domain expertise.
- Front line employee insights.

Realized Strategy Is a Combination of Top-Down Intended Strategy and Bottom-Up Emergent Strategy

Exhibit 2.8



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Key Points About Strategy

Intended strategy:

- Outcome of a rational and structured top-down strategic plan.

Emergent strategy:

- Any unplanned strategic initiative.
- Bubbles up from the bottom of the organization.
- Can influence and shape a firm's overall strategy.

Realized strategy:

- Combination of intended and emergent strategy.

Strategic Initiatives

An activity a firm pursues to explore and develop:

- New products and processes.
- New markets.
- New ventures.

Can bubble up from deep within a firm through:

- Autonomous actions.
- Serendipity.
- Resource-allocation process (RAP).

Autonomous Actions, Serendipity, Resource Allocation

Autonomous Actions:

- Strategic initiatives undertaken by employees.
- A response to unexpected situations.

Serendipity:

- Random events, surprises, coincidences.
- Has an effect on strategic initiatives.

Resource Allocation Process (RAP):

- How a firm allocates resources based on predetermined policies.
- Helps shape realized strategy.

Strategic Decision Making

Can be limited due to our cognitive limitations:

- Choosing “good enough” options vs. **optimal** solutions.
- Human decision making has cognitive limitations, biases.
- **Artificial intelligence** can augment the information at our fingertips.

Managers can become better at decision making.

- Theories and frameworks help make sense of uncertain information and help navigate strategic inflection points.
- A strategic inflection point: A turning point in determining the future of company.

Two Decision Making Modes

System 1:

- Brain's default mode.
- Gut reaction.
- Familiar, efficient, automatic.
- Requires little energy.

System 2:

- Logical, analytical, deliberate.
- Requires more energy.
- Slower.

Two Distinct Modes of Decision Making

Exhibit 2.11

System 1	System 2
Fast	Slow
Unconscious	Conscious
Automatic	Effortful
Everyday, Snap Decisions	Complex, Analytical Decisions
Error Prone, Higher Likelihood of Biases	Reliable, Lower Likelihood of Biases

Cognitive Biases

Bias:	Description:
Illusion of Control	Our tendency to overestimate our ability to control events.
Escalating Commitment	Continuing to support a project when it is showing signs that it may not succeed.
Confirmation Bias	Searching for information to support existing beliefs.
Reason by Analogy	The tendency to use simple analogies to make sense out of complex problems.
Representativeness	Drawing conclusions based on small samples or anecdotes.
Groupthink	When opinions coalesce around a leader without individuals critically evaluating and challenging that leader's opinions and assumptions.

How to Improve Decision Making

Devil's Advocacy:

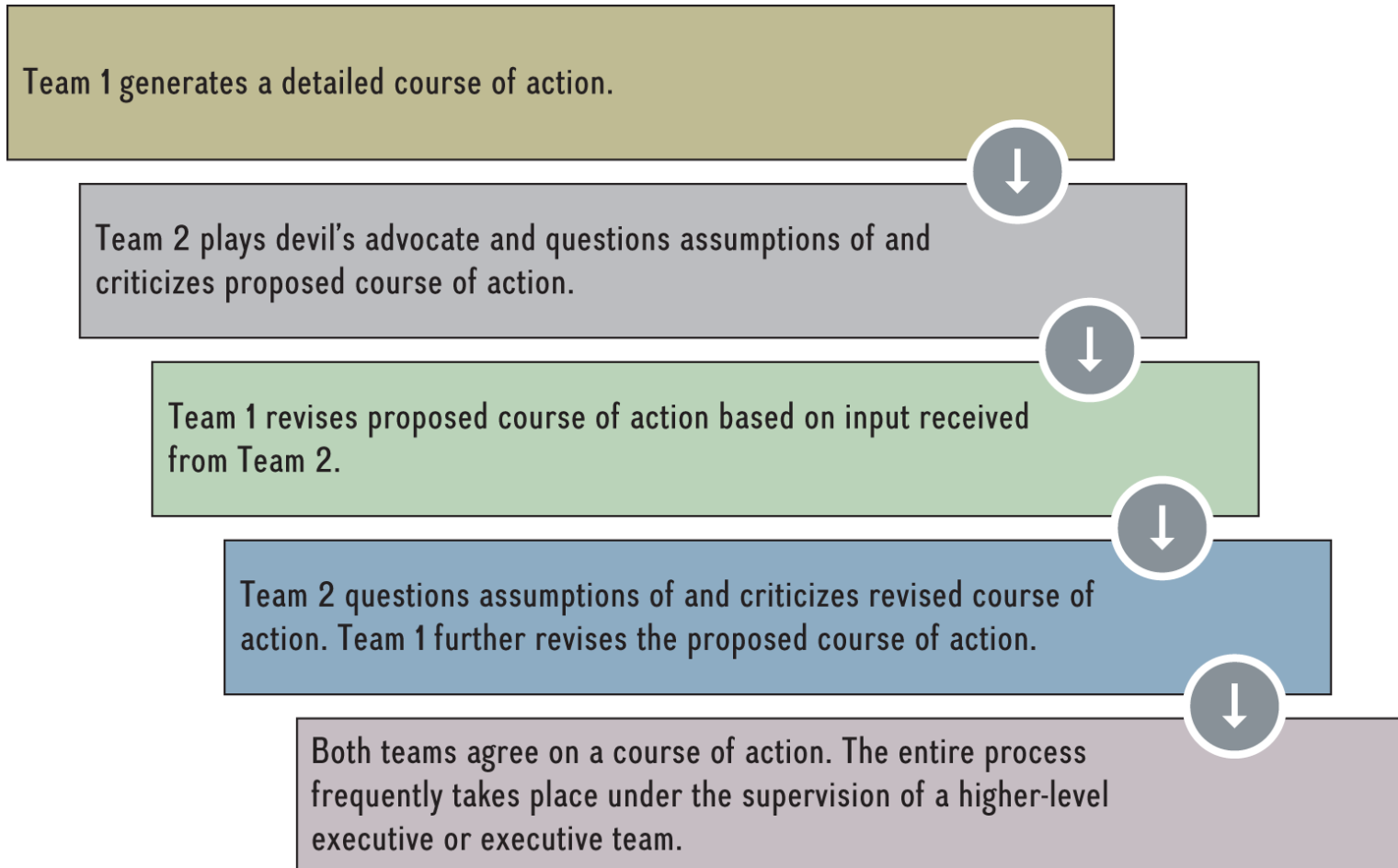
- The path forward is challenged with alternative viewpoints.
- Highlights what can go wrong.
- Criticisms are offered.

Dialectic Inquiry:

- Alternatives are explored.
- Compromises are discussed.

How to Use a Devil's Advocate to Improve Strategic Decision Making

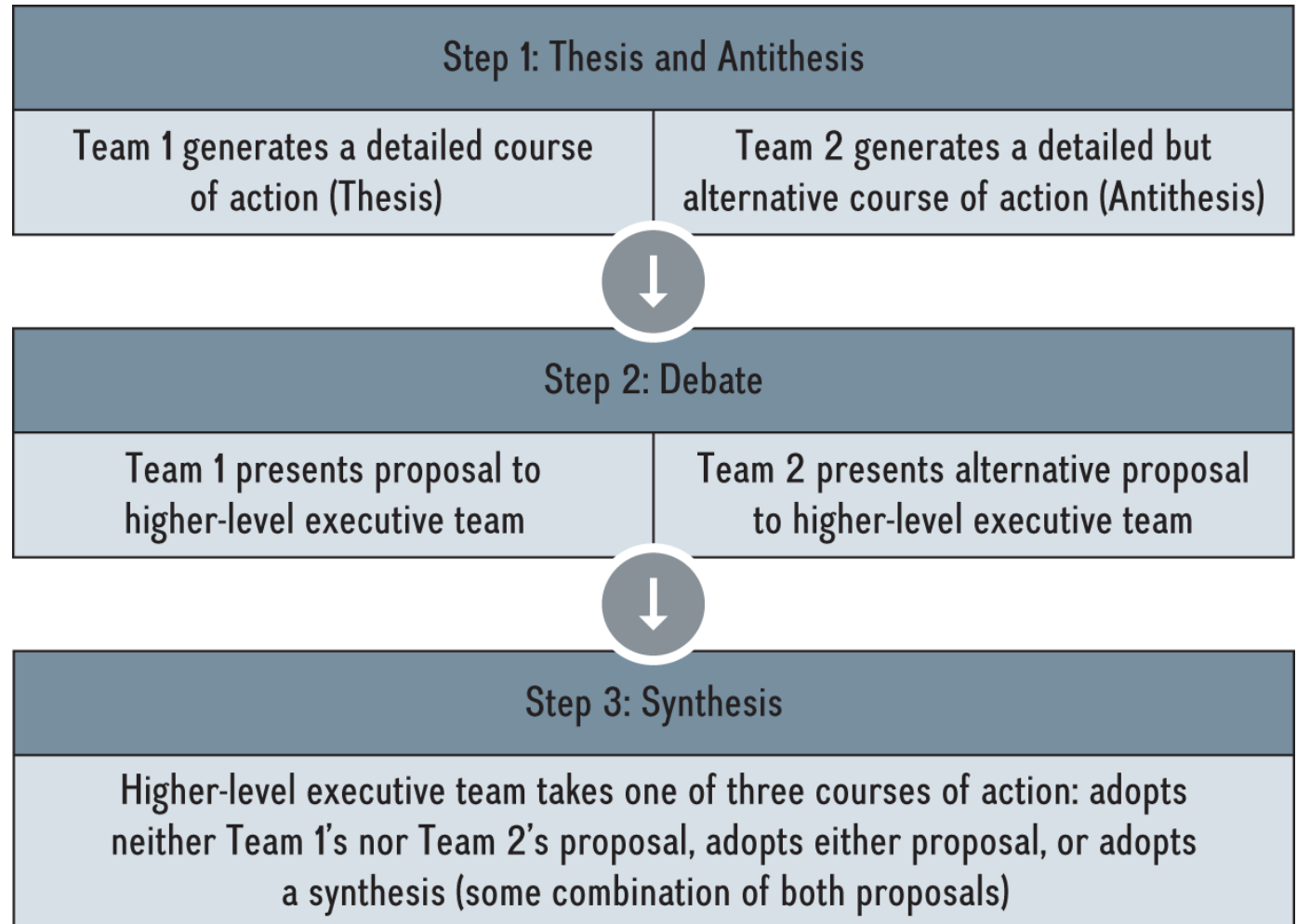
Exhibit 2.12



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How to Use Dialectic Inquiry to Improve Strategic Decision Making

Exhibit 2.13



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