STRATEGIC LEADERSHIP FOR TURBULENT TIMES

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Strategic Leadership for Turbulent Times

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Preface

This book is the product of over 20 years of presenting executive seminars and teaching MBA and Executive MBA courses on Strategic Leadership, Strategic Change, and Strategy Process in the USA, Norway, India, China, and Lithuania. It is meant for the reader to build upon a knowledge of the fundamentals of strategy formulation and analytics. Over the years a number of tools and approaches to strategic leadership and process emerged, as executives and students struggled with the issues of how to choose appropriate theoretical lenses, apply practical models and create advice for strategic leadership in profit-oriented organizations, although most of the ideas in this book are equally applicable to not-for-profit organizations.

There are several key questions that lie at the core of this book:

- What are the dynamic organizational and environmental tensions that strategic leaders must balance as they strive to realize the vision and overall purpose of their organizations?
- What are the generic forms of leadership available to strategic leaders and how do they enable or stymie effective strategic leadership in increasingly turbulent times?
- What are the forces driving and the means for balancing individual and collective forms of strategic leadership?
- What are the required competencies, ways of knowing, and ways of making sense of the opportunity–challenge mix for moving from the ever-changing present into the unknown, and mostly unknowable, future?
- What are the sources of *wisdom* for strategic leaders in the creation of effective decisions in the long term?

The authors wish to thank the numerous individuals who have contributed to this book over time. Foremost on our gratitude list are the more than 3000 Master's students and executives who have been exposed to varying versions of the ideas and tools in this book for the past 20 years. Without their ongoing input and application this work would never have come to light in a monograph.

In addition, we wish to especially acknowledge the emotional support and encouragement of our respective partner/spouses and families. These especially include Michelle Somerville, Ievgeniia Zhovtobriukh, and Rita Arnesen for their support in so many ways, both visible and invisible. We wish to thank our mentors, Professors Louis Barnes and C. Roland (Chris) Christenson of Harvard University and Professor Torger Reve of the Norwegian Business School BI, as well as Professors Leon-C. Malan of Colby-Sawyer College and Bruce Hanson of Loyola Marymount University for their coauthorship in earlier seminal articles that contributed to the ideas in this book. Others who have offered encouragement and comments on the ideas in this book include Professors Andre L. Delbecq of Santa Clara University, Nicholas O'Regan of the University of the West of England and Robert Quinn of the University of Michigan. Any shortcomings of this book are the sole responsibility of the authors.

Finally, we wish to thank the Department of Strategy at the BI Norwegian Business School, and especially Department Chairs Fred Wenstop and Randi Lunnan for their financial support over the years to create this book and to present these ideas at international conferences and in varying executive programs.

It is probably best to think of this book as being similar to a journey up a mountain: you never know when you set out on such a journey what the weather will be like along the way and which climbing tools you will need. However, hopefully you are carrying a few appropriate maps and advice from previous climbers to guide you along the way. In the end, as any long-term mountain climber or hiker knows, it is only through experience that you learn which tools and clothes will be most fitting for the weather and the task at hand. Finally, the field of strategic leadership is laden with uncertainty. As Chris Christensen once famously stated at Harvard Business School, "If you see a turtle on top of a telephone pole you have to wonder and ask, 'How did it get there?'" Similarly, strategic leaders eventually find themselves in territory they never expected to inhabit. This book is dedicated to all those leaders who find themselves at some time or another on the top of a telephone pole wondering, "How did I get here and how am I going to go on from here?" It is the express purpose of this book to provide some useful avenues along which strategic leaders can proceed to address the challenges and opportunities presented by turbulent times and environments.

How is this book different from other books on strategic leadership? First, it portrays strategic leadership as involving numerous leaders at multiple levels of scale, from within single individuals to the micro-economic dynamics of clusters of firms and industries. Second, it considers personal and organizational values, the ability to perceive fine-grained changes of variation in the internal and external environments of the firm and the development of managerial wisdom as crucial for strategic leadership effectiveness. Third, it treats strategy process as inherently recursive, that is, it is continually redefining and acting on prior versions of itself and revising its own rules, processes, and current paradigm. Strategic leadership rests not only with the top executives but also with the middle and bottom of the organization—the responsibility lies with those who are most intimately in touch with the ever-emerging changes in competitor rivalry as well as products, services, customer preferences, and supplier options and trends. It is our hope that the reader finds this book a useful guide to understanding the key facets of what strategic leaders must deal with in turbulent times.

Mark Kriger
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Praise for *Strategic Leadership for Turbulent Times*

"This book sets the agenda for the next decade of leadership thought. Kriger and Zhovtobryukh bring a fresh and much-needed template to the field, one that shifts the focus of leadership thought to healthy organizations, not short-term results, and to the networks and clans that make up the true leadership cadre, not just lone executives."

—Daniel Goleman, Co-Director, Consortium for Research on Emotional Intelligence in Organizations, Rutgers University, USA

"In this book two masters see the organization as a 'boiling cauldron of opportunities and constraints.' From this dynamic base the authors teach us strategy as only masters can."

—Robert E. Quinn, Margaret Elliott Tracy Professor of Business Administration, Center for Positive Organizations, Ross School of Business, University of Michigan, USA

"This remarkable book provides an encyclopedic overview of organizational strategy, fully encompassing its contemporary complexity. Yet, Kriger and Zhovtobryukh are able to share insightful diagnostic and solution heuristics in a manner that invites involvement. Bravo!"

—Andre L. Delbecq, Professor of Management and Senior Fellow, Santa Clara University, USA

"A refreshing look at the concept of leadership in the twenty-first century. The authors skillfully combine theory with practice and provide valuable advice that any aspiring strategic leader would be wise to follow. This ground-breaking book presents a highly original way of thinking that will appeal to business leaders as well as policymakers, students, researchers, and managers at all levels—a must read."

—Nicholas O'Regan, Associate Dean for Research and Innovation, Professor of Strategy/Innovation and Enterprise, Faculty of Business and Law, University of Western England, UK

"Mark Kriger and Yuriy Zhovtobryukh have produced an outstanding guide for serious leaders. Often leadership books either provide a lightweight report on one or two aspects of leadership or a lengthy report on academic findings that fails to make clear how real leaders can use them. Mark and Yuriy have examined what strategic leaders need to do and laid out the challenges—neither covering up the difficulties nor leaving out key points. Both leaders and scholars are in their debt."

—Robert Chapman Wood, Professor of Strategic Management, San Jose State University, USA

"A superb guide for leaders. It goes far deeper than the usual superficial checklists of most books on strategy. The authors' insights into the tacit influences and processes that determine strategy outcomes results in a model of strategic leadership that is theoretically sound and also eminently practical. Their model of five dynamic co-alignments is destined to become the go-to model for thoughtful strategists in turbulent businesses."

—Arvind Bhambri, Professor of Strategy, University of Southern California, USA

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PART I

Foundations of Strategic Leadership

CHAPTER 1

Reimaging Strategic Leadership

The Traditional View of Strategic Leadership

Imagine for a moment that you are the CEO or President of your organization, *the* so-called strategic leader of your firm. A key question to you is, what makes a good, not just an effective, strategic leader? Strategy textbooks taught in MBA and many executive courses around the globe offer a set of disparate perspectives to answer that question. One dominant perspective, the *positioning school* (Porter 1980, 1996, 2008), implies that effective strategic leaders are those able to (1) favorably position the firm in its industry or industries, and, if possible, to reshape the industry forces, and (2) secure its competitive position with high entry barriers with the aim of gaining long-term *superior performance* (Porter 1979, 1996). Another major school, the *resource-based view* (Barney 1991; Hamel and Prahalad 1994; Grant 1996), shifts attention to the interior of the firm. Here, the core task of strategic leaders is to acquire, develop, and build resources and capabilities, including stocks of knowledge and skills, that are rare, valuable (not easy for other firms to copy), and difficult to substitute, in order to achieve a long-term *sustainable competitive advantage* for the firm.

Other literature adds nuances to these dominant views. The *activity-based* perspective (Porter 1985), for example, emphasizes the value-chain configuration as the determinant of strategic positioning. The *knowledge-based* view (Nonaka and Takeuchi 1995; Spender 1996; Stewart 1997; Boisot 1998; Nonaka and Konno 1998) suggests that the core task of strategic leaders is to manage a firm's knowledge as the most impor-

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tant of their resources, the source of innovation and means of sustaining competitive advantage. Finally, the *micro-strategizing* approaches (Johnson et al. 2003) bring the attention of strategic leaders to the processes and practices governing day-to-day micro-level activities related to strategic outcomes. However, a good strategic leader goes beyond effectiveness to instilling the values and creating routines and activities that result in long-term health for the organization, that is, to the task of creating a *good* organization for all relevant stakeholders (i.e. managers, employees, customers, and shareholders).

Strategic Leadership as Navigating in a Sea of Shifting Signals

What the extensive body of existing strategy literature does not explain, however, is how strategic leaders address those tasks in real organizational settings. And, more generally, how should they go beyond consequentialism (the achieving of goals and objectives)? When you walk into the workplace of any organization you are immediately inundated with countless signals from others, both visible and invisible messages, intended and unintended. These messages are both verbal and, most importantly, nonverbal and subliminal, below the threshold of ordinary awareness. You are literally confronted with a sea of sights, sounds, and hidden messages that are constantly shifting. As a leader at whatever level of the firm, you must develop the relevant skills to be present and responsive to these signals and messages.

People in strategic leadership positions need to be aware of this sea of messages, able to decipher them, and act upon them with wise discernment. This range of far-reaching signals and messages, that are often in the unseen contexts in board meetings, top management teams, and task forces, flow through the organization through extensive relationship networks between leaders and followers, laterally between coworkers and hierarchically between leaders and subordinates. This book is about how strategic leaders do not just set directions, strategies, long-term visions and objectives (i.e. they are *consequentialist*), but also they are highly emotional and even playful, at times, as appropriate for the situation (Kahneman 2011).

The Tacit Aspects of Strategic Leadership

While the dominant paradigm in the strategic management literature focuses on explicit strategy formulation, this book develops a model of strategic leadership based on the premise that strategy formulation emerges out of a complex set of largely tacit and unarticulated thoughts and feelings, and is not just a function of rational or "boundedly rational" search processes, that facilitate collective decisions and action over time. The key to creating a shared strategy is to generate in others a common set of feelings, shared values, perceptions, and beliefs, and then to articulate a corresponding set of purposes and directions. Once again, this lies within the sphere of strategic leadership. In the attempt to make strategy a "cognitive science," there is an over-focus on thinking the right strategic thoughts and having the right strategic plans. In contrast, the most essential yet often hidden aspects of strategy –holistic and rapid intuitive judgments – have usually been overlooked, or even denied. The former constitute processes of "thinking slow" whereas the latter processes have been termed "thinking fast" (Kahneman 2011).

The need to understand the inner processes by which senior leaders engage in highly exploratory and improvisational strategic practice is reflected in the words of Lou Gerstner, the CEO of IBM from 1993 to 2001. He wrote in his book, *Elephants Can Learn to Dance*, about what he graphically termed 'The Dirty Little Secret of Strategy':

> It is extremely difficult to develop a unique strategy for a company; and if the strategy is truly different from what others in the industry are doing, it is probably highly risky. The reason for this is that industries are defined and bounded by economic models, explicit customer expectations, and competitive structures known to all and impossible to change in a short period of time. (Gerstner 2002, 229)

We shall return later to the problems of dealing with highly unpredictable and difficult-to-manage "strategic inflection points" and "black swan" events. These have significant ramifications for organizations that seem obvious after the fact, but are often not even imaginable before they occur. Only the exercise by leaders of foresight and the use of the creative imagination can yield valuable scenarios that prepare organizations for the unimaginable (Schwartz 1996; Wack 1985a, b).

Turbulence and the Need for Ambidextrous Strategic Leadership

Numerous corporate events, such as the bankruptcy of Lehman Brothers, the crisis in Nokia in the 2000s, and the plummeting share price of many tech companies during the dot.com and real estate bubbles, make the term "sustainable competitive advantage" a mere myth which is left over from the dreams of strategists and strategy researchers in the twentieth century.

In the increasingly turbulent world of the twenty-first century, the long-term success of companies hinges on the ability both to exploit and to reinvent firm capabilities as rapidly as possible so the firm can meet changing external events and competitive challenges. To achieve this, strategic leaders constantly need to balance a number of ongoing, often competing, demands.

These include the following:

1. Balancing long-term, medium-term, and short-term investment horizons
2. Analytical planning processes with intuition-based visioning
3. Local and global geographic constraints and opportunities
4. Simultaneous forces of differentiation and integration in varying organizational functions
5. Simultaneous needs for both ongoing flexibility with centralized control
6. Simultaneous processes of exploitation of existing resources with exploration of what is currently beyond the known
7. Managing of both changing internal and external environments

Figure 1.1 illustrates such a comprehensive strategy process, where more short-term-oriented and rational exploitation cycles complement longer-term, vision- and intuition-driven exploration.

Following the upper loop in the model, cycle A consists of a process of looking for pattern matches, or disconfirmations, between previously developed predictions and data sources, both internal and external to the organization. The governing processes in cycle A are largely rational with often clearly specifiable steps, benchmarks, and control systems that allow the tracking of deviations from predictions made *ex ante* (Lorange et al. 1987). Adjustments in the deployment of organizational resources are made based on the deviations between organizational results and prior plans or goals. Cycle A, when it predominates in an organization, tends to function mechanistically with specified steps as in a machine bureaucracy (Mintzberg 1979). Objectives, roles, and action steps are largely well-specified because you are dealing with a closed system. Cycle A is found to work best in environments that are stable and which allow for greater predictability, with the presence of market and technological evolution as opposed to upheaval and disruption (Christensen 1997; Christensen and Raynor 2003).

Organizational direction setting in the lower loop in Fig. 1.1, cycle B, consists of searching for new directions, markets, products, services

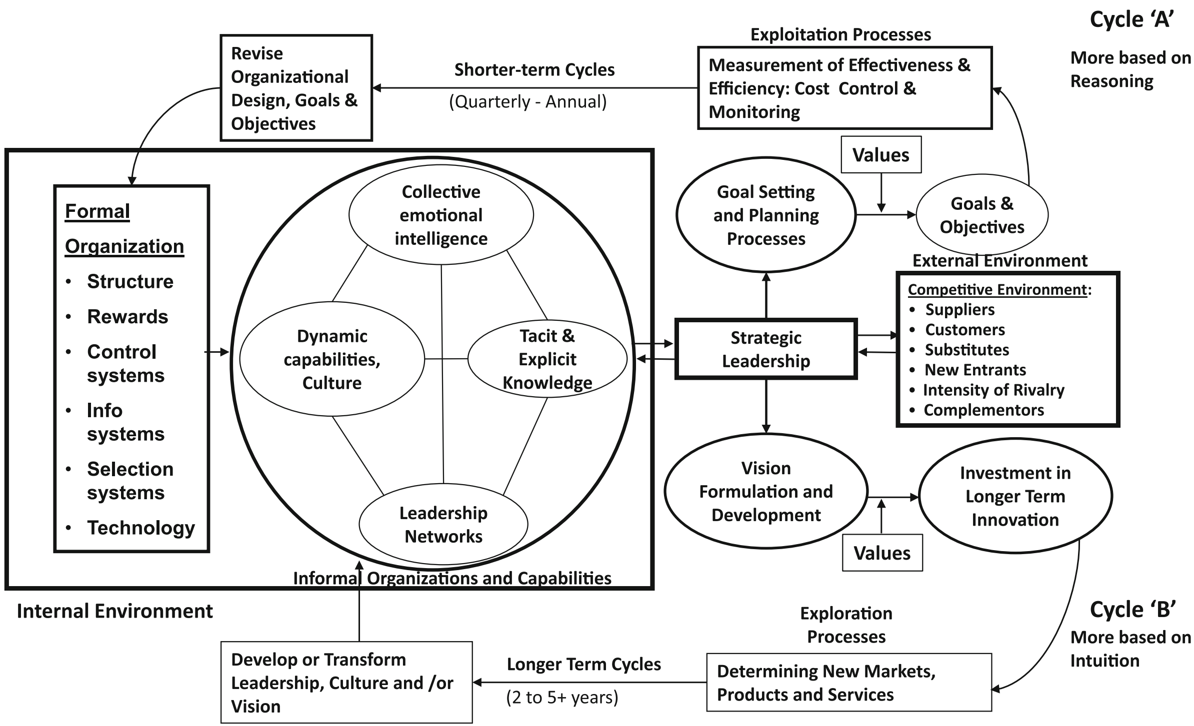

Fig. 1.1 Strategic process and direction setting (Based on M. Kriger, "What Really is Strategic Process?" In *Innovating Strategy Process: Genesis, Contexts and Models*, S.W. Floyd, J. Roos, C.D. Jacobs, and F.W. Kellermanns (Eds.), New York: Blackwell Publishing, 2005, pp. 165–175.)

that currently do not exist and often are only partially perceived or felt. Resource allocation, of finances and people, takes place incrementally based more on intuition than closed-logic reasoning. Alignment of individuals tends to take place often by virtue of shared values and cultural affinities, which are only partially present to the consciousness of organizational members. Cycle B tends to be highly entrepreneurial in nature, attracting individuals who want to do things differently or to create products and services that have not been created before.

In today's highly turbulent social, economic, political, and technological environments, organizations need both cycles to operate effectively, within different parts of the value chain of the organization and within differing functional areas. A major organizational challenge for leaders is to value and reward both exploitation processes (cycle A) and exploration processes (cycle B) and to find ways to integrate the two, rather than to collapse them into an "either–or" of planning versus incrementalism. As a result, goal setting needs to be merged and integrated with vision development, with simultaneous exploration and exploitation processes (March 1991). The creation of ongoing constructive tension between cycles A and B can result in some of the most difficult-to-imitate organizational capabilities. Unfortunately, it is often only *post hoc* that organizational members can perceive how such capabilities have been created and nurtured. However, while immersed in these processes, individuals often can nonetheless feel and report on the excitement of the interactions taking place in the overall company culture (Burgelman 2002; Gerstner 2002).

In this model, in contrast to most literature in strategic management, organizational design, resources, activities, and industrial positioning are highly interrelated areas that strategic leaders need to address both systemically and as an ongoing dynamic balancing act. This task of balancing the competing demands in turbulent environments is further complicated by the incompleteness and uncertainty of the signals that leaders receive from their external and internal environments, the need to speed up the decision-making and the costs of mistakes for the organization.

In these circumstances a key question becomes: Is there just one leader who is in charge of setting the overall direction of the organization, or is it more accurate to say that there is a pervasive set of leaders at varying levels of the firm who determine where the organization is heading and how it is going to strategically reach the long-term objectives, vision, and mission of the firm? Who or what is guiding this pervasive network of often hidden leaders? Who is to take on strategic roles as the external environment of competitive forces and internal situation change? How much are you as a leader truly "in charge"? This paradigm of many leaders leading at varying levels of the firm is the paradigm that underlies this book.

The Range of Phenomena Facing Strategic Leaders

We can identify a total of 18 areas that constitute the range and breadth of the strategic execution puzzle facing strategic leaders. It is not expected that any one strategic leader will be able to keep in mind more than a handful of these at any one time; however, we present them to show the complexity of the overall domain of strategic leadership content and process. They constitute the range of processes and issues that strategic leaders need to be aware of to have a fuller sense of the real complexity of what is involved in strategy leadership. Thus, strategic leaders need to be sensitive to and understand a multitude of phenomena (see Table 1.1):

Table 1.1 The range of phenomena and processes that strategic leaders need to be aware of

(A) Awareness of multiple logics and causal processes
1. The presence of complex causal loops as well as multiple causes for internal and external events (Stinchcombe 1968)
2. The way that small deviations in initial conditions can result in large eventual effects. This is sometimes known as the "butterfly effect," which is explained by complexity theory and chaos theory (Thietart and Forgues 1995; Prigogine 1980; Stacey 1992)
3. The existence of equi-finality, that is, where there are multiple paths leading to the same end state (see Stinchcombe 1968; Senge 1989). Such systems tend to be generative and nondeterministic
4. The importance of "and–also" logics in addition to more traditional "either–or" logics (see Roethlisberger 1977; Barnes and Kriger 1986)
5. The need to be open to the presence of nested "decision levels" in strategic decision-making (Kriger and Barnes 1992; Langley et al. 1995) with nested levels of scale (Jaques 1986)
(B) Awareness of multiple levels of scale
1. The existence of simultaneously interacting levels of scale with multiple levels of phenomena that are nested (Wilber 1996, 1999)—for example, macro-economy—industry—company—business—group—interpersonal—individual (where each higher-level system includes each lower-level system)
2. The presence of multiple time frames with varying cycles of time-based phenomena (see Jaques 1986; Kriger and Barnes 1992)
3. The developmental stages of organizations, groups, individuals (see Kohlberg 1969; Loevinger 1976; Kegan 1982)
4. The simultaneity of shorter-term goals setting and planning cycles at the same time as longer-term highly intuitive visioning processes (Schaefer and Voors 1986; Westney and Mintzberg 1989; Nutt and Backoff 1997)

(*continued*)

Table 1.1 (continued)

(C) The existence of multiple forms of knowledge
1. The valuing of both explicit and tacit knowledge (Hedlund 1994; Leonard-Barton 1995; Nonaka and Takeuchi 1995; Spender 1996; Stewart 1997; Boisot 1998; Leonard and Sensiper 1998; Nonaka and Konno 1998)
2. The development of leadership wisdom in order to understand how to better balance long-term trends with short-term challenges (Bigelow 1992, Kriger and Malan 1993; Malan and Kriger 1998; Kriger and Hanson 1999)
3. The cognitive complexity of individuals (Jaques 1986, 1989; Streufert 1997; Wilber 1999)
4. The importance of emotional intelligence for long-term organizational effectiveness (Kegan 1982; Salovey and Mayer 1990; Goleman 1995, 1998; Goleman et al. 2002)
5. The ability to perceive holistic patterns of relationships (Bohm 1980a, b; Marion 1999)
(D) The presence of paradoxical tensions and competing values in organizations
1. The proactive use of surprises, treating them as opportunities to learn and adjust, rather than threats (D'Aveni 1994)
2. The presence of paradoxical tensions and competing values (Quinn 1988) such as Adaptability–Stability Flexibility–Control Decentralization–Centralization Differentiation–Integration Productivity and efficiency–Employee morale Internal focus–External focus Logical Planning–Intuitive visioning
(E) The key role of middle-level leaders in creating effective strategic leadership
1. The importance of the role of middle leaders in initiating strategic processes, increasingly autonomously from top management since they are closer to changes in the competitive environment—(see Nonaka 1988; Burgelman 2002; Floyd and Lane 2000; Floyd and Wooldridge 1997)
2. Micro-strategizing and the need to deal with forces of continuous change (Hurst 1995; Brown and Eisenhardt 1997; Johnson et al. 2003)

Based on M. Kriger, "What Really is Strategic Process?" In *Innovating Strategy Process: Genesis, Contexts and Models*, S.W. Floyd, J. Roos, C.D. Jacobs, and F.W. Kellermanns (Eds.), New York: Blackwell Publishing, 2005, pp. 165–175.

Conclusion

The awareness and resolution of these complexities is prerequisite both for successful long-term strategic positioning of the company for future profitable growth and also for building firm resources that are valuable, rare, inimitable, and not easily substitutable. In addition, awareness of these areas assists in the building of capabilities that help to reconfigure and redeploy firm resources to better adjust to the shifting competitive environment. Given the pervasive nature of the underlying tensions, their effective resolution calls for the following:

1. Using multiple information channels to be able to gather and discern key signals from both the external (competitive) and internal (organizational) environments;
2. Merging diverse perspectives and expertise to make sense of these signals to develop adequate strategic responses; and
3. Mobilizing and empowering employees across organizational units and at different levels of the hierarchy to implement strategic responses in a timely manner (Lorange 1982).

These strategic leadership processes require, in turn, that the CEO share the leadership responsibility and roles with other actors in the organization, and their networks, to better utilize the available human and social capital. A single hero-leader simply lacks sufficient cognitive ability and access to information to balance the competing forces alone. This is increasingly so as organizations become more complex and competitive conditions change at an increasingly faster pace.

Shared leadership can take a variety of forms, as we shall see in Chapter 2. One way to reduce the pressure on the CEO is for them to actively share the leadership responsibilities between the heads of the functional and/or geographical units, and foster shared values within those units in an attempt to improve operational efficiency and increase shared meaning and purpose. Another approach is to stimulate and facilitate cooperation across business units and teams in order to create new products, solutions, and strategic alternatives by reconciling diverse insights and then aligning disparate perspectives. Alternatively, a CEO can achieve both by mobilizing networks of leaders across unit boundaries, hierarchical levels, and even outside the organization. Finally, some organizations may foster different forms of leadership in different units or combine features of different generic leadership forms creating hybrids.

Each of these approaches has associated costs as we shall see in Chap. 3—for example, inferior information, increased likelihood of internecine politics and conflicts, and enforcement problems. Internal complexity of the organization together with the degree of external turbulence determine the relative costs of the alternative forms of strategic leadership and thus the situational appropriateness of any given form. Furthermore, the four generic forms differentially address the dynamic forces affecting strategic leadership process as well as the way it is harmonized from the super-micro-level (within individuals) and micro-level (individual) to the meso-level (teams), the macro-level (organizational) to the super-macro-level (the competitive environment and organizational clusters). This will be covered in Chap. 4.

The role of an individual leader, whether formal or situationally determined, in the pursuit of effective strategic management, should not be underestimated. A leader's charisma can be a powerful tool to mobilize people, both in organizations with centralized power as well as those with extensive distributed leadership networks. However, the challenges faced by charismatic leaders will be different in organizations with different leadership forms (see Chap. 5). Similarly, leadership style, transformational versus transactional or autocratic versus delegative, will be appropriate depending on the situational context. Finally, an increased reliance on networks of leaders calls for leadership wisdom and inner meaning that contribute to building more healthy and sustainable organizations in the long term (to be covered respectively in Chaps. 6 and 7).

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CHAPTER 2

Generic Approaches to Strategic Leadership: Stars, Teams, Clans, and Networks

From "Either–Or" to "And–Also" Thinking and Action

Most of us have grown up in a world where we have been taught from our earliest schooling to perceive the world as a series of "either–or" categories and choice. Events are either "good" or "bad," a leader is effective or ineffective, or you should emphasize this versus that. However, labeling an event or a leader as bad overlooks the subtlety of skills, competencies, and achievements required, where some competencies are lacking and others are well-developed. However, if someone is perceived in general as poor or ineffective, there is almost always some competence or skill that is effective. This tendency to overlook the subtle aspects of partial good and partial less effective applies especially to the realm of leadership, particularly strategic leadership.

Single-actor leadership, what we refer to as *stars*, is one of the most commonly assumed, romanticized, and criticized notions of strategic leadership in the management literature (Meindl et al. 1985; Mayo et al. 2003). Essentially, stars are perceived as the main sources of leadership in most organizations, especially in for-profit organizations—usually where the chief executive officer is seen as concentrating most, if not all, of the strategic decision-making power in their own personal domain. They then come to be seen as the main locus of strategic leadership in their organization.

Despite the numerous limitations of this conceptualization of strategic leadership, we find that stars are often found in young entrepreneurial firms where the CEO-founder plays the key role in the creation of the

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organization and its culture (Schein 1985) as well as day-to-day management. In such organizations, the CEO can be either a transformational leader, mobilizing and committing the organization to pursue their vision, or a more transactional leader who actively engages in and controls almost every operational aspect of the business. In both cases, the power is centralized in the hands of a single individual who rules by fiat, sometimes relying on personal charisma (Mintzberg 1973).

Stars play a variety of positive roles in their organizations. They often act simultaneously in several key roles as *figureheads*, *information-processors*, *decision-makers*, *innovators*, *brokers*, *specialists*, and *substitute operators* (Mintzberg 1973). In performing these roles, stars face an ongoing need to channel and reconcile opposing, often contradictory values and forces within a group of actors, especially followers (Quinn 1988). Examples of such opposing forces are short-term and long-term time horizons, task and process orientations (Blake and Mouton 1964; Hersey and Blanchard 1969), quality and quantity (of product and services), and continual, often seemingly small but important, ethical choices (Badaracco 2002).

Furthermore, individual hero-leaders are expected to manage multiple competing values in their organization (Denison et al. 1995; Quinn et al. 1990; Quinn and Rohrbaugh 1983; Yukl 2002). They are called upon to view and make sense of the external and internal competitive environments through differing paradigmatic frames (Bolman and Deal 1984). The existence of multiple, often competing, frameworks and approaches to leadership makes it difficult for one person to fit the situation at all times. This is increasingly so as organizations become more complex and environments more turbulent.

In the circumstances where the internal complexity becomes higher and the environmental turbulence increases, increased distribution of the strategic leadership function becomes inevitable and new more shared forms of strategic leadership evolve. Then the CEO is no longer *the* strategic leader in the organization, because if leadership is seen as the ability to successfully balance many competing forces (Denison et al. 1995; Quinn 1988), then leadership becomes restricted to an increasingly smaller set of "superhumans." Quinn (1988) relates how some leaders were found to successfully achieve "mastery" of the competing forces and achieve the "strategist" level (Torbert 1987). However, very few organizational leaders were discovered to reach this level of mastery, since as Torbert's study reports, only 14 % of leaders were in this category. If the definition of strategic leadership includes only such high-end competency, then by implication, the existence of truly strategic leaders is fairly rare. Does this mean that there is an absence of strategic leadership in other organizations? Part of the problem would seem to be that these studies focus on individuals as the unit of analysis. One alternative explanation is that there is a more pervasive and subtle form of strategic leadership that is taking place. Barnes and Kriger (1986) report on just such processes as constituting "the hidden side of organizational leadership" but it is not until about 20 years later that there began to be the emergence of empirical and theoretical work on distributed, shared, and multiactor forms of leadership (Pearce et al. 2008a, b).

Some skeptics refer to stories in the popular press and argue that turbulence and crises in the firm's environment create favorable conditions for leadership concentration when visionary-inclined CEOs, who have a propensity toward risk-taking, emerge as symbolic hero-leaders. At these times, decisive strategic actions appear to be crucial for organizational survival and success. The story of Lou Gerstner's turnaround of IBM the 1990s is a vivid illustration. We also find the existence of "stars" in more mature companies, where hero-founders still have an important role in decision-making. Cases that illustrate this are Google and Microsoft, where Larry Page and Bill Gates, respectively, appear to the public to have the ultimate decision-making power, even though they are no longer the formal heads of their companies. Though leadership in these companies became increasingly distributed as they grew larger, the perceived power concentration in the hands of these iconic individuals remained for years after they stepped down formally as the CEO.

Organizational leaders often channel apparently contradictory forces by constructively reconciling the dilemmas and organizational tensions that arise (Polley et al. 1988). Numerous small choices made in organizational decision-making result in larger higher-order streams of decision processes (Kriger and Barnes 1992). However, these choices are not the sole province of highly visible "hero-leaders"; they are distributed among a set of individuals who are often not visible because their leadership acts are part of the everyday fabric of organizational affairs. There is, in reality, a network of leaders rather than a single invariant leader. This is a central concern of this book—how networks of leaders rely on a diverse set of leadership processes and competencies to create long-term effectiveness in their organizations.

We should note that there exist multiple ways of thinking about and determining organizational effectiveness. This is important because the different leaders at varying levels of an organization will emphasize differing ways of determining effectiveness. There are over 40 ways of defining and measuring effectiveness, and the ordering of these effectiveness criteria determines where the organization will be guided in the longer term and how its leaders will ultimately be measured and rewarded (see Table 2.1).

Leadership Networks

Organizations for some time now have been conceptualized as cooperative systems where leadership acts as an often unseen integrative mechanism (Barnard 1938). Each division, group, and subgroup has its own leaders. In order to be effective in their respective tasks, these leaders exert influence

Table 2.1 Measures of effectiveness in organizations

- Ability to interface with clients
- Ability to complete projects on time
- Absenteeism (minimization)
- Accident (minimization)
- Achievement emphasis
- Competence of employees
- Conflict (minimization)
- Control of costs
- Creation of new products and/or services
- Customer satisfaction
- Efficiency
- Flexibility/ability to adapt
- Goal consensus
- Growth in assets
- Growth in billable hours
- Growth in market share
- Growth in number of innovations
- Growth in plant capacity
- Growth in profit
- Growth in sales
- Information management and communication
- Innovation
- Internalization of organizational goals
- Interpersonal Skills
- Meeting government expectations
- Job satisfaction
- Managerial task skills
- Morale
- Motivation
- Participation and shared influence
- Personnel turnover (minimizing)
- Planning and goal setting
- Productivity
- Profitability
- Project completion (on time)
- Quality
- Readiness to perform tasks
- Role and norm congruence
- Stability
- Training and development emphasis
- Value of human resources
- Evaluations by external constituencies
    - Meeting expectations of suppliers
    - Meeting expectations of customers
    - Meeting expectations of stockholders
    - Meeting expectations of Stock analysts

both upward to their superiors, and ultimately the Board of Directors as well as downward into the memberships of respective groups or subunits. In addition, there is lateral interdependence among leaders for resources and services, as well as cooperative relationships with external leaders in other organizations for information and favors (Yukl 2013). Thus, strategic leadership can extend in three dimensions: upward–downward, laterally, and externally.

In this view, strategic leadership functions more through a network or group of individuals than via any particular individual in the network. The person who acts as the source of influence in one moment often becomes influenced by another person in the next. Moreover, each individual in this network can be *both* a leader and a follower, at different times depending on the issue or situation (Hunt 2004).

Lashinsky (2016) relates how Jeff Bezos often appears to be the central leader figure at Amazon, The Washington Post and Blue Origin. However, Patty Stonesifer, an Amazon Director for 19 years, states: "Today it is not a hub-and-spoke connecting to [Bezos]. He has become a great leader of leaders" (p. 14).

Conceptualizing leadership as a network process does not necessarily imply "participative management" or group decision-making (Hackman 1986; Hunt 1999; Lawler 1986). For example, Harold Geneen, the iconic former CEO and Chairman of ITT, was generally perceived and portrayed as an autocratic, controlling, and highly individualistic chief executive. However, despite the high central prominence and dominance of Geneen as an individual, leadership in ITT during the "Geneen Years" involved scores of division general leaders and corporate executives who formed a complex network of leadership for the organization. Many of these individuals subsequently were hired by other organizations to enter into and to develop further leadership networks in those organizations (Geneen 1984).

Iacocca (1984) provides similar evidence for the existence of "leadership networks," even in the presence of a highly visible and dominant chief executive (see especially Chap. XV, "Building the Team"). The iconic hero-leader Steve Jobs also developed teams of leaders at Apple, Inc. (Isaacson 2011), who along with Tim Cook, the current CEO of Apple, have emerged as a much greater network-based form of strategic leadership. Whether this post-Jobs leadership at Apple is effective in the long term remains to be seen.

We shall define such a dynamic set of leader–follower relationships where the individual actors influence and coordinate the tasks, objectives, and visions of the organization and its subgroups as a *leadership network*.

Following the early work of Mitchell (1969), we conceptualize a network as having a finite number of nodes (e.g. individuals); however, there may be several links in either direction between the persons in the network. These links will usually have different shared qualities and values attached to them. The qualities of these links are constantly and dynamically changing, depending upon the situation. An example of this is the leadership in long-term strategic decision processes reported by several researchers (Mintzberg et al. 1976; Mintzberg 1978; Kriger and Barnes 1988, 1992). These authors describe networks of leaders who were involved in the design, development, manufacturing, marketing, and promotion of new products and services in a range of industries including airlines, steel, and newspapers.

A Range of Strategic Leadership Forms

Stars and leadership networks are two opposite ends of the spectrum of various forms of strategic leadership. Instead of being either centralized in an individual or distributed throughout the firm, strategic leadership is more often shared in varying degrees at different levels of the hierarchy. Keeping this continuum in mind, we now focus on two generic intermediate forms, which increase analytical tractability and practical usefulness, while also preserving key features of the strategic leadership process. These two intermediate generic forms of strategic leadership we call *clans* and *teams*.

Clans

Clans are characterized by distributed strategic leadership at the top of the firm and its centralization down the hierarchy. Clans are functionally, or geographically, separated units of the firm whose members have a sense of belonging based on common background, functions, jargon, norms, values, and/or culture. There is a hierarchy or a chain of command within each clan with the clan leader at the top often acting similar to a star. At the top of such firms, however, the strategic leadership is shared among the leaders of the clans, which jointly form the top management team of the firm. Philips Electronics in the post-WWII period is an example of a firm that effectively utilized a clan form of strategic leadership, where subsidiaries were highly autonomous for long periods of time. Generally, we can expect to find clans in firms with strong foreign subsidiaries having complex internal operations but relatively low centralized control and leadership from headquarters.

As the internal complexity of operations increases, this puts a strain on a single leader's ability to be actively involved in all relevant business areas and the distribution of leadership at the top of the firm becomes necessary. Brian Chesky, cofounder and CEO of Airbnb, illustrates this vividly in a 2015 interview with *Fortune Magazine*. Chesky states: "I have to focus on two or three areas that I am deeply passionate about … that I focus on because I can add unique value … and with the others I really try to empower leaders and get involved only if there are holes below the waterline." Similarly, there is a distribution of the leadership roles at Google, now part Alphabet holding company. Larry Page commented on the change in the company's structure in the following way: "In general, our model is to have a strong CEO who runs each business, with Sergey and me in service to them as needed. We will rigorously handle capital allocation and work to make sure each business is executing well. We'll also make sure we have a great CEO for each business" (Gallager 2015).

The increased need to distribute strategic leadership combined with the increased ambiguity regarding the ability of individual employees to contribute to overall performance makes clans more attractive compared with stars and single organizational-level hierarchies. Though in clans there is still a vertical "system of legitimate authority" (Ouchi 1980) that allows centralizing within-clan decision-making and assigning tasks effectively as well as clan leaders who concentrate power pretty much as stars. On the organizational level the leadership becomes distributed across silos, reducing the scope of responsibilities and control of each clan leader as well as that of the CEO to more tractable levels.

Clans augment the leadership influence mechanisms via shared values, beliefs, norms of behavior, and reciprocity. The recruitment of new clan members, reflecting the clan leader's preferences and their active socialization, contributes to the development of a distinct clan culture. This culture, together with the realization of the mutual dependence, serves to make the members' goals more aligned and reduces the need for formal performance monitoring.

Further, clan members, who typically specialize in specific business or functional areas, often have similar backgrounds—such as engineering or marketing—and a common jargon, contribute to making the within-clan communication and problem-solving more efficient. The increased internal efficiency of clans comes at the cost of diminished ability to cooperate with other parts of the organization. This is because of discrepancies in goals, priorities, values, and communication codes resulting from clan-specific norms and processes.

Teams

Unlike stars and clans, with predefined hierarchical subordination, *teams* rely on shared leadership with dynamically shifting leader–follower roles as the problems to be solved change and as team members possessing the most relevant information and expertise emerge to take on those roles. While teams typically have a formal leader, the decision-making power is shared by the team members; the formal leader in such teams is then treated more as a peer. This is because the formal leader's knowledge, skills, and abilities are not sufficient in all of the areas that the problem at hand requires. Thus, the formal leader is highly dependent on the competencies and information that all the other team members have (Pearce et al. 2008a).

Cross-functional teams in organizations that plan and implement a complex project requiring considerable cooperation, coordination, and joint problem-solving across functions and areas of expertise, such as developing a new product or implementing a customer relationship management (CRM) system, serve as a good operationalization for our conceptualization of teams. A management consulting team working on a complex multifunctional project is another example.

The need for shared leadership in teams arises from the complexity of problem-solving, the inherent bounded rationality of individual team members, and the diversity of their backgrounds. While clan members typically perform complementary roles in one functional domain, for example, marketing or engineering, and have homogenous specialized backgrounds, teams are characterized by more substantial diversity in functional expertise and cut more broadly across the organization. This diversity allows effective teams of leaders to

1. overcome the cognitive limitations inherent with single individual leaders;
2. analyze problems from several perspectives;
3. generate multiple future scenarios;
4. more easily communicate with diverse external sources of ideas and information;
5. be more creative and innovative (Finkelstein et al. 2009)
6. increase the overall quality of strategic decision-making (Brown and Eisenhardt 1989);
7. generate greater mutual learning (Yukl 2013).

This increased diversity inherent in teams is, however, both a source of strength and a challenge for team leaders since it may be difficult to establish a common purpose and agree on strategy and execution, given the possible conflicts in priorities, viewpoints, and schedules of the different team members. Further, the need to get approval from the functional leader may decrease the speed of decision-making, especially in matrix organizations with extensive cross-functional teams. Finally, the diversity of backgrounds of the members enhances the quality and likelihood of external communication, but may decrease the effectiveness of internal communication (Yukl 2013). These forces require that team leaders establish a sense of common purpose and an ongoing awareness of the mutual dependence between the team members, to facilitate communication and resolve disputes.

Nucor Corporation, in the Ken Iverson years (1970s–1990s), is a good example of a firm which has had strong leadership teams, where the CEO, who was perceived by many as a "star," encouraged strong team leadership through a complex group reward system operating at several levels of the company (Kriger and Barnes 1988; Preston 1991). The result was long-term collective efforts across divisions, which resulted in local leaders encouraging organizational learning and experimentation to take place at the same time as the achievement of a very high return on assets as a common realized objective (Collins 2001) (Fig. 2.1).

Conclusion

To summarize, strategic leadership that relies solely on the CEO, however visionary or charismatic they may be, is increasingly ineffective as the organization grows, diversifies, and faces ever-greater competition. The need for leaders to play a range of roles and make decisions regarding all aspects of business operations will overwhelm the ability of any single person. This constellation of role demands necessitates a more extensive sharing of strategic leadership tasks beyond any one single leader, however talented.

Distributing strategic leadership roles in the upper echelons and, in this way, benefiting from increased specialization, enhances the organizational efficiency through a clearer delineation of responsibilities, streamlining the chains of command and information channels. The problem with this solution, however, is that it tends to create ever-greater impervious barriers between subunits of the organization. This leads to situations where the left hand is not merely unaware of what its counterpart is doing but also where each is fiercely competing for the attention of the head.

Clans • Silo-like leadership structures allow distribution of decision-making on top, but hierarchical centralization of power within units; • Clan members have a sense of kinship based on common background and values; • Often in organizations with separated functional and geographical units.	**Leadership networks** • A dynamic constellation of relationships extending horizontally, vertically and outside the organization; • Collaboration based on shared values, qualities and purpose; • Strong collaborative corporate culture; • Shared leadership.
Stars • Centralized power & decision-making; • The strategic leader plays a variety of roles; • Main responsibility for making sense of the competitive environment, internal changes and their respective fit; • Often found in young, small entrepreneurial firms or in large companies undergoing crisis or rapid strategic transformation.	**Teams** • Dynamically shifting leader-follower roles depending on the task at hand; • Shared leadership horizontally; • Sense of mutual dependence; • Background diversity; • A close analogy is a cross-functional team or an engagement team in management consulting.

Fig. 2.1 Four generic approaches to strategic leadership

Building strategic leadership teams across unit boundaries may mitigate the conflict and enhance organizational agility. Teams may benefit from the diversity of backgrounds of its members as well as a less rigid leadership structure. This allows the person with the most relevant expertise and skills to take on the given issue to lead. However, teams may often flounder in strategy execution as the diversity of its members may result not only in richer strategies but also in lack of consensus and resultant conflict in priorities.

Leadership networks rely on cultures of strong collaboration, shared values and purpose, the realization of mutual dependencies, and dynamic leadership structures, all of which can potentially resolve the tension between exploration and execution faced by clans and teams. However, building effective leadership networks is a challenging endeavor, as is finding the right balance between sharing strategic leadership in networks and defining a common vision task that remains incumbent on the CEO.

In other words, all the four generic forms have inherent trade-offs. The next chapter addresses the nature of these trade-offs in more detail and how the degree of internal complexity and environmental turbulence jointly determine the appropriate balance. These considerations form the foundation for the overall model of strategic leadership, which will then be further specified and explored at varying levels—the macro, meso, and micro (i.e. from the perspective of the organization, the group, and individual leaders)—in subsequent chapters.

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PART II

Strategies for Dealing with Complexity and Change

CHAPTER 3

An Overall Model of Strategic Leadership

Four Generic Forms of Strategic Leadership

One of the many functions of strategic leadership in an organization is effectively mobilizing available human and social capital in the firm. The four forms of strategic leadership discussed earlier—stars, clans, teams, and networks—are alternative means for achieving this purpose. However, they are not mutually exclusive, particularly in the sense that they often coexist in large as well as medium-sized organizations. Stars, clans, teams, and networks (1) rely on different forms of influence; (2) assume distinct patterns of power and role distribution in the firm; (3) differ in preferred routines, repertoires, and types of corporate culture; and (4) are supported best by different types of organizational structures.

Not surprisingly, their relative effectiveness in mobilizing the human and social capital of the firm will vary in different types of internal and external environments. That is, there is a situational appropriateness of the four generic forms and their hybrids rather than one superior, "one-fits-all" way of leading strategically. Before considering how the internal and external environments influence the effectiveness of stars, clans, teams, and networks, we need to understand the ways in which strategic leadership can become suboptimal or ineffective in general.

There are three major sources of leadership ineffectiveness: (1) limited information and cognitive capacity of the decision-makers, (2) within-firm politics, and (3) the bargaining between employee coalitions.

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Types of Information Costs of Strategic Leadership

Most of the strategic decision-making in a firm requires substantial information collection, storing, and processing. This may be either information about the external environment or some internal competence needs. For example, we may consider the development and growth of HoloLens, an augmented reality "hologram" headset made by Microsoft. Before deciding whether to develop such a product and what features it should have, strategic leaders needed to get some idea of the potential demand, among many other factors. Is anyone going to want and purchase the product? What for? How often? The list of questions to answer is potentially quite large. And this is only one of the many product concepts under development at a large firm like Microsoft.

For another example, consider a Norwegian chemist who decided to build a plant to produce solar panels somewhere in the western fjords of Norway. We shall for now ignore the multiple tasks and uncertainties he has to handle and focus on one area—accounting. A PhD in chemistry does not substitute for the knowledge and skills of an accountant. And the larger and more complex the organization is, the more the specialized competence needs become.

In either case, the information is not readily available to the strategic leaders but must be actively searched for, collected, coordinated, and communicated to relevant actors. In turbulent environments, this search usually becomes very intensive and requires engagement of substantial human and social capital resources that the firm either possesses or needs to acquire.

Eisenhardt (1989) describes a case of a company successfully competing in the US microcomputer industry in the late 1980s—having a very turbulent competitive environment. Illustrating this point:

> Zap executives claimed to "measure everything". Without prompting, the CEO described exact targets for gross margins and expenses for R&D, sales and administration. Executives reviewed books daily. The VP of finance ran a computer model of firm operations weekly. The VP of marketing monitored the environment continuously. As she told us, "I keep an eye on the market and funnel the information back". The R&D VP told us that he monitored the technology "grapevine" through his extensive network of friends. (Eisenhardt 1989, 551)

The opportunity costs of time and resources committed to searching for information to support strategic decision-making are one type of information costs faced by strategic leaders. Another, and potentially even greater source of ineffectiveness, is the narrowness of scope of the information search. Cyert and March (1963), in their seminal work on the behavioral theory of the firm, argue that the search activities are usually local, that is, constrained by the existing competence areas of those performing the search or organization as a whole.

Adner and Levinthal (1995) describe an example of an organization that was very good at serving one large customer, a disk drive developer. When the firm searched for indications of future demand and technological needs it, focused on the signals given by that one large customer. The competitors behaved in a similar manner. At the end of the day, firms serving the disk drive industry had very diverse beliefs as to where the industry was heading, depending on the information from their major customers. This made them susceptible to the customers' own biases and prone to overlook key emerging opportunities and threats.

Further, the actual search process was limited by untested assumptions held by the visionary CEO and the top leadership coalition in the organization. Such a substitution makes strategic leadership inappropriately responsive to the external environment and potentially jeopardizes the organization's long-term competitiveness and even survival (Adner and Levinthal 1995).

In addition, strategic leaders have limited cognitive capacities, that is, limitations in their ability to draw inferences from the complex information they receive (Simon 1996). This often leads to suboptimal decisions. People also have different backgrounds and competence sets. This can lead to biased assignment of priorities to the information received and shared. This, in turn, often leads to information distortions and losses, further amplified when communicated further (Cyert and March 1963; Hennart 1982).

Finally, in a turbulent environment changes can be so rapid and discontinuous that the information that strategic leaders have to rely on in decision-making is often either not available, inaccurate, or incomplete (Eisenhardt and Bourgeois 1988). Moreover, it quickly becomes obsolete, which further constrains the effectiveness of the strategic leadership.

Bargaining Costs of Strategic Leadership

Behavioral theorists (Cyert and March 1963) view organizations as coalitions of individuals, who have differing preferences, differential power, and differing relationships to other individuals in the organization. They tend to engage in "behind-the-scenes" political activities—such as "outlaw executive meetings" (Eisenhardt and Bourgeois 1988) to solve problems without engaging other executives or the CEO—and make decisions through bargaining by which the most powerful coalition wins. Bargaining may reduce the effectiveness of strategic leadership in several ways by:

1. Substitution of rational analyses and evaluation of multiple alternatives utilizing partisan preferences advocated by the most powerful coalition
2. Failure to achieve buy-in and thus execution support from other organizational members, particularly those in opposing coalitions
3. Delaying the decision-making process to give their preferences time to be the winning choice

The costs of these inefficiencies are likely to become particularly high in turbulent environments which place a premium on the firm's ability to make decisions quickly. These costs are increased by: (1) seeking more information simultaneously from various parts of the firm; (2) overusing rational analytic tools; (3) simultaneously considering multiple alternatives; and (4) the CEO in making the final decision, however, delegating execution powers according to competence (Eisenhardt and Bourgeois 1988; Eisenhardt 1989; Brown and Eisenhardt 1997). Eisenhardt and Bourgeois (1988) studied firms in the US computer industry and found that coalitions, political behavior, and bargaining were typical only for the underperforming firms in their sample.

Enforcement Costs of Strategic Leadership

Transaction cost and agency theories (Hennart 1982; Fama and Jensen 1983) argue that, in hierarchical organizations, opportunistic subordinates will shirk as long as their principals cannot effectively monitor their behavior and the subordinates do not share enough in the results of their work. Internal controls and performance-based compensation are then the means to curb shirking. The costs of implementing internal controls and performance-based compensation are labeled "enforcement costs" (Hennart 1982).

From this perspective, enforcement costs reflect both the use of resources necessary to implement internal monitoring, controls, and performance-based compensation as well as the inefficiencies related to their implementation. These inefficiencies include the following:

1. Inability to establish a reliable link between behavior and performance. For example, a software engineer who works each day from 8 a.m. to 4 p.m. is not necessarily more productive than one who comes to work around noon and leaves when he or she wants.
2. Demotivating effects that monitoring is likely to have on people engaged in creative roles such as advertising and R&D.
3. Stimulating and rewarding short-term orientation rather than more long-term strategic thinking and decision-making. A leader who gets paid according to her ability to meet quarterly earnings targets has strong incentives to cut longer-term investments, which may be vital for sustaining growth but provide no immediate earnings payoff or highly uncertain future payoff.

It is necessary to extend further the notion of enforcement costs in two ways. First, there exist enforcement costs related to work overload and unclear delineation of responsibilities across teams. This situation is quite common in software development. In diversified software companies, the split of teams according to the product is often a standby solution. It is not perfect, however, as the teams often rely on the same technology or need to synchronize the products in ways to ensure their compatibility. Each of the teams normally has a list of priorities that far exceed their engineering and managerial resources. Each is also primarily responsible for its own core products or services. As a result, both have incentives to push the responsibility for developing the shared technology or aligning the functionality of the two product streams onto the other team. Such pressures to "free-ride" often result in products and services that do not fit very well from a user perspective, do not work well together, or lack key announced features. In addition, there will be constant pressure not to delay the product launch since release deadlines are sacred in the IT industry.

Second, enforcement costs may result from personal commitments and conflict of interests. Let us return to the example of software development. The industry changes at a fast pace and products quickly lose their value for a company and its customers. In such circumstances the person responsible for developing a project or product that earlier gave them a high status in the organization may become quite reluctant to drop its further development and switch to a more promising platform that was developed by another team. This is particularly the case if there is excessive internal competition between different teams. As the transition to the new platform is delayed, the time spent on new product launch ineffectively escalates. This will result in lost market opportunities and customers.

The Costs of Differing Forms of Strategic Leadership: Putting Them Together

So far we have considered four generic forms of strategic leadership—stars, clans, teams, and networks—as well as three major hurdles that strategic leadership encounters: information costs, bargaining costs, and enforcement costs. While all of these forms of strategic leadership are to some extent susceptible to all the aforementioned inefficiencies, each generic form has both relative advantages and disadvantages in dealing with each type of leadership cost compared to the other forms of leadership.

Stars are particularly strong at curbing bargaining in the organization. They may achieve it in two major ways. First, stars make the ultimate decision regarding the course of future actions. Sometimes they do it in an autocratic manner, that is, by executive order. Eisenhardt and Bourgeois (1988) present a case illustrating this:

> All of the officers…opposed the Chairman's decision to change the name at this time. Name recognition is a very valuable asset for small firms in the industry, and First had a strong name. The officers feared the loss of marketplace name recognition at the crucial time during which the firm was switching from one type computer to another…However, as the President said, "This is not a democratic company." (Eisenhardt and Bourgeois 1988, 823)

However, this autocratic approach of "pushing decisions down others' throats" has two major disadvantages. On the one hand, it tends to exacerbate the information cost problem. For example, a CEO with a management team which is developing a new product may have researched the market opportunities very thoroughly, but doing that may have resulted in not taking sufficient time for the task or process to reach an effective decision. Alternatively, the decision may simply have been ignored, upon evaluation of the engineering resources available. The cognitive capacity, after all, is found to be inherently limited (Simon 1957). On the other hand, implementation of such decisions may become highly problematic because executives or key stakeholders, who have not been given sufficient voice in the outcome or process, will be inclined to be less than enthusiastic about a decision forced on them by others, especially those who have greater structural power.

Alternatively, stars may encourage broad participation in the gathering of information, and in generating, evaluating, and owning a strategic option, but end up making the final choice if the executives cannot reach a consensus. Illustrating this: A comment from a VP, Engineering: "It's very open. We're successful most of the time in building consensus. Otherwise, Randi [the CEO] makes the choice" (Eisenhardt 1989, 563).

This approach appears to be more effective. It not merely decreases bargaining but also mitigates information inefficiencies—by stimulating the sharing of information gathering and a plurality of perspectives—and reduces enforcement costs through the soliciting of commitment by other organizational members.

In fact, this latter mode of decision-making by stars is close to that typical in leadership teams and networks or hybrid forms of strategic leadership where apparent stars draw on the competence and insights of their teams. It resembles to some extent the leadership styles of Lou Gerstner of IBM and Steve Jobs of Apple. They both acted like stars and yet relied on the complementary competencies possessed by their team members.

Second, stars may curb bargaining early on by clearly communicating their overall strategic vision and organizational goals. Eisenhardt and Bourgeois (1988) find that such behavior does, in fact, facilitate consensus in decision-making.

While stars are relatively more effective in stopping bargaining, this form of strategic leadership is probably the most disadvantageous with respect to the information costs. One of the greatest limitations that single-actor leaders face is their cognitive capacity, that is, the ability to draw all relevant inferences from the information they receive. It is limited by leaders' core competencies in the first place. Steve Jobs was exceptionally good at design. Mark Hurd at HP knew how to meet and beat sales targets. Sergey Brin is a technology expert. These important competencies often come at the expense of other needed competencies and skills. Also, stars are likely to hold strong assumptions, beliefs, and values. A graphic example is Steve Job's noted ability to generate a "reality distortion field" (Isaacson 2011). As a result, the decisions made by stars are likely to be biased by their preferences, which then do not necessarily fit with the demands of the competitive environment.

Certainly, stars can attempt to overcome this limitation by soliciting more inputs from lower levels in the firm's hierarchy. At this point, however, they are likely to encounter two problems. First, people possessing the most valuable and updated information are usually those who work directly with customers and technology, and they are typically hierarchically several levels lower than the CEO. The communication of information through intermediaries may result in both information losses and distortions: people with differing backgrounds and experience attach different values and priorities to the information they get as well as interpret it in different ways. Second, as Eisenhardt and Bourgeois (1988) find, the centralization of power in the hands of the CEO increases political behavior in the firm. This manifests, among other things, in subordinates concealing relevant information from the CEO. The earlier example of "outlaw executive meetings," where executives discussed issues that they did not dare to bring up in front of the CEO, is a graphic illustration.

Within-Firm Politics and the Power Dynamics Between and Within Clans

In the clan form, power is distributed among the clan leaders at the top of the firm and simultaneously centralized—with relatively fixed leader–follower roles as one moves down the hierarchy. A firm with this form of strategic leadership resembles hierarchical silos, each with a leader on top of the silo and each silo with its own clearly delineated competence area, as well as shared language, symbols, norms, and values. In large diversified companies, clans form relatively stable coalitions built around specific functional area, product, service, or geographic arenas.

This form of strategic leadership is especially well-suited for exploitation of the clan's specialized competence, since a clan leader can rely on not only leading by fiat but also on the social capital the clan has built up over time, based on the shared culture and understandings of mutual dependence. This social capital is drawn on to ensure effective execution of the clan's strategic goals and to enforce required behavior from the members of the clan. As a result, a clan faces minimal enforcement costs when the task at hand lies within its collective competence and power domain. In addition, the high degree of specialization within clans can reduce the information constraints at the top of the firm where the firm's operations become increasingly more complex due to overall growth and diversification.

The Major Leadership Problems with Clans

The major leadership problem associated with clans is between-clan competition and politics. The allegiance to clans tends to increase dramatically overall bargaining, information, and enforcement costs. This is especially the case in highly turbulent or complex external environments at either the country or industry level: (1) in countries with rapidly changing social, political, and economic conditions, such as Russia, Ukraine, Greece, and many emerging markets; (2) in industries such computers, mobile phones, and software, where the competitive dynamics between players are rapidly changing. Bargaining costs will increase as competing clans engage in lobbying activities, especially with other top management leaders, to garner support for their solutions for addressing and solving important organizational challenges and opportunities.

The history of Apple Inc. illustrates this nicely. In the mid-1980s, internal competition between the Macintosh product group and the older Apple II group at Apple Computer was increasing. The Macintosh "clan," led by Steve Jobs, was attempting to create a new product platform while the Apple II was still the company's cash cow for generating high gross margins—for profits as well as for new product development. The Mac clan developed a culture, its own "pirate" identity and norms within the larger organization. Jobs created a shared sense of superiority within Mac clan over other parts of the company, especially toward the Apple II clan (Isaacson 2011).

As a by-product, a major conflict emerged as regards the choice of Apple's distribution strategy—demand-driven with just-in-time delivery versus supply-driven using extensive regionally located warehouses for finished products. In spring 1985, Steve Jobs came up with the idea of just-in-time delivery of components. With the assistance of his "clan" and reputation as the iconic founder, Jobs enlisted the support of Debi Coleman, then head of manufacturing, to convince John Sculley, the handpicked by Jobs President and CEO, to implement the new distribution strategy. This idea conflicted with the proposition to further develop Apple's distribution centers, which was championed by Donna Dubinsky, the leader of the distribution clan. Instead of compromising or cooperating around the overall goal of reducing overall distribution costs, the two teams focused on their own agendas. This resulted in middle and top management interminably arguing about the delineation of responsibilities, each group's relative status in the company and on arguing about why the other's proposal was simply a bad idea. As a result, the decision about distribution was significantly delayed, substantial resources became focused on just one area, additional consultants' fees were paid, and internal anxiety in the company increased, resulting in increased transaction costs (Jick & Gentile 1986).

Internal between-clan politics and competition can also increase information costs for the company. For example, in the turbulent software industry good product ideas are a major asset. These promising ideas, both innovative and ill-advised, can come from different parts of a diversified software company; however, clan-like organization of product teams and their relative responsibility for key areas may prevent both effective communication and commitment to implementation. For example, if a team engaged in developing mobile apps, comes up with an idea which is within the domain of the team working on communication solutions, the mobile app team will have little incentive to share this potentially great idea. This is because the communication team will most likely appropriate ownership of the concept and the bulk of the rewards for its implementation, both status gains in the company as well as bonuses and promotions for the team members. In this way, clans can significantly constrain the scope of the search for and the experimentation with new ideas. In addition, between-clan bargaining usually results in key policy commitments (Cyert and March 1963). These commitments further limit the scope of the search, since all the ideas lying outside those commitments are likely to be rejected by groups and leaders in other areas of the company.

Clans also face high enforcement costs in situations calling for collaboration beyond the clan's boundaries. Let us return to the software company example. As mentioned, there are numerous product teams in most large companies and they frequently need to collaborate to ensure product compatibility or to develop a common technology. Since these teams usually realize that they are simply parts of one overall company, they will be in general willing to collaborate and share knowledge. However, at the same time, each team has its own priorities, and its status within the organization will depend on the ability to deliver their own product. This can lead to situations where collaboration and joint product development have a lower priority for one of the clans. This may, in turn, considerably slow down the implementation of the joint project, especially when there are opportunities to place the responsibility on the other product group.

Leadership teams are often characterized by a collective approach to leadership at lower levels of the company. They often go across units and allow for shifting leader–follower roles depending on the competence needs. This is a much less rigid leadership form when it comes to reliance on formal structures and responsibilities, and it allows for more informal interactions. As such it has the advantage of increased sharing of ideas and collective experimentation.

However, enforcement costs become higher when the roles and responsibilities become more vague. Furthermore, the ideas developed through experimentation in teams need to be sold to higher levels of management in order for resources to be committed and for the concept to be implemented. These increased enforcement costs create disadvantages for teams in situations especially requiring a strategy based on exploitation and the lowering of product or service costs.

The key advantage of strategic leadership networks is that they allow the firm to reduce the information costs of leadership dramatically, while simultaneously keeping its bargaining and enforcement costs at tractable levels. Essentially, strategic leadership networks economize on information costs in three major ways: (1) by increasing the scope of the information search; (2) by stimulating the sharing of ideas in the organization; and (3) by facilitating proactive learning about the future.

In hierarchical organizations, with single-actor leadership, the information search is limited both by the CEO's preferences—of the kind, "Rick has a dream" (Brown and Eisenhardt 1997, 20)—and responsibilities of the subordinates. To illustrate this:

> Most people only look at their work—they say I have this spec. If it fits the spec, meets the spec, then it's good. (Brown and Eisenhardt 1997, 14)

In clan and team structures, the information search is often limited by the task environment of the project team and its priorities. For instance, if an engineering team is evaluated by its ability to deliver a product, it does not really care whether the product is needed by customers—that is deemed to be the responsibility of the marketing team.

In contrast, in strategic leadership networks, information search extends in three dimensions: (1) upward and downward in the hierarchy; (2) laterally; and (3) externally. Good ideas can be created and nurtured in any unit of a diversified company. A distinctive feature of strategic leadership networks is that they allow for the fluid communication of these ideas across several levels of the hierarchy, a limitation that leadership teams often face. A good illustration of successful cross-level communication and bottom-up leadership is Gmail at Google. Gmail was initially developed by a programmer at Google to address internal needs. It later became one of the company's core strategic products. Similarly, in strategic networks priorities are not simply imposed on teams in top-down fashion, but rather developed together with lower-level team members and in cooperation with other teams in an iterative way, where numerous organizational members have the chance to contribute to this process. As a result, a shared understanding of priorities emerged.

Such iterative upward–downward communication results in several advantages:

1. It allows the firm to draw on the available human capital in the company to generate strategic options such as new product ideas.
2. It facilitates real-time monitoring of the environment, for instance, the status of task completion and shifts in demand, resulting in faster reaction to changes through revision of the priorities.
3. It assures that the organization has a sense of direction and is well-coordinated as the priorities are clear and constant at any given point in time (Brown and Eisenhardt 1997).
4. It gives the organizational members a sense of involvement in the decision-making as well as responsibility for its outcomes. This is then likely to reduce the enforcement costs.

Both formal cross-team meetings at different levels and appropriate informal communication processes contribute to building lateral linkages in the organization. All the firms in Brown and Eisenhardt (1997) sample had weekly or monthly cross-unit formal meetings. But in successful companies there was also highly extensive informal communication between teams.

> Informally, everyone has dinner together every night at the cafeteria…A tremendous amount of engineering happens at dinner…Everyone pretty much knows what the others are up to. (Brown and Eisenhardt 1997, 12)

When observing recent product development in a major software company, one of the authors experienced a number of situations which illustrates this. For example, one of us was invited to observe a brainstorming session where a team was attempting to make their email service even “smarter,” that is, more effective. In the middle of the session, one individual from another team dropped by, saying that he saw shoes apparently belonging to a visitor (the coauthor’s) that were out of the place on the campus and that he wanted to meet briefly with the guest. The team member stayed for almost an hour in the middle of the working day to contribute to the brainstorming with his ideas based on what his team had been doing. Further on in the course of the discussion, another team member remembered that a product of a third team was crucial to realize the functionality of the newly proposed email system. Everyone ended up in a highly crowded room with people from several teams animatedly sharing ideas about a product, which was initially a priority of just one team. Such collaboration not only increased information sharing and learning in the organization, but also contributed to creating an exciting and highly motivating atmosphere where creativity was primary.

Leadership Network Beyond Firm Boundaries

Strategic leadership networks do not stop there—they also extend beyond the boundaries of the company to the gathering of real-time information on demand and technology changes. Illustrating this:

> …the way GM runs the organization is that he wants the engineers to know the market, as opposed to relying on marketing to tell them what the market is. (Brown and Eisenhardt 1997)

Strategic leadership networks rely on multiple external linkages to monitor the environment. This includes joint customer groups, informal dinners with external experts, and members of strategic alliances. Such proactive information gathering substantially improves the speed and quality of decision-making, especially in turbulent environments (Eisenhardt 1989). It allows dynamic adjustment of priorities and thus maintaining the fit between the product development and external conditions, and results in more successful product portfolios (Brown and Eisenhardt 1997).

As mentioned earlier, clans often compete for ownership of good ideas. By contrast, strategic leadership networks promote their sharing. "Now everybody is borrowing everybody's stuff, the cycle is short, the pressure is so intense" (Brown and Eisenhardt 1997, 12).

Several mechanisms foster willingness to share ideas in strategic networks: common values, corporate culture, shared priorities, and social capital. All probably result from extensive multidimensional linkages as described above and the realization of mutual dependence between actors in leadership networks.

In addition to the increased scope of information search and willingness to share ideas, strategic leadership networks may at the same time decrease the information costs of leadership by generating multiple options for adapting to future changes in the external environment. The ways to do this may include teams working on experimental products or product features, futurists—typically technology and marketing gurus from different teams—who develop scenarios for the future, cross-team strategy meetings at different levels (Brown and Eisenhardt 1997). In any case, such activities, that demand the mobilization of available human and social capital in the firm, create substantial advantages in turbulent environments where uncertainty is high. These advantages include the following:

1. A larger array of responses to changes in the environment based on multiple views of the future
2. "Learning-by-doing" through the encouragement of experimentation in the sense that it gives a better idea of what it might take to actually realize the option
3. Decreased commitment to a particular course of action, which is advantageous if the scenario it fits is not actually realized.

Shared priorities function as a coordination mechanism in strategic leadership networks. Their existence does not exclude bargaining, since bargaining may then occur around the commonly agreed-upon priorities. Since many parties are involved in the iterative process of defining the priorities, the bargaining costs of strategic leadership networks can become high. Clear communication of the organizational vision and the willingness to take ultimate decisions by the CEO and other key people in the network can curb some of these transaction costs (Eisenhardt and Bourgeois 1988). However, this puts higher demands on the leadership and perception of the CEO by the leadership network. If the CEO or TMT member is not perceived to be a central part of the established network of leaders in the company, then his or her strategy, however visionary and well-articulated it may be, may exacerbate internal conflict rather than align leaders to commonly shared goals. This was the case with Carly Fiorina at HP when she attempted to execute the purchase of Compaq computer without the agreement of both key board members and leaders in the organization who felt that core values and beliefs of the HP Way were being pushed aside and not acknowledged.

Broad involvement of organizational members in the strategic process, which is typical for strategic leadership networks, can often create a sense of "ownership" among the members and increase the commitment to executing the resultant strategic decisions. Conversely, unclear accountability for goals and programs, created by shifting roles and cross-unit collaboration, may increase free-riding problems and lead to poor execution due to the lack of effective coordination. In essence, the ability of strategic leadership networks to keep enforcement costs at acceptable levels depends on the ability to balance the contradictory demands of flexibility and control (see Table 3.1 for a summary).

Table 3.1 Relative effectiveness of the four generic approaches

Strategic leadership form	*Information costs*	*Bargaining cost*	*Enforcement costs*
Stars	*Highest* • Limited cognitive capacity of the single-actor leader • Substitution of information search with the leader's assumptions • Information losses and distortions in communication through the hierarchy • Political behavior of subordinates resulting in information losses	*Lowest* • Use of executive command • CEO sets the strategic vision and organizational goals	*Manageable* • Authoritarian leadership style may have demotivating effects on the subordinates and fail to achieve their commitment to execution
Clans	*Low* (within the clan's task domain) • High degree of specialization • Common background and jargon • Social capital • Competition for ownership of good ideas with other clans • Limitedness of perspectives on an issue • Clan's commitments as the criteria for evaluating strategic options	*Highest* between clans • Between-clan politics and competition	*Low* inside clan and *High* across clans • Command by the clan leader • Subordination with clear accountabilities • Social capital • Shared within-clan priorities • Conflict of priorities and tendency to free ride in cross-clan collaboration

(*continued*)

Table 3.1 (continued)

Strategic leadership form	*Information costs*	*Bargaining cost*	*Enforcement costs*
Teams	*Low* across units • Lateral sharing of knowledge, ideas and information • Less rigid structure permitting collective experimentation • Limited vertical and external communication	*High* • Bargaining with regards to aligning priorities across teams	*Very high* • Roles and responsibilities are more vague and dynamically shifting • Less rigid structure to permit extensive monitoring and control • Ill-suited for exploitation and focus on lowering the operating costs
Networks	*Lowest* • Real-time monitoring of the environment • Ease of multidimensional communication • Active probing into the future • Plurality of perspectives and multiple options	*Manageable* • Shared priorities • Depend on the ability of the CEO to communicate a clear vision and take the ultimate decisions	*Manageable* • Social capital and strong organizational culture • Broad involvement of organizational members in decision-making • Flexible structure

Leadership Transitions: From Stars to Clans: The Role of Internal Complexity

The firm's internal environment becomes increasingly more complex as it grows, diversifies operations, as well as when the firm's technology intensity is high. Mintzberg (1973) described how both the number and nature of managerial tasks change as the firm becomes larger. When a start-up is established, the founder plays the roles of an *innovator* and *broker* who directs both the financial and human capital to produce a good or service in order to meet some unsatisfied or previously nonexistent customer need. At this stage, the CEO performs a variety of tasks. He is the major *information processor* who monitors the changes in the external environment, the *strategist* who envisions how to seize the opportunities these changes present, a *specialist* participating in the product or service development, and often a *substitute operator* involved in production or even a "lawyer" crafting the first contracts. Though these tasks are varied, they are typically related to one or a few related product offerings in a narrow market. This multiplicity of roles is thus usually demanding but manageable for a single-actor leader in a start-up (Fig. 3.1).

However, as the firm gradually grows, the leadership workload becomes increasingly less tractable for any single individual, however talented. Eventually, the founder has to delegate more and more operational responsibilities to others and hire a variety of specialists—in law, marketing, HR, accounting, production, and so on. This is in order to meet the growing time and cognitive capacity demands of the growing firm. Expansion into new customer segments and geographical areas further increases the information costs of strategic leadership. Now the CEO has to perform the balancing act of managing both sustained operations and nurturing further growth, which often absorbs increasing managerial attention (Goleman 2013).

In firms venturing into new business areas, the number of leadership tasks increases to a disproportionately greater degree. Strategic leaders of diversified companies need to not only manage their separate businesses but more importantly develop linkages between those businesses involving shared core competencies (Hamel and Prahalad 1991), in order to capture potential synergies from the diversification and to favorably position the company for future growth. The information costs of strategic leadership increase correspondingly. Hamel and Prahalad (1991) present the case of NEC, a leading Japanese company at the end of 1980s

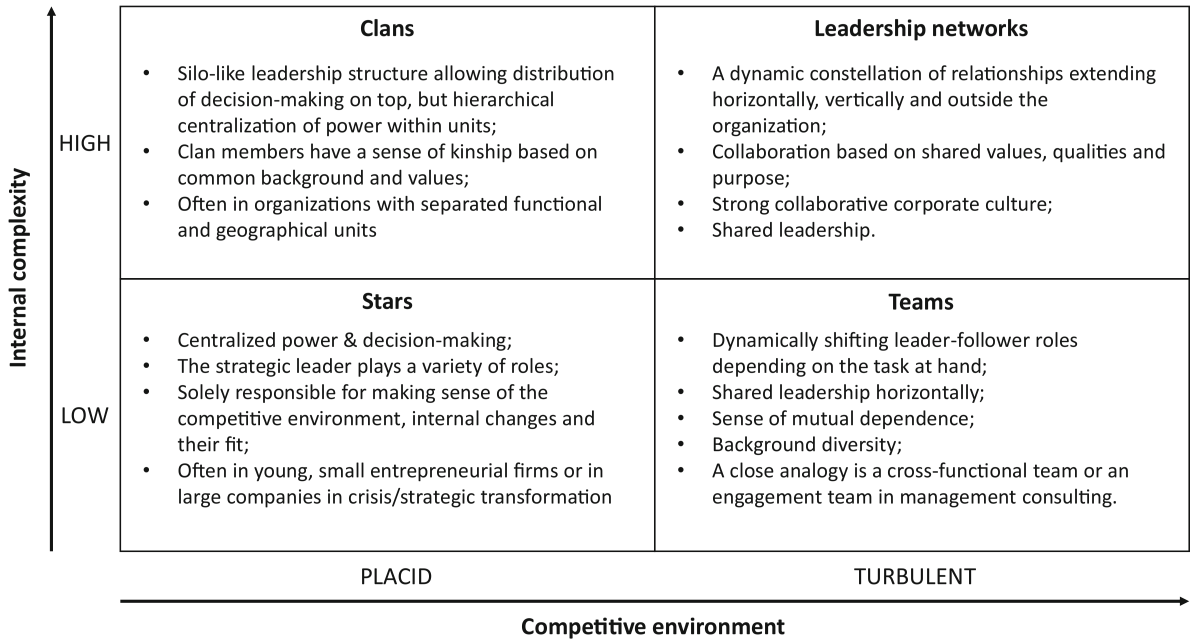

Fig. 3.1 The overall model of strategic leadership

in telecommunications, semiconductors, and mainframes, that exploited the overlapping competencies and complementarities between its business units to benefit from the nascent trend for convergence of communications and computing. Achieving this required an enormous amount of information processing to understand:

1. Where the technology would likely evolve
2. Which businesses would likely overlap
3. What the core products would be
4. In what ways the company should develop the core technologies through alliances, internal development, and mergers
5. How to coordinate the diverse production skills and integrate the multiple stream of technologies across units, and so on.

Answering all these diverse issues and questions, lies beyond the cognitive capacity of any single-actor leader, however talented. Conversely, it calls for a set of diverse competencies, a vast amount of information gathering and analysis, and as a result the distribution of strategic leadership to effectively manage the individual businesses and the overlaps.

Even if strategic leaders in a diversified company adopt a portfolio or parenting approach to corporate strategy and do not focus much on exploiting potential synergies across businesses, the amount of resultant information and knowledge required to lead effectively can be overwhelming. Goold et al. (1995) present a case where British Petroleum (BP) ventured into the minerals business, a business which seemed related to its core oil and gas operations. Eventually, BP had to divest the business, partly because the increased information costs were intractable for the leadership at BP.

> The problem was that the BP managing directors could not really come to grips with the minerals business or feel they understand it. There was always that vestige of suspicion that led to a temptation to say no to proposals from the business, or alternatively, if they said yes, to say yes for wrong reasons. (Goold et al. 1995)

High technology intensity of operations further adds to the firm's internal complexity. First, managing technology development requires specialized knowledge. Given the current pace of technology development, there is a need for constant updating of that knowledge in order to stay competitive. Such updating may involve a wide range of activities including experimentation, learning in alliances, and learning through informal external networks. Learning, in turn, requires establishing common codes for communication and coordinating search (Teece et al. 1997), as well as substantial absorptive capacity (Cohen and Levinthal 1990)—that is, the ability to recognize the value of, and how to apply new knowledge.

Second, technology development requires a leadership style which often differs from the approaches that work best for other aspects of the business. On the one hand, the effectiveness of product development depends on the motivation of inventors or engineers that work on it, which to a larger extent depends on the organizational culture, the overall competence of the R&D team and the nature of the problems they solve. On the other hand, successful innovation requires a less rigid formal leadership structure, extensive communication, and design freedom (Brown and Eisenhardt 1997).

Third, leading a technology-intensive company requires aligning development, marketing, production, and distribution. Sales and marketing teams usually have the closest contact with customers and thus a better understanding of the trends in demand and customer preferences. This knowledge has to be aligned with the perceptions of the prospective product held by development teams as well as their priorities and available capacity. Further, it should be feasible to produce, promote, and sell the new product given the available schedules and capacity in production, marketing resources, and distribution channels. There are numerous cases where market shares have been impaired because the supply chain lagged behind the sales teams and customers simply could not find the advertised product on the shelves.

We need to add a twist to this argument for small technology-intensive start-ups that do not have production, marketing, and distribution functions. Teece (1986) argues that profiting from a technology hinges on the ability to produce products based on the new technology quickly and on as large a scale as feasible. So, for these companies, technology development still needs to be synchronized with the production and distribution of its external partners, which may be even a more challenging task to accomplish.

Finally, leading a technology-intensive company requires finding a right balance between long-term and short-term goals. HP is an illustrative example of why this may be challenging. Carly Fiorina's acquisition of

Compaq had a dramatic and negative impact on HP's short-run profitability, which was probably one reason behind her eventual 'resignation'. But one might argue as well that this acquisition, in fact, positioned HP better for growth in the long term. This is especially so, after Mark Hurd, Fiorina's successor as CEO, ruthlessly cut R&D expenditures in order to achieve short-term profitability targets.

In each of these cases—growth, diversification, high technology intensity of operations—of increasing internal complexity call for greater cognitive capacity on the part of the strategic leadership, specialized knowledge, establishing common codes of communication with subordinates, more extensive coordination, as well as a diversity of leadership styles, incentive mechanisms, and increased capability to manage multiple competing forces and demands from the multiple internal and external constituencies. In such circumstances clans, which allow for leadership distribution and specialization at the top of the firm as well as the establishment of better communication and coordination within the clan, become more effective than stars at dealing with the complexity of internal task demands.

Moving Toward Teams and Networks: The Role of External Turbulence

One can think of the external environment of a company from several perspectives and at different levels. For example, the PESTEL model—which is an acronym for Political, Economic, Social, Technological, Environmental, and Legal factors—is a framework for perceiving variation in the external environment at the national level. Porter's (2008) diamond model (which encompasses four elements: (1) factor conditions, (2) the context for firm strategy and extent of rivalry, (3) product-service demand, and (4) supporting and related industries) is the equivalent of PESTEL forces at a cluster level. The Porter five forces model (Porter 1980) is even more salient from the perspective of the corporate leadership, as it considers the environment at the industry level and focuses on forces that ultimately determine the profitability of incumbent firms and potential entrants. The five forces include (1) the threat of new entrants, (2) the bargaining power of suppliers, (3) the bargaining power of buyers, (4) the increased threat of substitutes, and (5) rivalry among existing competitors. The overall model suggests that an increase in any of these forces will have a detrimental impact on profit margins in the selected industry.

In this book, we are calling competitive environments where these forces tend to change quickly and relatively unpredictably, *turbulent environments*. This definition parallels the term *high velocity environments* introduced by Eisenhardt and Bourgeois (1988). These industries are ones "in which there is rapid and discontinuous change in demand, competitors, technology and/or regulation, such that information is often inaccurate, unavailable, or obsolete" (Bourgeois and Eisenhardt 1998, 816).

Such environments call for the capability of the firm to continuously adapt to new competitive conditions or even proactively create favorable conditions through technological and organizational innovations (Hamel and Prahalad 1991; Teece et al. 1997). In such environments, a company needs a form of strategic leadership that is capable of fast and effective decision-making (Eisenhardt 1989; Brown and Eisenhardt 1997).

An example of a company that achieved this is IBM (1994–2001) under the strategic leadership of Lou Gerstner. In the beginning of the 1990s, the company suffered from massive losses in its core mainframe computer business. These losses were caused by a shift toward more distributed PC-based computing and the emergence of strong competition in a number of segments of the industry. These changes pushed the leadership of IBM to search for ways for IBM to re-establish itself as a leading competitor in the industry and return to profitability. As a result, the strategic leadership under the new externally chosen CEO, Lou Gerstner, discovered the firm to be uniquely positioned to be able to provide integration services much needed in an increasingly networked world. IBM subsequently increased its return on shareholders' equity from 35.2 % in 1993 to 39.7 % in 2000 (Gerstner 2002).

A key question is: why was IBM's turnaround successful while so many other IT companies such as DEC and Wang failed and they ceased to exist as going concerns? At least part of the answer lies in the ability of the new CEO, Lou Gerstner (an apparent "star"), to break down highly dysfunctional long-standing clans and create a network of distributed strategic leadership across the firm, both geographically and functionally, and then to build a culture to support this dynamic adaptive form of leadership. Gerstner recounts that he did not have the technological know-how nor did he have sufficient personal resources (time, cognitive capacity, technological understanding) to bring about the dramatic turnaround needed without empowering numerous other leaders at all levels of the firm (Gerstner 2002).

High external turbulence also requires firms to shift the strategic focus from exploitation processes to exploration processes (March 1991). Exploration starts with searching for information about new strategic solutions. Employees below the top of the hierarchy are very often valuable, overlooked sources of such information and competence, since the external changes in the industry structure affect more directly and quickly the activities they perform. Merchandisers are likely to be the first to find out that their products are being given inferior places on store shelves; engineers from the R&D department are more likely to be the most informed about the potential of an emergent technology and manufacturing people the first to be aware of new manufacturing techniques to increase both the efficiency and effectiveness in that area. As long as hierarchical single-actor leadership is inappropriately preserved, information search and transfer will be inefficient since employees are not rewarded for sharing information and generating ideas. Coding relevant information in formal reports is not sufficiently timely, the information is distorted in the process of transfer (Hennart 1982), and time is lost in execution. This increase in information costs can be decreased by encouraging a network of leaders to develop and operate throughout firm (Fig. 3.2).

Conclusion

The effectiveness of strategic leadership in an organization is often restrained by inefficiencies related to information search and interpretation as well as within-firm politics and inadequate performance incentives. The costs of these inefficiencies tend to soar as the complexity of operations increases and the competitive environment becomes more turbulent.

The four generic forms of strategic leadership have relative advantages in addressing particular inefficiencies. Stars can effectively curb bargaining, but do so at higher information costs and may promote within-firm politics. The information costs faced by stars become prohibitively high in complex and turbulent environments and ultimately make sharing of strategic leadership inevitable under such conditions.

Clans allow for efficient information exchange and processing within their task domains and effectively align incentives of the clan members with its goals. In this way, they allow firms to achieve operational efficiency as the internal operations become increasingly complex. However, clans often build invisible "firewalls" between divisions that preclude

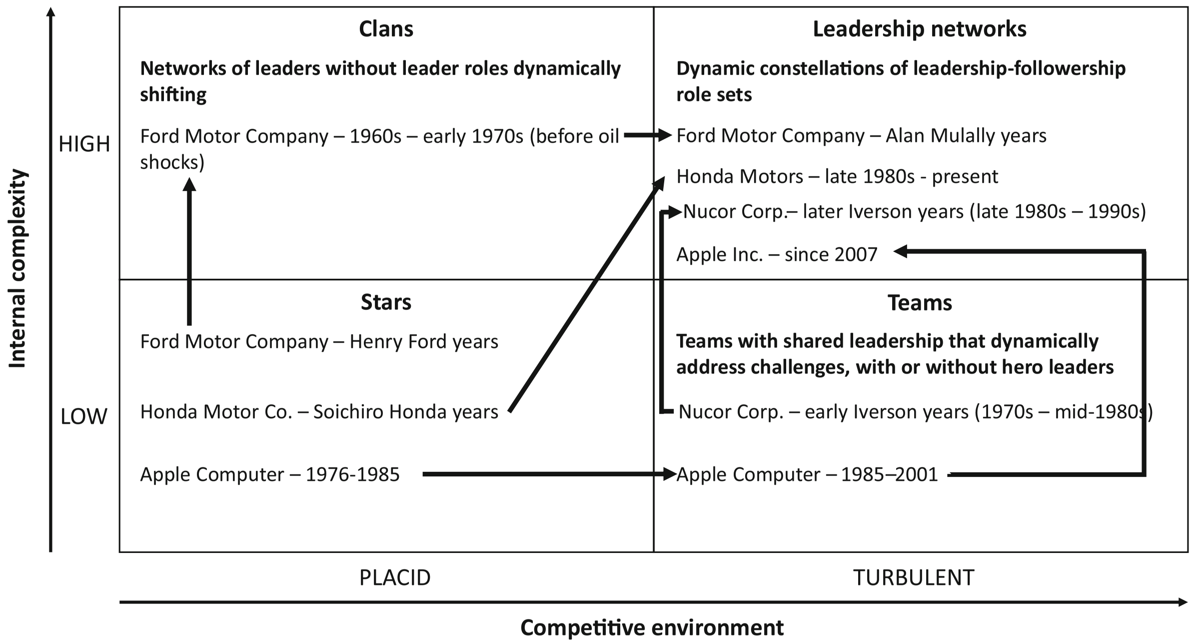

Fig. 3.2 Examples of evolution of the strategic leadership in organizations

cooperation across teams, functions, and geographical units. As the need for cross-divisional cooperation grows in dynamic competitive environments, clans put the firm into a competitive disadvantage.

Teams, in contrast, foster cross-functional cooperation and allow for more comprehensive information search, generation and analysis of future scenarios. Their drawback is more loosely defined responsibilities and thus more room for shirking, avoiding the tasks at hand. While clans compromise the firm's exploration capabilities for the sake of achieving organizational efficiency, teams do the opposite. This makes teams more capable of addressing strategic challenges in fast-paced competitive environments, but in relatively simple organizations such as technological start-ups.

Strategic leadership networks greatly economize on the information costs while keeping the other types of inefficiencies at manageable levels. In order to compete successfully in turbulent and complex environments, firms need to eventually develop flexible leadership structures that encompass most organizational members, sometimes even extending beyond the organization to include outsourced consultants and technical specialists. Nucor, Apple, and Airbnb are examples of companies that managed to build effective leadership networks at appropriate points in time.

The model of strategic leadership presented in this chapter predicts evolution of the leadership form as organizational complexity and competitive circumstances change. Further, it stresses that the firm's performance is largely dependent on the ability to adjust the approach to leading strategically to better fit with both internal and external circumstances. Finally, the coexistence of several forms of strategic leadership in an organization may be desirable, as demands for particular roles—such as R&D or sales—call for different approaches to leadership.

The four generic forms of strategic leadership are essentially individual and group level responses to organizational and industry-level pressures. This suggests that strategic leadership is not merely a micro- and meso-level construct, as most of the prior literature assumes, but that it extends further to macro- and super-macro-levels, including industrial clusters and international markets. Furthermore, within-team, clan, and network dynamics are ultimately determined by individual behaviors and values, which effectively extends strategic leadership also to the super-micro-level (within individual). In the following chapters, we focus more on strategic leadership issues at different levels to arrive at a more holistic and nuanced understanding of what it takes to lead organizations effectively in turbulent and complex environments under a myriad of conflicting pressures.

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CHAPTER 4

Dynamic Coalignments and Five Levels of Strategy: Playing Multidimensional Chess

Balancing Continual Dynamic Tensions

Imagine the overall challenge that continually faces the top leadership team of any medium to large business corporation—there are so many uncertainties and changing variables, both internally in the firm and externally in the business environment, that you find yourself as a leader waking up at 3 a.m. and wondering: "How am I going to address the current set of opportunities and threats to continued success—from the personal level to the organizational level?" Essentially, you find yourself engaged in something similar to playing a multidimensional chess game—where the winner will take larger and larger amounts of market share. At the extreme this allows your company to define not only new business areas but sometimes also the ability to create even new industries. Not only your career and your personal compensation, but also the reputation and success of the firm, will be hanging in the balance!

This aspect of strategic leadership process is similar to the act of continuously balancing seven apparently contradictory organizational demands on the organization. These include the following dynamics (see Fig. 4.1):

1. The constant adjustment of the *fit* between the *formal organization* (the organizational design including the structure) *and the informal organization* (informal networks and personal relationships based on common history and shared beliefs)

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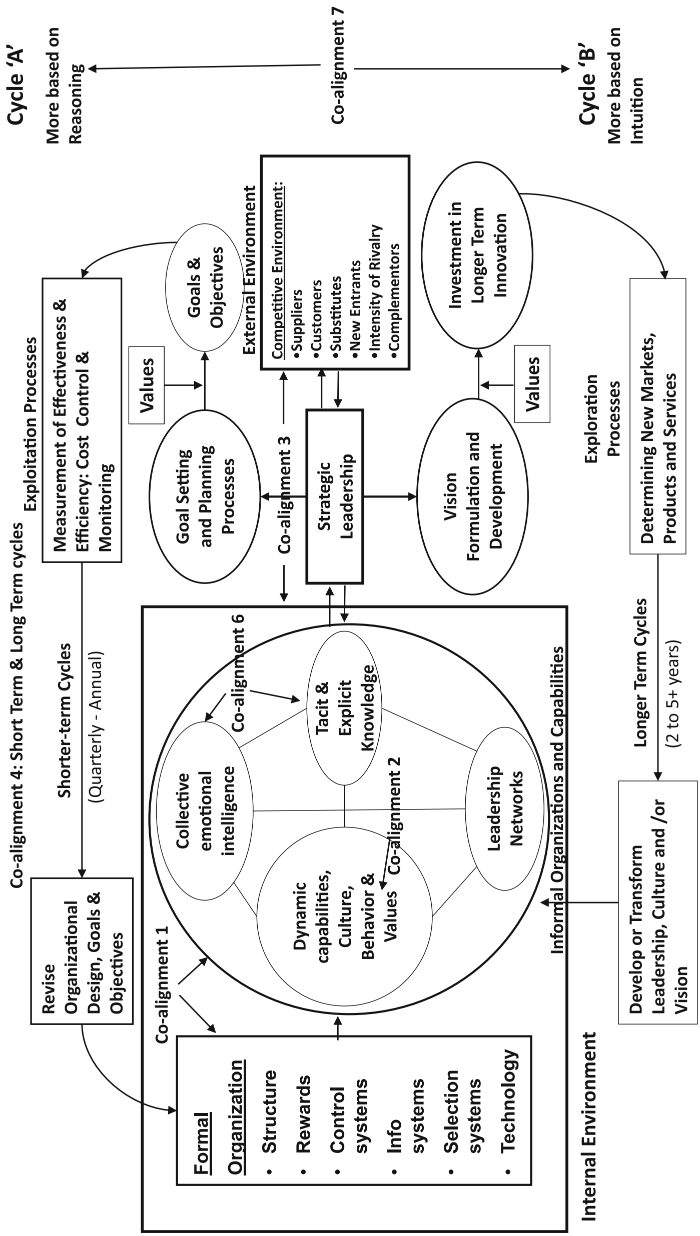

Fig. 4.1 Strategic process and direction setting

2. Making the actual behavior and decisions of the firm's top leaders, who are important role models for the majority of the firm's members, fit with the espoused values of the organization and its culture (*the fit of actual behavior with espoused values*)
3. The fit between the internal organization (including the formal and informal organizations) with the constantly evolving external competitive environment—Five Forces (Porter 1979) (*internal and external environments*)
4. *Short-terms* and *long-term investments*
5. The ongoing balancing of unique local markets with global integrated markets (*local* and *global* balancing)
6. Cycling between explicit knowledge (knowing about) and tacit knowledge (knowing how); and
7. The balancing of *reasoning*-based decisions with *intuition*-based decision processes (Kahneman 2011)

In addition to the aforementioned, there are constant demands to balance the following simultaneous tensions:

1. *Adaptability* and *stability*
2. *Flexibility* and *control*
3. *Decentralization* and *centralization*
4. *Differentiation* and *integration* of organizational structure
5. *Productivity* and *employee morale*
6. *Rational planning* and *intuitive visioning* (Quinn 1988) (Table 4.1)

These dynamic balances become increasingly important as the organization gains greater complexity and the competitive landscape becomes more turbulent. For example, consider a multinational business competing in a technology-intensive industry. Here, competition often occurs in two simultaneous ways: (1) in terms of needs for new products, services, designs, and processes, that is, *exploration*; and (2) the need for greater efficiency, doing things at less cost, that is, *exploitation* (March 1991). This ongoing seven-dimensional balancing act requires the organizational competence to (1) envision alternative viable futures, create new innovations, and bring these innovative products and services to customers in a well-planned and well-executed manner; and (2) simultaneously to satisfy the demands of numerous external stakeholders (e.g. meet capital market

Table 4.1 The seven dynamic coalignments

1. *Investment Horizons*: balancing long-term investments (3–5 years or more) with short-term expenditures (quarterly to 1–2 years)
2. *Ambidexterity of Logic and Intuition*: analytical planning processes balanced with intuition-based visioning
3. *Dual Geographic Focus*: local and global geographic constraints and opportunities
4. *Differentiation and Integration*: simultaneous forces of differentiation and integration of varying organizational functions
5. *Flexibility and Control*: simultaneous needs for both ongoing flexibility with centralized control
6. *Exploration and Exploitation*: simultaneous processes of exploitation of existing resources with exploration of what is currently beyond the known
7. *External and Internal Environments*: managing and creating appropriate fit between the internal and external environments

expectations), build a flexible and adaptable organization with motivated employees, and be as efficient as possible in operations.

For example, IBM's execution of its turnaround in strategy in the mid- to late 1990s, under the leadership of Lou Gerstner, involved (1) developing a plan for the sale of key businesses and assets in order to stop the company from losing money, (2) restoring employee morale, (3) turning IBM into a market-driven rather than an internally focused company, (4) building a leaner and more centralized marketing function, (5) becoming responsive to customer needs for total IT solutions in the USA and around the globe, and (6) keeping the company together as one firm. The overall strategic intent was to provide integrated solutions in IT for its global customers, all based on the judgments of the top management team and the CEO's assessment of the future of the industry of the client organization.

The Five Levels of Strategy Facing Strategic Leaders

Strategy execution is thus no longer as simple as once conceived. As strategic leaders scan and attempt to work iteratively with the internal and external environments of the firm, there is no longer just one level on which the strategy is operating. Indeed, we find five nested levels of strategy that strategic leaders must be aware of and take into account in their decision-making to handle the complexities of strategy execution. These include the following:

1. **Level I:** The *super-macro*-level—the level of industries and clusters. Here the task of strategic leadership is both to position the firm favorably to gain from industrial economic factors, and to act wisely, in order to benefit not only from the talent pool but also to gain from the spillover of ideas from companies in the cluster and all the while protect its unique core assets and capabilities. These tasks become increasingly complex and challenging as: (1) the competition begins to evolve across clusters of industries as well as across groupings of customer needs; (2) teams constantly change as people move between organizations; and (3) disruptive innovations emerge, sometimes even overnight.
2. **Level II:** The *macro*- or organization/firm-level. Given the turbulence at the super-macro-level (Level I), the tasks of strategic leadership at the macro-level become (1) to continuously redefine the organizational boundaries; (2) to realign organizational structures, processes and routines; and (3) to provide adequate incentives to both individuals and groups.
3. **Level III:** The *meso*-level, the top management team or strategy group. The balancing of contradictory external and internal forces requires putting in place an appropriate combination of skills, cognitive maps, and mechanisms for conflict resolution and decision-making.
4. **Level IV:** The *micro*-level, the individual strategic leader's style, values, and behavior.
5. **Level V:** The *super-micro*-level, cognitive and affective processes within the individual, that is, strategic thinking, feelings, intuitions, insights, and perceptions.

Each lower level is embedded within the next higher level—creating a hierarchy of levels—which both constrain and create opportunities for strategic leadership in the firm. Such a system is *holonic*, that is, each level is a whole system which is a whole in itself, but embedded in a higher level of whole systems. Strategic leaders need to be aware of which level(s) they are operating within, for long-term effectiveness of the organization (Fig. 4.2).

Level I: Super-macro-level Models

One well-used way of analyzing the business environment is via the Political, Economic, Social, Technological, and Legal Factors (PESTEL) framework. The political factors in PESTEL include macroeconomic policy, labor and environmental laws, political stability, and social infrastructure

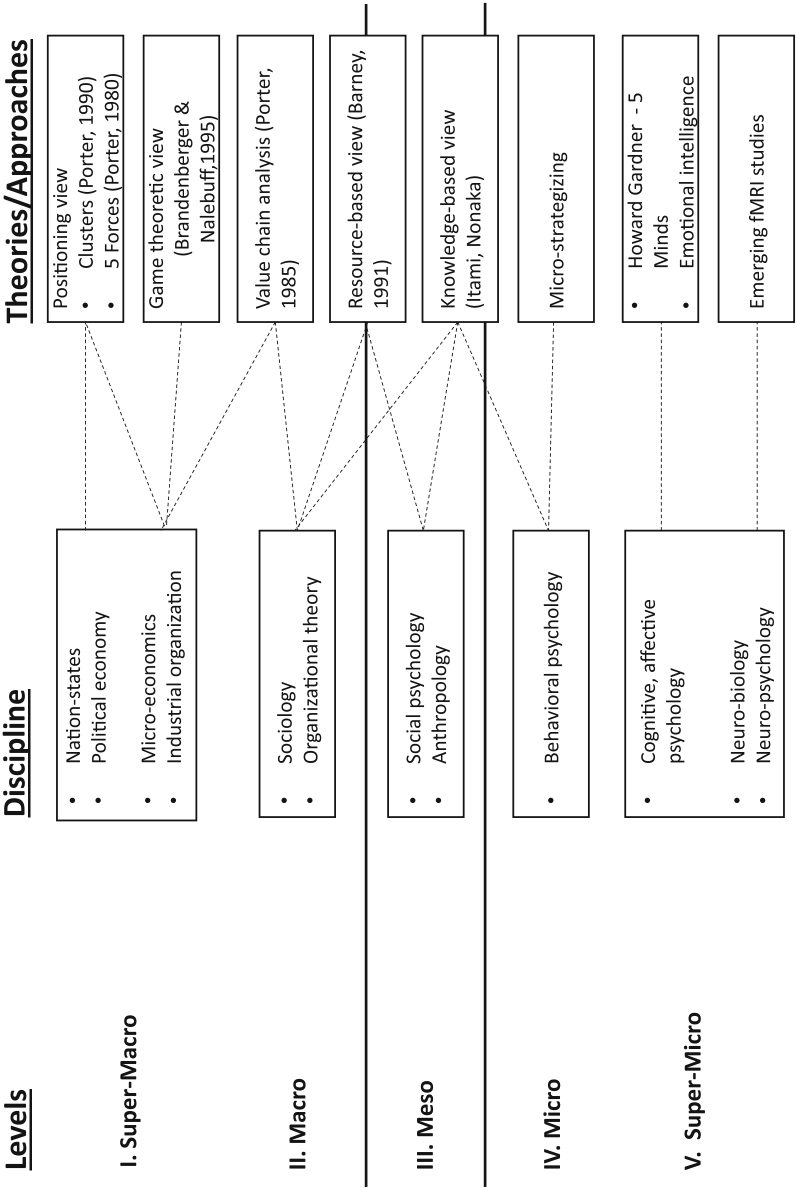

Fig. 4.2 The five levels of strategy—disciplines and theories

(health, education, etc.). The major economic variables include economic growth, interest rates, exchange rates, and inflation rate. The social factors in PESTEL encompass such characteristics as the population growth rate, age distribution, and career attitudes. Technological factors include R&D activity and the rate of technological change, together with other dimensions of technology development. Some versions of the framework also include environmental and legal factors such as climate change and consumer law. In other words, PESTEL is a very flexible and encompassing framework for screening the external environment. However, PESTEL is more a structured way of thinking about the external environment than a predictive model or theory of it.

Delgado et al. (2012) suggest a theoretically stronger model of the external environment, which is in many ways similar to PESTEL. They "identify and measure factors that drive the quality of a location as a place to engage in productive economic activities" (Delgado et al. 2012, 13). The identified groups of factors are (1) social infrastructure and political institutions, (2) macroeconomic policy, and (3) a set of microeconomic factors broadly known as the Porter's Diamond (factor conditions, demand conditions, context for firm strategy and rivalry, and the clusters of related and supporting industries). Despite limitations discussed in their paper, prior empirical literature shows that these factors have an impact on the productivity of a given industry or group of industries in a particular location. However, we should keep in mind that this is a static macro-level model applicable only at the national or regional levels. If we speak of strategic leadership at the organization level and in a dynamic environment, it becomes a less valuable conceptualization of the external environment.

Level II: Macro-level Models

Perhaps the most common way of analyzing the external environment of a firm is via what is commonly known as "Porter's five forces" model (1979). These forces define the competitive interaction and likely profitability in an industry over the long run, thus implying that the favorable positioning of a firm in an industry is the key task of strategic leadership. These forces are:

1. *The intensity and basis of competition*, which is a proxy for the extent to which the value is transferred from the industry incumbents to their customers and whether the competition is a zero- or positive-sum game

2. *The threat of new entry*, which may decrease profitability by preventing incumbent firms from increasing prices, making them keep excess production capacity or increasing investments to deter entry by other firms
3. *The power of suppliers*, that is, the extent to which suppliers are able to charge higher prices and/or limit the quality of their products or services, which may have a detrimental impact on profitability when the incumbent firms have a limited ability to pass on the resultant cost increases to their customers
4. *The power of buyers*, that is, the extent to which the buyers can play the industry participants off against each other and negotiate lower prices, better quality, or more services, without an adequate increase in the price
5. *The presence of substitutes*, which limit the maximum price that the industry participants can charge (Fig. 4.3)

These five forces define the overall industry structure. As a result, we can conceptualize the industry dynamics as the changes in the threat of new entry or substitution, supplier or buyer power, and in the bases of rivalry. Strategic investments by major competitors, patent expiry, and other factors that affect entry barriers may have an impact on industry profitability by changing the threat of new entry. Technology or complementary product development will usually improve the price-performance characteristics of substitute products, making them a threat for the incumbent firms. Upstream and downstream consolidation and technological advances affect the bargaining power of suppliers or buyers. Finally, the bases of rivalry may shift as the industry enters a new stage in its life cycle or technological innovation reshapes the competitive landscape. This model yields a relevant picture of the external environment at the firm level. Still, it does not account for at least two dimensions of the industry dynamics.

First, technological advances may not only affect the five forces that define the industry structure but also blur the industry boundaries. For instance, book stores are direct competitors for Amazon, which is essentially an IT firm. In fact, in an environment where information technology intertwines deeply with operations in a number of other industries, it would be much more realistic to speak of the competitive dynamics in different spaces of customer needs rather than industries.

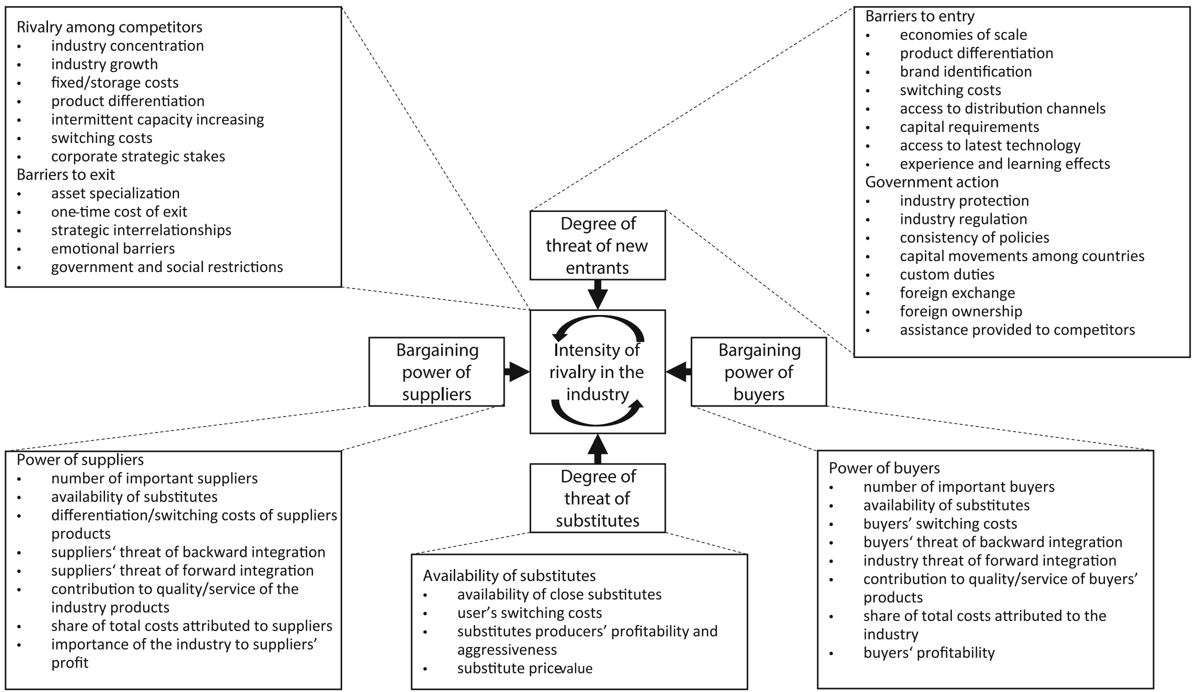

Fig. 4.3 Porter five forces competitive model (Adapted from Porter, M.E. (1980) Competitive Strategy: Techniques for Analyzing Industries and Competitors. New York: Free Press)

Second, Porter's five forces is essentially a punctuated equilibrium model of industry change where "industry structure proves to be relatively stable, and industry profitability differences are remarkably persistent over time in practice. However, industry structure is constantly undergoing modest adjustment—and occasionally it can shift abruptly" (Porter 2008, 11). However, for many companies the radical changes in their competitive environment are not rare events, but rather the key factor of competition (Brown and Eisenhardt 1997). Eisenhardt and Bourgeois (1988) define such environments with rapid and discontinuous changes in demand, competitors, technology, or regulation as high-velocity ones. Often, researchers use the computer industry (Eisenhardt and Bourgeious 1988; Eisenhardt 1989; Brown and Eisenhardt 1997) or the biotechnology industry to study high-velocity environments. However, high-velocity or turbulence of the competitive environment is not a phenomenon limited to Silicon Valley. Indeed, many traditional industries with long-linked technologies, such as oil and gas, experience a similar level and kind of competitive dynamics (Grant 2003). Hence, an adequate conceptualization of the external environment needs to integrate the following two dimensions:

1. The forces that define the competition in a given space of customer needs
2. The type of competitive dynamics

As a result, there are two primary categories of competitive environment: (1) placid environments, which are relatively stable and gradually change in structure as defined by Porter's five forces; and (2) turbulent environments, where the changes in competitive forces are rapid and often significant.

Implications for Strategic Leadership

Environmental turbulence has several important consequences for strategic leadership, which include the following:

1. The need to search for new organizational and product solutions (Cyert and March (1963))
2. Increased pressure for exploration to create new products and services, in order to remain competitive, and simultaneous exploitation of exist-

ing products and services, to generate returns from existing products (March 1991)
3. Increased decision-making complexity (Brown and Eisenhardt 1997)
4. The need to make decisions rapidly (Eisenhard 1989)
5. The failure of rational decision-making processes to result in optimal results (Mintzberg et al. 1976; Mintzberg 1978)
6. The limited ability of the single-actor leader and hierarchical organizational structures to cope with rapid organizational change (Kriger and Zhovtobryukh 2013)

In conclusion, it is incumbent upon strategic leaders to (1) monitor and constantly scan the competitive environment to better understand and adjust to even small changes in buyer needs and preferences; (2) changes in supplier quality, pricing, and offerings; (3) the presence and threat of new entrants; (4) any increased power exerted by substitute products; and (5) any change in the power of rival firms from either decreased prices or increases in quality or offerings.

Level III: Meso-level Approaches to Strategic Leadership

Much of the recent research in strategic leadership focuses on the meso-level, that is, top management teams (Canella et al. 2009; Carpenter et al. 2004). The underlying idea is that executive teams both bear the responsibility for and have sufficient power to set the strategic direction for the firm, except for the circumstances when the CEO limits their influence on the strategic decision-making (Canella and Holcomb 2005). This view draws largely on Cyert and March (1962) who argued that ambiguity and complexity inherent in strategic decision-making combined with the bounded rationality of an individual result in the distribution of strategic leadership roles within the dominant coalition is unavoidable. Hambrick and Mason (1984) argue that executive perceptions, cognitions, and values influence the strategic decision-making process and its outcomes, including firm strategy and performance (Carpenter et al. 2004). In addition, this "upper echelons" view posits that the demographic characteristics of executives—age, career experience, education, and so on—serve as effective proxies for their psychological traits, such as their values and cognitive bases (Hambrick and Mason 1984).

During the three decades of research following Hambrick and Mason's 1984 publication, the TMT perspective has been substantially revised and extended. In its current version (Canella et al. 2009), TMT characteristics are determined by their (1) member composition, viewed in terms of the demographic heterogeneity of its members; (2) structural characteristics, size, and role interdependence; and (3) team processes, namely, social integration and consensus. These TMT characteristics are hypothesized to influence within-team interaction, strategy formulation, implementation, and outcomes. Indeed, empirical literature presents ample evidence of such relationships (for a comprehensive review, Carpenter et al. 2004). As an illustrative example, we note the study by Ferrier (2001) which shows that higher heterogeneity in TMTs is associated with higher complexity but shorter duration of competitive attacks. This finding supports core TMT arguments that, on the one hand, higher heterogeneity of backgrounds helps to overcome cognitive limitations and, thus, to devise and carry out more nuanced and intricate competitive moves. On the other hand, it is likely to hinder joint efforts over extended periods of time, probably due to a higher likelihood of internal conflicts. Carpenter et al. (2004) refer to a number of studies which show that international experience of top executives is highly correlated with the decision to internationalize as well as growth in international sales.

That said, the TMT perspective in the context of this book will serve only as a starting point for identifying the relevant meso-level environment for strategic leadership. Other pivotal issues that lie outside the scope of the current characterization of the TMT include the following:

1. Actual behaviors of TMT members such as dominance–submissiveness, friendliness, acceptance of authority (Bales 1988).
2. Context for group action, including national culture (Hofstede 1991), corporate culture, CEOs vision and leadership style, and the firm's current strategy and structure.
3. Extension of the strategic leadership beyond the top echelons (Kriger and Zhovtobryukh 2013).
4. Strategies for managing TMT interactions and behavior (Clawson 2012). If the major question of corporate strategy is how to position the company vis-à-vis its present and likely future competition, then in order to achieve superior performance (Porter 2008), the major question at the meso- or team-level of strategy is how to influence others in the team and manage the interactions between teams in order to

achieve the desired team and personal outcomes including increased status, greater unit performance, increased resource sharing, and greater overall effectiveness.

The Dynamics of Top Management Teams and SYstem of Multiple Level Observation of Groups (SYMLOG)

As mentioned, the now classic TMT perspective (Finkelstein and Hambrick 1996; Hambrick 2007; Finkelstein et al. 2009) posits that the demographic characteristics of group members largely determine group dynamics and outcomes. Yet, our daily experience repeatedly shows that work groups consisting of people with essentially similar backgrounds and the same age differ in terms of within-team relationships, degree of group cohesion, consensus, and team outcomes.

A graphic example is a Master of Science class in Strategic Leadership taught by the authors. We usually split group assignments to be delivered in self-selected teams to solve and do case write-ups. These teams are usually highly homogeneous in composition, consisting primarily of Norwegian students 23–26 years old, born mostly in the Oslo area, having a Bachelor's degree from the same school and with little or no work experience. Both in-class presentations of solutions in teams and confidential feedback on the performance of teammates show that the degree of team integration and consensus varies substantially, as does the quality of case solutions. Student feedback on each other on the teamwork process shows that much of this variance in team process comes from the perceived behaviors of others in the team. For example, some team members are often perceived as less willing to contribute. They, in turn, typically reply that the primary reason is that some of the other team members act in a dominating manner toward them and simply do not listen to their suggestions. In other cases, team members indicate highly varying degrees of interest in receiving an excellent grade or are viewed as hypercritical. In other words, the behavior and values of team members are an important factor for meso-level leadership.

Bales and Cohen (1979) found, over years of observing small groups in a wide range of settings, including profit and not-for-profit organizations, universities, and the military, that behavior in groups can be captured in three fundamental dimensions:

1. Dominance–submissiveness
2. Friendliness–unfriendliness
3. Task-orientation–socio-emotional

The degree to which and the frequency with which individuals demonstrate these orientations in their behavior in a group determines a social image in a "field space" (Lewin 1947; Bales and Cohen 1979; Polley, Hare and Stone 1988). Members' images have two general tendencies that determine group dynamics in terms of degree of group polarization and unification. The polarization of member's images arises from the human tendency to associate themselves with values they consider "good" (i.e. they wish to move toward) and those values they wish to distance themselves from (i.e. move away from). Moreover, there is tendency to place the self-image closer to the "ideal" and opposite values correspondingly further away than they really are. Unification tends to manifest in the tendency to cluster images of people with close values around the self-image closer to the "ideal" and opposite values correspondingly further away than they really are. Unification tends to manifest in the tendency to cluster images of people with close values around the self-image and those with the opposite values at the opposite side of the polarization.

The person whose image is attractive to most group members typically has the most influential position in a group or TMT. The people with images that are closest to the center of attraction form the core group. This subgroup is usually unified enough to cooperate effectively. Members who share much of the same values but are less attracted to the core group form marginal or outlier groups. The degree of conflict is greater between the core group and the marginal group than within the core group. In the presence of such marginal groups in a team, mediating leadership is needed to reduce conflict and ensure effective cooperation. The need for mediating leadership becomes even more important in the presence of marginal subgroups that are opposite with respect to values such as friendliness–unfriendliness or task-orientedness.

In cases of team conflict, there is usually an opposition subgroup lying on the opposite side of the polarization to the central subgroup of attraction. Often people in the opposition subgroup do not cooperate either among themselves or with the dominant or core subgroup. In many cases, members of the core group repeatedly over time try to influence the behavior of the members of the opposition group in order to bring them into alignment with their values and behavior. But such attempts are usually futile and gradually lead to exclusion of the individuals in the opposition subgroup. These have enormous implications for leadership in medium to large organizations since the leadership takes on one of four generic forms, as noted earlier.

In some teams we find *isolates*, that is, people who keep their distance from both the core subgroup and the opposition subgroup. When team conflicts occur, isolates either become *scapegoats*, as members of both the dominant and opposition subgroups direct their negative feelings toward them, or they can become *mediators*, provided that they are relatively dominant, skillful, and perceived as friendly.

Bales (1988) argues that in highly effective teams there are typically no opposition groups or isolates; however, there still may be some divergence from the center of attraction, which is caused by differences in functional roles. This occurs because some roles, such as the Chief Financial Officer (CFO), place structural and control demands on other members of the TMT and the organization, making the CFO appear less friendly and more task-oriented. Others, such as the CEO, need to develop greater positive human relations skills where overall friendliness is usually key to long-term effectiveness as a leader. To keep TMTs, and teams lower in the organization, sufficiently cooperative and effective, a leader who is a mediator is often needed. As Bales (1988, 340) states:

> in order to be successful, a mediator needs to be sufficiently dominant and skillful, able to understand and communicate the needs and priorities of the differing members to each other, and to find compromises, or, better yet, to activate values and wishes pointing to higher order goals that satisfy the needs of both factions.

Behaviors in teams tend to change and evolve over time. Clawson (2012) argues that teams typically go through four stages in their life cycle: (1) forming, (2) norming, (3) performing, and (4) reforming. During the forming stage, members of a newly created team typically ask themselves, not necessarily consciously, the following questions: Why I am here? What is the purpose of the team? Who is the leader? At this stage, charismatic leaders, who can articulate a vision that other team members can relate to, are of particular importance.

Steve Jobs was especially effective as a team leader at the forming stage. The episodes of creating the Macintosh team with the clear vision to beat IBM's dominance in the computer market in the early to mid-1980s, described in Isaacson's (2011) biography, illustrates this point. This vision was further reinforced by selecting team members with a positive set toward the vision, developing a corresponding team culture and using symbols such as a Jolly Roger pirate flag on the roof of the building. Steve's approach addressed the questions above in a very straightforward manner: (1) Who is the leader?—Steve Jobs; (2) What is the purpose?—challenge IBM's dominance in computers by creating a personal computer that would change the world; (3) Why am I here?—because you are a brilliant engineer/"pirate" who will set your own rules in the industry.

In contrast, teams that cannot figure out answers to these basic questions before they start addressing the key strategic and operational tasks are likely to face low performance signals later as members who do not understand what they are doing in the group may become increasingly demotivated. Eventually there will be conflicts with existing role incumbents and disagreements about directions stemming from differing underlying assumptions that will begin to surface and further fragment the organization or team.

An Illustration from the Steel Industry

In 1980, Nucor Corporation was listed as the 13th largest steel company in the USA and was just listed in the Fortune 500 as number 494 with total revenues of $482 million and net earnings of $45 M. In 2014, 25 years later, Nucor had become one of the truly great American success stories of the latter part of the twentieth century. Its revenues reached $21.1 billion with net earnings of $713 M. For the decade 1971–1980, they had an average annual ROI of 30 % when the median ROI for the Fortune 500 in the period was 9.5 %. This was all the more remarkable given that Nucor was in the business of manufacturing steel using mini-mill technology and manufactured, at least for its first two decades, low value-added steel products such as joists, angles, and bars. The entire corporation was run in teams, from the top management team on down, with substantial financial compensation based on team performance from the lowest employees in the hierarchy to the executive suite.

Their success was, and continues to be, due to a constellation of factors but at the core it results from the way that teams not only execute but also set the strategic direction of the firm through highly responsive and adjustable management goals and processes.

Level IV: Micro-level Models Involving the Individual via Observable Behavior

The individual level involves all observable behavior at the individual level such as verbal and nonverbal behavior, all forms of doing or action, as well as written and oral communication. The well-known organizational strategy statement that begins typically with "the strategy for our organization is to be/become number 1 or 2 in our industry by doing the following…" is a form of such observable behavior, though it also may be the product of the top management team or a broader task force, that is, the meso-level.

Level V: The Super-micro-level—Processes Within the Individual

The super-micro is the level of strategy that resides within each individual. This includes processes that are not directly observable such as emotions, thoughts, feelings, intuitions, imaginings, intentions, instincts, insights, inspirations, and thought experiments—all of which arise from and lie within the minds of individual strategists. These processes are largely hidden from the perception of other people, unless they are communicated and made "objective" via oral or written language, or the visual arts.

According to Kahneman (2011) the thinking processes that strategic leaders use include both System 1 (which is fast, emotional, instinctive, and intuitive) and System 2 (which is slower, more deliberative, logical, and methodical). System 1 he calls "thinking fast" and System 2, which includes reasoning, pure rationality, and bounded rationality he calls "thinking slow." These two processes are complementary but very different and originate from two very different brain systems. System 1 includes the following:

1. *Intuition* – an unconscious form of knowledge which is immediate and holistic. It is sometimes called "stomach knowledge" or "gut feeling." Indeed, the vegas nerve goes from the brain to the stomach and seems to have a function which goes beyond simply sensing the areas of the stomach. A person who has an intuitive perception cannot usually immediately fully explain why they hold the view that has come into their awareness. However, they may later create a rationale for the intuition by developing a chain of reasoning *post hoc* to show more systematically to others why they believe their intuitive knowledge is valid. There are numerous unconscious intuitive processes that happen within a person and when these unconscious signals are strong enough, a more conscious understanding is experienced.

2. *Inspiration* – the act or power of exercising an elevating or stimulating influence upon the intellect or emotions. It consists of a mental or emotional influence coming from beyond the conscious processes of the brain, which results in a new way of perceiving, thinking, behaving, or feeling.

3. *Creative imagination* – the ability of the mind to create images and the power of it to create or reproduce an object of sense previously perceived. It is the power to call up mental images for later use by oneself or others and is often associated with the creation of images or scenarios which have not yet manifested. Finally, it can be seen as the process of forming in the mind new images, which have not been previously experienced, or if they have, only partially, or in different combinations.

4. *Instinct* – the inherent disposition of a living organism toward a particular behavior. Instincts are inherited patterns of response or reaction to specific stimuli. In humans they are most easily observed in the fight–flight response, sexual drive, feelings such as pleasure or displeasure, and other bodily functions, which are largely biologically determined. Instinct provides a response to external stimuli, which moves an organism to act, unless overridden by the conscious mind.

5. *Inquiry* or *investigation* – a process that has the aim of augmenting cognitive knowledge, by resolving doubt, or solving a problem, usually by way of searching for solutions dilemmas by the skillful asking of questions.

6. *Insight* – the act or result of apprehending the inner nature of behavior, objects, mental processes, feelings, or events. It is the power of acute observation and the ability to direct perception into the nature of the way things are.

Conclusion

Effective strategic leadership involves balancing rational and extra-rational thinking, such as intuition and imagination, and adjusting their behavior and leadership style to the situation (discussed in the next chapter). This is done in order to manage the group dynamics in a way that allows mobilization of diverse capabilities and backgrounds and then empowering the networks of multiple leaders in the organization to effectively address the internal complexities—that arise from size, diversification, knowledge intensity, and specialization. The organization is then capable of being more responsive to turbulence and change in the competitive environment—encompassing rivals, suppliers, customers, potential entrants, and substitutes. In other words, it aligns the strategy-making and implementation across the five levels from super-micro (e.g. strategic thinking) to the super-macro (positioning the firm in its industry). Also, effective strategic leadership enables the ongoing resolution of the seven dynamic tensions, that organizations face, in a way that is consistent with both internal and external demands. It is a question of continuously adapting the leadership form to the needs for both higher stability as well as flexibility, that is, ambidexterity.

This balancing act starts with individual leaders who are continually attempting to make sense of multiple issues: the present situation and its strategic ramifications, envision the appropriate course of actions, mobilize other leaders and followers in the organization to achieve that vision, and manage the key relationships along the way. The following chapter discusses how the perceived leader's charisma and their leadership style help them to influence others in the organization (micro-level leadership). In the subsequent chapters, we address the cognitive processes which leaders use to wisely solve problems (wise leadership) and how they can maintain a healthy climate and culture in the organization (leading with inner meaning).

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PART III

Leadership Wisdom, Inner Meaning and Creating Healthy Organizations in the Long Term

CHAPTER 5

The Role of Charismatic, Transformational, and Transactional Leadership

Charismatic Leadership

Individual leaders play a key role in the strategic leadership, both when we speak of stars and clans with their centralized decision-making as well as with teams and networks. After all, shared leadership, which distinguishes the latter two generic forms, does not preclude the existence of individual leaders per se. It merely suggests that their roles as "leaders" or "followers" are situationally dependent. In any case, the efficacy of leadership depends on the ability of individuals in the leadership position—formal or informal, temporary or stable—to influence the behavior of the other group members to achieve the desired strategic outcomes. This ability to lead others depends in turn on the leader's personality, preferred influence tactics, and their fit with the broader group, organization, industry, and national contexts.

Charisma is an important attribution of a leader's character (Conger and Kanungo 1998; Shamir et al. 1993). Weber et al. (1947) introduced the notion of charisma as a form of authority, which is based on the followers' faith in the leader's exceptional qualities rather than one relying on legal norms, formal positions, or traditions. Conger and Kanungo (1998) further delimited the boundary between charismatic and noncharismatic leaders by identifying a set of behaviors typical for charismatic leaders. These include the following:

1. *Offering an appealing strategic vision* that is radical enough to challenge the unsatisfactory status quo, but at the same time can be perceived by followers as realistic. To make their alternative vision

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appealing, the leaders may either take advantage of the objective crisis situation, artificially create a sense of crisis, or at least discredit the old ways of doing things (Yukl 2013).

2. *Timing in critical.* Relying on unconventional, practices that yield early successes, which in turn strengthen the belief in the leaders' exceptional skills among followers.
3. *Taking actions and making decisions that involve significant personal risks for the leader.* This is an important signal conveying the leader's confidence in the selected course of actions and thus is crucial for gaining follower trust.
4. *Exhibiting high self-confidence and strong convictions.* Leaders that do not demonstrate high self-confidence can result in followers attributing important early successes to good luck rather than to their above-normal expertise. Behaviors that communicate the strong convictions of leaders also increase the appeal to the values of followers, and serve as a foundation for others internalizing the leader's beliefs.
5. *Inspiring followers and managing their impressions in a positive way.* Toward this end, charismatic leaders typically rely on the use of symbols, metaphors, and strong, highly expressive language that will (1) appeal to follower values, (2) connect the tasks they need to accomplish to a larger mission or to the followers' intrinsic values or purpose (e.g. their mission in life); and (3) build confidence in followers that they have the necessary qualities and inner motivation needed to accomplish the task (Shamir et al. 1993). The latter bolsters the follower's perceived self-efficacy and thus makes them more "unwilling to give up" and look for solutions when they meet obstacles for accomplishing the tasks.

The leader's approval by others over time becomes a major source of influence for charismatic leaders (Yukl 2013). Followers want to imitate and please such leaders, which makes their approval both a measure of self-worth and a means for building a deeper sense of obligation to meet and beat the leader's expectations in the future. Further, internalization of the leader's values, or the group values that leaders identify with, serves to further align and enforce the desired behaviors of followers.

Charismatic leadership can have profound motivational effects on followers (Conger 2011). In particular, charismatic leaders use inspirational influence to mobilize both the human and the social capital of teams as well as networks by transforming the nature of organizational tasks, "by making them appear more heroic, morally correct, and meaningful" (Conger 2011, 92). As a result, organizational members associate the work outcome with self-expression, self-efficacy, and self-worth.

The Dark Side of Charisma

Conversely, the motivational effects of charisma often come with significant costs. A charismatic leader's vision and often strong opinions contribute to a distorted view of reality, leadership myopia, and inertia, which may have devastating effects in turbulent competitive environments. In particular, charismatic leaders tend to overestimate the information which confirms their vision and underestimate, or even completely ignore, negative signals that are contrary to or call into question the beliefs and vision of the charismatic leader.

These effects can become obvious in the context of big acquisitions, for example, where an overconfident CEO or senior leader becomes committed to complete the deal through an overestimation of future cash flows or an underestimation of the required resources and in the process destroy the potential returns for shareholders. To illustrate, Hietala et al. (2003) estimate that Viacom's CEO "infected by hubris" overpaid for Paramount by more than $2 billion. The consequences may be even more detrimental when a charismatic leader fails to adapt the vision to a radical shift in the environment—either because they discard the new information or because the followers do not dare to convey it. In such circumstances, errant biased charismatic leadership may jeopardize the very survival of the organization.

In addition, charismatic leadership is sometimes associated with behaviors that are destructive for the stakeholders of the firm. In particular, the shareholders will suffer when top leaders engage in value-destructive empire building or focus excessively on the "big" issues to the detriment of other management tasks that appear to be less critical but nonetheless have major long-term consequences for the firm. For example, one of the reported reasons behind Carly Fiorina's resignation as HP's CEO was her defiant pursuit of the merger/acquisition with Compaq by HP, and lack of concern for the operational efficiency and long-term health of the company's core businesses. In addition, the leadership practices and motivational methods of charismatic leaders tend to antagonize select groups of employees and contribute to internecine dissension in the organization (Yukl 2013). Finally, misrepresentation of information such that it favors the leader's agenda (Conger 2011) increases risks for all stakeholders, internal as well as external.

Charisma and the Four Generic Forms of Strategic Leadership

Having introduced the concept of charisma and delineated its effects on the organization in general, we can now assess the role of charismatic leaders in particular contexts, namely for different forms of strategic leadership and the accompanying organizational and environmental characteristics. While the word "charisma" is semantically associated with stars several questions arise. Is there a place for charismatic leaders in more distributed forms of leadership, such as strategic leadership networks? Is the role that charismatic leadership plays in clans similar to its role in teams? What are the moderating circumstances that affect the efficacy of charismatic leadership in these four forms?

Charisma and Stars

In order to understand the role of charismatic leadership in the four generic forms, we need first to look back and recap their distinctive features. We start with *stars*, or single-leaders, which we often find in young, small entrepreneurial firms. The emotional appeal of a charismatic founder and his or her often unorthodox vision can be crucial in attracting the right people to join the organization as well as in securing critical funding. Why do people leave prestigious higher-paying jobs to join small no-name start-ups, such as Clara Labs, a firm in San Francisco that aspires to develop meeting management software? Perhaps they fall in love with the product idea and vision of the company or they see the founding team as amazing. Similarly, for a firm with no prior income or cash flow, the ability to attract funding relies almost exclusively on the ability of its leaders to sell the business concept and vision to venture capitalists, that is, people who have heard many promising stories and seen many "hockey stick" earnings forecasts before.

In addition, charisma can be an important source of power for stars and a means to enforce desired behavior in the organization as well as to secure commitment to the leader's goals. In young, small firms, a leader's charisma may in fact serve as an effective substitute for the formal control mechanisms, performance metrics, and incentives, while the leader's vision then serves as a source for ultimate guidance in strategic decision-making.

Stars also have to play a variety of roles in the organization, as well as make sense of the changes in its internal and external environments—for example, the firm's growth or proliferation of technology to create high performance metals—and eventually adapt the company to fit with or even lead those changes. It is here that charismatic hero-leaders may not perform up to the high expectations of stakeholders. While it is the charismatic leader's vision that sometimes transforms the industry, just as Steve Jobs did to the entertainment industry by introducing iTunes, in many circumstances, vision goes hand-in-hand with unrealistic expectations. This is especially so when the leader is blinded by a past success, and leads to significant losses. Overestimating the market size for a new product is a typical example of a hero-leader's mistake.

Similarly, when stars become too strongly committed to a vision, they tend to neglect key factors that make the vision less appealing and ignore other responsibilities, such as operational efficiency. Conger (1990) cites the charismatic CEO of Chrysler Corporation, Lee Iacocca, admitting: "If I made a mistake it was delegating all product development and not going to a single meeting." It is much less detrimental for organizations where networks of leaders are available to challenge the CEO's assumptions, adapt the vision, and complement their focus on exploring new ideas with effective management of day-to-day operations. However, stars often lack complementary human capital provided by a core of networked leaders who they trust and come to depend upon. This makes the consequences of the charismatic leader's myopia and lack of ambidexterity—in not being able to balance exploration and exploitation—much more dramatic, especially in the long term.

Charisma and Leadership Networks

The role and impact of charisma in leadership networks is much more complex than with single-actor stars. Charisma in networks of leaders is dependent on a variety of contingencies. To begin with, there is an intrinsic conflict between charismatic leadership, which forces the separation of actors into leaders and followers, on the one hand. On the other hand, there are the dynamically shifting leader–follower roles, which characterize networks. An individual leader can resolve this tension by

1. assuming the role of an intermediary, facilitator, or integrator in this dynamic constellation of relationships;

2. allowing the people most qualified to solve the problem at hand to take the situational lead; and
3. demonstrating agility in reshaping the vision and openness to ideas by questioning or challenging the initial assumptions.

Note, however, that strategic leadership networks will last only as long as shared values, common purpose, and a sense of mutual dependence overcome the numerous social, cultural, and psychological barriers for cooperation and the sharing of ideas. This cooperation takes place vertically in the organizational hierarchy, laterally across divisions, business and geographical units, and outside the organization. Charismatic leaders articulate and raise awareness of the high-level shared purpose and values, and secure follower commitment through self- and social identification. In essence, they give meaning for the presence of broad collaboration. Moreover, charismatic leaders mobilize networks by instilling a sense of urgency to achieve goals and overall purpose. They suggest the way forward and raise confidence in the ability to achieve desired outcomes. However, as previously mentioned, in order to be able to mobilize the leadership networks, the authoritarian tendencies of charismatic leaders need to be tamed, a task calling for the exercise of significant ongoing wisdom.

We further note that leadership networks typically are created in response to simultaneous high internal complexity in the organization at the same time as high turbulence in the competitive environment. These dual pressures call for adaptiveness, proactive information search, the ongoing generation of multiple scenarios for the future, and the constant assessment of differing points of view. In such circumstances, the charismatic leader needs to acknowledge their dependency on the knowledge and expertise of others. This is in contrast to relying, mostly or solely, on their own exceptional expertise and style of motivating others, which is often viewed as sources of charisma, and as essential for long-term organizational effectiveness.

Leader's Preferred Influence Methods

Another important determinant of an individual leader's efficacy and overall ability to mobilize networks of leaders is the appropriateness of their leadership style (Yukl 2013). Leadership styles differ both in terms of the dominant influence method and in the approach to decision-making.

The gamut of influence methods ranges from transformational leadership, that appeals to the follower's values and emotions, to leadership styles ranging from autocratic to participative, or even, laissez-faire (Bass et al. 2003). These styles have different situationally dependent consequences for organizations.

Literature on leadership (Bass et al. 2003; Conger and Kanungo 1998) traditionally associates charismatic leaders with the transformational approach to leading strategically. This is not surprising because the transformational approach to leading tends to rely on followers becoming self-identified with the leader or developing social identification with the group whose values they advocate. In addition, there is an accompanying desire to emulate the leader as a role model and gain their recognition. In other words, emotional bonds between the leader and followers are prerequisite for both the perceived charisma and transformational leadership style. In addition to this idealized influence, Avolio et al. (1999) also point to the transformational leader's inspirational motivation, intellectual stimulation, and individualized consideration as important influence mechanisms. Transformational leaders enhance team morale and group efficacy by giving meaning and challenge to work, as well as expression of optimism and confidence in follower ability to achieve the envisioned future organizational results.

Further, transformational leaders encourage and stimulate followers to question core assumptions about the competitive environment, reformulate problems, and revise proposed solutions accordingly. They give followers more room for exploration and mistakes, solicit their ideas and use those in decision-making. Finally, transformational leaders often act as mentors for followers, helping to develop their potential (Avolio et al. 1999).

As such, the transformational style of leading not only helps to mobilize leadership teams (Level III) and networks (Level II) in the organizations but also can enhance organizational agility in responses to changes in the external environment (Level I). Bass et al. (2003) label transformational leadership as adaptive and argue that

> adaptive leaders work more effectively in rapidly changing environments by helping to make sense of the challenges confronted by both leaders and followers and then appropriately responding to those challenges. Adaptive leaders work with their followers to generate creative solutions to complex problems, while also developing them to handle a broader range of leadership responsibilities. (Bass et al. 2003, 207)

In contrast to transformational leadership, transactional leadership relies on the rewards and punishment contingent on the follower behavior and achieved results. A classic example of the transactional style of leadership is setting quarterly revenue targets for the sales force and making their compensation and promotion dependent on meeting and exceeding those targets. There are, of course, many variations of the transactional leadership style.

In particular, Goodwin et al. (2001) distinguish implicit contracting based on recognition from the explicit contracting depicted above, which relies on setting clear performance goals *ex ante* and in a *quid pro quo* exchange. In addition, Bass et al. (2003) discuss two forms of explicit contracting: active management by exception and passive management by exception. In the first case, the leader determines the boundaries of acceptable behavior and performance, closely monitors their work, and, when a significant deviation is discovered, takes corrective action. In the latter case, the leader interferes only when problems arise and does not perform active monitoring.

While the strengths of a transformational leader lies in their ability to mobilize networks of others to transform the organization, introduce innovative solutions, and reshape industries, the key advantage to transactional approaches lies in their ability to improve the organizational and unit operational efficiency. In this sense, these two approaches to strategic leadership are complementary and appropriate depending on the situation.

Conclusion

A failure to apply appropriately the two approaches of transformational and transactional styles may have dramatic consequences for an organization. Consider two prior CEOs of HP—Carly Fiorina and Mark Hurd. The former was a visionary, transformational type of leader for some who aspired to transform HP, but also often displays a top-down autocratic style that did not fit the egalitarian culture of HP. This caused considerable resistance to change from the "old guard" at HP, including much of the top management team, and eventually the Board. Ultimately, this undermined Fiorina's tenure as CEO, resulting in her being fired. Even ten years later, in 2015, as Carly ran for the Presidency of the USA, her leadership mismatch with HP's culture and needs sabotaged her chances of getting the far more complex leadership role of being commander-in-chief of the US.

Mark Hurd, with a more transactional but involving style of leadership, was renowned in the industry for his ability to achieve excellence by setting specific operational targets and monitoring their achievement. Both, however, in the end, were forced to resign for failure to meet the Board's expectations. In Fiorina's case, the reported reason was her inability to manage the expectations of the HP R&D/engineering-based culture and extract appropriate value for the company's core printing business. Hurd was fired for poor ethical judgment and for his decision to try to cut expenses by decreasing investment in HP's legendary R&D and innovation capabilities. In both cases there was a lack of balance between the nurturing of long-term investment in exploration at the same time as implementing effective exploitation strategies. The question that arises is: "How can strategic leaders identify and choose the right balance between apparent dichotomies, such exploitation and exploration strategies, and make effective long-term decisions?" This is the topic of leadership wisdom, which is addressed in the next chapter.

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CHAPTER 6

Strategic Leadership Wisdom

Sources of Leadership Wisdom

In the previous chapters, we have examined strategic leadership primarily from the vantage point of a functional-objectivist paradigm, where the organizational world is perceived as "out there" and subject to manipulation as if it were a machine. From this perspective, strategic leadership is largely mechanistic in nature. That is, change the following variables and see specific predictable effects. However, organizations are much more complex: they are the product of numerous forces and variables that are in a dynamic balance (Quinn 1988; Quinn et al. 1990) and they are social constructions more than an "objective reality" (Weick 1979).

This chapter and the next will frame the role of strategic leadership as far more generative and holistic, that is, where variables and constructs are interrelated in causal networks. The task of the strategic leader then becomes one of achieving a dynamic balance among constructs so that wisdom, enduring values, and long-term organizational health are generated in the service of long-term vibrancy and durability. The current focus on primarily efficiency measures and quarterly financial returns tends to drive out these deeper, more enduring values and behaviors that create

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organizational cultures where individuals want to get to the workplace to give 120 % because they believe deeply in the mission, vision, and purpose of the organization.

For this we shall draw on some unusual sources including philosophy and religion. According to the Encyclopedia Britannica about 83 % of the people on the planet belong to or practice one of the world's religions, or practice some form of spiritual path. When leaders wake up in the middle of the night wrestling with some intractable challenge, they are likely to turn to these inner resources. N.S Raghavan, cofounder of Infosys in India, Steve Jobs, founder of Apple Inc., Lou Gerstner, former CEO of IBM, and Leon Panetta, a former Director of the CIA, are examples of strategic leaders who drew on spiritual–religious values and modes of sense-making for the making of key decisions (see Pruzan and Mikkelsen (2007) for the personal stories of 31 leaders from 15 countries and 6 continents who practiced spiritual-based leadership in business). Here are the words of N.S. Raghavan:

> The most important values to me are fairness, love, caring and trust. For me, love is unconditional: when you expect something in return, that it is not pure love. When you are operating from a strong sense of values, you don't change your behavior and treat people differently just because circumstances change. I am talking about fundamental ethical and moral values here. (Pruzan and Mikkelsen 2007, 54)

The Inner Challenges Facing a Strategic Leader

Strategic leaders are faced with thousands of decisions, small and large, every day. In analyzing strategic decisions and actions, both practicing strategists and organizational researchers are often struck by the appropriateness, often brilliance, of the decisions that have been made in their organizations. How do strategic leaders sense or know what is needed in the longer term? Why do some leaders make better decisions than others in the longer term? Is it just a matter of chance and luck or are there some core competencies they have developed? The intent of this chapter is to present an explanation for what we call "strategic wisdom." *Wise leaders* have the ability to detect, understand, and act upon fine nuances in events and in their immediate environments—personal, social, and competitive—as well as the competence to understand how those nuances of variation create the possibility of realizing larger organizational opportunities as well as accompanying long-term financial gains.

Strategic leaders become experts at finding rich signals and stimuli in their organization and relevant environments—and then benchmark these signals via relevant comparisons with those of others.

Organizations can be viewed as *objects* to be manipulated like machines or as *processes*—processes of dynamic multidimensional relationships. Organizational phenomena, when seen in this way, then vary depending upon (1) the skill of individual leaders, especially top-level executives, to notice and act upon increasingly finer grades of variation, internal and external to themselves and their organizations; (2) the ability of teams to communicate, accept, and encourage appropriate collective action; and (3) the degree to which individual leaders are involved in iteratively sorting and comparing relevant patterns over time. Strategic wisdom evolves out of this complex mix of forms of variation and the sense-making and embodying values on a moment-to-moment basis.

Wisdom and Strategic Leaders

Practicing leaders are faced with thousands of decisions every day. Instead of just searching for information from a large pool of comparative organizations, they tend to base their decisions on direct experience and observations of inputs from both immediate and distant environments. In the words of Thich Nhat Hahn (1992): "Our own life is the instrument with which we experiment with truth." Leaders will then both actively visualize the likely subsequent opportunity paths and ideally ask: "Does what we are about to do feel 'right' intuitively?" That is, they use the test of intuition to check the validity of their analytical reasoning—they balance the analytical and intuitive parts of the mind (see Kahneman 2011, for what he terms system 1 and 2, two complementary systems of thinking and decision-making in the brain).

Obviously some leaders are more successful than others at this, and some are even elevated to a "mythical" status by others—as a *star*. When we assess the effectiveness of strategic decisions, we are often struck by the holistic foresight of those decisions (Nutt 1990; Nutt and Wilson 2010). In this chapter we shall address the following questions:

1. What constitutes "strategic leadership wisdom" and how can we make sense of it?

2. What are the underlying types of variability and their role in the cognition and behavior of strategic leaders?

Wisdom and Mindfulness of Variation and Change

The perception and measurement of variation plays a critical role in both scientific and practical endeavors. Organizational researchers attempt to reduce the unsystematic error variance, and try to increase the systematic variance (Ghiselli et al. 1981). Prior to data analysis, the aim of social scientists is to remove the outliers to create a more coherent population to work with. In this way results are made to be more representative and less influenced by outlier phenomena or values. Thus, organizational scientists have a strong need to control variables and to reduce "unwanted variance." This tends to limit studies to well-defined aspects of organizational life and to attempt to gather data from large samples in order to be representative of the research domain. Yet, despite the preceding cautions of research methodologists, there are an increasing number of organizational researchers who are calling for and conducting small-sample studies which are rich in contextual processual data and looking for outliers (Eisenhardt 1989; Dyer and Wilkins 1991). Examining wisdom is a case of studying outliers.

When we turn to the writings of consultants and practicing leaders, the use of small-sample context-rich studies becomes extensive, since the intention is to generate practical *action rules*, relevant knowledge, and wisdom. Works such as Sloan (1963), Watson (1990), and Iacocca (1984), covering respectively General Motors, IBM, Ford, and Chrysler, are examples of in-depth accounts of single organizations that have been and continue to be widely read by practicing leaders. Some of the so-called classics in the field of management and organizational theory are similarly based on small-sample observations. For example, Chester Barnard (1938) based his now classic work mainly on his extensive experience in New Jersey Bell Telephone Company (later AT&T). The work of Alfred Chandler (1962) has been widely cited despite the fact that he did not have the benefit of a large sample size. Scholars such as Pettigrew (1973) and Johnson (1987) used single-site studies to develop and advance our understanding of organizations in significant ways.

Behind the debate between large-sample and in-depth small-sample proponents is a deeper set of issues that point to some assumptions which most researchers and practitioners make about the nature of organizations. Clues to the "wisdom" in leader decisions and actions can be found in their ability to distinguish between fine grades of variation in observations. The remainder of this chapter (1) proposes that leaders develop wisdom through a process of progressively finer discernment and mindfulness of variation in the range of relevant information they perceive from their environments; and (2) presents implications or propositions for both researchers and practicing leaders to help each to understand the presence of wisdom in leader decisions and actions.

Some Core Assumptions

The viewpoint of this chapter is grounded in a philosophical shift in the conceptualization of organizations. This shift has implications for the way in which we understand and research organizations. In trying to make sense of wisdom among leaders we find that certain of our commonly held assumptions about organizations need to be questioned. Four such core assumptions are as follows:

Core Assumption 1: Individuals, groups, and organizations are *objects* to be studied, which are relatively stable over time.

Core Assumption 2: The behavior of individuals, groups, and organizations is best studied through an examination and comparison of *means* across populations.

Core Assumption 3: The *interaction effect* between the object of study (e.g. a set of organizations) and the researcher(s) should be minimized, controlled, or eliminated.

Core Assumption 4: "Occam's razor" should be applied so that the largest amount of variation can be explained with the *fewest explanatory constructs*, *variables*, or *factors.*

If we examine carefully the behavior of practicing leaders, we find a different worldview-in-use. Researchers tend to develop theories based on achieving objective measurement, which often means restricting the relevance or scope of the findings. In contrast, strategic leaders act on arriving at insightful or useful models and frameworks (Starbuck and Mezias 1996). First, organizations need to be treated as complex, continually changing patterns of relationship rather than as fixed objects. The traditional assumption underlying our understanding of organizations is that they are objective entities. Most studies in the field of organizational theory are concerned with measuring the structures, systems, and outcomes of organizations in relation to the "objective reality" of the environment which lies outside organizations. Organizations are, at root, socially constructed networks of relations and patterns of cognitive processes (Spender 1996). It is the nuances of variability in those patterns that strategic leaders are most interested in. This initially requires a shift from an objective reality approach to social construction (Berger and Luckman 1967; Burrell and Morgan 1979; Weick 1979) and beyond social construction to more holistic models of organization (Bohm 1980a, b, 1990; Bradley 1987; McKenzie 1991; Pribram 1991; Weber 1986).

Second, leaders tend to prefer concrete observations over abstract generalizations. Organizational scientists tend to try to reduce the effect of outliers; leaders try to learn from them. Organizations with homogeneous teams lead to poor decisions and groupthink (Janis 1982). Instead of decisions based around the means of observations, leaders benefit more from looking for the outliers, the unusual, the extreme points of view (Schwartz 1996; Starbuck 1993). Top management teams are encouraged to find ways to increase their interactions, engage in conflict, and use multiple-lens tactics (Eisenhardt 1997).

Third, practicing leaders tend to treat their organizations as learning laboratories. That is, the interaction between the observer and the observed, the leader participant-observer and the group or organization, is of more interest than the organizational phenomena separate from the observer (Kriger and Malan 1993). This calls for a different way of treating knowledge. Instead of creating a Cartesian split between an objective and rational individual and the object of study (the organization), we need a different approach. Executives are integrally part of their organizational environments (Nonaka and Takeuchi 1995) and cannot afford to be passive, objective observers of their organizations. Instead of basing decisions on abstract reports, they should allow the *mood of the organization* to inform their intuition creating *thick management* (Mintzberg 1989, 355). They do not have the luxury of objective distance that objectivist scientists call for. In contrast, leaders are fully immersed in their firms where their decisions are based on the largely tacit knowledge they glean from constant interaction between themselves (Level I in Chap. 4) and their organizational and competitive contexts (Levels IV and V).

Fourth, leaders' theories-in-use indicate that they perceive organizations as complex, dynamic, fast-paced patterns of relationships where the application of simplified assumptions distorts the nature of what they wish to know and understand. How to create more effective organizations may lie more in the ability to identify variability and to manage the construction and destruction of meaning (Gray et al. 1985; Smircich and Stubbard 1985) of coherent overall patterns than in collecting increasingly finer and more accurate data about the atomistic pieces of organizations. Instead of striving to simplify, leaders have learned to turn this complexity and uncertainty of multiple interactions into competitive advantage (D'Aveni 1994).

If we change the underlying set of assumptions about organizations and variability, then the idea of organization becomes a symbolic and conceptual artifact. "Objective" measurement is then no longer the central aim of organizational research; rather, it is the meaning that leaders attach to events that becomes most salient (Bolman and Deal 1984, 150) and how that meaning creates effective learning and action sequences. The attention to meaning aims at a deeper understanding of the organization itself than the measurement of a supposed objective reality. This emphasis on *verstehen* (understanding) has its roots in the tradition of social thought espoused by German philosophers such as Kant, Husserl, and Weber. Leaders, one could argue, approach the understanding of their organizations from a different social paradigm than most academics; hence, they have little need for studies that are based on a set of paradigmatic assumptions that attempt to control for variability and to separate the observer from the observed. Practicing leaders, on the whole, share an approach that is closer to what Burrell and Morgan (1979) call the "Interpretive Paradigm."

> The interpretive paradigm is informed by a concern to understand the world as it is, to understand the fundamental nature of the social world at the level of subjective experience. It seeks explanation within the realm of individual consciousness and subjectivity, within the frame of reference of the participant as opposed to the observer of action. (Burrell and Morgan 1979, 28)

But this is not to say that leaders are easily drawn to abstract concepts like "social construction" or "interpretive paradigm," or should be.

Organizations exist in multiple environments with several competing values and worldviews. The answer to creating effective organizations lies in understanding the assumptions of these competing views and in finding the appropriate balance (Quinn 1988). Instead of suggesting a new approach to replace existing assumptions about organizations, we find that there are several complementary ways to understand organizations. The proposed reconceptualization is one where several apparently competing approaches should not only be accommodated but openly embraced to broaden the ability of leaders to understand their organizations or subunits.

> *Strategic leaders strive to discover fine shades of variability within their organizations, their immediate work group and within their perceived competitive environments—which is a continually unfolding world of flux, change and transformation. Out of this constant process of discovery and active experimentation over time arises what we call "strategic leadership wisdom."*

Understanding Variability and Wisdom in Organizations

The following anecdote illustrates the process of perceiving variability in an organization. One of the authors worked some years ago in a large manufacturing operation. The Chief Executive and founder of the company had been in the business for many years. On one occasion, one of the authors was walking through the plant with the CEO. The plant employed about 600 people and the manufacturing operation was located in a series of large buildings filled with the noise of machines, forklifts, sirens, and people. Normal conversation was out of the question and most employees were required to wear protective earplugs. Somewhere on the journey through the factory, the CEO stopped in mid-stride and started walking to the far end of the building. He went straight to one of the machines and asked the operators what the problem was. They were not aware of any problem. The machine was running but, on closer inspection, there appeared to be a couple of small faults in the finished material. After some adjusting of the machine speed and yarn tension, the problem was corrected and the CEO continued on his tour of the facilities.

Through the din of the noise in the factory, the CEO was able to pick up the sound of one machine that was not running correctly, something which the operators and leaders on the factory floor had missed. To untrained and inexperienced ears this was all just "noise." To the CEO, this was a series of different sounds, all with a different meaning. His ability to distinguish the variability in the sounds enabled him to identify the outliers. If this was possible on the level of the sound of a machine, how much more variability was there in the rest of the organization? What is it that enables a leader to discern such a fine increment of variability? Was it just good hearing? Was it his long experience in the industry? Was it just a hunch or intuition? Was it luck? These questions are they in the search for *leadership wisdom*.

The theory of wisdom and the role of variability in it is based on the assumption that leaders in organizations act as dynamic interpreters of their environments—intimately connected to those environments and in constant interaction with them. Organizations in this worldview are not objective entities. Instead, they are complex cognitive networks of socially and personally constructed meaning. Leaders in organizations have to make sense of these ever-changing phenomena and are charged with the responsibility of constructing and managing the meaning of phenomena.

In this way of viewing organizations, leaders (and all other organizational members) are performing complex information processing and interpretation roles which go far beyond the usual machine view of information processing. Leaders are both an integral part of information processing and the constructors of the meaning upon which they act. However, the amount of information in an organization is enormous, both in its magnitude and in its qualitative nature. As the above example illustrates, information can take the form of the sound made by machines, it can be the observation of human behavior, the daily interpretation of sales figures on a computer screen, or a plethora of other information patterns. All of the human senses receive data and experience organizational information on a continuous basis. The point of information overload for any individual is variable, but for all there is a limit which is eventually reached. Leaders experience a near-deafening noise of inputs from their own organizations every day. One of the main challenges to executives is to filter and interpret the noise from within their own organizations and determine the key leverage points upon which to act.

Successful executives are those who have developed the ability to observe a number of varieties of variability, to recognize the outliers of the data they receive, and to construct relevant patterns of meaning. In the story above, the CEO had the ability to recognize the variability in the machine sounds and to attach meaning to a particular sound that differed significantly from the norm.

Often we attribute to executives a "sixth sense," that is, well-developed intuitive powers. For example:

> Intuitive understanding, sensing the whole in the part and acting accordingly, appeared to our respondents to be a matter of experience. Many claimed that they had been exposed to managerial challenge and responsibility at early stages of their careers and that this experience was invaluable to guiding their subsequent actions. (Mangham and Pye 1991, 22)

In terms of our description of variability, there is nothing "magical" about those executives who manage to act upon seemingly incomprehensible signals. These are the individuals that use a greater range of their senses (hearing, sight, feeling, taste, smell, and intuition) to recognize the variability in the input and to identify important outliers. The reason why we say that these executives act with "gut feel" is because we have not yet developed the same ability or have not developed a language to describe these kinds of variability. To do this leaders must be present moment by moment.

Most studies of organizations isolate a few variables and attempt to measure the degree of correlation and connection between these variables over a sufficiently large number of organizations. This does not match the predominant sense-making framework used by practicing leaders. Strategic leaders realize that, in order to identify the crucial variance, they need to take the full spectrum of variation within their own organizations into account. Instead of just isolating specific variables, they strive to interpret the apparent chaos present in the holistic picture in order to make sense of the complex signals. Patterns emerge from the chaos when we are present.

A Framework for Understanding Variability and Strategic Wisdom

There are a number of different forms of perception and understanding of variation that are salient for the wise leadership. These forms of variability include (1) the difference between and within organizational-level phenomena; (2) the shifting of differences over time; (3) the cognitive, affective, and skill differences between people in the organization; (4) differences between people in their relationships; (5) differences in symbolic action and the construction of meaning.

Leaders need to develop a variety of skills and abilities to detect the degree of variability in the above factors. Effective strategic leadership depends, in part, on the development of these skills and abilities (see Table 6.1).

Table 6.1 Leadership wisdom based on the ability to detect and act upon salient variation in their personal, social, and competitive environments

Form of wisdom	*Leadership competence/ability*
Wise perception of self and environment	1. Ability to be mindful of thoughts, feelings, sensations, and intuitions 2. Ability to perceive and assess the relative importance of organizational decisions and events
Wise perception of change	3. Ability to perceive changing organizational patterns over time 4. Ability to perceive rates of change occurring in the internal and external environments of the organization 5. Ability to judge the importance of short-lived, but highly salient organizational phenomena
Wise social skills	6. Ability to interpret the group dynamics of teams, especially the top management team 7. Ability to interpret nonverbal and verbal behavioral exchanges in dyadic as well as multiperson exchanges 8. Ability to assess levels of variation in the competence of individuals
Wisdom in power relationships	9. Ability to interpret the trends and importance of multiple supplier–buyer relationships 10. Ability to perceive differential power relationship
Wisdom in the interpretation of symbolism, culture, and meaning construction	11. Ability to interpret and decode meaning (symbolism, intentional myths, constructed images, culture) 12. The comprehensiveness and appropriateness of mental maps
Wise experience and moral development	13. Depth of experience base of events both inside and outside organization 14. The level of moral development of leaders

In addition to the ability to recognize outliers of fine-grained variability, effective leader action is also a function of the ability to respond appropriately to the situation. Leadership decisions occur in a contextual framework of time and space. Thus, contextual relevancy of decisions and actions is needed for organizational effectiveness.

Wise Perception of Self and Environment

What may appear to the untrained ear as just "random noise," to the experienced ear is in fact a meaning-laden series of sounds, each with specific significance and messages within the overall pattern. Effective strategic leaders tend to develop over time the following: (1) a *fine-grainedness of perception* to distinguish between different types of and intensity of signals. The intent is to arrive at a more holistic understanding. They also need to (2) develop the *ability to assess the relative salience of events*. Very often, when a new leader takes over, one of the first things that he or she does is to tour the facilities. It was Peters and Waterman (1982) who introduced the notion of "Management By Walking About" (MBWA). When Lou Gerstner joined IBM as CEO in April 1993, he spent his first couple of weeks "moving all over the company, mostly listening to people" (Kirkpatrick 1993, 57). Effective leaders move around the organization, observing and talking to numerous people all the time and for good reason—they use the opportunity to gather data from a large number of sources within the organization. The aim is to build a cognitive and emotional map of the organization (Bougon 1992; Huff 1990; Gioia and Poole 1984; Goleman et al. 2002).

Obviously, not all events have the same degree of importance for an organization or subset of the firm. Discernment is required to perceive what may at first appear as just a minor "blip" on the radar screen of the present, but could grow quickly into something with large-scale consequences for the firm. The ability to detect this type of variability often leads to "greatness." Steve Jobs' recognition of the potential of the personal computer (Sculley and Byrne 1987), Henry Ford's understanding of manufacturing processes leading to the assembly line (Womack et al. 1991), and Lee Iacocca's (1984) insight into the market when he initiated the development of the Mustang at Ford and the minivan at Chrysler are graphic examples.

Wise Perception of Change

Leaders also need to be able to detect the changing patterns in organizations over periods of time; not only in terms of single phenomena, but also in the way the relations between elements in the organization are evolving and reciprocally affect each other. Many of the popular biographies and autobiographies of executives (Iacocca 1984; Sculley and Byrne

1987; Watson 1990; Gerstner 2002; Isaacson 2011; to name a few) give in-depth examples. Leaders are attracted to these accounts in part because it gives them an indication of change and directions of change from which it is possible to see the relative competencies of role models and to understand patterns and trends in the development of wise leadership. Effective leaders need to be able to (3) *perceive and respond to changing organizational patterns*; (4) *perceive rates of change occurring in the internal and external environments of the organization*; and (5) *act on the importance of short-lived, but significant organizational phenomena*. If executives are unable to recognize the significance of changing patterns, and if they spend their time on matters that turn out to be of little relevance, it can have disastrous consequences. The near demise of Apple Computer in the mid-to-late 1990s illustrates this rather poignantly. Michael Dell in late 1997 announced that the best thing that the company could do for shareholders was to break the company up into pieces and sell them off to the highest bidder! We know that after the return of Steve Jobs to Apple in November 1997, Apple went on to have the highest market capitalization of any firm in the world, including petroleum and gas companies. Enormous foresight and sense-making was required by Steve Jobs and his executive team in the turnaround of Apple from 1997 to 2003 to see that Apple Computer needed to become a media delivery company rather than simply another personal computer company. This required the evolution of products starting with iTunes (August 1998), and followed up with the constant further invention and development of the iPod, iPhone, iPad (2010), and iMac creating a digital hub that locked customers into an array of products and services with attendant very high barriers to entry.

In 1988, General Motors reported record profits of $4.9 billion (Taylor 1989). Four years later, the company had replaced the CEO, appointed a new Chairman of the Board, and was not showing any signs of recovery from its record-setting $4.5 billion loss of the previous year (Taylor 1992a). How could this happen? Schwartz (1996) describes how Shell used scenario planning (a way of developing pictures of alternative patterns of variation at the extreme) to prepare key leaders for the shock of the unpredicted oil crises that followed in the 1970s. Recognizing and making sense of faint signals and responding appropriately is an element of "leader wisdom" related to the variation of inputs and perceptions over time.

Wise Social Skills and Social Intelligence

Southwest Airlines has historically had twice as many passengers and almost half the number of employees per aircraft compared to its rivals (Labich 1994). Yet, their employee loyalty and performance is almost unheard of in the industry. What made Herb Kelleher such a successful leader? In part, it had to do with his habit of being very closely in touch with employees along with his ability to sense the shifts in their perceptions and feelings.

Strategic leaders interact with people all the time and continually pick up clues and meaning from these interactions. Sometimes the subtle nod of a head or raise in eyebrows can have more meaning than pages of written material. Some of the skills and abilities needed to effectively use the information from this type of variability are (6) *the ability to interpret the group dynamics of teams* (see Bales 1988; Kriger and Barnes 1988); (7) *detecting and interpreting nonverbal and verbal behavioral exchanges in dyadic and multiperson exchanges*; and (8) *the ability to assess levels of variation in the expertness of individuals.* For example,

> When Frank (Cary) started his new job, I asked him to spend a couple of days alone with me at my ski house in Vermont. I told him there were things I wanted to pass along that I thought he might not know in spite of his MBA. No textbook in the world can tell you how to be the chief executive of IBM, and the most important lessons had been drilled into my head by my Dad.... I had no fixed agenda; I simply gave him every bit of advice that came into my head. I told him a saying of Dad's, about how the head of the business should behave: "Act like a beggar, feel like a king," the idea being that in your dealings with others you should be empathetic and humble, yet utterly self-reliant and confident within. Frank Cary behaved that way instinctively, and this was my way of telling him he was doing the right thing. (Watson 1990, 400)

When Tom Watson passed the reigns over to Frank Cary he knew that there were only selected things he could "teach" him. However, he understood that success often depended on the ability to pick up the subtle signals from people in the organization. Instead of drawing his lessons from a range of different organizational settings, he shared his own in-depth firsthand experiences from within IBM.

Wise Understanding of Power Relationships

The skills and abilities effective leaders need to detect this type of variation are (9) an understanding and interpretation of multiple supplier–buyer and competitor relationships; (10) the ability to perceive differential power relationships (e.g. in the board of directors, task groups, and project teams).

> No, I have not given thought to stepping aside. I believe that the track that the IBM Company is on in transforming our company is the right one. The IBM board supports this management. The board supports me and I do not plan to step aside. (Loomis 1993, 48)

These were the words of John Akers, CEO of IBM, in January 1993. By the 26th of that month, Akers announced his retirement after the board asked him to leave (Loomis and Kirkpatrick 1993, 68). This is not an isolated case. Ken Olsen, CEO and founder of Digital Equipment (Steward 1993) and Donald Petersen of Ford (Taylor 1991) faced similar fates. Robert Stempel from GM failed to see the signs of a vote of no confidence when the board made some changes in April 1992 and stayed on until he was replaced in November of that year (Taylor 1992b). These are cases of executives that failed to see the shift in power relationships and failed to detect the, sometimes very obvious, signs of changes in these relationships.

Wisdom in Symbolic Action, Interpreting Culture, and Constructing Meaning

Culture and symbolic action play a very important role in organizations. Leaders need (11) *the ability to interpret and decode meaning* (symbolism, intentional myths, constructed images, culture); and (12) *mental maps of organizational members.*

Martin (1992) describes organizations as "systems of ideas." This is consistent with our argument that organizations are patterns of dynamic relationships. There is almost an infinite degree of variation in the perceptions, symbols, and cultural artifacts within organizations. Books by executives such as Watson and Iacocca are rich accounts of stories, anecdotes, and images. As readers we can "see" their organizations by means of the images they present. This rich area of managerial cognition offers a challenge to leaders. They have to make sense of the symbolic aspects in their organizations, detect changes, and create their own *mindmaps* so that they can provide leadership for the rest of the organization.

Two additional elements, not related to any of the above forms of variability, are (13) the *experience base of leaders* and (14) *the moral development of leaders* (Kohlberg 1981). Part of the success of leaders is related to the ability to apply their past experience and moral judgment to analyzing present situations.

Barnard (1968, 169) developed the notion of a "zone of indifference" within which all acceptable behavior will fall. Determining the boundaries of this zone often presents a problem to many leaders. The ability to identify where these boundaries are and determining the outliers that fall outside this "zone of indifference" is a distinguishing characteristic of *strategic leadership wisdom*. Courses and case studies in business ethics are replete with examples of leaders that clearly understood the narrow and often undefined limits of morality (e.g. Johnson and Johnson in the Tylenol case). We also have many examples of leaders that failed because they failed to recognize these boundaries (e.g. Michael Milliken in engaging in insider trading). Leadership wisdom is the ability to detect those fine nuances between what is "right" and what is not. In Barnard's words:

> For the morality that underlies enduring cooperation is multidimensional. As it expands, it must become more complex, its conflicts must be more numerous and deeper, its call for abilities must be higher, its failures of ideal attainment must be perhaps more tragic; but the quality of leadership, the persistence of its influence, the durability of its related organizations, the power of the coordination it incites, all express the height of moral aspirations, the breadth of moral foundations.
>
> So among those who cooperate the things that are seen are moved by the things unseen. Out of the void comes the spirit that shapes the ends of men. (Barnard 1968, 284)

It is often not important if the experience base of leaders was obtained outside the industry, such as in the case of John Sculley (Apple) and Lou Gerstner (IBM), or inside the industry, as with Tom Watson (IBM) and Jack Smith (General Motors). What is salient is the ability to use past experience to construct cognitive maps for the evaluation of present situations. This is another reason why executives are observed to prefer to read books by other executives. They learn from the way John Sculley reorganized

Apple Computer or from the way Lee Iacocca rescued Chrysler. By experience we do not mean the length of time in job. “I learned more about people in three years in Chrysler than in thirty-two years at Ford” (Iacocca 1984, 230). Wisdom is the ability to capture the meaning of several often contradictory signals and stimuli, to interpret them in a holistic and integrative manner, to learn from them, and act upon them in an appropriate timescale (Jaques 1989; Jaques and Clement 1991). Leadership wisdom is to a great extent dependent on individual experience and the moral development to act in situationally appropriate ways.

Implications

The reconceptualization of organizations as dynamic networks of variability and the proposition that the ability to perceive variability within and between organizations over time have implications for researchers as well as practicing leaders. Leaders are faced with the challenge of managing the meaning of an almost overwhelming array of data from both within and beyond their organizations on a daily and indeed, moment-to-moment basis. Organizational scientists need to take this into account if they intend their studies to have real relevance to leaders.

For leaders, our portrayal of the range and richness of variability can direct their focus onto the areas inside and outside the organization that provide them with added meaning. “Wisdom” we believe, can be learned. By being aware of the forms of variation, leaders can develop the necessary skills to detect and interpret the differences in these areas. This chapter portrays a number of specific skills and abilities that leaders need in order to be effective. By increasing the awareness that, for instance, there is meaning in factory noise, leaders can focus their attention and open to a much wider array of informational input to improve their decision-making. Practicing leaders can improve their decision-making by recognizing that they will benefit from taking notice of the fine-grained variability in their surroundings and by exposing themselves to opportunities where they will sense the organizational patterns not to be found in computer printouts alone.

In order for our endeavors to be more relevant and actionable, organizational scientists should address the needs and challenges of those members who work inside organizations. A theory of leadership wisdom based on the ability to perceive variability calls for a different approach to research. Instead of a concern with increasing the number of organizations in samples, it suggests a need to spend more time on ethnographic studies inside single organizations and to examine detailed patterns of unfolding relationships over time. Very simply, the IBM or Apple of today is not the same as the IBM or Apple of last year or even yesterday. The name and logo of these iconic organization may remain the same, but the cast of characters, their roles, and their relationships are continually changing and in flux. The framework in this chapter is only a starting point for asking the right questions in the quest for leadership wisdom.

Detecting, interpreting, and acting upon the variability in organizations are very clearly something that we need to understand better. Reconceptualizing the way in which we look at organizations will hopefully direct our research efforts in ways that are more relevant and meaningful to both leaders and teachers of management who wish to take theories and organizational research findings into their classrooms, whether their students are executives, MBAs, or undergraduates.

The complex role of being a leader in today's organizations points toward a simultaneous need for *relevance*, *clarity*, *actionability*, and *reliability* in research. Perhaps the most graphic example of variability is the difference between the "great writers" such as Tolstoy and Shakespeare and the bulk of the writings today in the field of management. Is there a way for organizational researchers to write with the clarity, perception, and quality of purpose of a Hemingway or a Steinbeck? It is not easy to achieve such clarity and quality of mind, but we *can* strive for it and encourage it. Leadership wisdom is not a single construct; however, even the most cursory reading of history and philosophy tells us that leadership wisdom was a concern at the time of Plato, Aristotle, and even before that. It is all about being aware of and acting upon larger patterns of relationship that are both spatial and temporal—and not easily discerned when one is in the thick of action. The wisdom lies in both the perception of the details and the understanding of the overall pattern. It is nicely summarized by the philosopher Martin Heidegger in the following:

> A painting by Van Gogh. A pair of rough peasant shoes, nothing else. Actually the painting represents nothing. But as to what *is* in that picture, you are immediately alone with it as though you yourself were making your way wearily homeward with your hoe on an evening in late fall after the last potato fires have died down. What *is* here? The canvas? The brush strokes? The spots of color?

Conclusion

The effectiveness of strategic leadership hinges largely on the ability of individual leaders to dynamically scan their environments—at all five levels—and attach appropriate meaning to the emerging outliers they observe. This holds irrespective of the form that strategic leadership takes in an organization, the perceived charisma of the leaders, or whether they motivate others by appealing to emotions or self-interest.

The ability to dynamically understand a variety of deviations from the norm is a prerequisite for making appropriate decisions in highly complex and turbulent milieu. In turn, this competence of having "strategic wisdom" depends on the capabilities of individuals to be able to perceive their own strengths and weaknesses, ongoing changes in the organizational and competitive environments, as well as the social skills and wisdom to manage power relationships effectively and most importantly to take subsequent appropriate actions, actual and symbolic.

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CHAPTER 7

Creating Truly Healthy Organizations in the Long Term

We are shaped and fashioned by what we love.

Goethe

There is currently a deep crisis in human affairs and social systems, which is occurring at numerous levels of human scale, from the individual to the organizational to the societal. The symptoms are multiple. At the societal level, there is the continuing breakdown of social structures occurring not only in the Middle East, in Africa, in central Asia, parts of Southeast Asia and in South America, but also in Western Europe and North America. Most people have no idea as to how to intervene in the complex of "breakdowns" that appear in the daily news. This is summed up rather succinctly by Sir John Templeton who has asked the following question in the Foreword to the *Handbook of Positive Psychology*: "Why is it we know so little about the human spirit?" (Snyder and Lopez 2002, vii).

In organizations we observe a loss of meaning, purpose, and, ultimately, joy which people derive from their work. At the individual level, one simply has to note the lack of enthusiasm with which most people go about their daily activities (Dalai Lama and Cutler 2003).

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The dynamics of the preceding is summarized by Capra (1997, 5): "The more we study the major problems of our time, the more we come to realize that they cannot be understood in isolation. They are systemic problems, which means they are interconnected and interdependent." He goes on:

> There *are* solutions to the major problems of our time, some of them even simple. But they require a radical shift in our perceptions, our thinking, our values... (However,) the recognition that a profound change of perception and thinking is needed, if we are to survive, has not yet reached most of our corporate leaders, either, or the administrators and professors or our large universities. (Capra 1997, 6)

Leadership with Inner Meaning and Values

Strategic leadership, as we have come to see, is one of the most complex processes in organizations. It is often a product of subtle, invisible feelings, thoughts, and intuitions (Kriger and Malan 1993; Badaracco 2002). Action, visible behavior, is just the tip of the iceberg of effective leadership in organizations, both public and private. Strategic leaders have to balance an array of conflicting forces and values. Stakeholder demands are diverse and numerous. No individual is in a job without conflicting demands—for innovation *and* stability, for quality *and* efficiency, for goal clarity *and* flexibility, for short-term results *and* long-term effectiveness. How can leaders balance the demands of the workplace with their own inner needs and values?

What we propose is that each of the world's religious and spiritual traditions, having endured the test of time, collectively contain a set of values which are relevant, indeed necessary, for organizations and their leaders in the twenty-first century, whether or not we believe in a transcendent power or God. Collectively these value systems provide an inner, often invisible, governance system which can allow leaders, and their organizations, to stay on course in turbulent times (see Pruzan and Mikkelsen (2007) for 31 graphic leaders examples of this).

These values are necessary to enable both economic and spiritual ideals to thrive and grow. The values we highlight—truthfulness, trust, humility, forgiveness, compassion, thankfulness, service, and peace—are not intended to be exhaustive. We also propose a set of supporting activities which are necessary to foster these core values. These core values and beliefs constitute what a number of authors, including Ray Guenon and Aldous Huxley, have termed "the perennial philosophy" (Smith 1991). Our overall intent is to shape aspirations—to identify and to articulate desirable values and behaviors, rather than reflect current norms. If this chapter increases the awareness of what organizational leaders and members could or should aspire to, then it will have achieved its aim.

Organizations are constantly being re-engineered to achieve greater efficiency and effectiveness in economic terms. But can we also think about developing organizations to achieve greater closeness of fit with what is most human and, hence, health-creating in the long term? In the words of Maslow on "spirituality in the workplace":

> Enlightened management is one way of taking religion seriously, profoundly, deeply and earnestly... for those who define religion (and spirituality) in terms of deep concern with the problems of human beings, with the problems of ethics, of the future of man, then this kind of philosophy, translated into the work life, turns out to be very much like the new style of management and of organization. (Maslow 1998, 83)

In addressing values, we are well aware that actualizing them daily, on a moment-by-moment basis, is enormously challenging for leaders at all levels. This is especially the case within the context of conflicting choices to be made in today's businesses, where individuals constantly are struggling to resolve the tensions between their own ideals and values, and the economic realities of competition in a global marketplace. This chapter presents a case for eight enduring universal values along with seven supporting activities, which we advocate are necessary for creating healthy organizations (see Table 7.1).

Table 7.1 Values and activities for creating long-term health in organizations

Needed underlying values for long-term health in organizations
1. Honesty
2. Trust
3. Humility
4. Forgiveness
5. Compassion
6. Thankfulness
7. Being of service
8. Stillness and peace
Supporting activities and behaviors
1. *Enacting behavior consistent with values*
2. Creating a climate where *morality* and *ethics* are truly important
3. Legitimizing *differing viewpoints*, values, and beliefs
4. Developing *imagination*, *inspiration*, and *mindfulness*
5. Letting go of expectations that are unrealistic
6. *Acknowledgment* of the efforts and accomplishments of others
7. Creating organizational processes that *develop the whole person*—not just exploiting current talents and strengths

The Current Challenge for Strategic Leaders

Working in organizations in these turbulent times is not easy for most people, including those who ostensibly are the "'heads" of corporations. According to Greenleaf (1998), "The first order of business is to build a group of people who, under the influence of the institution, grow healthier, stronger, more autonomous."

There are enormous challenges for all of us, but especially for those who are in leadership roles. Some chief executives are beginning to boldly speak to this issue. For example, Vaclav Havel, the first President of the Czech Republic, stated*:*

> Those who find themselves in politics bear a heightened responsibility for the moral state of society, and it is their responsibility to seek out the best in that society, and to develop and strengthen it. (Havel 1992, 4)

The 2016 Presidential election process in the US is a rather graphic example of this dire need for "heightened responsibility for the moral state of society."

The above statement by Vaclav Havel applies equally well to those in leadership positions in business corporations, large, medium, or small—whether in the East or the West. Is this too high a hurdle of moral responsibility to place before executive leaders in corporations? Currently, there is a challenging state of affairs in the growing global society—an increased erosion of traditional values such as integrity, honesty, and compassion for others, continuing high levels of crime in both developed and developing nations, and increasing uncertainty facing workers at all levels in organizations. Given this, it is important that those talented in managing organizations constructively apply those talents as well as modeling those ideals for others (Kriger and Malan 1993).

Some will find this challenge of balancing economic and human ideals not justifiable in financial terms or too moralistic. However, in even the most seemingly mundane events those who find themselves in leadership positions must begin to give back to society forms of service that are commensurate with the social and economic privileges and returns they receive. If a collective sense of moral integrity and responsibility is not taken by those in leadership positions at all levels of society, then we shall see a continuing erosion and tearing of the social fabric in both profit and not-for-profit organizations (Greenleaf 1998). Each interaction with another is an opportunity to practice the virtues embodied in the list of values and behaviors in Table 7.1. Through constant practice we increase the likelihood that the proposed virtues will become a living reality in our own organizations. In this way, each of us can become initiators of "deep change" at both personal and organizational levels (Quinn 1996).

The aim of this chapter is to develop the validity of a set of propositions for how to establish truly healthy organizations in these trying and turbulent times. We shall address two questions:

1. Why are these particular values important for both leaders, and their organizations?
2. In what ways would the enactment of these values help to create not only healthier and human workplaces but also more economically viable and sustainable organizations?

A fundamental issue in organizations is that "right" human relationships are essential for effectiveness in our work systems. Overidentification with our tasks and technology creates delusion and eventually isolation. As socio-technical studies have found, the introduction of new technology can be detrimental to the human side of the organization (Pasmore 1988). But it need not be so. Heidegger saw the "entrapping" nature of technology wherein we "become machines"; however, when a deeper connection with our work occurs, when technology enhances the connection between our internal and external worlds, then there is increased liberation of the human spirit (Heidegger 1977).

While striving for spiritual wholeness, the world religions have also examined the nature of psychological and spiritual disease. The fundamental causes of this dis-ease are isolation of people from each other, and thinking which is delusive. The dis-eases of isolation, separation, and delusion occur in the midst of our daily lives, and stem from fundamental lapses in our awareness. In Buddhism, the source of nonhealthy states derives from delusion, which prevents us from seeing things as they really are.

If unhealthy situations emerge from delusion and isolation, then creating healthy organizations is an issue of developing and maintaining relationships which bridge isolation and shatter the illusion of separateness. We then have the possibility of creating a fuller life where we appreciate the unique and the subtle within our work. Essential to this level of change is to see the task of the change agent as one of creating organizational cultures which foster the values and supporting activities in Table 7.1.

Propositions Concerning Necessary Underlying Values

Rokeach in his classic study, *The Nature of Human Values*, states that

> "a *value* is an enduring belief that a specific mode of conduct or end-state of existence is personally or socially preferable to an opposite mode of conduct or end-state of existence," (Rokeach 1973, 5) and that "values are multifaceted standards that guide conduct in a variety of ways" (Rokeach 1973, 13).

Values may be either terminal or instrumental, that is, ends in themselves or means toward desired behavior. In the following we discuss values which are intended to be terminal, desirable end-states in themselves, but which can also be instrumental in creating greater personal and organizational competence and increased long-term organizational health and effectiveness.

1. **Honesty/Truthfulness:** *Organizational exchange and interorganizational transactions cannot take place without a pervading basic expectation that contracts and agreements are represented with* ***honesty****, in good faith, and with the intention of being honored.*

Truthfulness is one of the most difficult personal values to enact consistently in today's business world where agreements are continuously being overturned or renegotiated depending on changes in the competitive environment or in one's personal preferences. How is an individual to be consistently honest when others do not reciprocate or feel beholden to such a standard? When a business norm of "strategic misdirection" is deemed necessary because of compelling competitive pressures, honesty is then perceived as naive, at best, in a world where only the strong and cunning are believed to have what it takes to prevail. Truthfulness is a fundamental dedication to see and to report events as they are.

Organizational transactions would come to an immediate halt if suppliers and buyers did not believe that there was an underlying level of honesty in relationships. After all, why would a firm perform a service or ship a product if it did not believe that the buyer was going to pay in good faith and in a timely manner? Similarly, if a buyer does not believe a seller's claims about their product or service then there is no compelling reason to enter into the transaction in the first place. Thus, honesty and credible commitments are basic standards which allow transactions to be negotiated and consummated (Williamson 1996).

2. **Trust:** ***Trust*** *increases the ability to commit to and to engage in long-term effective organizational transactions.*

Some argue that trustworthiness is a key source of competitive advantage and is a form of "social capital." (Barney and Hansen 1994) This is to make trust into simply a means for achieving instrumental ends. Trust depends to a great extent on the perception of truthfulness between parties and is the underlying basis for continuing business relationships and transactions, especially in turbulent times. Semler (1994) writes about his experience running a company in Brazil, which succeeded in an economy with 1000 % annual inflation. Most of his business colleagues utilized highly authoritarian management styles, creating a fortress mentality in which they attempted to isolate themselves from the negative forces of the economy. This was accomplished for a while, but at the high human cost of disenfranchisement. However, our fundamental belief in the social sysem rests on our ability to trust and to have faith in its continuity. When all is changing in a turbulent world, upon what are we to rely? It is our values and close personal relationships that allow us to transcend the forces of constant change and to define a deeper sense of meaning and existence.

How is trust created and what are its consequences for organizational effectiveness? It takes time and is built via numerous interpersonal exchanges, complex signaling processes and small acts which indicate a willingness to collaborate and work together with others (Gray 1989). For example, Semler and his company succeeded by opening up the books and empowering their workforce, creating a deep trust through truthful relationships (Semler 1994). Becerra and Gupta (1998) found that trust comes from integrity, benevolence, competence, and predictability of behavior. They report the consequences of trust to be (1) lower monitoring costs; (2) faster decision-making; (3) greater innovation and entrepreneurship; (4) faster knowledge transfer; and (5) a greater external focus on customers. Economic actors support one another because they believe that they form a community based on trust (Fukuyama 1995). In short, trust facilitates the creation of both greater organizational effectiveness and an overall social fabric, which, in turn, fosters interpersonal openness and exchange.

3. **Humility**: *In the presence of* ***humility****, organizational relationships and routines will tend to be less permeated with defensive behaviors and agendas, resulting in a higher level of organizational effectiveness.*

Humility is a difficult personal quality to enact in an age of rampant cynicism where it is expected that organizations and individuals will actively promote their own accomplishments and aims to the detriment of others. The subtlety of feeling and graceful communication is lost when messages contain constant excessive superlatives born out of a fear that they will be lost in the cacophony of media-initiated messages. How is an individual leader to be a living example of humility when the norm is one of self-promotion and self-aggrandizement? Humility places the self in the context of the whole, and is a recognition of our relationship to our community. The teachings of the sixth century BC Chinese philosopher/mystic, Lao Tzu, are appropriate here, despite the passage of 2600 years:

> True self-interest teaches selflessness.
>
> Heaven and earth endure because they are not simply selfish but exist in behalf of all creation.
>
> The wise leader, knowing this, keeps egocentricity in check and by doing so becomes even more effective.
>
> Enlightened leadership is service, not selfishness. The leader grows more and lasts longer by placing the well-being of all above the well-being of self alone.
>
> Paradox: by being selfless, the leader enhances self. (Lao Tzu 1972)

4. **Forgiveness**: **Forgiveness** *is the letting go of our feelings and beliefs about what others should have or could have done. Forgiveness increases the likelihood that new initiatives will be undertaken and that decreases stress in organizational members.*

Several authors note that there is a strong tendency to resist change at both the personal and organizational levels (Kotter 1995; Quinn 1996; Daft and Lengel 1998). When what occurs is different from our expectations, we tend to become overpreoccupied with avoiding error. As a result, we become overly risk-averse and perform below our capabilities. From the perspective of spiritual life, forgiveness is necessary if we are to avoid becoming enmeshed in false expectations. Clinging to past errors disrupts our ability to be in the present. Individuals and organizations have a strong inertial tendency to retain erroneous perceptions and negative feelings, which organizational members are then forced to defend as in the Exxon Valdez oil spill (Dutton et al. 1994). Clinging to past negative impressions is epitomized by the disastrous effect of bitter extended labor-management disputes in the American steel industry over several decades. These disputes have been a major force behind the severe decline of the steel industry by generating excessively formal work rules, worker roles, and resulting noncompetitive labor rates (Iverson 1998).

Forgiveness lies at the heart of the values and scriptures of the major religions including Christianity, Buddhism, Islam, and Hinduism. In Buddhism, all negative emotions (e.g. hatred, fear, anger, lust, impatience) are perceived as causing harm to others and to ourselves. By forgiving we put an end to a vicious spiral of erroneous perceptions leading to continued isolation, which, in turn, creates further false perceptions. But when we forgive others we recognize the possibility that we can attenuate the cycle of isolation and illusion, and choose to live in healthier relationships with others (Hanh 1992, 1997).

5. **Compassion:** ***Compassion*** *is the basis for the ability to feel what another is feeling and creates an enduring basis for collective action. It increases feelings of trust and the likelihood that organizational values will be realized.*

We exist in relationship—with the physical environment, the plant and animal kingdoms and within human communities—and cannot survive outside of relationship with these. In compassion, we extend the realm of what is central and important beyond ourselves. We come to recognize that it is our connection with the "apparent other" that makes us human in the deepest sense.

Similarly, Thich Nhat Hanh (1997), the Vietnamese Zen master, states that the Buddha mentions eleven advantages of practicing meditation on loving compassion. The first two of these are "1. The practitioner sleeps well, and 2. upon waking, he or she feels well and light in his heart" (Hanh 1997, 17).

The Jewish tradition also emphasizes the importance of practicing loving compassion as this story illustrates:

> When Reb Abraham Isaac Kook was asked why he loved those who were known to be sinners and anti-religious, he replied: "It is surely better to err on the side of causeless love than on the side of causeless hatred" (Unterman 1976).

Such a level and depth of loving compassion is alien to many individuals and probably is excessive in the eyes of some. However, people in the workplace today are subjected to enormous amounts of stress due to concurrent levels of high uncertainty, pressures to meet numerous role demands to contribute to organizational objectives, and struggles to develop needed competencies. By practicing compassion toward others in the workplace, we can become more relaxed and at ease with both ourselves and the other. An individual is also better able to be aware of events as they arise and see more clearly what is needed to deal appropriately with events because they are not assuming what they imagine to be the worst in others, but affirming what is best.

6. **Thankfulness**: ***Thankfulness*** *creates the basis for healthy interpersonal relations by establishing norms of respect and positive regard for the needs and contributions of others.*

In organizations where the drive toward cost containment is held paramount, there is increasingly an overemphasis on a transaction cost orientation. This tendency results in the focusing on questions such as these:

1. What will our firm or business unit get for what we give?
2. How will we profit from the relationship?
3. Who benefits and in what ways?

Thus, the orientation toward instrumental relationships increases the consideration of costs incurred for effort expended. This attitude permeates person-to-person and firm-to-firm interactions. Thankfulness reverses this instrumental dynamic and creates spaciousness between potential collaborators where a person becomes accepting and grateful for what another has given or created, not out of obligation but simply because it was freely given. To be not thankful is to invest energy in denying the present situation. Over time, this can become quite exhausting. Furthermore, this pattern of denial of what is arising often becomes the foundation of inner emotional and eventually physical dis-ease. Recent events in Amazon illustrate what happens when a firm overemphasizes a culture of ever-increasing efficiency, which becomes a model for widespread employee burnout (Kantor and Streitfeld 2015).

7. **Service:** *Being of **service** to others in thought, feeling, and action creates a climate of generativity which fosters relationships with a full range of human qualities, rather than relationships mainly shaped by instrumental values of transaction cost and exchange.*

It is surprising how long it has taken for many businesses to rediscover the customer. For much of modern US industrial history there has been an expectation that "if you build it someone will buy it." Recent exceptions are Saturn and Honda Motors in automobiles, L.L. Bean and Sears in retailing. The US ideal of individualism built on the role model of business leaders such as Carnegie and Rockefeller eventually resulted in later years of philanthropy; however, there remains a strong tendency for executives to value themselves before others, including the firm. This self-orientation and narcissism has become almost epidemic in the last couple of decades. In contrast with this trend, a number of writers have been calling on organizations to be governed and based on the concept of stewardship (Block 1993; Greenleaf 1998). Ironically, it is the service sector which is growing faster than the industrial, but the service sector of economy often least exemplifies the importance of service. Being excessively self-serving has a negative effect on both others as well as oneself. In excess it creates arrogance and resulting isolation from both the environment and other people. Individuals cut themselves off from the wellspring of inner harmony when they are not of service to values and endeavors that go beyond themselves. Thus

> (t)he purpose of a business firm is not simply to make a profit, but it is to be found in its very existence as a community of persons who in various ways are endeavoring to satisfy their basic needs and who form a particular group at the service of the whole of society. Profit is a regulator of the life of a business, but it is not the only one; the human and moral factors must also be considered, which in the long term are at least equally important for the life of a business. (Pope John Paul II in Maslow 1998, 52)

8. **Stillness and Peace:** ***Stillness and peace*** *increase the likelihood that organizational members will be satisfied in belonging to the organization and decrease the likelihood of "burnout" from excessive stress and attendant anxiety.*

Stillness and peace result essentially from letting go of all that is extraneous and not necessary. Peace is a value that is difficult to talk about, because our talk (particularly our inner dialogue) occurs nearly incessantly—creating the opposite of stillness (Hanh 1992). The seeking of revenge can create feelings of hatred toward others, which can last for centuries, as witnessed by ethnic crises around the world. Religious leaders that advocate revenge only perpetuate the very dynamics they claim they wish to eradicate.

Lasting peace and inner stillness arise when the ego or "false self" lets go of its obsession with attempting to fulfill desires that are inherently insatiable. Organizations built on a foundation of valuing stillness are rare and hard to find in today's business climate, which values the generating of endless information, but with little lasting deep knowledge or underlying wisdom. There is a restorative function to stillness which creates clarity of mind and with practice provides a grounding for the other virtues. Along these lines, Kabat-Zinn (1994), one of the leading medical researchers in the still growing field of stress reduction, has adapted techniques of meditation and mindfulness from the Buddhist tradition which have the effect of creating greater stillness and inner peace while at work.

In the preceding discussion of values we have referenced a mixture of both sacred and secular sources. The values and practices advocated here facilitate the creation of healthy organizations, but they are not the only path. There are often subtle pressures to create agreement on universal values as the basis for economic order in the world, as Hans Kung and Vaclav Havel have stated in a world order meeting on economics and religion (Smith 1998). These universal values are not the exclusive property of any one group or institution. They are a matter of human choice to establish the conditions necessary for creating vibrant communities at all levels of scale, from local neighborhoods to the global, each level having its own economic, religious, social, and environmental values embedded within their cultures.

Mere agreement on a minimal set of transaction-based values is not enough to create healthy economic communities, especially on a global scale. A deeper understanding and enactment of our inherent interconnectedness is needed. The previous eight values provide an inner governance structure which permeates both markets and hierarchies (Williamson 1996). They are proposed as essential for the creation of truly healthy and enduring organizations. However, they are insufficient without practices that bring them to life and support them in the workplace. The following set of supporting activities are proposed to make this bridge.

Supporting Activities

1. *Creating personal behavior which is consistent with organizational values.*

It is an irony of human nature that people often behave opposite to and inconsistently with their values. There is a struggle that tends to occur between our values as aspirations and our day-to-day behavior. In essence, we become hypocritical without intending to. This is particularly true when we are trying to impress others with our self-importance. Values often appear noble and straightforward to implement until we attempt to enact them via consistent actions. Numerous authors have written about the importance for leaders to model the way and to "walk the talk" (see, e.g. Kouzes and Posner 1995; Quinn 1996; Daft and Lengel 1998; Iverson 1998).

2. *Creating a culture where morality and ethics are truly valued and rewarded.*

It can be a daunting task for most people to begin to integrate the whole self, especially ethical and spiritual beliefs, in the workplace. We feel an inner mandate to incorporate our ethical values in our daily actions and decisions; however, individuals are rarely pure in their motives. Moralism is often invoked to identify the errors of others, but ethical piety can result in rigidity of beliefs. Carl Rogers (1961), perhaps more than any other modern psychologist, has advocated "valuing." Beyond simply espousing values, this involves the active appreciation of the other and modeling it in the workplace. Leaders would do well to embody this—at whatever level of the organization they are located.

According to Badaracco (1997), there are times in each person's life when work choices and life choices become one—what he calls "defining moments." These moments are ultimately shaped by our personal values. Barnard states that the moral codes of a typical leader are "ingrained in him by causes, forces, experiences, which he has either forgotten or on the whole never recognized. Just what they are, in fact, can best be only approximately inferred from his actions, preferably under stress" (Barnard 1983, 267). Thus, how to make the right ethical choices, especially under stress, is an often daunting task requiring inner diligence and a clear understanding of one's true priorities.

3. *Legitimizing differing viewpoints, values, and beliefs.*

The writer F. Scott Fitzgerald once commented, "My definition of a true genius is one who can hold two seemingly contradictory ideas in their head at the same time, and not go crazy." The reconciling power of multiple perspectives is often underestimated, even though it has been espoused and written about for over 2500 years. For example, in Taoism the principle of yin–yang consists of the inclusion of apparently opposing forces to form complementarities, where aspects of two opposing elements are enfolded within each other (Lao Tzu 1972). More recently, Morgan (1986) establishes a legitimacy for multiple images of organizing, which are complementary rather than simply competing. The continuing challenge is to hold on to the differing viewpoints or opposing values to discover the way to reconciliation of the opposites.

4. *Developing and rewarding imagination, inspiration, and mindfulness.*

Imagination, inspiration, and mindfulness are the bases for the ability to feel what another is feeling, to see what is about to be created out of the field of latent possibilities and, hence, the ground out of which all enduring collective action is made possible. "Mindfulness is the ability to appreciate new possibilities and new ways of thinking, to see the subtle forces, to see the potential in people as being more powerful than safety and control" (Daft and Lengel 1998, 69). Imagining the ideal or picturing what could be is the first step toward creating an alternative future. Whole new organizations, new businesses, new industries begin with exercising the powers of imagination and inspiration. It is clear that imagination, intuition, and mindfulness are important for innovative organizations that wish to develop and market new product-service domains, that is, exploring the "unknown."

In his commentary on the Zen story of the *Woodcarver's Tale*, Parker Palmer notes that the path of "right action" requires that people discern the nature of things and what their true potential is (1990). In the story, the Emperor commissions a master woodcarver to create a perfect bell stand. The woodcarver takes a long time to prepare himself and then sees the bell stand in the proper tree in the forest before taking any action of carving or shaping. While this is occurring his assistant gets very agitated, saying that the master must directly and urgently take on the task, since the Emperor has demanded perfection and time is short. The death of the woodcarver will result if he is not able to see the totality of the bell which is yet to be. This story highlights the importance a vision can have in liberating what is not yet seen.

5. *Discovering and letting go of unrealistic expectations.*

It is important to let go not only of expectations but, at times, of concepts themselves. We wish to control so much in our world and much of the controlling is first attempted via our thoughts and expectations. The truly miraculous can occur when we let go of our preconceived notions, and of our need to control outcomes. Most people would like to have certainty in a highly ambiguous world of conflicting currents.

Leaders are especially prone to getting attached to expectations. Organizations are socially constructed realities (Weick 1979) that derive their identity from collective cognitions, agreements, and behaviors. It is difficult for leaders to let go of expectations the higher they rise in the organization and the longer they remain with the organization because people tend to become routinized over time in their thinking, feelings, and behavior.

6. *Acknowledging and appropriately rewarding the efforts and accomplishments of others.*

It is indeed easy for us to get caught up in our own personal affairs and efforts such that we forget the larger work proceeding around us. If attribution theory is fairly accurate, that on the whole people tend to attribute success to themselves and failure to others and to external forces, it is indeed difficult for people to acknowledge the work of others, particularly when there is success. It is important to be able to acknowledge the contributions of others especially that which is positive and successful (Kouzes and Posner 1995).

7. *Creating organizational processes that develop the whole person: not just exploiting current talents and strengths.*

One of the effects of "right sizing" has been the breaking of an implicit agreement that a person would have a job as long as the organization was reasonably successful. While this is at first interpreted as the breaking of a corporate promise of lifetime employment, it also has a liberating effect. People are no longer "owned" by the organization and must prepare themselves for continuing employability. A career now usually spans several companies and most likely several disciplines or industries over the course of a lifetime. This implies that while an organization may have an agreement which is primarily economic with an employee, there is also the need for leaders to develop supportive relationships with employees, and with each other, which respect and affirm the basic humanity of the individual.

Conclusion

Each of the preceding practices facilitates the bridging of the distance between ourselves and others in the search for shared purpose and meaning. These actions, when embodied in work settings can help us to integrate our personal intentions and aims with those of the organizations we are members of. They can also help us to find our connection with a fundamental basis of knowing which is alluded to in all the great spiritual traditions. What the values all have in common is an emphasis on letting go of delusions and aspiring to enact what is highest and most uplifting to the human spirit.

Regarding our aims, these values and qualities are cited in numerous secular and sacred commentaries; what appears most difficult is to enact them consistently in daily life. We suggest that both are necessary to create healthy organizational climates and cultures. Regarding our second aim, the enactment of these values can create the basis for the continuity of our work in organizations through the creation of common understandings which spread into the larger communities of which we are members.

Each interaction in daily life is an opportunity to increase the likelihood that our lives, and the organizations we work in, will be healthier, that is, more filled with trust, compassion, tolerance of others, and populated with people who have both clarity of mind and heart. It is important that researchers, teachers, change agents, and leaders of a wide range of communities, begin to dialogue with others and our own inner conscience concerning how to live consistent with these values and activities. What we thus see is the need for a process of deep organizational and societal transformation that bridges both the personal and the organizational levels. In this endeavor, every moment becomes a new opportunity for a strategic leader.

At the super-micro-level of strategic leadership, individual values and inner needs function as an invisible, yet powerful, governance system not only for individuals but also for teams and the whole organization. They guide organizational decision-making as well as enable strategic leaders and members to survive but also find a guiding compass in turbulent environments. Strategic leaders who strive to create healthy organizations in the long term are proactively aware of and foster values such as trust, thankfulness, compassion, and service to others. These values keep an organization on a steadier course in constantly shifting competitive conditions by promoting a healthier and more human workplace where all organizational members feel greater joy and inner satisfaction from the jobs they do. In addition, individuals feel more important, from the process of interaction with people with whom they share ongoing tasks and value orientations.

Enactment of the values mentioned above and creating a healthy organizational climate relies largely on the daily behavior and activities of those in leadership roles. Leaders' integrity, which emphasizes the importance of morality and ethics as being on a par with financial performance, tends to legitimize differing perspectives, the setting of realistic goals, and the nurturing of individual talents.

The takeaways from this chapter hold irrespective of the strategic leadership form. However, they become increasingly important as the organizational leadership evolves from stars to clans, teams, and eventually to networks. This is because strategic leadership networks are dynamic constellations of relationships where the exchange of ideas, information, and knowledge relies on the inner willingness of members to engage in open sharing of ideas and feeling they can raise controversial points without being marginalized. (Gray 1989; Dalai Lama and Cutler, 2003).

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PART IV

Putting it All Together

CHAPTER 8

Advice for Strategic Leaders in Turbulent Times

In this chapter we take you on a journey—a journey involving what it is like to think like and to be in the role of a strategic leader. When you wake up at 3 a.m. reflecting on the challenges and opportunities facing you and your business, what are the tools available and what strategic advice might you draw upon?

However, first, one caveat: All advice to leaders should be taken with a grain of salt. For every piece of advice there is inevitably a subtle challenge, often unexpected, waiting in the wings. Having said this, we shall try to leave you, if you are a practitioner-leader, with some directions to take should you find yourself walking down a path with thorns on one side and a steep cliff on the other.

The proposed model of strategic leadership (see Fig. 1.1) portrays a fundamental underlying recursive nature to strategy. Essentially, a strategy at a particular time $t + 1$ is a function of the strategy process at a prior time t. It is *recursive* because the strategy at a later time is a function of the strategy which has been executed at an earlier time, and it is nondeterministic because organizational decisions made at time t (i.e. the time of the exercise of choice) determine the scope of choices at a future time and result in path dependencies (Note: a path dependency is the fact that organizational phenomena once begun are limited by and determined by prior phenomena that shape thinking and decisions that commit resources, both human and financial. There is the presence of further inertia from organizational histories, scripts, and routines that make it difficult to change). However, the external environment (i.e. consisting of economic, financial,

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legal, social, cultural, and political forces) is also the source of a complex of exogenous effects that are interacting with both individual and collective levels of the firm's strategy.

Implications for Practice

The implication of the preceding is that strategic leaders need to be aware of several pervasive pitfalls:

1. Avoiding the generating of *oversimplifying assumptions* that result largely from resource and time constraints.
2. The tendency to create *false dichotomies* (e.g. where the firm or leader is labeled as either "effective" or "ineffective." In the actual world, leaders and organizations consist of mixtures of both, with numerous intermediary states or gradations between "effective" and "ineffective").
3. The tendency to prefer logic-based solutions without appropriately counterbalancing them with intuition which is based on individual experience and collective feelings that either support or call into question detailed chains of logic and reasoning-based solutions.
4. The need to understand larger holistic patterns of causal chains emerging over time.
5. The smoothing over of conflict in the strategy implementation processes within differing levels and functional areas. A more effective process will generally result from the surfacing of divergent viewpoints, and treating them as opportunities for variability in strategic sense-making.

An Illustrative Overview Case: Airbnb

Brian Chesky, the 33-year-old CEO of Airbnb is drawing intently on a napkin a diagram of his start-up, valued at about $24 billion, to demonstrate how his management style has evolved. Chesky says: "If you think about it, Airbnb is like a giant ship, and as the CEO I'm the captain of the ship. But I really have two jobs: the first job is, I have to worry about everything below the waterline: anything that could sink the ship" (Gallager 2015). He then points to a scribbled line of waves that cuts the boat in half and below the waterline, two holes with water rushing in.

He continues:

> Beyond that, I have to focus on 2 to 3 areas that I'm deeply passionate about—that aren't below the waterline but that I focus on because I can add unique value. I'm truly passionate about them, and they can truly transform the company if they go well." (The three areas he picked are product, brand, and culture.) "I'm pretty hands-on with those three. And with the others I really try to empower leaders and get involved only when and where there are holes below the waterline. (Gallager 2015)

Chesky learned the boat theory from George Tenet (Director of the CIA from 1997–2004). Chesky, considered by *Fortune Magazine* a poster child of the so-called sharing economy, started his company with a college friend Joe Gebbia. In October 2007, they were two unemployed Rhode Island School of Design graduates, broke and staring at their next due date for rent. They came up with the idea to pull some of Gebbia's air mattresses out of the closet and sell sleeping space in their apartment to attendees of a sold-out design tradeshow being held in San Francisco. They called it "AirBedandBreakfast.com." (The Continental breakfast consisted of toasted pop tarts.) Three people bunked with them that weekend and the idea got some attention on design blogs. A few months later, an engineer friend, Nathan Blecharczyk, joined Chesky and Gebbia as the third cofounder and in August 2008 the website debuted as AirBedandBreakfast.com, an online platform for people to rent out space in their homes. Chesky gravitated naturally to the role of overall leader, with Gebbia focused on design and Blecharczyk on technology. This is a graphic example of chaos theory at work and from the beginning a team leadership with leaders for key functions.

Many experts and Silicon Valley luminaries were initially highly skeptical of the Airbnb concept, but the idea took hold. In the following spring, the founders were accepted into the prestigious start-up incubator Y Incubator, run by venture capitalist Paul Graham. They soon shortened the name to Airbnb and expanded from offering shared spaces to properties including entire homes and apartments, castles, boats, and treehouses. In November 2010, the trio got their first round of VC funding. Today, Airbnb has roughly 2000 employees operating out of 21 offices worldwide, and offers its services in 34,000 cities (Gallager 2015).

At first it appears that Brian Chesky is a hero leader or star. However, upon closer examination it is evident that the leadership of this firm, although resting squarely on the shoulders of the CEO, Chesky, has numerous leaders that have taken on important leadership roles, depending upon the needs of the firm. Not only does this network of leaders extend within the firm but also outside the organization. These include, among others, the individuals from whom Chesky sought counsel on how to achieve success: Sheryl Sandberg, the COO of Facebook; Jony Ive, the Chief Design Officer at Apple; Bob Iger, the CEO of Disney; Warren Buffett, the iconic CEO of Berkshire Hathaway; and George Tenet, the former director of the CIA. Chesky knew that he was on a very steep learning curve in an industry in which he had no prior experience. So he sought out people that could fill in the knowledge gaps and provide competencies in various complementary functional areas to meet the needs of the rapidly growing firm. On one level, Chesky is an archetypal entrepreneur; on another level, he is an exemplar of the prototypical *network leader* who understands in a very deep intuitive way that for his company to succeed, he must simultaneously take responsibility for key decisions and the ultimate direction of inside and outside of the firm, as well as rely heavily on the contributions of numerous leaders inside and outside of the firm, without which the firm could not strategically succeed.

Revisiting PESTEL

But the story does not stop here. As Chesky and his top management team continues to scan the business environment for emerging opportunities and challenges, they must continually be aware of changing forces in a variety of environments. Since Airbnb operates in over 190 countries, the organization's leaders must take into account the political, social and economic, and legal forces in not just those countries but also in over 34,000 cities where they are doing business. For example, some of the cities, which are close to home, such as New York and San Francisco, have expressed strong concerns about the operation of Airbnb in their cities. Up until recently, San Francisco had an ordinance that prevented Airbnb from doing business there, where they placed considerable competitive rivalry on incumbent hotels, inns, and motels. New York City still does not allow the company to do business there. As a result, Chesky, and his leadership team, must continually address these political forces, and the way they question the Airbnb business model, which is based on a sharing economy. The future of the firm depends, to a great extent, on the willingness of communities—cities, towns, and villages—to allow Airbnb to do business in their locale. As a measure of the company's overall strength, it is now estimated to be worth more than the entire market value of the Marriott Hotel chain, in just seven years!

Continuing with the PESTEL analysis, Airbnb must also address relevant economic, social, technological, environmental, and legal forces that are operating at not only the country level but also the state as well as the city levels. This constitutes an enormous array of changing forces that the firm must be aware of and adapt to as their competitors, mainly motels, inns, hotels and hotel chains, try to limit the incursion of this new business model for providing beds to guests in communities around the world. The economic disruption to the hotel industry by Airbnb has yet to be fully seen and understood. However, as an indication of how serious this disruption in the competitive environment is, one only has to look at the valuation of Airbnb, which as the end of 2012 was estimated at $24 billion, relative to their revenues of about $900 million. Clearly, the market is building in a very ambitious future value of the firm's business model.

The social forces are also rather extensive. According to their corporate website in mid-July 2015, the company has over 1.2 million listings worldwide spread across over 34,000 cities with a total of over 35 million guests. Tens of thousands of individuals renting homes are interacting with people who they have never met. This is resulting in random social interactions between individuals who likely never would have met. The organization, Airbnb, is responsible for any negative repercussions of these interactions and recently decided to ensure every provider of an Airbnb bed with up to $50,000 insurance for damage incurred.

At the technological level, Airbnb is having to continually upgrade its IT platform for linking those who want a place to stay and those who are providers. They also constantly have to upgrade their webpage and support for both customers and buyers. The Internet and use of either a smart phone, and a PC or tablet are essential to the operation of their business. Developments in each of these technologies and their attendant software directly and indirectly impact the effectiveness and efficiency of Airbnb.

At the legal level, Airbnb is challenging numerous local state and national governmental agencies to allow the direct linkage of those who wish to rent part or all of their residence to prospective clients. Community after community has to reassess the extent to which the Airbnb business model is hurting already existing motels and hotels in their area. Thus, it is clear that the strategic leadership of this firm has to simultaneously scan and make decisions that take into account political economic, social, technological, and legal forces. Given the array of variables and forces at play, no one individual can keep track of and be on top of all of this variation. Hence, team and network leadership becomes evermore incumbent on the firm. And those individual leaders in these networks are required by the various compensation systems, reporting systems, and control systems to be in constant communication about the different business environments in which the firm is operating.

Balancing Dynamic Tensions: The Seven Coalignments

But the story of strategic leadership at Airbnb also does not stop here. There is a continuous dynamic balancing act that is occurring that has to be engaged in by Chesky and the other strategic leaders in the company. The primary one is the continual creation and re-creation of the culture of the organization consisting of key behaviors, core values, and the overall paradigm which govern the way the organization is run. The central coalignment here is between the key behaviors of the leaders with the core values of the firm. Essentially, are they embodying the core firm values in all their decisions and actions? This started from the organization's inception, when Chesky and Gebbia first conceived of placing air mattresses on the floor of their apartment to put up individuals that had no place else to stay when attending a key design conference. This series of legends and stories about the firm and its founders then began to spread via emails and blogs. To the extent that these stories were repeated and reinforced by the leaders, and Airbnb customers, the core values of the firm were being shaped and reinforced, even if they were not being codified and written down for others.

We also see the informal organization constantly overshadowing the formal organization, especially since the number of Airbnb suppliers of overnight housing would overwhelm any hierarchical approach to governance. A hierarchy would simply not be able to respond rapidly enough. But a network of leaders could—if the values, perception of rewards, and vision of the company are shared, understood, and agreed upon.

Overall Lessons for Strategic Leaders

The following lessons for strategic leaders emerge from the research and theory reported on in the preceding chapters.

Lesson 1

The "Butterfly Effect": Small, seemingly insignificant, changes in individual behavior and decisions can have very large effects on the strategy execution of the organization. The beginning of most strategic decisions is usually traceable to events that at the time were not seen as important. Personal computers were seen as toys until IBM entered the market in 1981, legitimizing the product category, in the process creating a whole new industry.

Lesson 2

Everyone in a firm can be a leader in the right situation or circumstances and at the right time. Essentially, every individual in a firm has the potential to take a leadership role when the situation calls on an individual's competence. Firms need to consider that anyone can assist or take part in the strategic leadership network when the opportunity and need arises. The knowledge, competencies, and networks of information sources of all members of an organization are needed to predict and preempt the micro-strategizing moves of rival firms.

Lesson 3

Strategy execution involves at least five levels of scale and the guiding level determines which strategy theory is likely to be most useful at each level. Most strategy processes emerge as very small responses to perceived opportunities and challenges. They often first occur at the super-micro-level, within the mind or perceptions of a single individual. It is then up to that individual to share it with a larger group or team, which then in turn might push it to the attention of the executive level with the top management team. On the other hand, a change in direction of strategy might arise out of an understanding of changes taking place in the wider industry or competitive environment.

Lesson 4

Develop and use your networks wisely by (a) knowing who you are dependent on; and (b) knowing who you can go to and for what. Every person in a firm possesses a unique knowledge base, unique history of experience, and differing sets of competencies. It is important that senior leaders in a firm know where to go in the firm to tap into that knowledge, experience, or competence.

Lesson 5

Strategy, at its root, is all about attention to individual and collective awareness of (a) competitors and competitor moves; (b) how the subunit or group is working; (c) one's capabilities and weaknesses.

Lesson 6

Establish and nurture core strategic values by rewarding affirming behaviors that are consistent with those values. Many organizations go through at some time or another a process of developing a strategic vision and then writing it down. That vision, or shared image of a desired future, is based on values that are held by the organization's members. If those values are not backed up by the rewarding of behaviors and organizational routines that are consistent with the values, then no one will pay any attention to the vision that is based on those values.

Lesson 7

Develop ambidexterity in both exploration and exploitation strategies. There are two simultaneous processes going on in firms: (a). a need to constantly economize by minimizing costs as much as possible (exploitation); and (b) a search for new products, services, and processes that create future revenue streams creating long-term value for the firm (exploration).

Lesson 8

Intentionally create a strategic vision that is (a) long term (5 years or more, depending on the nature of the industry your firm is in), (b) shared and well communicated to members of the firm, and (c) based on key uncertainties that need to be addressed in the external and internal environments of the firm. The more that these three factors are present simultaneously, the greater the perceived importance of the vision (see Larwood et al. 1995).

Lesson 9

Nurture strategic *complementor* relations in business models where products or services enhance the revenues of related industries. Complementor relations exist when the revenue streams of product or service increase; the revenues for the complementor will also increase. The streams are linked since the value of the final product provided by firm A is more valuable when the product/service for firm B is also available. For example, the airline industry is a complementor to the rental car industry—the airline industry sells more seats because passengers know they can rent cars to get to their eventual destination (see Brandenberger and Nalebuff 1996).

Lesson 10

Cultivate in your organization multiple ways of exploring the unknown through the use of a number of suprarational processes. These include intuition, creative imagination, incremental experimentation, inspiration, insight generation, inquiry, and collective involvement. Together these form the foundation for creating high-margin differentiation in products and services.

Lesson 11

Continually work on balancing the seven dynamic coalignments in strategy execution (see Table 4.1). All organizations are embedded in competitive environments that are in continual change with new products and services, new entrants, and changes in competitor strengths and weaknesses.

Lesson 12

Search for local monopolies, which will yield higher than average returns (one of the Buffett rules). Warren Buffet for many years has tried to invest in and to create what he calls “local monopolies.” For example, in the USA there are only three remaining railroads crossing the USA from coast

Table 8.1 Strategic leadership lessons

Lesson 1: Small, seemingly insignificant, changes in behavior and decisions can have very large effects on the strategy execution of a subunit or the whole organization (the "Butterfly Effect").
Lesson 2: Everyone in a firm can be a leader in the right situation or circumstances.
Lesson 3: Strategy execution involves a minimum of five levels of scale. Which strategy theory is likely to be most useful is different at each level.
Lesson 4: Develop and use your informal networks wisely by (a) knowing who you are dependent on; and (b) knowing who you can go to and for what.
Lesson 5: Strategy execution, essentially, is all about attention to individual and collective awareness and continual development of (a) competitors and competitor moves; (b) how the subunit or group is working; (c) individual task capabilities, cognitive capacities, and emotional intelligence competencies.
Lesson 6: Establish and nurture core strategic values by rewarding affirming behaviors that are consistent with those values.
Lesson 7: Develop ambidexterity in both exploration strategies (exploring and reaching out into the Unknown) and exploitation strategies (executing current processes more efficiently).
Lesson 8: Intentionally create a strategic vision which is (a) long term (5 years or more, depending on the industry your firm is in), (b) shared and well communicated to members of the firm, and (c) resolves over time key uncertainties that need to be addressed in the external and internal environments of the firm.
Lesson 9: Nurture strategic complementor relations (e.g. airlines and rental cars; Microsoft Windows and Intel microprocessors, printers and printer ink cartridges) (Brandeberger and Nalebuff 1996). In firm complementor relations the revenues of each party is increased by virtue of the relationship.
Lesson 10: Cultivate in your organization multiple ways of exploring the unknown through intuition, creative imagination, incremental experimentation, inspiration, insight generation, inquiry, and collective involvement. These form the foundation for creating high-margin differentiation in products and services.
Lesson 11: Continually work on balancing the seven dynamic coalignments in strategy execution.
Lesson 12: Consciously work with the multiple levels of the organization's culture (behavior, values, and paradigms: see Schein 2005).

to coast. Each of the remaining transcontinental railroads, through the north, central, and southern routes are in effect noncompeting monopolies for overland freight traffic, where shipping through the Panama Canal, trucking across the Interstate road system, and jets are potential competing substitutes (see Table 8.1. for a summary).

Concluding Advice to Strategic Leaders

In conclusion, strategic leadership is at its root

1. *highly dynamic*, resulting from constantly shifting role sets which in turn depend on response to changes in the competitive environment;
2. *recursive* (i.e. a process or pattern which is a function of itself at an earlier time);
3. the result of a complex continuous interaction between cognitive, behavioral, conative, and affective elements;
4. multilevel with systems operating within systems: industry and clusters (super-macro)—organizational (macro)—business unit and group (meso)—individual (micro)—within individual (super-micro): super-super-micro (neural/within the brain);
5. contingent upon *multidimensional processes*, with seven or more dynamic coalignments;
6. shaped by complex *turbulent often chance events* which are not possible to predict before the fact (*ex ante*).

What are the implications of this for strategic leaders? They are advised to develop in themselves and others, the following key behaviors and ways of thinking strategically:

1. *Test hidden assumptions*: Look for untested hidden assumptions about the organization and its competitors and actively counter the tendency to "group think."
2. *Appropriate complexity of response*: Avoid oversimplification in both formulating and implementing the firm's strategy.
3. *Inquire*: Ask challenging questions, moving to higher *more encompassing levels and* of inquiry when possible.
4. *Strategy is recursive*: Recognize that a sustainable competitive advantage is not achievable for very long in rapidly changing environments, especially as a result of the highly recursive nature of strategy.
5. *Create discovery, learning, and search processes* that generate deep questions about the current "rules of the game" of the firm, as well as examine the ongoing investment of human and financial capital.
6. *Seek opportunity sets*, wherever they may arise, which are appropriate for the level of turbulence and changes in the competitive environment.
7. *Seek out potential leaders* at all levels of the firm. Develop and empower them to create viable and relevant networks of strategic leadership that

can meet and continually adapt strategies to creatively anticipate and manage the turbulence and change in both internal and external environments to the advantage of the organization.

Effective strategic leadership has become in the twenty-first century a highly elusive and often unstable process, which demands the constant attention to multiple levels of analysis, generic types of leadership, and forms of cognition. What worked in the past is unlikely to work for long in the future. Thus, dynamic networks of leaders are to be encouraged and developed, which can adapt rapidly in response to the forces which surround the organization and are internal to it. In the words of the ancient Chinese philosopher-sage Lao Tzu:

A good traveler has no fixed plans

And is not intent upon arriving.

A good artist lets his intuition lead him wherever it wants.

A good scientist has freed himself of concepts

And keeps his mind open to what is.

Thus the Master (strategic leader) is available to all people

And does not reject anyone.

He is ready to use all situations

And doesn't waste anything. (Lao Tzu 1972)

These words of advice were set down 2600 years ago. Clearly, some of the essential principles of strategic leadership have been around for a long time! It would seem that mostly only the context has changed, leaving core principles to be rediscovered in each epoch and then uniquely applied by leaders in their own situations to address their unique contexts. To be intimately aware of changes in that context, and to be able to respond appropriately, are key requirements for all strategic leaders who aim to achieve long-term organizational excellence. In the end, effective strategic leadership is about wise attention, to both detail and the whole; wise action based on a clear sense of what is ethical; wise intention and knowing who to involve—and at what time. Only via continuous learning and constant listening can a leader develop the necessary discernment needed for the creation of long-term organizational effectiveness.

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